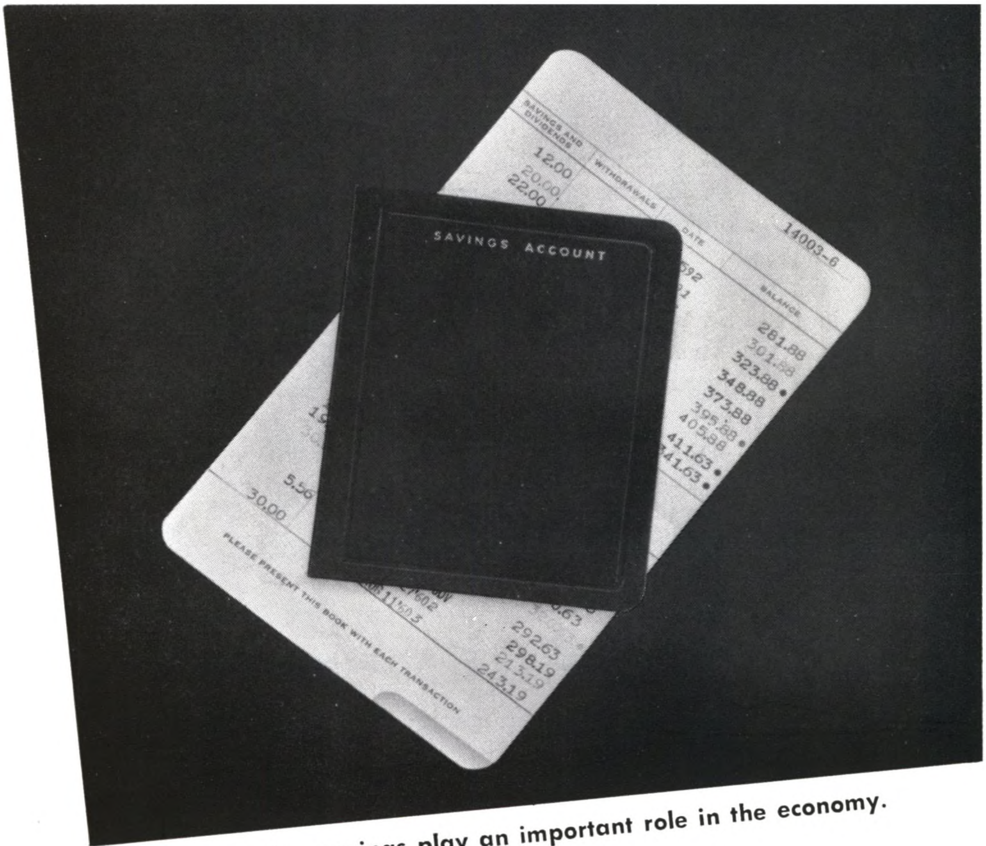
MONTHLY REVIEW



Rainy day savings play an important role in the economy.

FEDERAL RESERVE BANK OF RICHMOND

AUGUST 1961

SAVINGS INSTITUTIONS AND MONETARY POLICY

A frequently noted product of the rapid rise in personal income in this country since 1945 is the great postwar surge in consumer spending and the accompanying boom in consumer goods industries. Less frequently noted, but equally important, is the enormous increase that has taken place in the volume of savings set aside by Americans over this period. With steadily rising incomes, Americans have shown a growing appetite for providence as well as for consumer goods. The result has been a boom among the country's savings institutions rivaling, if not surpassing, that in consumer goods lines.

The rapid growth of savings institutions over this period has, of course, important implications for rates of capital formation and economic expansion. But its implications do not stop there. In recent years there has been a growing realization that the activities of these institutions have an important bearing on the public's spending habits in general and hence on the broad problem of price level and employment stability. These activities thus become a matter of major interest to the economy's monetary authorities and to others concerned with economic stability.

FORMS OF SAVINGS The savings of the American public since 1945 have taken many different forms, reflecting the wide variety of purposes for which individuals and businesses save. A large part of it has been effected through purchases of life insurance and claims on pension funds. Much has also taken the form of purchases of long-term securities of governmental units and of corporate bonds and stocks. Savings of this type cannot always be converted into cash quickly without loss and are usually designed to implement long-run savings plans of individuals.

Most savers like to maintain at least part of their accumulated wealth in forms more liquid than pension or insurance claims or long-term debt and equity claims. For this reason, some part of savings in a given time period usually takes the form of additions to the public's holdings of assets that can readily be converted to cash with little or no risk of loss. Depending upon action of the monetary authorities, some may also take the form of increases in the public's holdings of money.

In the United States liquid savings are held chiefly in two general forms: (1) U. S. Government savings bonds and other, generally short-term, claims on the Federal Government; and (2) time or savings deposits at commercial banks and deposit or share claims on specialty financial institutions, notably savings and loan associations, mutual savings banks, and credit unions. Since 1945, additions to the public's liquid savings have taken pre-eminently the second of these forms.

All forms of savings add to the public's wealth and consequently affect the pattern of spending in the economy. However, liquid savings, for reasons discussed below, are generally considered to have a more direct and immediate effect on total spending than other savings forms.

GROWTH OF LIQUID SAVINGS The postwar increase in the American public's claims on savings and loan associations, mutual savings banks, credit unions, and the savings departments of commercial banks is shown in the accompanying graph. This increase has been matched by a roughly corresponding growth in the assets of these institutions.

