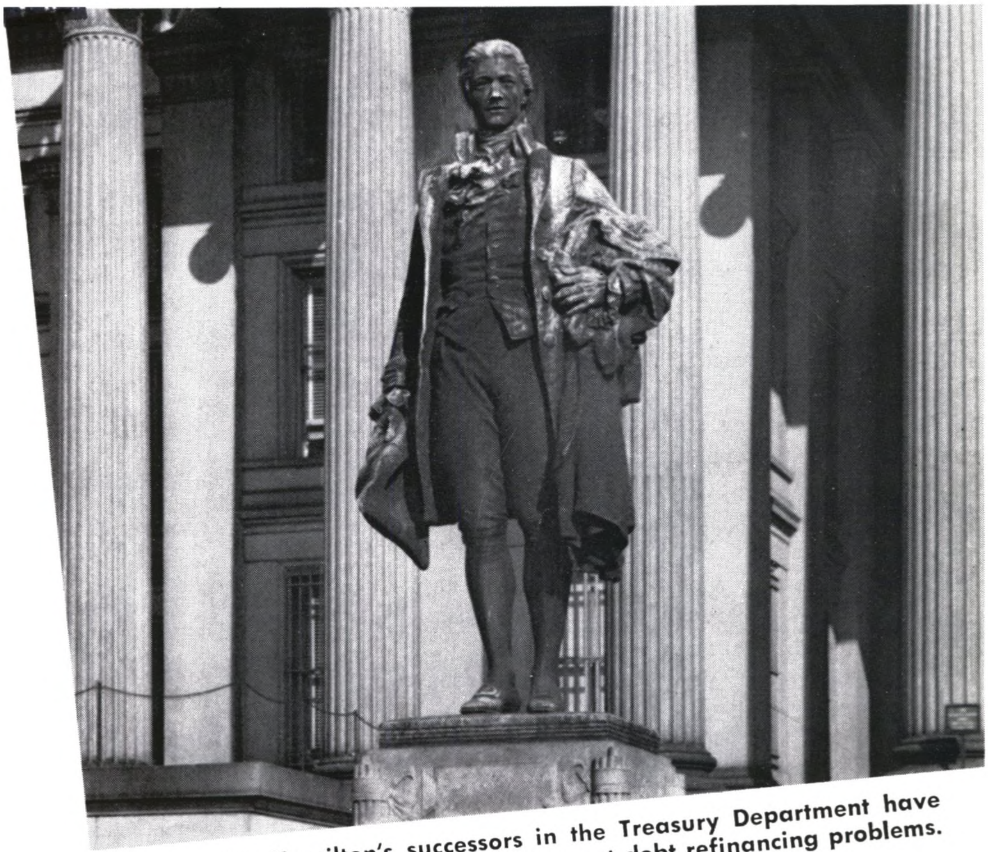
# MONTHLY REVIEW



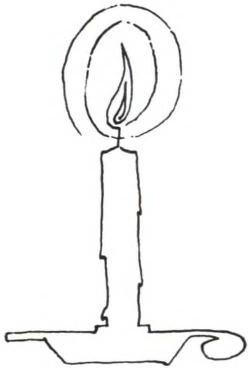
Alexander Hamilton's successors in the Treasury Department have recently devised new techniques to meet debt refinancing problems.

FEDERAL RESERVE BANK OF RICHMOND

APRIL 1961

*Little Nan Etticoat,*
*In a white petticoat,*
*And a red nose . . .*

# The Longer She Stands The Shorter She Grows



This nursery rhyme is a riddle with two answers. The nursery's answer? A candle. But if the last two lines of the riddle were put to the Secretary of the United States Treasury, he might offer a different answer: The public debt.

**THE TREASURY'S TREADMILL** It would be wishful thinking to expect budget surpluses substantial enough to permit the Treasury to pay off the large amounts of debt coming due each year. Consequently, most of the debt maturing now and in the future must be replaced by new obligations. Immediately upon issuance these new securities in turn begin a relentless passage toward their own maturity and replacement.

Consequently, the Treasury cannot escape refinancings. It can reduce their frequency, however, by lengthening the maturity of the debt. The longer the maturity of new Treasury issues, the more distant is the date when this debt must be refinanced. The shorter the maturity of new securities, the sooner must they be refinanced.

Currently, about three-fourths of the public marketable debt is scheduled to mature within five years, and about two-fifths of it will mature within twelve months. In contrast, at the end of World War II less than half of it was in the maturity range of five years and under. The increase in the proportion of short-term debt reflects the Treasury's difficulties in following anti-cyclical debt management practices.

**ANTI-CYCLICAL DEBT MANAGEMENT** Anti-cyclical policy would require the Treasury to sell long-term securities during periods of inflation, when it is desirable to withdraw funds from the capital market and to reduce the liquidity of the economy. In times of recession the Treasury would sell short-term securities to avoid competing with private borrowers in the long-term market and to increase the supply of liquid assets. In practice the Treasury has not found this pattern feasible. In fact, most debt lengthening in recent years occurred during the recession and early business recovery periods of 1953-55 and 1957-58.

