BUSINESS CONDITIONS
A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO
Banking Trends and Debt Policy

Bank Reserves and Investments Reflect Redemption Program

From February 28, 1946, through June 1, 1947, the Treasury redeemed in cash almost 31 billion dollars of public marketable debt maturing or callable during that period. This redemption program constituted the major factor influencing bank reserves and money market conditions in the postwar transition phase of banking. By exerting pressure on bank reserves it has been instrumental in checking the tendencies toward (1) inflationary credit expansion based on reserves obtained from the sale of short-term securities either directly or indirectly to the Reserve Banks and (2) declining long-term interest rates which result from commercial bank shifting from short- to long-term Government securities. Besides the contraction in holdings of Governments by the banking system as a result of the redemption program, the past 15 months have been characterized by a reduction in total bank deposits accompanied by a shift from Government to private accounts, a growth in bank lending, and a lengthening in the maturity distribution of bank-held Government debt. Changes in the major asset and deposit items and in the composition of Government security portfolios of reporting member banks in major cities are shown in the accompanying chart.

The retirement program was inaugurated March 1, 1946, following a period of relative ease in bank reserve positions during which bank demand for eligible long-term Government securities had driven market yields on these issues to extremely low levels. Treasury and Federal Reserve policy has been to discourage the monetization of the debt which results from bank purchases of long-term Governments, and the redemption program has been its principal implementation.

On February 28, 1946, the Treasury’s cash balance, which had been built up from the proceeds of the Victory Loan Drive, amounted to 26 billion dollars, most of which was held on deposit in commercial banks in war loan accounts. Because of the sharp decline in military requirements and the improved current budget position, most of this balance became available for debt retirement. Beginning with March 1946, some portion of the securities maturing each month has been paid off in cash, and by June 1, 1947, the cash pay-offs totaled 30.9 billion dollars on maturities amounting to 71.8 billion dollars. Of the total amount retired, approximately 16.1 billion was in certificates, 11.4 billion in notes, 2.4 billion in bonds, and 1.0 billion in bills.

Decisions as to the portion and timing of the maturities to be paid off in cash were based on several considerations, such as (1) the size of the issue, (2) its ownership as between bank and nonbank investors, (3) the effect on bank reserve positions, and (4) the condition of the Government securities market. With the exception of Treasury bills, full payment in cash was made for all issues outstanding in amounts less than two billion dollars. All of the maturing bonds and all of the 3.3 billion of 1½ per cent Treasury notes maturing December 15, 1946, were redeemed in cash. The unpaid portion of certificates and three billion of the 0.90 per cent notes of July 1 were refunded into new certificates.

The major portion of the pay-offs was made through the reduction of the Treasury’s cash balance. On June 2, the Treasury balance amounted to slightly less than three billion dollars. Disbursements for debt retirement were partly offset by other receipts, including a budget surplus during the first three months of 1947, an excess of sales over redemptions of savings bonds, and net receipts of Government trust accounts. War loan accounts, which became subject to reserve requirements July 1, 1947, were reduced almost 24 billion dollars to 600 million on June 2.

BANK INVESTMENTS AFFECTED

Since the bulk of the securities retired were one-year certificates which were heavily concentrated in bank portfolios, the major impact of the retirement program fell on commercial banks. The effect of debt retirement on the banks depends on both the distribution of ownership of the redeemed securities and the source of the funds with which the payments are made. Rough estimates indicate that of the 31 billion of debt redeemed, approximately 14¼ billion was held by commercial banks, 6¼ billion by Federal Reserve Banks, and 10 billion by other investors. Retirement of (Continued on Inside Back Cover)
Interest Rates on Seventh District Business Loans

Rates Firming Slightly from Wartime Level

The average dollar lent to a commercial or industrial borrower at the end of 1946 by member banks in the Seventh Federal Reserve District bore interest at 2.9 per cent. The average rate per loan was 5.1 per cent, which is considerably greater due to the large number of small loans which usually bear the higher rates. Both the 2.9 and 5.1 per cent figures, being averages, cover a wide range of variation among rates made by individual banks on individual loans. Distributions of the individual rates are shown on the chart below.

The averages in the preceding paragraph were derived from a sample study of 202 Seventh District member bank commercial and industrial loan portfolios, conducted as of last November 20 by the Federal Reserve Bank of Chicago as part of a national survey under the direction of the Board of Governors of the Federal Reserve System. For further details of the survey, see "The Rising Tide of Commercial Loans," Business Conditions, March 1947, pp. 1-4. A series of articles in the Federal Reserve Bulletin report the results on a national scale.

FIRMING OF INTEREST RATES

Interest rates have been reported as firming slightly since the date of the survey, particularly on loans involving considerable risk and uncertainty. The general pattern appears to involve an advance of one quarter of one per cent in the average loan rate. At the same time, there has been a growing reluctance on the part of bankers to make advances for periods longer than three years.