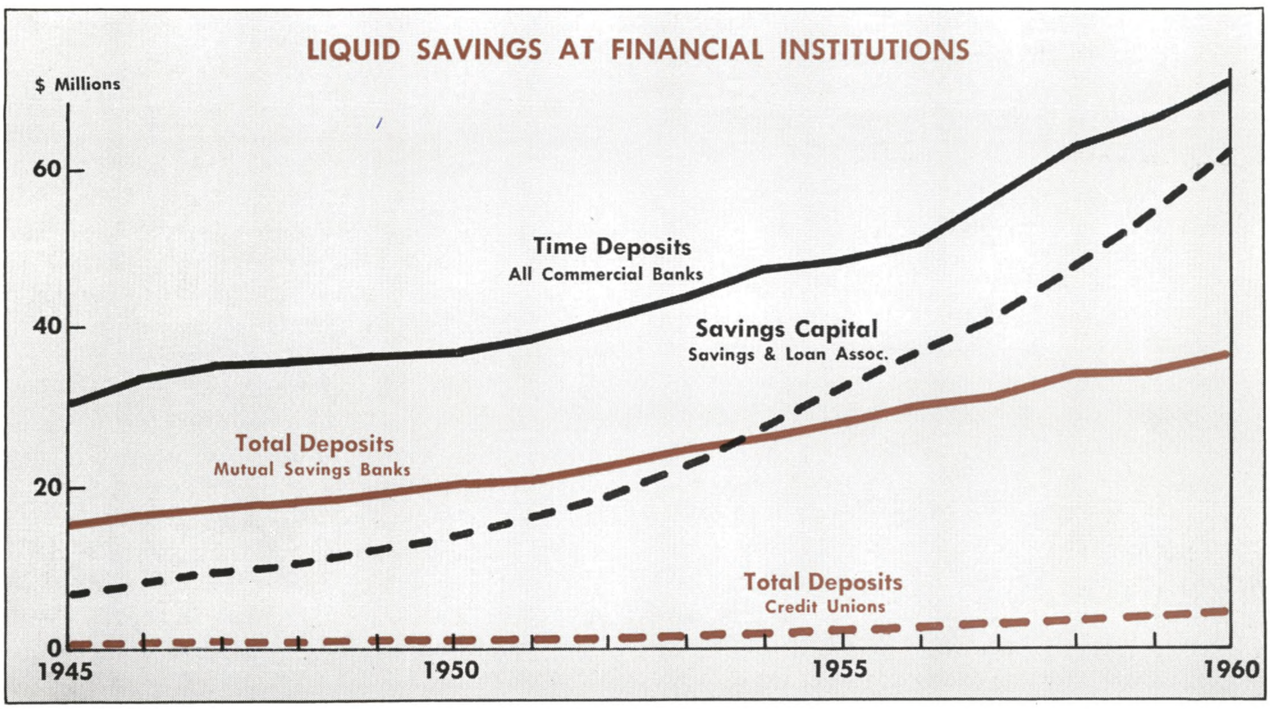
The public's combined deposit and share claims against the nonbank institutions, plus its time and savings deposits at commercial banks, amounted to $175 billion at the end of 1960 as against $53.5 billion 15 years earlier. Thus through these institutions the public has added more than $120 billion to its holdings of liquid wealth over the past decade and a half. The increase in the public's liquid claims on these institutions averaged more than 8% per year over this period, as compared with an average annual growth of 7% in the public's outlays for consumption.

As among the four types of institutions, the public showed a moderate preference for savings and loan shares in this period. Shares in these associations increased from $7.5 billion at the end of 1945 to $62 billion at year-end 1960, thus accounting for nearly half the total growth. Time and savings deposits at commercial banks rose from $30 billion to $71 billion, while deposits at mutual savings banks increased from $15 billion to $36 billion. Credit unions, still an infant in the American financial structure, experienced the smallest absolute growth, from $0.5 billion to almost $5 billion. Relatively, however, deposits at credit unions grew most rapidly, their average annual rate of growth amounting to a robust 18%. Share capital at savings and loan associations was not far behind, growing at an average annual rate of roughly 15%, while mutual savings deposits and time and savings deposits at commercial banks increased by about 6% per year.

SAVINGS AND CAPITAL FORMATION Popularly, savings institutions are perhaps more frequently thought of as channels through which money savings are converted into real capital goods—houses, consumer durables, and the like. Most of the investment activity of savings and loan associations and mutual savings banks is in real estate mortgages, and these institutions are generally viewed as agencies for fostering home building and other construction activity. The same is true, though to a lesser extent, of the time and savings deposit departments of commercial banks. Credit unions, on the other hand, extend primarily consumer loans, and their activities thus contribute chiefly to the creation of capital in the form of durable consumer goods. In recent years all these institutions have shown some tendency to move away from their traditional investment specialties into more diverse portfolios, including more commercial and industrial investment. Hence, they can be considered to contribute to the creation of a wide variety of capital forms, although their activities as a group are still heavily weighted in the direction of the building and construction industry.

SAVINGS AND LIQUID WEALTH In more recent evaluations of the role of these institutions, less emphasis is placed upon their investment activity as such than upon their capacity as intermediaries between savers and borrowers. Before these institutions can make loans or investments they must first raise funds, and they do this by receiving deposits or selling shares to the public. In either case they create a liquid claim on themselves in favor of the public. Since most of the money received from the public is immediately loaned or invested, the public is left holding nearly the same amount of money as well as the new liquid claim. Thus the public's net holdings of liquid wealth are increased as a result of the operations of these institutions, unless compensating changes occur in the money supply.

From the public's standpoint, claims on the four types of institutions considered here have highly desirable properties. They possess a high degree of liquidity. Some, indeed, are almost as liquid as cash itself. Many of the purposes for which people would



ordinarily hold a money balance are served with an equal holding of these liquid claims. Moreover, these claims have an advantage over money in that they bear interest, often at yields comparable to those on less liquid assets.

LIQUID ASSETS AND TOTAL SPENDING In addition to their role in capital formation, savings institutions thus exert influence on the economy through their effects on the public's holdings of liquid assets. The outstanding volume of liquid assets bears on the problem of economic stability chiefly through its influence on total spending in the economy. Total spending, which ultimately determines whether there will be upward or downward pressures on economic activity, depends not only upon the public's current income but also on the public's wealth position, and especially on the public's holdings of liquid assets. Significant increases in the public's holdings of liquid deposit or share claims on financial institutions are likely to be accompanied by increases in total expenditures, even if there is no net addition to the public's money supply. The reason for this is that to the extent that the public collectively can substitute liquid earning assets for money in its wealth reserves, a given money supply will turn over more rapidly.