During the boom period at the end of 1959 the Treasury was unable to sell long-term bonds because of the existing legal 4¼% ceiling on the interest the Treasury could pay on bonds. (Treasury bonds are those securities maturing in more than five years at time of issue.) This rate was not high enough to be competitive with what other borrowers were willing to pay for long-term funds. The Treasury had to do its borrowing in the short end of the market where it was legally free to pay the going competitive rate for available funds. As one result of this concentration of borrowing in the short-term area, the yield curve developed the peculiar hump illustrated in the accompanying chart. The yield curve assumed a more normal shape, also illustrated in the chart, as the general level of interest rates receded in early 1960 and allowed the Treasury to spread its borrowing over a wider maturity range.

**PROBLEMS OF FREQUENT FINANCINGS** Whenever the Treasury enters the market, either to refund maturing debt or to borrow new cash, it competes for funds with other borrowers and potential borrowers and affects the price they must pay for the funds they obtain. Sometimes a Treasury financing causes considerable "churning" in the market, i.e., shifting of assets among investors as they rearrange their holdings in the light of the new securities available in the market. From time to time the Federal Reserve System has experienced some difficulty in timing the changes in its credit policy, because, during a Treasury financing operation, it attempts to refrain from actions that might create difficulties or complications for the Treasury.

From the viewpoint of all of these groups, it would be desirable if the Treasury could reduce the frequency of its borrowing operations (other than the weekly bill auctions) in the market. From the viewpoint of Treasury officials, too, it would be desirable to reduce the number of occasions on which they must make difficult decisions about the kinds of securities and yields which they must offer to raise the needed amount of money.

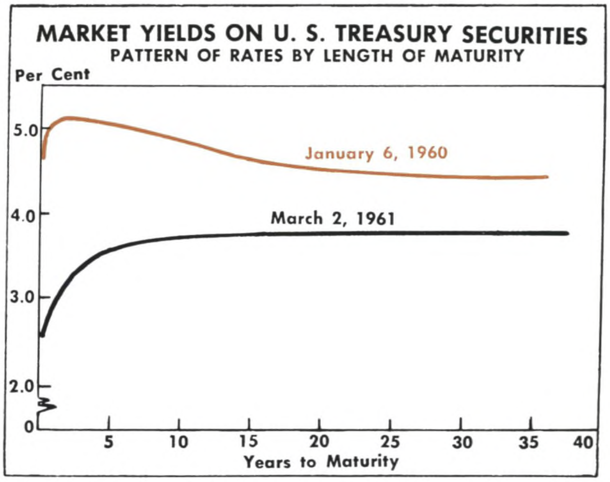
Within the last few years the Treasury has experimented with a number of new techniques designed to meet the difficulties raised by the large amount of short-term debt maturing annually. Newspaper stories have been peppered with the new terms, such as "advance refunding," "cash refunding," and "regularizing," that have been applied to these financing procedures.

**ADVANCE REFUNDING** In an advance refunding the Treasury offers holders of outstanding securities the opportunity, some years in advance of their maturity, to exchange them for a new longer-term bond. The debt is thus moved out of its current maturity area into a longer-term maturity. This restructuring of the debt pushes into the future the date on which the Treasury must enter the market to refund this debt, just as the sale of long-term bonds does in a regular refunding.

At the same time, an advance refunding can eliminate the churning in the market frequently associated with a regular refunding in which holders of a maturing bond are offered an exchange into long-term bonds. This churning is caused by the fact that many long-term investors sell their holdings of Government securities as they shorten in maturity, and replace them with long-term investments. If the Treasury waits until an issue matures before offering its holders a long-term security in exchange, the owner by that time may be a short-term investor with no interest in a long-term bond. Under such circumstances a considerable amount of shifting must occur to enable the Treasury to place the new bonds securely with long-term investors.

Under the advance refunding technique, a new long-term bond can be offered to holders of outstanding bonds while these bonds are still in the hands of long-term investors who are more likely to be interested in new long-term securities.

In September 1959 Congress removed an obstacle to participation in advance refundings. It amended the Internal Revenue Code to permit the Secretary of the Treasury to postpone recognition for Federal income tax purposes of capital gain or loss until the new securities are sold or redeemed. Many investors were deterred from participating in an advance refunding as long as the transaction would have required them to show a book loss.



