

MEMORANDUM

July 15, 1948

To: Chairman McCabe

*W. E. Eckel*

From: Woodlief Thomas

The attached tables give information that may be useful as background for your discussion with the Secretary of the Treasury.

Table I gives estimates of Treasury cash transactions during the last half of 1948 and shows the source of funds which the Treasury could use to retire 1.9 billion of securities held by Federal Reserve Banks and thereby absorb 1.2 billion dollars of bank reserves. It appears that the Treasury will have an excess of cash income including debt transactions (aside from the retirement of Federal Reserve held debt) amounting to 400 million dollars. This surplus, together with reductions of 800 million in Treasury (war loan) deposits with commercial banks and of 700 million in existing Treasury deposits with Reserve Banks, would permit retirement of 1.9 billion of Federal Reserve held debt. Estimates of these transactions by months and of changes in Treasury balances by weeks are shown in more detail in the attached mimeographed tables.

Table II shows the effect on bank reserves of the Treasury transactions set forth in Table I, of likely sales of securities to the Federal Reserve by nonbank investors, and of other factors. The surplus cash receipts of the Treasury and amounts drawn from war loan deposits, a total of 1.2 billion, would drain a corresponding amount from bank reserves. Federal Reserve purchases of securities from nonbank holders, however, may supply banks with 1.7 billion dollars of reserves. An additional 200 million dollars may come from gold inflow and other factors. Thus, the Federal Reserve would find it necessary to sell 700 million dollars of securities to banks in order to keep bank reserves from increasing.

Table III shows total outstanding amounts of Government securities by types of issues, Federal Reserve holdings, and estimates of commercial bank and nonbank holdings as of June 30, 1948. Federal Reserve holdings comprise three-fifths of all bills, about one-fifth of certificates and notes, and a small fraction of the Treasury bonds outstanding. Commercial banks hold nearly half of the certificates and notes and over two-thirds of the bank eligible bonds outstanding. Nonbank investors hold most of the restricted bonds, which are all of long maturities, but about two-fifths of their holdings consist of short- and medium-term issues, including bank eligible bonds, bills, certificates, and notes. Their holdings of short-term issues are partly for necessary liquidity purposes, although under the Federal Reserve support policy any issue is liquid.

Table IV gives estimates of principal commercial bank assets and liabilities for June 30, 1948 and compares estimated changes in the first half of this year with changes in the two preceding half-year periods. There was some over-all credit contraction in the past half year, as in the corresponding period of 1947. Total loans increased, however, although commercial and industrial loans declined slightly. A seasonal expansion in business loans and further growth in real estate and consumer loans is to be expected in the last half of this year, similar to, if not as large as, the increases that occurred in the last half of 1948.

TABLE I  
ESTIMATED TREASURY CASH TRANSACTIONS

July - December 1948

(In billions of dollars)

Cash income		20.3
Cash outgo		<u>19.4</u>
Excess of income		+ .9
Net cash borrowing or repayment of debt		
Nonmarketable securities		+ .5
Marketable (voluntary redemption of maturing issues)		<u>- 1.0</u>
Excess cash available		+ .4
Possible reduction in war loan accounts		.8
6/30/48	1.8	
12/31/48	1.0	
Possible reduction in Treasury balance with Federal Reserve Banks		.7
6/30/48	1.9	
12/31/48	1.2	<u>          </u>
 Total available for retirement of securities held by Federal Reserve Banks		 1.9

Note: Estimates of cash receipts and expenditures are subject to a margin of error that may wipe out the surplus or increase it considerably. Estimates of changes in marketable debt do not include retirement of securities held by the Federal Reserve. Figures for Treasury balances as of December 31 are arbitrarily assumed; they could be reduced further by retiring more debt.

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TABLE II

ESTIMATED CHANGES IN SUPPLY OF BANK RESERVES

July - December 1948

(In billions of dollars)

Absorption of reserves through Treasury operations (Excess cash receipts and reduction of war loan accounts as shown in Table I)	- 1.2
Reserves available from gold inflow and other factors minus increase in currency in circulation	+ .2
Federal Reserve purchase of securities from nonbank holders <sup>1/</sup>	<u>+ 1.7</u>
New reserve funds available	+ .7
Necessary Federal Reserve sale of securities to banks to avoid credit expansion <sup>2/</sup>	.7

<sup>1/</sup> Estimated volume of sales of marketable securities by non-bank investors to obtain funds for buying F and G savings bonds, as well as for other uses, assuming a continuation of the demand for credit by business, home owners, and State and local governments. It is estimated that these demands will aggregate between 4.5 and 5 billion dollars, of which about 3 billion may be met from new funds obtained from the public and the remainder by selling securities to the banking system. (See also footnote <sup>2/</sup>)

<sup>2/</sup> To the extent that commercial banks purchase securities sold by nonbank investors, the amounts that the Federal Reserve will need to buy will be correspondingly reduced. No allowance is made for reserves that banks may need to meet an increase in amounts required resulting from any expansion that may occur in deposits.