A slight rising tendency in interest rates has in fact been apparent since shortly after the end of the war. For the entire nation, and for all loans (not merely the commercial and industrial loans covered in the November survey), the Board of Governors have reported an average rate of 3.2 per cent on a dollar amount basis in 1946, compared with a 3.0 per cent rate in 1945. This change, however, is due largely to changes in the composition of bank portfolios. Real estate and consumer loans, on which rates are relatively high, have shown more rapid growth than other types. Loans on securities, usually made at low rates, have declined.

Increased interest rates and greater selectivity by banks in making commercial loans may have been factors producing a more than seasonal downturn in commercial loan volume during the spring of 1947. Individual business decisions against borrowing or in favor of repayment have also played an important part. At any rate, the downturn in loan volume appears to be preceding, or at least accompanying, any leveling off in prices or in the physical volume of production and business activity. It contrasts sharply with the behavior of commercial loan volume in similar periods in recent history. Statistics for past periods are faulty, but seem to show a tendency for bank loan volume to continue expansion until well after the passage of the general business peak, then to decline sharply, and sometimes catastrophically. The present pattern is much safer and less speculative in character, and is expected to continue for the remainder of 1947, although a seasonal rise in commercial and industrial loan volume is almost certain in the autumn.

WIDE RANGE OF VARIATION

The range of variation between interest rates on individual loans is quite wide and tends to be concealed by publication of simple averages. For the Seventh District sample, the range between the highest and lowest rates on individual business loans was over 15 percentage points, from somewhat less than one per cent at the bottom to 16 per cent at the peak. The highest rates (above eight per cent) were charged on a few small instalment loans bearing nominal rates of four to eight per cent, but on which interest was charged on the entire face value of the loan rather than on the unpaid balance alone. As can be seen from the Chart, over two-thirds of the money loaned bore rates between 1.5 and 3.4 per cent, while nearly 80 per cent of the individual loans fell between the 3.5 and 6.4 per cent figures.

PATTERNS OF RATES

Three major factors seem to account for the bulk of the variation in interest rates charged by Seventh District member banks for business loans. In order of apparent im-
portance, these are: (1) the size of the loan, (2) the size and financial status of the borrower, and (3) the maturity of the loan.

Larger loans, generally speaking, bear significantly lower rates than small ones, even to business firms of the same asset size. This is explainable at least in part by the spreading of the "overhead" cost of investigating and servicing the larger loan over a larger number of dollars. The average dollar of a small loan (i.e., a loan of less than $5,000) is lent at 5.3 per cent, with the average loan of this size bearing a 5.8 per cent interest charge. For a large loan (i.e., a loan of $1,000,000 or more), the corresponding rates are less than half as large, 2.3 per cent in each case. These figures understate the actual differential somewhat since many of the lowest-rate loans classified as "small" were actually unpaid remnants of long-term advances which had been made originally for larger amounts.

The book value of the assets of the borrowing firm is taken as a rough indication of its importance, stability, and safety. Whether rightly or wrongly, large firms are generally considered the better risks, and ordinarily can secure funds at lower rates than smaller competitors either for capital or for sales. In addition, many large concerns have access to other aspects of the money market than the one represented by commercial bank loans. If bank loan rates are too high or conditions too onerous, these firms may finance by other means, such as the flotation of bond and stock issues. These alternatives are generally not open to smaller companies, and their bargaining position vis-a-vis the banks is consequently weaker. As a result of these and other factors, the smallest firms (i.e., firms with assets valued at less than $50,000) paid a 4.9 per cent rate on a dollar amount basis for their business loans in the Seventh District, while the largest firms (i.e., firms with assets valued at $5,000,000 and over) secured credit at an average rate of 2.3 per cent. On an individual loan basis, the figures are 5.7 and 2.3 per cent for the smallest and largest asset-size groups respectively. These results have been summarized on Table 1.

The length or maturity of the loan also appeared to exert a certain amount of independent influence upon the interest rate charged, although the pattern of this influence was not clear, and varied with the size of the loan. For small loans, as can be seen from Table 2, the highest rates were charged for relatively short-term advances, running for the ordinary commercial loan period of 90 days to one year. For larger loans, however, this relationship tended to be reversed. There were apparently two peaks in interest rates, one for the shortest-term obligations (payable on demand) and the other for the longest maturities or term loans of from one to ten years duration. The nature of the borrower's business and the type of security offered may account for certain of these differences, and the influence of unpaid remnants of large term loans may explain at least in part the unexpected tendency of the interest rate to decline with increasing maturity for small loans.

