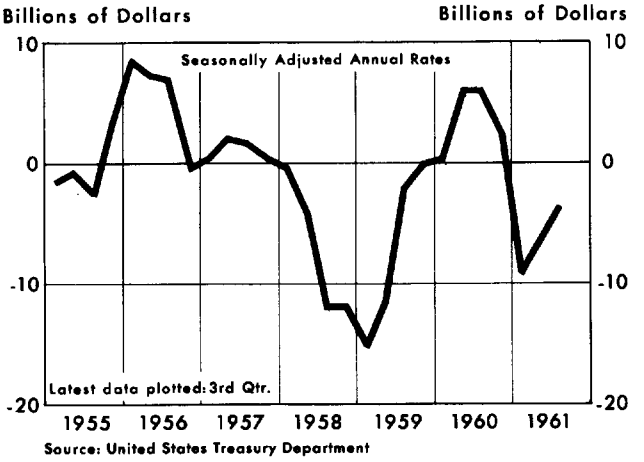
tive force to the economy. As business activity has improved, however, the cash deficit has been reduced, from about $9 billion annual rate in the first quarter to approximately $3.6 billion in the third quarter.

The cash deficit has been larger in the present recovery than it was at a similar stage in the 1954 upturn but much less than in 1958. The Federal Government experienced a cash deficit of about $1 billion (seasonally adjusted annual rate) in the two quarters following the trough quarter in 1954 and a deficit at the rate of $12.0 billion in the similar stage of the 1958 recovery. These compare with an estimated $5 billion rate in the second and third quarters of 1961.

Net Cash Receipts (+) and Payments (-)
U.S. Government



Source: United States Treasury Department

Monetary Expansion Continues

MEMBER BANK RESERVES increased in recent months at the same time that the pace of the business expansion moderated. As reserves increased, bank credit and the money supply expanded. The relative stability of market interest rates continued in September and October.

Money Supply

The seasonally adjusted money supply (demand deposits adjusted and currency outside banks) increased sharply in September but declined slightly in early October. From the second half of November last year to the second half of March 1961, a period which includes the latter months of the 1960-61 recession and the first month of the recovery, the money supply expanded at an annual rate of 4.5 per cent. In the subsequent five months, from the second half of March to the second half of August, the quantity of money was about unchanged on balance. In September and early October, a period of only moderate business expansion, the money supply rose at an annual rate of 7.3 per cent (see charts, page 6).

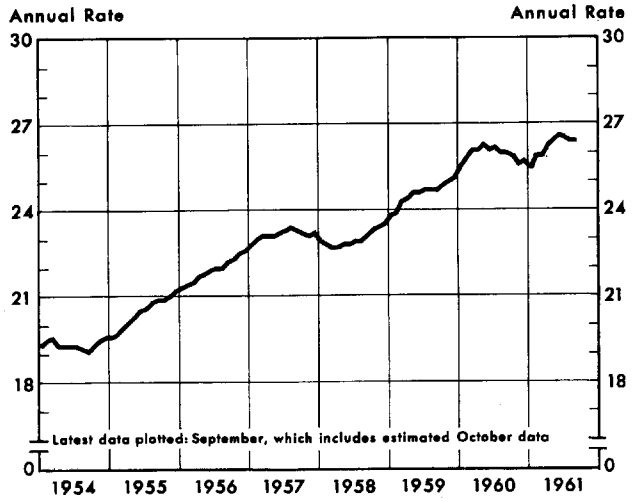
Time deposits at all commercial banks, seasonally adjusted, expanded at an annual rate of 13 per cent in September and the first half of October. This was about the same rate of expansion as in other recent months but below the 22 per cent rate of growth during the first two months of the year.

Reflecting the rates of growth in the money supply and time deposits, the two combined increased at an annual rate of 9.4 per cent in September and early October. By comparison, in the previous five months the annual rate of expansion was only 4.2 per cent.

Turnover of Money

The velocity of demand deposits at banks outside the major financial centers declined in the three months ending in September. The decline in the use of money may reflect in part the recent lack of vigor in business activity. The annual rate of demand deposit turnover

Turnover of Money
3-Month Moving Average Seasonally Ad'usted



(three-month moving average) increased from a low of 25.8 times per year in March to a high of 26.6 times per year in June. Turnover in September was estimated to be 26.4 times per year.