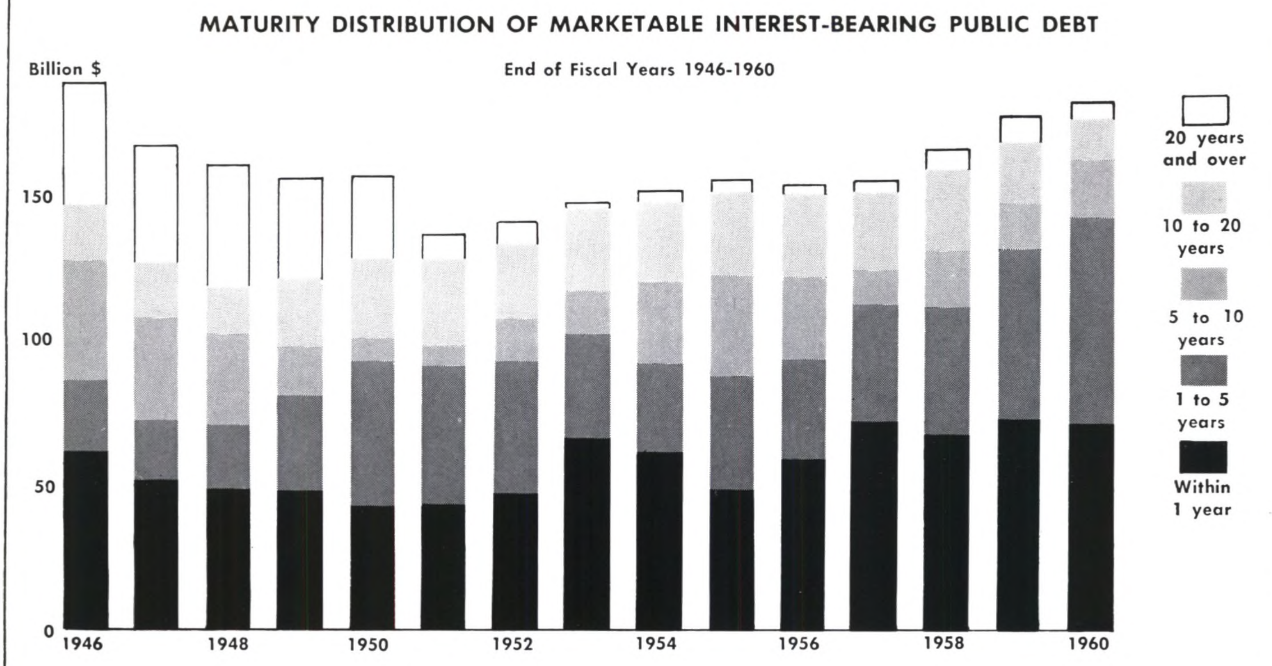

**ADVANCE REFUNDING EXPERIENCES** A small-scale advance refunding was tried in June 1960, primarily to ease the financing problems anticipated in November 1961, the maturity date of the Treasury's largest outstanding issue. About $4 billion of the $11 billion of bonds in that issue were exchanged in the refunding, reducing to $7 billion the amount remaining to be refinanced in November 1961. Of the two new securities offered in the refunding, investors preferred the note to the eight-year bond.

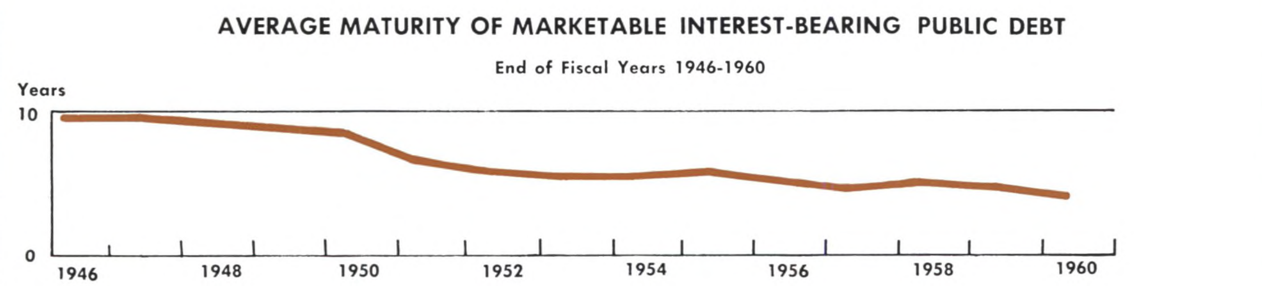
Encouraged by the decline in interest rates during the summer of 1960, the Treasury undertook its first major advance refunding in September. Public holders of $10.8 billion of the 2½% World War II bonds maturing in seven to nine years were offered in exchange new 3½% bonds maturing in 20, 30, and 38 years. A total of nearly $4 billion of the old bonds were exchanged, and thus moved out of the intermediate-term area. One effect of this was to extend the average maturity of the debt from 50 months to 57 months.

In March 1961 holders of $19.5 billion of bonds maturing within 15 to 30 months were offered an exchange into five and six year bonds. Total exchanges amounted to $6 billion.

**REFUNDING VIA CASH OFFERINGS** Traditionally, the Treasury, in its refundings of securities other than bills, has given owners of maturing securities the exclusive privilege, or pre-emptive right, to exchange them for the new replacement issues. Anyone wishing to subscribe to the new securities has had to purchase the old issues first in order to become eligible for the exchange.

