

## OUTLOOK FOR BANK RESERVES AND TREASURY FINANCING

Bank reserve positions will probably be easy during the remainder of 1948 and particularly in the first half of 1949 unless further positive measures are taken by the monetary authorities to absorb reserves or prevent their expansion. Additions to bank reserves may be expected from continued net sales of Government securities to the Reserve Banks by nonbank investors, from gold inflow, and in the first quarter of 1949 from a seasonal return flow of currency to banks. The Treasury will probably not be in a position, except temporarily, to pull any substantial amount of reserve funds away from banks, although some drain might be possible early in 1949 by drawing on war loan balances. In the absence of further restrictive monetary action, banks might be able to meet a projected 5 billion dollar bank loan demand over the next nine months and at the same time increase somewhat their holdings of Government securities. Estimates of Treasury cash transactions and of factors affecting bank reserves during the next three quarters are shown in the attached tables.

Nonbank sales of securities

Nonbank net sales of Government securities to the Federal Reserve Banks are expected to continue over the next nine months. Insurance companies and other institutional lenders will probably continue to expand credit to businesses, municipalities, real estate buyers, and consumers more rapidly than they are receiving new funds. They would need in these circumstances to continue to sell Government securities. Some purchases of short-term Government securities by other corporations and associations and other investors with temporarily idle funds will probably offset part of these sales.

It is difficult to estimate the probable magnitude of net sales by all nonbank holders. Given a sustained high level of borrowing demands from businesses and individuals, such sales might well continue at a rate of between 2 and 3 billion dollars a year with particularly heavy net sales in the latter part of the year. Recent large sales of bonds may have anticipated some future demands, but some of the funds have been invested in short-term securities, which may later be sold to the System. Higher short-term rates might reduce the volume of such sales to the Reserve System. It seems reasonable to conclude that the System will continue to be called upon to purchase securities from nonbank investors wanting funds for other uses. If nervous selling continues to supplement sales by savings institutions to obtain funds for investment in private obligations, the volume of reserves created by System purchases might continue very large.

Treasury cash transactions by quarters

During October and November, as shown in the attached tables, the Treasury will have an excess of cash expenditures in budget accounts and for voluntary retirement of maturing debt. The effect of these payments on bank

reserves can be offset by calls on war loan accounts to maintain the Treasury's balance with the Federal Reserve at around present levels. In December cash budget and debt transactions approximately balance. Currency demands will put some pressures on banks at times during this quarter.

In the first quarter of 1949 there will be a substantial cash surplus, although a much smaller one than in the same period of 1948. This surplus could be drawn from war loan accounts into the Federal Reserve to offset the effect on reserves of the return flow of currency. If this is done, however, the Treasury might have to reduce balances at the Reserve Banks in the second quarter to meet an excess of cash payments and this would supply reserves. The effect of Treasury operations on reserves throughout the period can be approximately neutralized by permitting war loan balances to increase in the first quarter and drawing them down in the second. This, however, would leave a war loan balance of 2.0 billion dollars at the end of June. The Treasury could draw down this balance during the period to retire some securities held by the Federal Reserve and thus exert some drain on bank reserves.

It should be pointed out that these estimates, particularly for the first half of next year, are subject to a wide margin of error. If national income continues to rise as much as is assumed in other projections prepared by the Board's staff, then tax receipts will be a little larger than assumed in this set of estimates, which are already appreciably above those given in the latest official budget estimates. Expenditures might be lowered somewhat below current estimates, which are a little above official budget estimates, but they are just as likely to be increased.