This can be seen best, perhaps, by considering what happens when a savings institution "sells some shares," say, to a customer. So far as the customer is concerned, he would ordinarily be substituting a claim on the institution for a holding of money. The savings institution takes the money, at least part of which the customer would otherwise hold as a reserve, and in the course of its operations passes it on to a borrower who is certainly going to spend it, and promptly. Thus the savings institution is in the position of taking money which would otherwise be held idle, or at least "lazy," and making it active. As a result, the public's money supply is used more intensively, and total expenditures in a given time period are increased.

Strictly speaking, this simplified analysis must be qualified in applying it to time or savings deposits at commercial banks, which differ in some important respects from other liquid savings. This difference is due chiefly to the closer relationship of commercial bank time and savings deposits to the money supply, most of which is in the form of demand deposit claims on commercial banks. When commercial bank time or savings deposit liabilities change, there will likely be corresponding changes in both the required reserves and the demand deposit liabilities of these institutions. Hence changes in commercial bank time or savings deposits will likely influence the money supply (defined as the public's holdings of currency and demand deposits only) as well as its rate of use.

LIQUID ASSETS AND MONETARY POLICY Much of the preoccupation of the makers of monetary policy in this country is with the broad problem of economic stability which, as indicated earlier, is closely related to the question of total spending in the economy. As a useful thumbrule simplification, total spending in a given time period may be viewed as the product of the money supply and the number of times the money supply turns over in the period—the so-called "velocity" of money. Policy measures have an important effect on the money supply, but a smaller and less predictable effect on velocity. Among the important influences on velocity is the volume of liquid assets being generated in the economy at large by institutions like those discussed here and by other savings institutions, as well as by the Federal Government and other short-term borrowers. Under present arrangements there is little that the monetary authorities can do to influence the rate at which these liquid assets are created.

This consideration has led in recent years to much serious discussion of the position of savings institutions, especially those dealing in liquid savings, in over-all programs for promoting economic stability. Out of this discussion there have emerged a number of criticisms of traditional stabilization measures, notably those involving monetary policy action, and some proposals for amending the arrangements under which savings institutions operate.

CRITICISMS AND PROPOSALS Among persons interested in this question, some feel that the operations of savings institutions have now reached such proportions that they seriously complicate the problem of combating inflation and deflation through traditional monetary policy tools. Some suggest that a greater degree of public regulation is necessary if anti-inflation policies are to be effective. A few have even suggested that legal reserve requirements, like those in force for commercial banks, be extended to nonbank financial institutions that create liquid claims in favor of the public. Proposals along these lines are based on the proposition that an increase in the public's holdings of liquid savings has an effect on the price level not essentially different from that brought about by an increase in the money supply.

Other observers suggest that part of the growth of liquid claims on at least some financial institutions has not been "natural" but rather has been fostered by favorable treatment from public authorities. These persons point to what they consider to be the favored tax status of some institutions and argue that this makes possible unduly high yields on assets that are nearly as liquid as money. They fear that this may encourage inflation by accelerating the build-up of the public's holdings of liquid wealth.

Along these same lines, still others note that not altogether wholesome effects on the uses of the economy's new capital may result from publicly induced distortion of the structure of yields on liquid savings forms. When, for example, institutions that specialize in construction and housing loans are given cost advantages in tapping the stream of current savings, an undue fraction of the economy's new capital may be diverted from other economically worthwhile uses into construction. This, it is argued, not only contributes to malallocation of new capital resources but also could lead to dislocations associated with overbuilding in the construction and housing industries. Proposals for uniform treatment of financial institutions are based on this kind of thinking.

SAVINGS INSTITUTIONS AND POLICY Against the background of this new interest in savings institutions, some observers have questioned the continued effectiveness of traditional monetary policy as a tool for achieving national goals of high and stable employment, reasonably stable prices, and an optimal rate of economic growth. Apart from the effects of liquid savings on the rate of use of money, much is made of the development some writers have referred to as "the institutionalization of the saving-investment process," that is, the growing tendency for savings to be channeled into investment via large, specialized institutions. This development, it is argued, has altered the credit environment in such a way that the traditional tools of money and credit management can no longer be relied upon to produce the effects widely attributed to them. The corollary of this argument is that effective stabilization action requires a broader area of credit control.

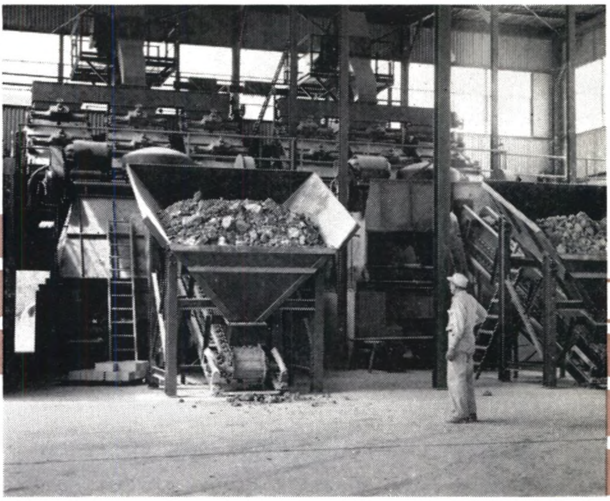
This sentiment, however, is not by any means general among students of the American financial system. Many observers feel that although the institutionalization of the savings-investment process represents a significant recent development, it has not impaired the effectiveness of traditional monetary policy tools. They point out that it is a relatively simple matter for the monetary authorities to compensate for the velocity and credit effects of savings institutions through acting on commercial bank reserves and on the money supply.

Supporters of continued reliance on traditional monetary policy action in moving toward national goals also point out that the growth of savings institutions has been paralleled by other significant changes in the financial system and that some of these changes have tended to make monetary policy more, rather than less, effective. They point specifically to improvements in the market machinery for trading in financial assets, including commercial bank reserves, which, it is argued, have removed some of the friction from the mechanism through which policy action influences assets markets. They argue, moreover, that neither the growth of savings institutions nor any other recent development has altered the fact that traditional central bank action, through influencing bank reserves, can affect the structure of assets prices in such a way as to bring about generally predictable changes in the economic responses of individuals and businesses.