Recently, however, the Treasury has resorted to cash refunding. Under this method, the Treasury will pay off the maturing securities in cash and simul-




taneously raise the new money by allowing anyone to buy the replacement issues for cash. In the future the Treasury plans to vary its practice between these two methods, so that it can select whichever one seems most desirable under market conditions at the time of each refunding.

**CURBS ON SPECULATION** Cash refundings were introduced to curb the speculation possible in a traditional refinancing. Under the regular method of refunding, investors who expected the Treasury to offer an attractive new exchange issue bid up the price of maturing securities in the process of acquiring "rights" to the new issue. In the June 1958 refunding they purchased rights on very thin margins and exchanged them for considerably more of the bonds than of the shorter maturity issue offered in the exchange package. The extent of the speculation became apparent when the outlook for future interest rates changed sharply and speculative buyers sold at heavy losses as the price of the new bonds fell.

Cash refundings give the Treasury several controls over speculation which are not possible under the traditional method of refunding. The Treasury can set the precise size of each issue it offers in a package exchange. This will prevent the recurrence of the June 1958 situation in which holders of rights, by their choice between two issues, set the size of the respective issues, and in which they took far more of the longer obligation than they wished for investment purposes only. The Treasury also can limit speculative subscriptions by requiring a cash down payment with each subscription.

Finally, in a cash refunding, as in any cash offering, the Treasury may reserve the right to make preferential allotments. The allotment a subscriber to a new issue receives is generally expressed as a percentage of his subscription. When preferential allotments are used, the preferred investors are awarded a larger percentage of the amount of obligations they requested than are others. By using preferential allotments the Treasury can place a larger portion of its new securities with investors that it thinks are permanent holders.

Another advantage of the cash refunding method is that it eliminates attrition, the amount of a maturing issue which is turned in for cash rather than exchanged for the replacement issues offered in a regular refunding. When the Treasury uses the cash refunding method and offers securities to all investors who want to subscribe, it can raise the total amount of money it wants by setting the allotment percentages to yield that sum.

The Treasury's first use of the cash refunding method, in August 1960, was successful, with both new issues heavily oversubscribed. Although holders of the maturing issues were not given pre-emptive rights, they were allowed to turn in their old securities as payment for the new issues. The large oversubscription may have resulted from investor uncertainty as to the amount they would be allotted.

Again in February 1961 the Treasury used the cash refunding method to replace $6.9 billion of maturing certificates and to raise $400 million of new cash at the same time. This experience suggests yet another advantage of this method of refunding—the possibility of combining the replacement of maturing obligations and the raising of new cash into one market operation. In the past, two entries into the market would have been required.

**OTHER INNOVATIONS** Two other major innovations also show the Treasury's attempts to avoid exerting undue influence upon the market through frequent financings: concentration of refundings on quarterly dates and refunding of short-term debt on a set schedule.

By scheduling the maturities of its coupon-bearing issues (certificates, notes, and bonds) on the four dates of February 15, May 15, August 15, and November 15, the Treasury is setting up a pattern of refundings which will limit its future entries into the market to fixed times. Since this quarterly pattern avoids the quarterly corporation income tax dates, the Treasury hopes to gain the additional advantage of reduced cash redemptions if it refunds through the traditional method.

By March 1961 the program for grouping maturities had advanced to the point at which over 70% of outstanding Treasury marketable securities maturing within the next ten years (excluding all Treasury bills and tax anticipation securities) fell due in either February, May, August, or November. This compares with about 10% at the end of fiscal 1953, when the Treasury began emphasizing a program of restructuring the debt.

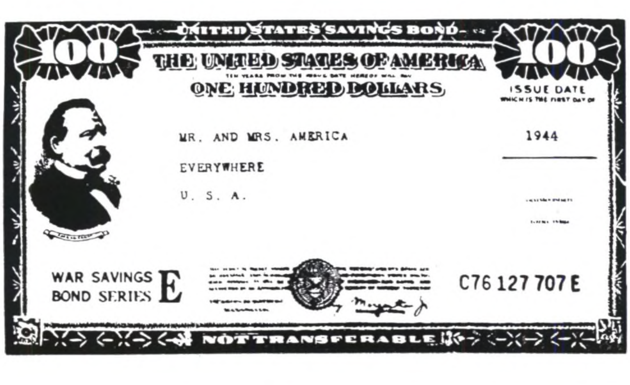
The Treasury also has regularized the handling of its short-term debt by expanding its bill cycle program. In December 1958 the Treasury inaugurated a complete 26-week cycle of six-month bills to accompany the 13-week cycle already in effect. In March 1959 it established a new series of one-year bills to be offered for competitive bidding four times each year—in January, April, July, and October.

These new bill cycles have enabled the Treasury to put more of its short-term debt on an auction basis, in which the market, not the Treasury, sets the interest rate. They have also simplified the short-term debt structure by reducing the amount of certificates outstanding. Refunding of the short-term debt through regular offerings scheduled in advance tends to eliminate an element of uncertainty in the market and to have less impact on the money market than if investors had no advance knowledge of how this portion of the debt would be handled.