Bank Credit

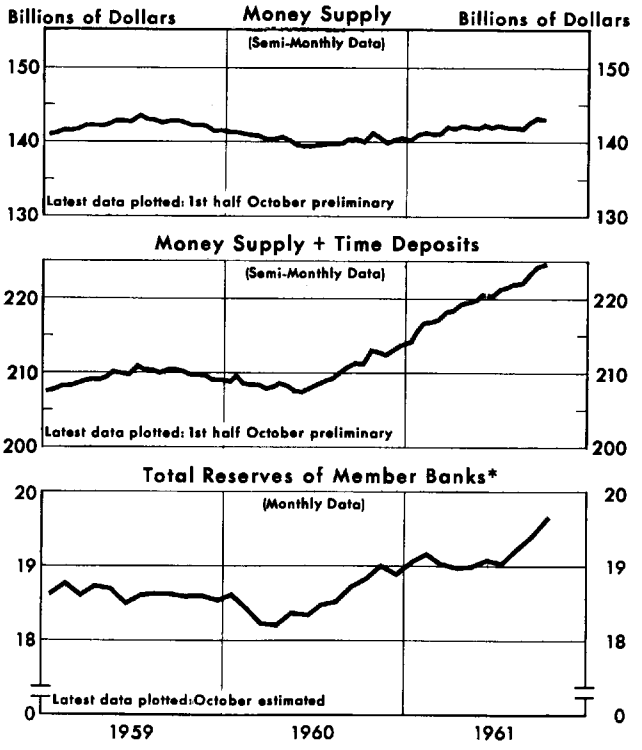
Loans and investments at all commercial banks, seasonally adjusted, increased sharply in September, and evidence based on weekly reporting banks indicates that total bank credit increased somewhat further in October. Loans, which had been expanding only nominally thus far in the recovery, increased by about $2.7 billion in September. Loans to security dealers, probably in connection with the late-month Treasury financing, accounted for a large part of the increase. Business loans showed little more than a seasonal rise.

Bank investments increased about $2.4 billion in September. Most of the increase in investments resulted from banks acquiring nearly all of the $2.5 billion tax anticipation bills which were offered in late September. Holdings of other securities also rose, reflecting in part bank purchases of local Public Housing Authority notes.

In the Eighth Federal Reserve District both loans and investments of member banks expanded in September and probably rose further in October. Commercial and industrial loans declined in September and October while "other," including consumer, loans increased rather sharply.

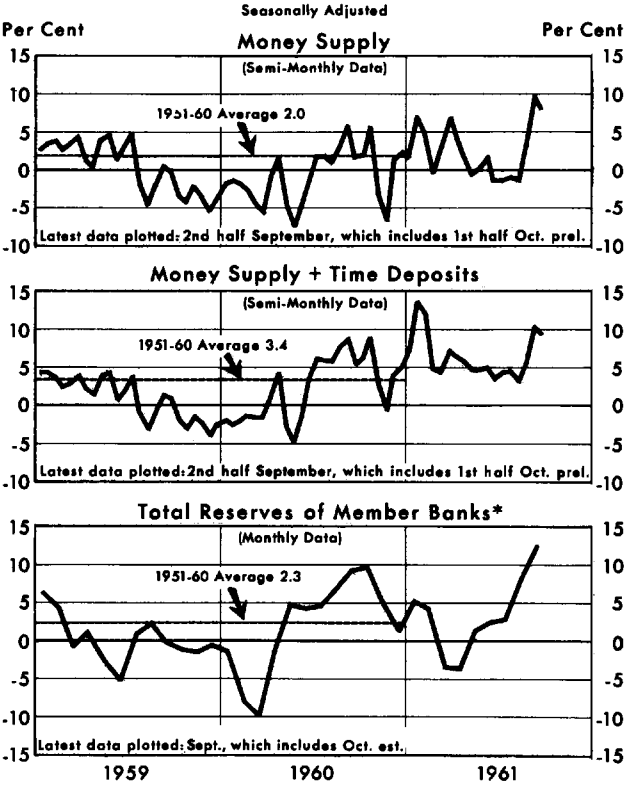
Total bank credit, seasonally adjusted, expanded in September and October in the Louisville and St. Louis metropolitan areas but was about unchanged in Memphis and Little Rock. Loans expanded in the St. Louis area, were about unchanged in Louisville, and rose less than seasonally at Little Rock and at Memphis. The less-than-seasonal rise in loans at the Little Rock and Memphis banks probably reflected the lateness in the cotton crop as well as development of other means of financing the marketing of the crop. Investments expanded at banks in Louisville, St. Louis, and Memphis but were about unchanged at Little Rock banks.