Defenders of monetary policy readily admit that it is not a cure-all, that taken alone it cannot insure continuing high levels of employment, reasonable price level stability, and an optimal rate of economic growth. They admit freely that monetary policy cannot be counted on to cover up the adverse economic effects of irresponsible action by Government or self-seeking moves by labor or management combinations or by other groups exercising great economic power. But they argue that monetary policy, as it has been traditionally exercised, represents an indispensable part of any program to achieve national economic goals, especially in a society seeking these goals within a broad framework of individual liberty.

A RECENT STUDY In its recently published comprehensive study of the American financial system, the Commission on Money and Credit, sponsored by the Committee for Economic Development, considered, among other things, the question of the position of savings institutions in the economy. The Commission's recommendations, made on the basis of this study, do not suggest serious concern that the activities of savings institutions prejudice existing stabilization programs. The principal recommendations in this area envisage (1) broader loan and investment alternatives for all savings institutions, (2) equality of tax treatment for all institutions, (3) abolition of legal reserve requirements on commercial bank time and savings deposits, and (4) relaxation of statutory interest maxima on savings deposits and the equal application of these maxima on all savings institutions. These recommendations, if implemented, would result in less, rather than more, public regulation.

The "shale planer" cuts shale (clay hardened almost to slate) from the wall of an open pit. Clays are dug from pits or mines.



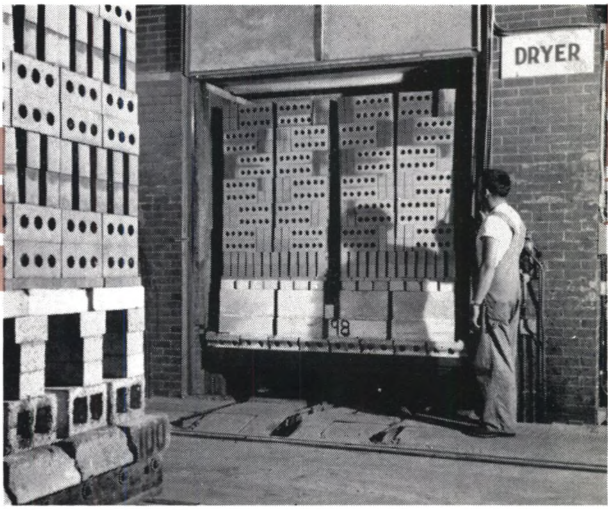
Plants usually store enough materials to operate for several days. Processing begins with crushing, mixing, and removing stones.

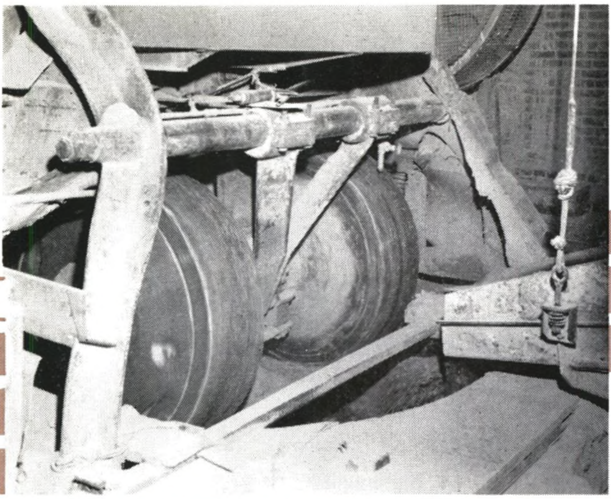
BRICKS and more BRICKS

Fifth District firms produce one-fifth of the 7 billion bricks manufactured annually in the United States.

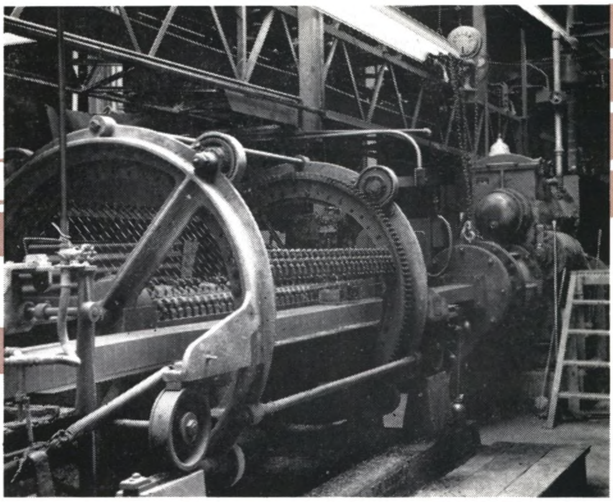
The bricks are inspected as they come from the cutter. Rejects go back to the die, and the rest are stacked on cars for the dryer.

Carloads of brick move through the drying area into the kiln where temperatures rise to 2200° F. Burning may take 3 or 4 days.





The crushed mixture goes into a circular pan where it is pulverized and blended under grinding wheels that weigh 4 or 5 tons.



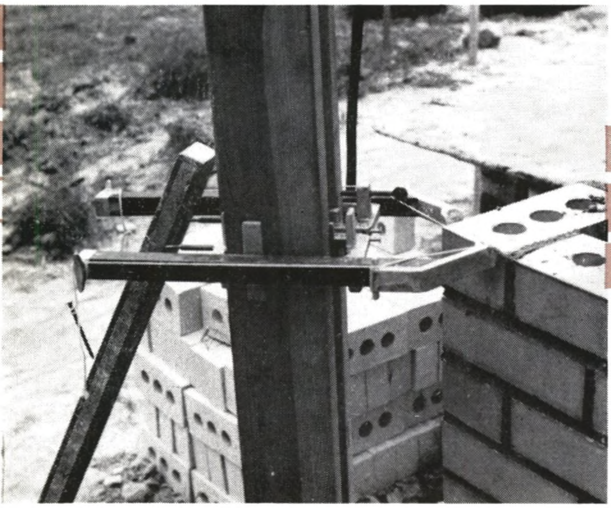
A die forms the moistened mixture into a clay column, and piano wires on the circular frame in the foreground cut it into bricks.