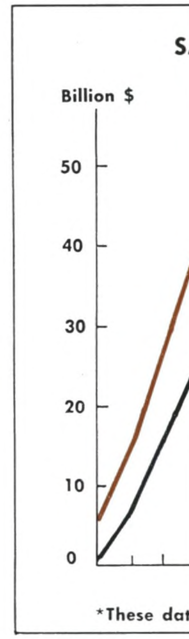
Six-month Treasury bills, issued each week in amounts of $400 to $500 million, accounted for $12.5 billion of the $26.4 billion of regular weekly issues outstanding in March 1961. These new bills are attractive to some banks with seasonal requirements, e.g., banks in agricultural sections and in resort areas, and to corporations that begin accumulating reserves for particular purposes more than three months in advance of the date the reserves are needed.

The cycle of one-year bills has not fared quite so well. Initially, the Treasury sold one-year bills in quarterly offerings of $2 billion each. Later it decided that $1.5 billion was a more appropriate size for the auction method, and it began cutting back the size of the issues as it rolled them over. At present only the issue maturing in April 1961 amounts to $2 billion, and it will be rolled over without reduction.

Through these new methods of debt management the Treasury has reduced the problems associated with refinancing a large public debt.


# WAR

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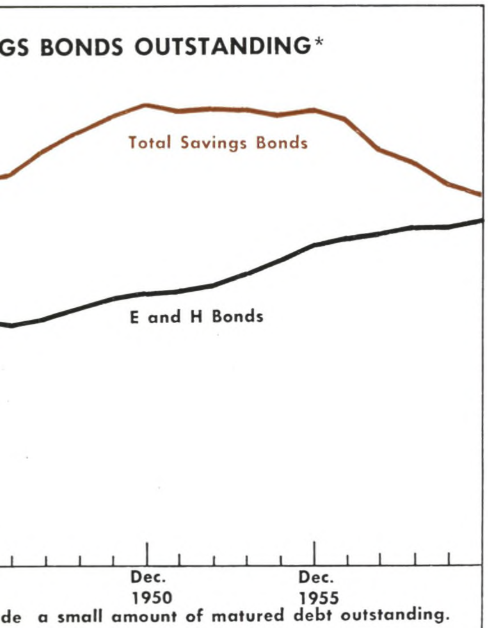
# TIME MEASURE BECOMES PEACETIME INVESTMENT




outstanding have decreased since the war, holdings ly series now being offered, are at an all-time high.


The war bonds of 1941 have become savings bonds, and the victory stamps that children bought during the war are now called savings stamps. The days of bond rallies are over, yet the practice of buying "a share in America" goes on—not in such quantities as during the war, but in a good healthy fashion nevertheless.

From a relatively low level of \$3 billion in 1941, sales of war bonds climbed to \$14 billion in 1943, and to an all-time high of over \$16 billion in 1944. At the end of the war sales dropped sharply, and the annual postwar average has been about \$5 billion. Sales in 1960 were \$4.4 billion. Savings bonds being offered today yield an interest rate of 3¾% when held to maturity. The yield has been revised upward several times, with the most recent increase, in June 1959, raising it from 3¼% to its present level.

A large proportion (over 40%) of savings bond sales are made through the payroll savings plan, now in operation at some 45,000 companies. The rest are sold by banks, savings and loan associations, and other financial institutions. More than \$47 billion worth of bonds are outstanding at the present time; this represents about 12% of the total liquid assets owned by the public.

Over 40% of savings bond sales are made through corporate payroll savings plans.

# A Guide to THE BALANCE OF PAYMENTS

Foreign commerce has traditionally fired the imagination with thoughts of wealth, adventure, and romance. It has inspired many strange tales—ancient and modern, true and imaginary. But nowadays trade produces more wealth than adventure, and fact is more desirable than fiction in dealing with the complexities of modern international relations. When the essential facts of one nation's annual transactions with the rest of the world are collected and classified, the result to the uninitiated is just another tiresome statistical table. A little thought and effort, however, will quickly show how important this year-by-year record really is as one of the keys to a nation's economic well-being.

Such a record for the United States during 1960 is shown in the accompanying table. It is a much condensed summary of all 1960 transactions of United States citizens, business firms, and government agencies with the rest of the world. The balance of payments treats the United States as an economic unit doing business with the rest of the world. The United States in the world business community and the individual or firm in the national business community are all subject to the same economic law—to stay in business, each must be able to make payments.

**INTERNATIONAL PURCHASING POWER** Normally a country's supply of purchasing power is replenished by receipts from overseas sales. The factors that affect price and quality competition in international trade are extremely complicated and will not be discussed. It is, however, the success with which American goods, services, and investment opportunities sell in foreign markets that determines this nation's supply of foreign currencies and, by the same token, its ability to pay for goods and services imported. If this country spends more foreign currency than it receives, it may have to dip into its gold reserves to make up the difference.

