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FACTORS AFFECTING THE PRIVATELY HELD
MONEY SUPPLY, 1946-1949

In 1946, privately held deposits and currency increased 12.9 billion dollars, reflecting principally a large bank loan expansion and the use by the Treasury of part of its large cash balance to retire securities held by nonbank investors. Banks obtained reserves to support the expansion in deposits subject to reserves largely by selling Government securities to the Reserve Banks.

In 1947 and 1948 the Treasury had a large cash surplus, and it extinguished most of these funds by retiring securities held by the banking system. Bank credit remained readily available to borrowers, however, and an increase in bank loans and holdings of corporate and municipal securities offset the effect on the money supply of the Treasury surplus. Banks were supplied with reserves to support the expansion in credit to private borrowers by a gold inflow and by market purchases of Government securities by the Reserve Banks.

In the first eleven months of 1949 Treasury cash transactions had a much smaller contractive effect on the money supply than in the previous two years, but at the same time the expansion due to increased bank credit to private borrowers and gold inflow was much smaller.

December 7, 1949

MAJOR FACTORS AFFECTING DEPOSITS AND CURRENCY

(In billions of dollars, partly estimated)

	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>Jan-Nov.</u> <u>1949</u>
	<u>(Sign indicates effect on deposits and currency)</u>			
Gold inflow	+ 0.5	+ 2.9	+ 1.5	+ .3
X Bank loans, increase	+ 5.3	+ 7.4	+ 5.2	+ 1.1
Bank holdings of corporate and municipal securities, increase	+ 0.9	+ 1.2	+ 0.6	+ 1.2
Treasury cash transactions	+ 4.1	- 5.6	- 7.9	- 1.5
X Retirement of securities held by				
Federal Reserve Banks	- 4.6	- 3.2	- 5.5	- 1.2
Commercial banks	-12.8	- 3.6	- 0.9	+ .3 ^{1/}
Change in Treasury deposits (Increase -)	+21.5	+ 1.2	- 1.3	- .6
Market purchases (+) or sales (-) of Gov't securities by commercial banking system, net	+0 .5	+ 0.3	+ 0.2	+ .1
Federal Reserve Banks, net	+ 3.7	+ 2.3	+ 6.2	- 4.5
Commercial banks, net	- 3.2	- 2.0	- 6.0	+ 4.6
Other factors, net	+ 1.6	- 0.2	- 0.5	- 2.0
Change in total deposits, adjusted, and currency	+12.9	+ 6.0	- 0.9	- .8
Demand deposits, adjusted	+ 7.5	+ 3.8	- 1.6	- .7
Time deposits	+ 5.2	+ 2.5	+ 1.1	+ .9
Currency outside banks	+ 0.2	- 0.3	- 0.4	- 1.0

^{1/} Net purchases of new securities sold by the Treasury.