About 1.4 billion bricks were made in each of the last two years from the clays of Maryland, Virginia, West Virginia, and the Carolinas. The Tarheel State's 1960 output of 640 million bricks ranked first in the Fifth District and second in the nation. Ohio alone produced more. Output exceeded 260 million bricks in both Virginia and South Carolina, placing them among the top ten. Maryland's 1960 output was close to the 145-million-brick average for all states and West Virginia's slightly exceeded one-half of the average.

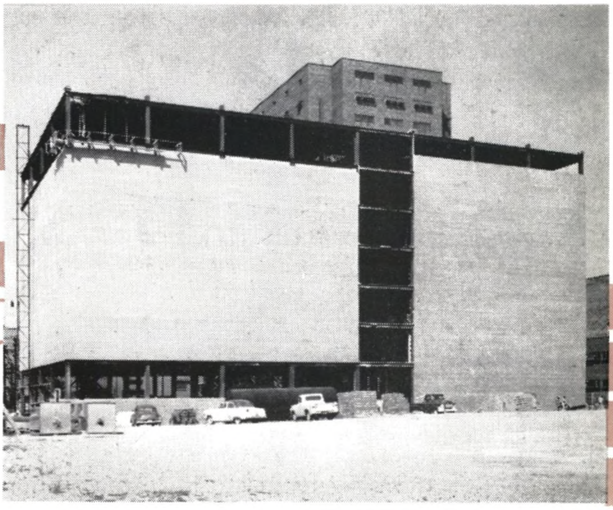
Bricks have a low value-to-weight ratio and are rarely delivered beyond a radius of 200 miles. Consequently, areas of greatest output conform roughly to areas of greatest use. Informed estimates indicate that about 70% of the District's brick output goes into residential building and that a very high proportion of new houses, probably 90% or more in brick producing areas, have brick exteriors, usually frame or masonry faced with brick.

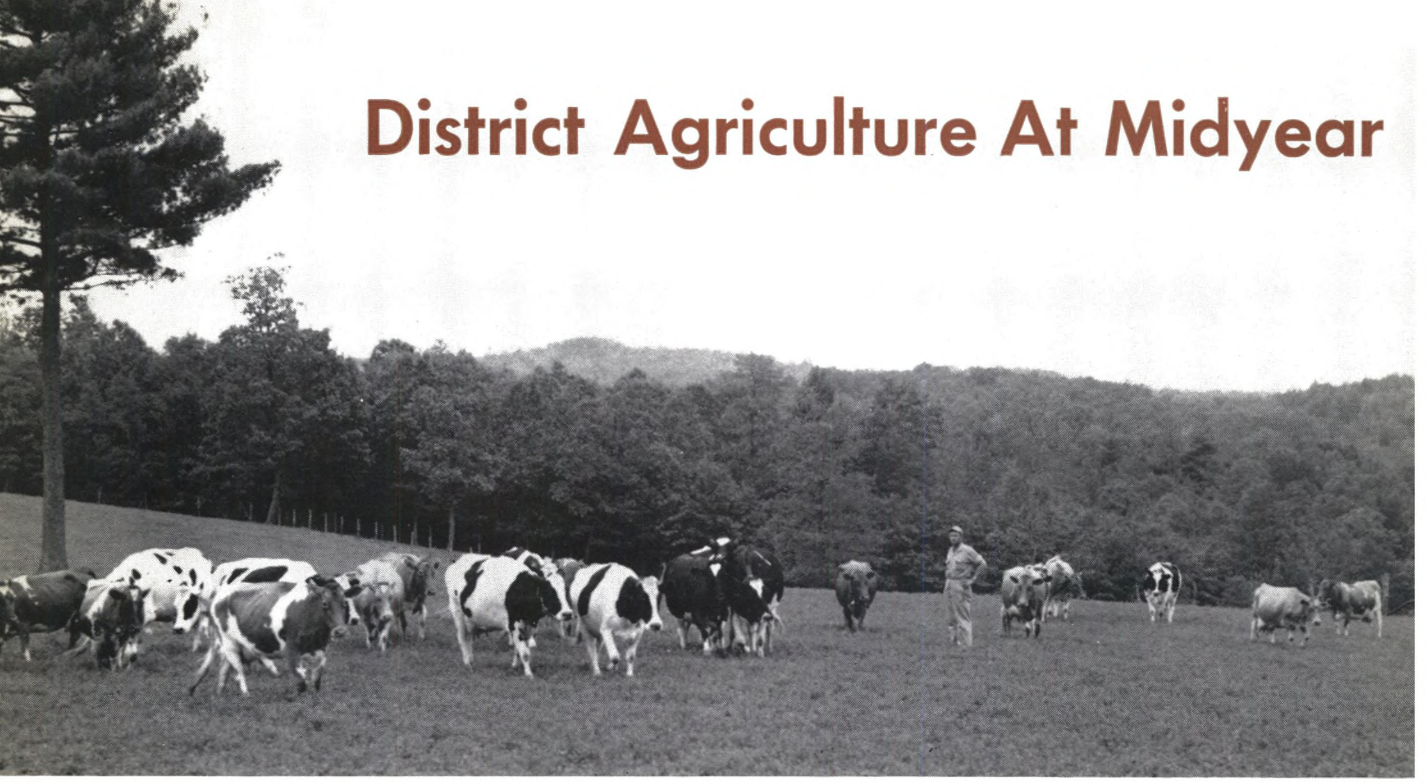
Bricks are the world's oldest manufactured building material. The basic process has not changed in several thousand years. Of course great strides have been made, and are still being made, in the design and use of equipment. The pictures on this page briefly illustrate the various steps from earth to edifice.

Years of experience and special equipment such as this corner post enable the bricklayer to achieve perfection in his trade.



This ultramodern furniture market facility in High Point, N. C., is an impressive example of current trends in the use of brick.