**PAYMENTS FOR MERCHANDISE** A glance at the first item in the "credits" column of the accompanying table reveals that this country in 1960 exported $19.4 billion worth of merchandise. The first figure in the "debits" column shows that imports of merchandise totaled $14.7 billion. The United States received $19.4 billion in payment for merchandise sold to foreigners, while remitting $14.7 billion in payment for merchandise purchased from foreigners. The difference, $4.7 billion, was this country's "surplus on merchandise account" or "trade surplus." It indicates that in merchandise trade with foreigners Americans in 1960 received $4.7 billion more than they spent.


**"THE BALANCE"** It is clear from the above that individual accounts in the balance of payments can be out of balance. When all accounts are taken together, however, the surpluses in some exactly offset the deficits in others. This is true because of the essential two-sidedness of business transactions, and its reflection in the double-entry accounting system by which balance of payments records are kept.

When a transaction takes place, a seller transfers merchandise, services, or securities to a buyer. The buyer makes payment by transferring equivalent value to the seller in the form of an acceptable medium of exchange. When international transactions occur, both sides are reflected in the balance of payments.

It may be assumed, for simplicity, that all international payments are made by transferring ownership of commercial bank demand deposits. In balance of payments accounting these transfers would be recorded in the short-term capital account. Transfers of deposits to foreigners by Americans would show up as short-term capital credits in the United States balance of payments, while transfers to Americans by foreigners would show up as debits.

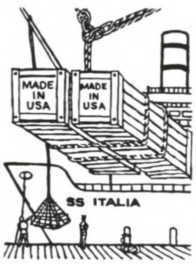
Thus, if American transactions with foreigners in 1960 had been limited to merchandise trade, the balance of payments would be as follows:

| | (Billions) Credits | Debits |
|---|---|---|
| **Merchandise Account** | | |
| Imports | | $14.7 |
| Exports | $19.4 | |
| **Short-term Capital Account** | | |
| Transfers of demand deposit ownership (net) | | 4.7 |
| Totals | $19.4 | $19.4 |

The surplus of merchandise exports over imports would have been offset by net "imports" of demand deposit ownership.

# of the United States

**"DEBITS" AND "CREDITS"** As indicated above, imports are "debits" in the balance of payments and exports are "credits." Most transactions may be identified as either debits or credits by keeping this simple generalization in mind and looking for the *tangible thing* imported or exported. Imports of goods, services, or foreign securities by the United States (debits) require Americans to make payments to foreigners. On the other side of the balance, exports of goods, services, and American securities from the United States (credits) require foreign buyers to make payments to American sellers. Payments to foreigners and receipts from them largely offset each other in the course of a year's trading. Any excess of one over the other brings about a net change in bank deposit ownership between Americans and foreigners, and shows up in the short-term capital account. Credit items are sources of purchasing power and are marked with a plus sign. Debit items, marked with a minus sign, use purchasing power.




**THE CURRENT ACCOUNT** Merchandise trade plus international services and remittances such as gifts and pensions comprise the "current account" of the balance of payments. The United States earned $2.1 billion "on services account" during 1960. Receipts for services rendered to foreigners by American shipping and air lines, telegraph and cable companies, insurance, financial, and other enterprises, and by American capital already at work overseas (interest and dividend receipts) totaled $7.7 billion. Similar services purchased from foreigners cost this nation $5.6 billion.

**GIFTS ARE ONE-SIDED** Remittances and pensions, an $0.8 billion debit entry, records mainly gifts to foreigners and pensions being paid to retired Americans living abroad. Gifts are not really dual transactions, since specific items of value are exported but no balancing payment is ever received. Goods sent out of this country during 1960 as gifts were, of course, exports—part of the $19.4 billion worth. The credit entries recording these exports are balanced by debits under "remittances." Deposit ownership transfers which were gifts or pensions to residents of foreign countries were credits in the short-term capital account, just as if they had been transferred to pay for imports. The balancing debits under "remittances and pensions," simply account for the value of items given to foreigners for which no tangible value was received in return.

BALANCE OF PAYMENTS OF THE UNITED STATES
1960
(Billions of dollars)

| | Credits (+) | Balance | Debits (—) |
|---|---|---|---|
| **Current Account** | | | |
| Merchandise imports | | | 14.7 |
| Merchandise exports* | 19.4 | | |
| Merchandise balance | | +4.7 | |
| Services purchased from foreigners | | | 5.6 |
| Services rendered to foreigners* | 7.7 | | |
| Services balance | | +2.1 | |
| Remittances and pension (net) | | —0.8 | 0.8 |
| Current account totals and balance | 27.1 | +6.0 | 21.1 |
| **U. S. Government Account** | | | |
| Military expenditures | | | 3.0 |
| Foreign aid grants* | | | 1.7 |
| Foreign aid loans (net) | | | 1.1 |
| Government account total and balance | | —5.8 | 5.8 |
| **Long-Term Capital Account** | | | |
| U. S. direct investment abroad (net) | | | 1.5 |
| U. S. portfolio investment abroad (net) | | | 0.8 |
| Foreign investment in the United States (net) | 0.3 | | |
| Long-term capital account totals and balance | 0.3 | —2.0 | 2.3 |
| **Short-Term Capital Account** | | | |
| U. S. investment abroad (net) | | | 1.2 |
| Foreign investment in the United States (net) | 2.1 | | |
| Short-term capital account totals and balance | 2.1 | +0.9 | 1.2 |
| Gold exports | 1.7 | +1.7 | |
| Unrecorded transactions (net) | | —0.8 | 0.8 |
| Final totals and balance | 31.2 | 0.0 | 31.2 |

* Excludes transfers of goods and services financed by military grants.