Table 1

ESTIMATED CHANGES IN SUPPLY OF  
BANK RESERVE FUNDS, JULY 1948 - JUNE 1949

|   | 1948           |       |        |      |      | 1949           |                |
|---|----------------|-------|--------|------|------|----------------|----------------|
|   | July-<br>Sept. | Total | Oct. - | Dec. |      | Jan. -<br>Mar. | Apr. -<br>June |
|   |                |       | Oct.   | Nov. | Dec. |                |                |
| 1. Increase in reserve funds from gold, currency, and miscellaneous technical factors                                 | .3             | .2    | .1     | --   | .1   | 1.0            | .1             |
| 2. Reserves put into the market by Federal Reserve net purchases of Government securities from <u>nonbank holders</u> | 1.8            | .9    | .3     | .3   | .3   | --             | .4             |
| 3. Changes in reserves from Treasury fiscal and debt management operations  | -.9            | -.1   | -.1    | --   | --   | --             | --             |
| 4. Total increase in reserve balances from above factors  | 1.2            | 1.0   | .3     | .3   | .4   | 1.0            | .5             |
| 5. Increase in member bank required reserves as a result of deposit changes reflecting above factors                  | .2             | .2    | .1     | .1   | .1   | .3             | --             |
| 6. Increase in required reserves from Board action  | 2.0            | --    | --     | --   | --   | --             | --             |
| 7. Net volume of reserves available to banks for additional credit expansion  | -1.0           | .8    | .2     | .2   | .3   | .7             | .5             |

October 1, 1948.

Table 2

ESTIMATED TREASURY CASH TRANSACTIONS AND BALANCES  
FISCAL YEARS ENDING JUNE 30, 1948 AND 1949  
(In billions of dollars)

R&S 100-2799  
October 1, 1948

STRICTLY CONFIDENTIAL

(Figures for 1948-49 differ from the President's budget estimates as of August 15 by allowances for higher estimated income tax receipts of 1.3 billion dollars and for expected additional agricultural price support expenditures of 700 million and smaller cashing of International securities by 300 million)

| Item  | July-         | Jan.-          | 1948  |                   |       |      |      |      | 1949          |               | Summary        |               |
|---|---------------|----------------|-------|-------------------|-------|------|------|------|---------------|---------------|----------------|---------------|
|   | Dec.<br>1947* | June<br>1948.* | July* | Aug. <sup>P</sup> | Sept. | Oct. | Nov. | Dec. | Jan.-<br>Mar. | Apr.-<br>June | 1947-<br>1948* | 1948-<br>1949 |
| <u>Cash operating budget</u>                          |               |                |       |                   |       |      |      |      |               |               |                |               |
| Income  | 20.5          | 27.2           | 2.4   | 3.2               | 4.8   | 2.4  | 3.1  | 4.3  | 14.2          | 11.0          | 47.7           | 45.4          |
| Outgo   | 19.2          | 19.5           | 2.8   | 3.0               | 3.4   | 2.9  | 3.2  | 4.0  | 11.1          | 12.8          | 38.7           | 43.1          |
| Net cash surplus or deficit (-)                       | 1.3           | 7.6            | -.4   | +.2               | +1.4  | -.5  | -.1  | +.3  | +3.1          | -1.8          | +9.0           | +2.3          |
| <u>Cash debt transactions</u>                         |               |                |       |                   |       |      |      |      |               |               |                |               |
| Nonmarketable <sup>1/</sup>                           | +1.4          | -.4            | +1.2  | --                | -.1   | --   | -.1  | -.2  | +.5           | -.1           | +1.0           | +1.2          |
| Marketable <sup>2/</sup>                              |               |                |       |                   |       |      |      |      |               |               |                |               |
| Federal Reserve Banks                                 | -1.0          | -4.0           | -.5   | -.4               | -.2   | --   | --   | --   | --            | --            | -5.0           | -1.1          |
| Other   | -1.9          | -1.4           | -.3   | --                | -.6   | -.4  | --   | -.1  | -.7           | -.4           | -3.3           | -2.5          |
| Net cash borrowing or repayment (-)                   | -1.5          | -5.8           | +.5   | -.4               | -.9   | -.4  | -.1  | -.3  | -.2           | -.5           | -7.3           | -2.4          |
| <u>Change in Treasury cash balances <sup>3/</sup></u> |               |                |       |                   |       |      |      |      |               |               |                |               |
| Federal Reserve Banks                                 | +.1           | +1.1           | -.2   | +.2               | +.2   | +.1  | --   | --   | --            | --            | +1.2           | -.1           |
| War loan  | --            | +.8            | +.3   | -.4               | +.8   | -1.0 | -.2  | --   | +2.9          | -2.4          | +.8            | --            |
| Total change  | +.2           | +1.9           | +.1   | -.2               | +.6   | -.9  | -.2  | --   | +2.9          | -2.4          | +2.0           | -.1           |
| <u>Treasury cash balance (end of period)</u>          |               |                |       |                   |       |      |      |      |               |               |                |               |
| Federal Reserve Banks                                 | .9            | 1.9            | 1.8   | 1.9               | 1.7   | 1.8  | 1.8  | 1.8  | 1.8           | 1.8           | 1.9            | 1.8           |
| War loan  | 1.0           | 1.8            | 2.1   | 1.7               | 2.5   | 1.7  | 1.5  | 1.5  | 4.4           | 2.0           | 1.8            | 2.0           |
| Total outstanding <sup>4/</sup>                       | 2.9           | 4.8            | 4.9   | 4.7               | 5.4   | 4.5  | 4.3  | 4.3  | 7.2           | 4.8           | 4.8            | 4.8           |
| <u>Effect on bank reserves <sup>5/</sup></u>          |               |                |       |                   |       |      |      |      |               |               |                |               |
|   | -1.1          | -5.1           | -.3   | -.6               | --    | -.1  | --   | --   | --            | --            | -6.2           | -1.0          |