District Agriculture At Midyear

Thus far 1961 has been a good year for Fifth District farmers. Farm product prices have averaged slightly higher than a year earlier, while prices paid by farmers have held relatively stable. Total cash receipts from farm marketings through the first five months of the year were nearly 6% larger than last year. Receipts from crop marketings were up 11% and those from the sale of livestock and livestock products showed a 3% gain. Larger marketings of cattle and broilers have helped to maintain livestock receipts in spite of recent price declines for these commodities.

Crop prospects at midsummer are generally favorable. Though the season got off to a slow start because of a cold, wet spring, most crops responded to the more favorable May and June weather. While frequent showers have interfered with proper control of weeds and insects, only corn, flue-cured tobacco, and potatoes show declines from last year in expected yields per acre. Higher yields now seem likely to push production of most other major crops above that of 1960.

FEED CROPS Growing conditions have been generally favorable for hay crops and pastures. Somewhat higher per-acre yields are expected to just about counteract the slightly smaller hay acreage, and total hay production will probably be almost as large as in 1960. Pastures throughout the five-state area were in good condition on July 1, providing an abundance of lush grazing. Their condition was considerably better than at the same time last year and well above average for the date in all District states.

Heavy diversion of corn and grain sorghum acreage to conservation uses under the emergency feed grain program has taken considerable land out of production. Total feed grain acreage for harvest this year is thus about one-seventh smaller than in 1960. The sharp reduction in corn acreage and an expected drop in average yield are combining to reduce output of corn for grain to about one-fifth below last year's.

July 1 conditions pointed to production gains over last year for all small grains except sorghums. Biggest increase—around 15%—was indicated for the wheat crop. Recurring rains in early July delayed harvest of small grain crops in many sections of the District, however, and some damage has occurred.

TOBACCO PROSPECTS Though tobacco got off to a late start this spring, total production in the District now looks to be only slightly smaller than last year. A somewhat smaller flue-cured crop will account for all of the decline, for, if present expectations materialize, production of all other types of tobacco will be larger than last year.

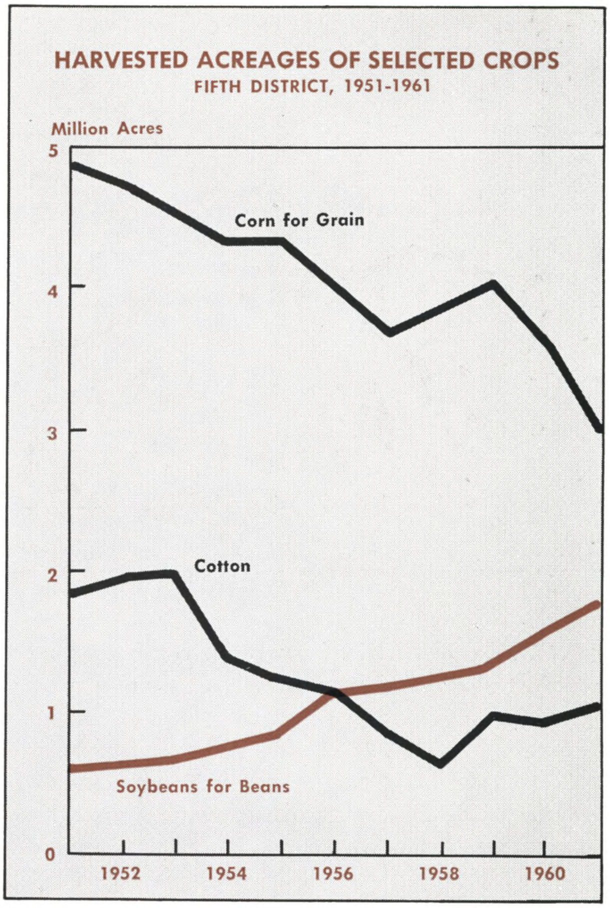
A flue-cured crop of 1,082 million pounds with yields averaging 1,764 pounds per acre—second only to last year's record average—is now in prospect. If realized, this crop would be 2% below last year's harvest and only 4% smaller than the average for the past ten years. However, it would fall short of the record 1955 crop by 17%.

MORE FRUIT, FEWER POTATOES Fruit prospects vary considerably in different areas, but the District totals of all types of fruit are expected to be larger than in 1960. Prospects for the commercial apple crop on July 1 indicated an output about 5% above last year's harvest and 14% larger than average. Size of the crop in Virginia—the District's largest apple producing state—is expected to be the same as a year ago, but larger crops in West Virginia and Maryland appear likely to more than offset a 10% drop in North Carolina.

Peach producers are looking for an 8% larger crop than in 1960. Production of this magnitude would be nearly one and one-half times greater than the average of the past ten years. Sharply larger crops in the Carolinas are more than making up for smaller production in Virginia and Maryland. Peaches are sizing well throughout the District, and a record crop is being harvested in South Carolina.

Smaller acreages and lower yields per acre are combining to reduce output of both sweet potatoes and Irish potatoes. A sweet potato crop nearly one-fifth under a year earlier and an 8% cut in Irish potato production were in prospect as of July 1. Both crops got off to a slow start because of cold, wet weather, and heavy rains during June and early July delayed harvest of the late spring and early summer Irish potatoes. The delay in digging has prevented orderly marketing, and this in turn has brought about sharply depressed prices.