Source: United States Department of Commerce.


**THE GOVERNMENT ACCOUNT** Overseas military expenditures, like imports, are actual purchases of foreign goods and services. Foreign aid grants, on the other hand, are of the nature of gifts, and the same general reasoning applies to them as to private gifts. Foreign aid loans were imports in the sense that the American lending agency imported loan agreements —promises to pay totaling $1.1 billion—and paid for them by exporting claims to dollar deposits. When dollar proceeds of such loans were spent for American equipment or services, the final balancing items were entered along with other United States exports of merchandise and services.

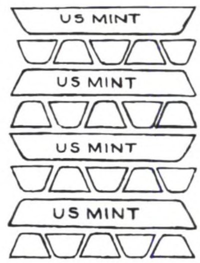
**LONG-TERM INVESTMENTS** During 1960 United States long-term investments overseas increased by $2.3 billion. "Direct investment" by domestic firms in their overseas operations amounted to $1.5 billion. The rest consisted of "portfolio investments"—foreign investments purchased by Americans for income. The fact that these investments were "purchased" shows that this item is a debit. Stocks, bonds, deeds and other evidences of debt or ownership were the tangible items imported and paid for. The payments, demand deposits "exported," again were short-term capital credits.

Investment by foreigners in American business enterprises increased by $0.3 billion during 1960. These transactions were credit items, the opposite of United States investments overseas. This country exported securities or other investment documents purchased by foreigners, and recorded payments received as debits in the short-term capital account.

**SHORT-TERM CAPITAL** As numerous transactions were made in the course of the year in each of the categories discussed above, there was a continual two-way flow of money. American money flowed to foreigners to pay for imports, and foreign money flowed to the United States in payment for exports. These movements were not equal in 1960. This country's current account receipts exceeded its payments by $6 billion. Government and long-term capital transactions combined, however, resulted in a $7.8 billion excess of United States payments over receipts. Unreported transactions resulted in net additional payments of $0.8 billion by the United States. The excess of 1960 payments to foreigners over receipts from them was, therefore, $2.6 billion.

This margin of American payments over receipts tended to accumulate as foreign holdings of dollar balances above trading needs. The table shows that a net increase in foreign holdings of dollars and short-term dollar investments accounted for $0.9 billion of the $2.6 billion. Foreign governments and central banks chose to ask the United States to redeem the remaining $1.7 billion in gold.

**THE GOLD ACCOUNT** Gold is treated in the balance of payments as if it were any other commodity. As stated in the preceding paragraph, foreigners decided to use $1.7 billion of their 1960 margin of dollar receipts over dollar payments to buy gold from the United States. Since the gold, or title to it, was exported, it was a credit item in the balance of payments, i.e., a source of funds spent by the United States for goods, services, overseas defenses, loans or grants to allies, and foreign investments.




**UNRECORDED TRANSACTIONS** No matter how much care and effort the data-compiling agency may exercise, some transactions go undetected and unrecorded. Some of these were debits and some were credits. But only the net debit figure of $0.8 billion shown in the table is known. It is implicit in the available records as the difference between the actual change in ownership of international balances and the change in such ownership that can be explained by known transactions. This difference is a balancing item arbitrarily entered to indicate the net effect of unknown operations.

**THE 1960 DEFICIT** The balance of payments automatically balances. What, then, is a "deficit" in the balance of payments? The answer has already been suggested in discussing the factors that increased net foreign holdings of short-term balances and gold by $2.6 billion in 1960. Even though it "made money" on current account, the United States was only able to spend as it did for military, foreign aid and investment purposes by reducing its means of making international payments. A country incurs a "deficit" if, when all international transactions reflecting independent economic decisions have been taken into account, it "spends" more than it "earns." The deficit is officially defined as the build-up in liquid dollar liabilities ($2.1 billion in 1960) plus gold losses ($1.7 billion in 1960). Therefore, increases in American short-term claims against foreigners ($1.2 billion in 1960) do not reduce the deficit, which thus amounted to $3.8 billion in 1960. Deficits drain away gold and international balances, eventually threatening the internal as well as external strength of a gold-based currency.