\*Actual p Preliminary

<sup>1/</sup> Including Treasury purchases of marketable securities.

<sup>2/</sup> Change in amount outstanding.

<sup>3/</sup> Net cash surplus or deficit plus net cash borrowing or repayment of borrowing will not necessarily add to change in Treasury cash balance due primarily to timing adjustments between changes in General Fund balance and the cash balance.

<sup>4/</sup> Including gold in the general fund balance.

<sup>5/</sup> Decrease in Treasury balance with Federal Reserve minus retirement of debt held by Federal Reserve.

## ESTIMATED TREASURY DEPOSITS AND RELATED ITEMS, SEPTEMBER 1948-JUNE 1949

(In millions of dollars)

| Period                | Treasury deposits with F. R. Banks |        |       |                          |               |        | War loan deposits      |               |                 |        | Total Treasury deposits 1/ (end of period) |
|-----------------------|------------------------------------|--------|-------|--------------------------|---------------|--------|------------------------|---------------|-----------------|--------|--|
|                       | Amount (end of period)             | Change |       |                          |               |        | Amount (end of period) | Change        |                 |        |  |
|                       |                                    | Calls  | Bills | Other market-able issues | In-come taxes | Other  |                        | In-come taxes | New securi-ties | Calls  |  |
| Statement week ended: |                                    |        |       |                          |               |        |                        |               |                 |        |  |
| 1948: Sept. 1*        | 1,693                              | + 336  | -107  | --                       | + 137         | - 582  | 1,777                  | + 51          | + 69            | - 336  | 3,470                                      |
| 8*                    | 1,331                              | + 148  | -100  | --                       | + 114         | - 524  | 1,801                  | + 66          | + 104           | - 148  | 3,132                                      |
| 15*                   | 661                                | + 418  | -103  | -540                     | + 408         | - 853  | 1,721                  | +230          | + 109           | - 418  | 2,382                                      |
| 22*                   | 1,436                              | + 11   | --    | - 41                     | +1,407        | - 602  | 2,072                  | +222          | + 143           | - 11   | 3,508                                      |
| 29*                   | 1,660                              | + 2    | --    | - 25                     | + 575         | - 328  | 2,339                  | + 44          | + 226           | - 2    | 3,999                                      |
| Oct. 6                | 1,732                              | + 795  | --    | -350                     | + 257         | - 630  | 2,096                  | + 72          | + 480           | - 795  | 3,828                                      |
| 13                    | 1,755                              | + 523  | --    | - 25                     | + 120         | - 595  | 1,835                  | +145          | + 120           | - 523  | 3,590                                      |
| 20                    | 1,755                              | + 220  | --    | - 13                     | + 300         | - 520  | 1,810                  | + 85          | + 110           | - 220  | 3,565                                      |
| 27                    | 1,755                              | + 310  | --    | --                       | + 140         | - 450  | 1,725                  | + 45          | + 180           | - 310  | 3,480                                      |
| Nov. 3                | 1,755                              | + 350  | --    | --                       | + 150         | - 500  | 1,685                  | +100          | + 210           | - 350  | 3,440                                      |
| 10                    | 1,755                              | + 180  | --    | --                       | + 220         | - 400  | 1,750                  | +125          | + 120           | - 180  | 3,505                                      |
| 17                    | 1,755                              | + 315  | --    | --                       | + 260         | - 575  | 1,880                  | +325          | + 120           | - 315  | 3,635                                      |
| 24                    | 1,755                              | + 470  | --    | --                       | + 195         | - 665  | 1,675                  | +125          | + 140           | - 470  | 3,430                                      |
| Month:                |                                    |        |       |                          |               |        |                        |               |                 |        |  |
| 1948:                 |                                    |        |       |                          |               |        |                        |               |                 |        |  |
| September*            | 1,664                              | + 583  | -203  | -606                     | +2,758        | -2,787 | 2,703                  | +588          | + 960           | - 583  | 4,367                                      |
| October               | 1,755                              | +2,023 | --    | -378                     | + 830         | -2,385 | 1,720                  | +380          | + 660           | -2,023 | 3,475                                      |
| November              | 1,755                              | +1,500 | --    | --                       | + 790         | -2,290 | 1,520                  | +700          | + 600           | -1,500 | 3,275                                      |
| December              | 1,755                              | +1,180 | --    | - 70                     | +2,240        | -3,350 | 1,520                  | +650          | + 530           | -1,180 | 3,275                                      |
| 1949: January         | 1,755                              | + 655  | --    | -500                     | +2,415        | -2,570 | 2,020                  | +375          | + 780           | - 655  | 3,775                                      |
| February              | 1,375                              | + 150  | --    | -100                     | +1,920        | -2,350 | 3,300                  | +780          | + 650           | - 150  | 4,675                                      |
| Mar ch                | 1,755                              | --     | --    | -100                     | +3,910        | -3,430 | 4,420                  | +690          | + 430           | --     | 6,175                                      |
| April                 | 1,755                              | +2,410 | --    | -100                     | +1,220        | -3,530 | 2,820                  | +380          | + 430           | -2,410 | 4,575                                      |
| May                   | 1,755                              | +1,855 | --    | --                       | + 875         | -2,730 | 2,120                  | +725          | + 430           | -1,855 | 3,875                                      |
| June                  | 1,755                              | +1,180 | --    | -300                     | +3,105        | -3,985 | 2,020                  | +650          | + 430           | -1,180 | 3,775                                      |