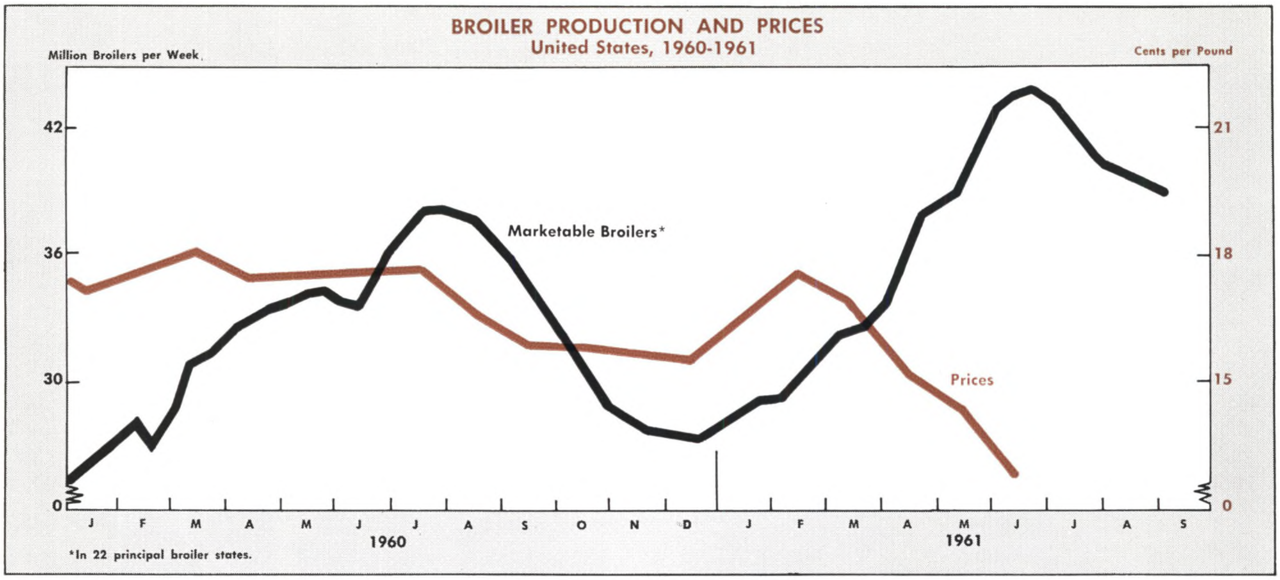
This year's production of flue-cured tobacco—the District's chief money crop—will likely be somewhat smaller than in 1960.



OUTPUT CLUES Production estimates of three principal District crops—cotton, peanuts, and soybeans—are not yet available, but acreages and crop conditions furnish good clues. Cotton planted totaled 1,050,500 acres—up 6% from last year but nearly one-fourth smaller than the 1950-59 average. With normal acreage abandonment, acreage for harvest this fall will be about 1,025,000 acres, the largest since 1956. Considerable replanting was necessary this spring, and the crop is generally late and mostly in only fair to good condition.

Peanut acreage is practically unchanged from last year. Growth of the crop is behind schedule, but most of it is in good condition.

Fifth District farmers continued to expand soybean acreage for the fifteenth consecutive year. Acreage which they intend to harvest for beans is at a new all-time high—13% above last year and nearly double the 1950-59 average. Planted soybean acreage is 61,000 acres larger than farmers planned in early March before the Government announced higher support prices and Congress passed the feed grain program. The crop is making favorable progress and generally appears to be in mostly good condition.



FEWER HOGS District farmers are continuing to cut back hog production even though output nationally is presently being increased in response to relatively favorable prices. The number of pigs raised by District farmers this spring was 3% below a year ago and the smallest number of spring pigs since 1946. In addition, producers are planning for the number of sows farrowing this fall to be 7% fewer than last year. The cutback in this year's corn crop and generally expected higher corn prices this fall and winter are no doubt exerting a restraining influence on District farmers' hog production plans, but the same factors are present in other areas. If the decline in fall farrowings occurs as expected, the total number of pigs raised in 1961 will be around 3,888,000 head—5% under 1960 and the smallest annual District pig crop since 1953.

POULTRY IN TROUBLE? The poultry industry is again well on its way into a period of low prices—the consequence of production greater than consumers will buy at prices profitable to growers. All major phases of the national industry expanded this year in response to favorable 1960 prices. However, breeding flocks had to be increased before production could rise significantly. As these were built up rapidly during last year and early this year, it was readily apparent to all observers that the foreseeable output would endanger price levels then prevailing.

The broiler industry, which can turn an egg into a ready-to-cook chicken in less than three months, was the first to feel the impact of increased supply. Prices fell sharply in April and then, as output up to 30% greater than last year hit the market, at times slid to an all-time low of 11 cents per pound. A national production peak estimated at over 44 million broilers per week was reached in late June, about a month before the advent of really hot weather which usually brings the greatest demand. Currently, output has been cut back to less than 10% over last year, offering some hope for moderate recovery in prices.

Periods of low prices are not new to the broiler industry. These periods, which during the last decade occurred in 1954, 1956, and 1959, are akin to growing pains. The industry has been growing rapidly because technological advances have continually been reducing costs. Each cost reduction has tended to make production more profitable, but as growers have quickly increased output in an effort to increase total profits, market prices have fallen and cut their margin. The ultimate benefactor has been the consumer—national output rose by 184% and prices went down by 38% over the last decade. The scope and rapidity of the changes in the industry are dramatically illustrated by the fact that a farm price of 23 cents per pound in 1954 caused financial losses and evoked some pleas for Government intervention, whereas today it would yield a fabulous profit for growers.

The biggest increase in supplies of eggs and turkeys, which have a longer production period, will not come until this fall. The U. S. Department of Agriculture estimates that output of eggs will be a mild 4% over last year, but that the number of turkeys will be 25% greater. The latter will have to compete with a lower level of beef prices and greater marketings of hogs and broilers than prevailed last year, and thus their price prospects are not very bright.