# THE FIFTH DISTRICT

Market conditions in the Fifth District have strengthened in recent weeks. These improvements, apparent at all levels from factory orders to retail sales, provide the principal basis for the widely held expectation that a general upturn may be imminent. Partially offsetting the good news, District production statistics tended to sag again after the January upturn, and some areas of employment weakened. Despite these signs of possible further declines in District personal incomes, a revival of demand has made some headway. The typical attitude of businessmen in the Fifth District seems to be one of mild optimism.

**EARLY SHOPPERS** Consumer buying has provided the clearest example of growing demand. Slow activity in January was followed by a good volume of February sales. Then, taking advantage of intermittent periods of favorable weather and looking forward to an early Easter, shoppers virtually jammed the stores during the first half of March. The seasonally adjusted index of District department store sales rose 8% between January and February, and about 10% more in March. The average level for the first three months of 1961 was a little more than 1% above that of the 1960 fourth and best quarter.

**INDUSTRIAL MARKETS STRONGER** The District's major manufacturing industries have felt a definite strengthening of demand in recent weeks. The flow of new orders for textile mill products has picked up somewhat, resulting in a stronger backlog position. Inventories are still a problem, however, and industry sources expect production to remain at somewhat curtailed levels for a while even if the volume of new business continues its gradual rise. Furniture, steel, metal products, paper, and chemicals have also experienced a definite improvement in new orders during recent weeks. Few changes have occurred in employment or hours of work, however.

**CONSTRUCTION AT GOOD LEVEL** Business volume has continued favorable for District contractors. Public works and utilities have set a fast pace and industrial building has followed closely, but residential activity is still in the doldrums and lagging badly.

Last year, seasonally adjusted employment in contract construction remained firm at a high level from April through November. Then the series dropped 4% in December, held steady in January, and declined 3% in February. In spite of these decreases, construction employment was higher in the first two months of this year than in the similar period of any previous year except 1960, and failed to equal the 1960 level by less than 1%.

Residential building has been well below normal seasonal levels for many months, but there has recently been some improvement. Partly as a result of this slight strengthening in housing construction, new orders for lumber began to increase in late February and March from previous very low levels. Influenced by rising demand and by production curtailments partly due to weather, lumber markets have stabilized and some price increases have been reported. However, vacant houses for sale and for rent are still a problem. It remains to be seen if the demand for new homes will be strong enough to stimulate a normal pickup in residential construction as the spring season progresses.

**LOAN DEMAND STRENGTHENS** Loan activity at District banks approximated normal seasonal patterns during February and early March. Gross loans of District weekly reporting banks declined about normally in February, then registered a seasonal upturn in the first two weeks of March.

Business loans exhibited sporadic strength in February, showing a slight increase for the month. These loans, which are often used as a rough indicator of business prospects, strengthened considerably in the first two weeks of March, rising more than 3%. Some of this increase represented tax and dividend borrowing to meet March 15 deadlines. For the six weeks ended March 15 business loans rose 3.5%, a smaller gain than in the comparable 1960 period, but larger than the seasonal increases of most recent years.

Investments at District weekly reporting banks increased 1% from February 1 to mid-March, with most of the rise occurring in the final week of the period. This is in contrast to investment reductions by these banks in the comparable weeks of most

So far this year customers of the District's commercial banks have borrowed in normal volume to meet their seasonal credit needs.

As spring farming activities begin, District farmers plan some changes in their crop acreage, but expect another big crop year.

recent years. Government securities, chiefly short-term, account for most of the increase this year. However, last autumn's rapid build-up of bank holdings of short-term Governments has slowed considerably since January 1.

Reserve positions of District banks remain comfortable. Borrowings at the discount window in February and early March continued light, although somewhat higher than the unusually low levels of December and January. District bankers were sizable net sellers of Federal funds, i.e., lenders of reserves to other banks, over the period. Bank credit availability in the District appears generally ample.

**FARMERS PLAN BIG CROP YEAR** Fifth District farmers' plans for 1961 point to another big crop year, according to a survey which included all major crops except cotton. Influenced by a higher support price, District farmers may also plant a larger portion of their cotton allotments, which are 31% greater than last year's acreage. Total crop acreage could be up to 3% larger than a year ago.

With the exception of cotton, most of the boost in intended District crop plantings is due to a spectacular increase in soybean acreage. Plans now call for a record 1,875,000 acres to be planted in soybeans, 11% higher than a year ago and nearly two and one-half times the 1950 acreage. Farmers expect to plant the same acreage of peanuts and tobacco as last year. They seeded 3% more acres in wheat, but plan to cut Irish and sweet potatoes by 4% and 7%, respectively. Total hay acreage is expected to be about 1% below a year ago and the smallest acreage since 1933.

Growers also reported that they intended to cut total feed grain acreage by about 1%. However, these plans were reported before farmers knew much about the Administration's new feed grain program. The law now requires farmers to divert at least 20% or 20 acres, whichever is larger, of their corn and grain sorghum acreage to soil-conserving crops in order to qualify for price supports on feed grains. As an incentive to comply with this program, growers will receive payments in cash or in kind equal to 50% of their normal production on acres so diverted, as well as additional payments for further specified acreage reductions.

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