Money Supply and Member Bank Reserves
Seasonally Adjusted



*Reserves of member banks adjusted for changes in the percentages of reserves required, sometimes referred to as "effective" reserves.

Annual Rates of Change in Money Supply and Member Bank Reserves
3-Period Moving Averages, Weighted 1-2-1
Seasonally Adjusted

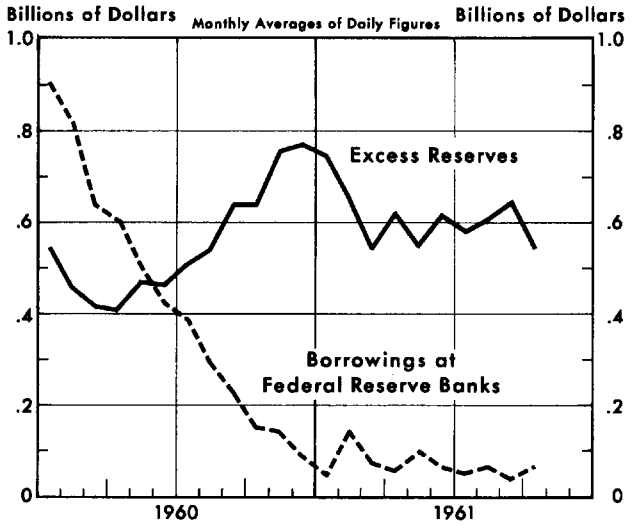


*Reserves of member banks adjusted for changes in the percentages of reserves required, sometimes referred to as "effective" reserves.

Bank Reserves

Total reserves of member banks, seasonally adjusted, increased by about $600 million in August, September, and October. Because of a more-than-seasonal rise in Treasury deposits over this three-month period, reserves available to support a private deposit expansion rose less than total reserves. The 12 per cent annual rate of increase in total reserves in the last three months is in sharp contrast to the 2 per cent annual rate of decline of total reserves from February through July.

Excess Reserves & Borrowings of Member Banks



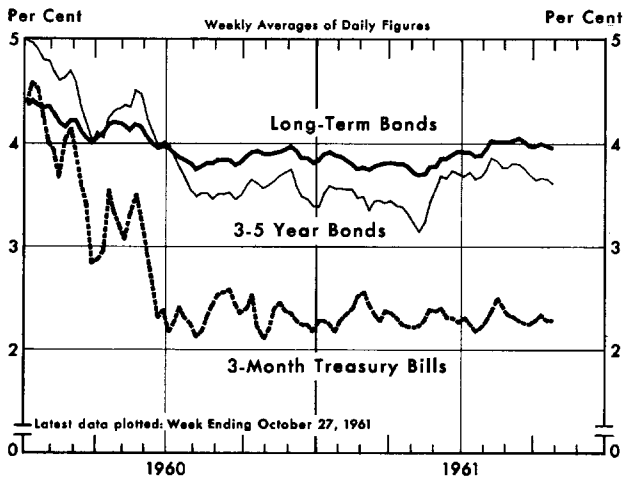
Source: Federal Reserve Board
Latest data plotted: October estimated

Neither excess reserves nor member bank borrowings from Reserve Banks have changed much in recent months. Over the past five months excess reserves have fluctuated about the $600 million level and member bank borrowing about the $50 million level.

Interest Rates

Market interest rates remained virtually unchanged in September and October, in contrast to usual increases at this season. Yields on three-month Treasury bills averaged about 2.30 per cent in these months. Since mid-1960 the three-month bill rate has fluctuated about the 2.35 per cent level. Yields on long-term Government bonds drifted down slightly from late 1960 through the first half of this year. From a low of 3.73 per cent in May 1961, long-term interest rates worked up to an average of about 4.00 per cent in August and have remained about unchanged in September and October. Yields on corporate and municipal bonds have moved in a roughly similar fashion.

Yields on U.S. Government Securities



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