THE FIFTH DISTRICT

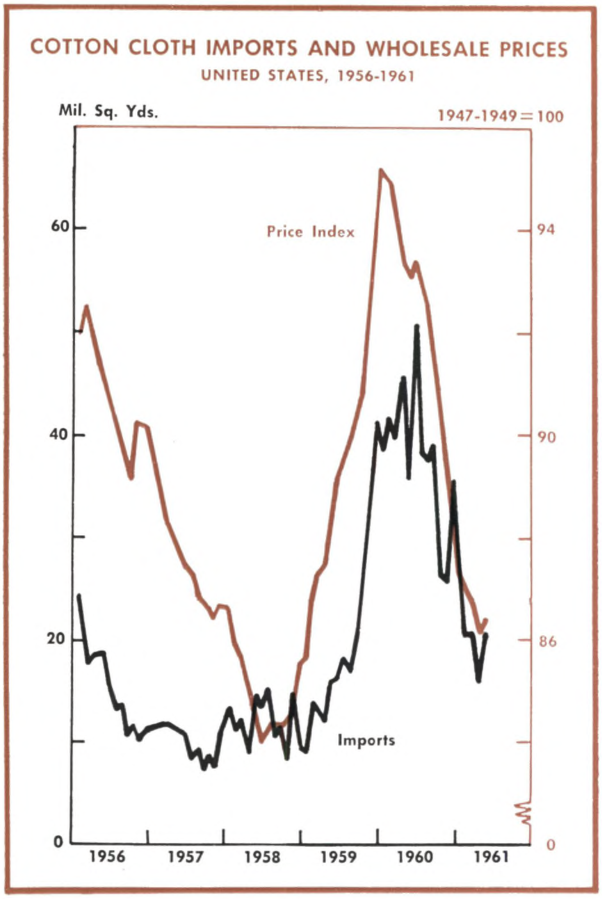
The Fifth District economy achieved further advances in July. Among the most active businesses were those catering to tourists, vacationers, sports devotees, and amateur landscape gardners. Crowds visiting District parks, beaches, and other points of interest have reportedly been averaging about 10% above those of last summer—and 1960 was considered a busy year. The beginning of the centennial commemoration of the War Between the States has rekindled interest in locations memorialized by events of that conflict. In addition, the nation's capital has attracted unusually large numbers of sight-seers this season, and their expenditures have helped maintain sales of retail stores and service enterprises in the Washington area at high levels. Apparently the average American leaves his troubles behind him when he takes a holiday.

INDUSTRY RECOVERY CONTINUES At District plants, the recovery that started early this year is continuing. By mid-June manufacturing employment, on a seasonally adjusted basis, had recovered 46% of the ground lost during the recession, and manufacturing man-hours, also seasonally adjusted, had regained 71% of their previous decline. June man-hours in the cigarette, transportation equipment, and paper industries topped their best month of 1960. However, some fairly important industries—metals, furniture, lumber, and food processing—had recovered less than half of their recession man-hour losses by June 15. In each of the latter, June man-hours were at least 5% below their 1960 peak month.

District beaches, parks, and points of historical interest are attracting unusually large numbers of vacationers this summer.

SUMMER SHOPPERS ACTIVE From all reports shoppers in the District were busy in June and busier in July. The preliminary estimate of the seasonally adjusted index of department store sales in July went to 162 (1947-49=100), up 4% from the previous month and 3% from July 1960. So far this year District department store sales are more than 1% ahead of last year. General retail sales have apparently about paralleled those of department stores during early summer and probably continued their gradual rise through July.

TEXTILE NATIONS AGREE Some first fruits of President Kennedy's program to aid the textile industry were harvested in Geneva in the week of July 17-21. All important textile exporting and importing countries were represented at the International Textile Conference sponsored by the General Agreement on Tariffs and Trade at the request of the United States State Department. The terms to which all the conferees subscribed as a step toward more orderly and cooperative trading relationships include the following: (1) As a stopgap measure, any nation whose domestic markets are disrupted by unrestricted imports (for example, the United States or Great Britain) may request the exporting nations concerned to limit shipments for the year beginning October 1, 1961 to the level that prevailed during the year ended June 30, 1961. No machinery is provided to enforce such limitations other than unilateral retaliation by the injured country. But acceptance of these terms morally binds the participants, and the speed with which preliminary agreements began to take shape during and after the conference suggests an atmosphere of good faith. (2) For the long run, an international textile committee will be formed to make recommendations by April 30, 1962 for drafting a more permanent agreement. (3) Nations that



now restrict textile imports, notably certain countries of Western Europe, will act no later than January 1, 1962 to lessen such restrictions and thus open the way to more freedom and reciprocity in textile trading.

The possible limitation of imports is the item of greatest immediate interest to the American textile industry. The chart above compares the movement of wholesale prices of cotton cloth with levels of cotton cloth imports from January 1956 through May 1961. The relationship between these two series has been especially close since the beginning of 1959. Peaks in imports have followed high points in the price index by about six months. Prices were highest in January 1960, and in June 1960 imports attained a monthly peak of over 50 million square yards. A lesser peak in prices occurred in June 1960, and after dipping to half the June volume imports rose again to more than 35 million square yards in December of that year. The experience summarized by the chart strongly suggests that higher textile prices without any agreement on imports are likely to be accompanied by an inflow of cotton goods from other countries, ranging from perhaps 30 to 50 million square yards per month. Imports averaged 39 million square yards per month during the year of relatively high prices which began on October 1, 1959 but only 27 million square yards monthly during the year ended June 30, 1961. According to the terms of the agreement, 27 million square yards could be made the limit for average monthly imports in the year beginning October 1, 1961 regardless of what prices do.

BUSINESS LOANS OFF Loan demand at District banks showed seasonal strength in June but fell off somewhat in July. Virtually all loan categories at District weekly reporting banks exhibited greater strength in June than in the same month last year. The July reduction was due chiefly to a sharp decline in business loans, which fell nearly 4% between July 5 and July 26. For the eight weeks ending July 26, these loans were off 3.5%. This compares with a similar decline in the same 1960 weeks and considerably smaller reductions in the like period of most other recent years.

Over the same eight weeks gross loans at District weekly reporting banks rose nearly 1%, as compared with a small decline during this period last year. Security, real estate, and consumer loans exhibited notable strength this year.

District weekly reporting banks moved into an easier investment position in June and July, increasing their holdings of Governments of under one-year maturity by more than 20%. Much of this increase was related to important U. S. Treasury refinancings in late June and late July. Over the same period, holdings of intermediate- and long-term Governments were reduced sharply, while other securities were increased moderately. Total investments rose 1.5% as against a 3% increase in the same period last year.

Typically District banks have continued to maintain a basically easy reserve position. Daily average borrowings at the Federal Reserve discount window rose somewhat in June but fell again in July. Average borrowings for the eight weeks ending July 26 remained far below those in the comparable weeks of any recent year except 1958. In the Federal funds market, District banks were net buyers (borrowers) through most of June but swung over to a heavy net sales position in July.

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