\* Actual

1/ Total Treasury deposits at Federal Reserve Banks and war loan deposits; total does not include free gold, which amounts to a little more than 1 billion dollars, and other small items in the General Fund balance.

GOVERNMENT FINANCE SECTION, BOARD OF GOVERNORS

Table 4

SCHEDULE OF TREASURY CERTIFICATES, NOTES AND BONDS  
DUE OR CALLABLE BY JUNE 30, 1949  
BY ISSUE AND HOLDINGS BY TYPE OF INVESTOR

(In millions of dollars)

| Issue                                 | Amount<br>outstanding<br>Aug. 31,<br>1948 | Held by                           |  |       |
|---------------------------------------|---|-----------------------------------|--|-------|
|                                       |   | Commercial<br>banks <sup>1/</sup> | Federal<br>Reserve Banks<br>Sept. 29, 1948 | Other |
| 1948 - Dec. 15, 2% bond <sup>2/</sup> | 571                                       | 432                               | --   | 139   |
| 1949 - Jan. 1, 1 1/8% certificate     | 2,592                                     | 1,192                             | 175  | 1,225 |
| Jan. 1, 1 1/8% note                   | 3,535                                     | 1,010                             | 267  | 2,258 |
| Feb. 1, 1 1/8% certificate            | 2,189                                     | 843                               | 126  | 1,220 |
| Mar. 1, 1 1/8% certificate            | 3,553                                     | 1,519                             | 800  | 1,234 |
| Apr. 1, 1 1/8% certificate            | 1,055                                     | 391                               | 84   | 580   |
| June 1, 1 1/8% certificate            | 4,301                                     | 1,711                             | 876  | 1,714 |
| June 15, 2% bond                      | 1,014                                     | 614                               | 102  | 298   |

- <sup>1/</sup> Represents commercial banks covered in the Treasury survey of ownership of Government securities for June 30, 1948, adjusted for changes in holdings at Federal Reserve Banks between June 30 and September 29, 1948.
- <sup>2/</sup> Dec. 15, 2% bonds called for redemption; unannounced as to whether will be exchanged or redeemed for cash.