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TABLE III

ESTIMATED OWNERSHIP OF FEDERAL SECURITIES <sup>1/</sup>  
BY TYPE OF SECURITY AND CALL CLASSES, JUNE 30, 1948

(Par values in billions of dollars)

Type of Security	Investor Classes			
	Total - All investors	F. R. Banks	Commercial banks	Nonbank investors
Marketable securities, due or callable:				
A. Within 1 year:				
1. Treasury bills	13.8	8.6	2.5	2.7
2. Certificates of indebtedness	22.6	4.6	10.3	7.7
3. Treasury notes	11.4	2.0	5.2	4.2
4. Treasury bonds	2.2	.1	1.6	.5
5. Total	<u>49.9</u>	<u>15.3</u>	<u>19.6</u>	<u>15.0</u>
B. 1 - 5 years:				
1. Treasury bonds	46.1	2.6	32.9	10.6
C. 5 - 10 years:				
1. Treasury bonds	10.5	.5	6.5	3.5
D. After 10 years:				
1. Treasury bonds				
a. Bank-eligible	4.3	.3	2.9	1.1
b. Bank-restricted	49.6	2.7	1.3	45.6
c. Total	<u>53.9</u>	<u>2.9</u>	<u>4.2</u>	<u>46.8</u>
E. Total marketable securities	<u>160.3</u>	<u>21.4</u>	<u>63.2</u>	<u>75.8</u>
Nonmarketable securities:				
A. Savings bonds	53.3	--	1.2	52.1
B. Savings notes	4.4	--	*	4.4
C. Special issues to Government agencies and trust funds	30.2	--	--	30.2
D. All other	<u>4.1</u>	<u>--</u>	<u>.6</u>	<u>3.5</u>
E. Total nonmarketable securities	<u>92.0</u>	<u>--</u>	<u>1.8</u>	<u>90.2</u>
Total, all securities	<u>252.4</u>	<u>21.4</u>	<u>65.0</u>	<u>166.0</u>

\* Less than 50 million dollars.

<sup>1/</sup> Gross public debt and guaranteed obligations.

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TABLE IV

SELECTED ASSETS AND LIABILITIES OF ALL COMMERCIAL BANKS  
(In billions of dollars)

Item	June 30, 1948 <sup>1/</sup>	December 31, 1947	Change		
			1st half 1948 <sup>1/</sup>	2nd half 1947	1st half 1947
Loans and investments, total	114.1	116.3	-2.2	+3.5	-1.2
Loans, total	<u>39.6</u>	<u>38.1</u>	<u>+1.5</u>	<u>+4.4</u>	<u>+2.6</u>
Commercial, industrial, and agricultural	19.5	19.7	-0.2	+3.4	+0.9
Real estate	10.3	9.3	+1.0	+1.1	+1.1
Consumer	6.2	5.7	+0.5	+0.8	+0.9
For purchasing securities	2.2	2.0	+0.2	-0.8	-0.3
Other <sup>2/</sup>	1.4	1.4	--	-0.1	--
Investments					
U. S. Government securities	65.2	69.2	-4.0	-1.3	-4.2
Other securities	9.3	9.0	+0.3	+0.5	+0.4
Cash assets	34.0	37.5	-3.5	+4.8	-1.5
Deposits					
Demand deposits, adjusted	82.7	87.1	-4.4	+5.0	-1.2
Time deposits	35.7	35.2	+0.5	+0.4	+1.0
U. S. Government deposits	2.1	1.5	+0.6	+0.1	-1.7
Interbank deposits	11.0	13.0	-2.0	+1.3	-1.0

<sup>1/</sup> Partly estimated.

<sup>2/</sup> Includes loans of noninsured nonmember banks, amounting to about 500 million dollars.

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