The four remaining tables (Tables 3-7) assemble the results of breakdowns on other bases, which are believed to have less independent significance.

When loans are classified, for example, according to the age of the borrower's business, with the year 1942 taken as the dividing line between the "old" and the "new," the old businesses receive substantially lower rates (on Table 3, 2.8 as against 4.4 per cent on a dollar amount basis, 5.0 as against 5.5 per cent on an individual loan basis). The "old business" group, however, includes in great part the District's larger firms and the banks' larger borrowers, who pay relatively lower rates without regard to the age factor. When comparisons are made separately for each sub-category of size of loan or size of borrower's assets, the differential between the rates charged to old and new businesses disappears or loses its entire statistical significance. This is shown on Table 3 for the case of the smallest loans (under $5,000) where the differential vanishes completely.

Because of the generally greater size and stability of the incorporated concern, corporate business tends to borrow at lower rates than non-corporate (see Table 4). In this case, approximately half of the 1.4 percentage point differential found for all loans on both bases disappears when attention is paid exclusively to the smallest loans. The remaining differentials, 0.4 and 0.8 per cent on the dollar volume and individual loan bases, respectively, are accounted for almost completely by the relative asset sizes of the borrowers.

Table 5 reflects a gradation of size and stability which can be made between manufacturing, wholesaling, and retailing. The average manufacturing firm is larger and more stable than the average wholesale establishment, and the average retail establishment ranks still lower. The average interest rates charged on "all loans" show, as might be expected, rate differentials of 1.2 and 0.9 per cent between the rates for the manufacturer at one extreme and the retailer at the other. Again, however, this differential disappears for all practical purposes when attention is limited to a single size of loan category, in this case the smallest one (under $5,000).

An unsecured loan is normally made only to a large and well-known customer. Contrary perhaps to the layman's expectations, it usually bears a somewhat lower rate than does a loan on which the bank requires specific security. The differential in the Seventh District is 0.9 per cent on a dollar amount basis for all loans, and falls to 0.2 per cent, which may not be significant, on the individual loan basis (see Table 6). When attention is again limited to small loans under $5,000, the differential in favor of the unsecured loan disappears completely, and even reverses itself very slightly on the dollar amount basis.

**INTERBANK DIFFERENTIALS**

The apparent discrepancies between the rates charged by large and by small member banks are explainable in a similar manner. The rate differentials are quite large, as can be seen from Table 7. On a dollar amount basis, the largest banks (deposits of $500,000,000 and over) charge an average rate 2.9 per cent below the rate charged by the smallest banks (deposits of less than $2,000,000). On an individual loan basis, the differential is cut almost in half, to 1.5 per cent.

The large banks are located for the most part in larger
cities. They make a much greater proportion of their loans to large and established borrowers, who have access to other segments of the money market, than do the smaller banks located in the smaller communities. There is also a tendency for banks in smaller towns to charge a flat rate, usually five or six per cent, on most or even on all loans granted. This flat rate is usually well adapted to the small banks.

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When attention is limited to smaller loans of less than $5,000, not only does the differential in favor of the large bank disappear in large part, but those in the largest deposit size class ($500,000,000 and over) are shown as charging the highest rates in the District. On a dollar amount basis, the average rate on small commercial loans from the District's largest banks appears as 6.1 per cent. On an individual loan basis, it is 7.3 per cent. This peculiar development is not found in larger loans. In part, it may reflect disinclination on the part of the largest banks to compete for small loans. More important, however, is the influence of installment lending by urban banks at the high effective rates customary on "personal" loans.
Types of Farms and Value of Products

Livestock Farms Lead Other Groups

Products sold from farms and used in farm households of the Seventh Federal Reserve District states had a total value of nearly four billion dollars in 1944, according to Census data released recently. Although Census data usually are “history” by the time they are tabulated and published, they provide more detailed information on many phases of agriculture than is available from any other source. Also, they are very useful as “benchmarks” to evaluate data gathered more frequently from smaller numbers of farms.

Iowa led Seventh District states in total value of farm products with nearly 114 billion dollars, and was followed by Illinois, Wisconsin, Indiana, and Michigan in the order named. Major sources of income were sales of livestock, crops, dairy products, and poultry. The importance of each kind of crop and livestock, of course, varied greatly from state to state and farm to farm.

DAIRY FARMS LEAD IN WISCONSIN AND MICHIGAN

Farms were classified by types according to the products of major value, e.g., if dairy products accounted for 50 per cent or more of the total value of products sold and used in the household, the farm was classified as a dairy farm. Over one-fourth of all farms in the five-state area were classified as livestock farms, the value of cattle, hogs, and sheep accounting for 50 per cent or more of the total value of products sold and used in the farm household. Over one-half of the Iowa farms were included in this class. About one-fifth of the farms in the area were dairy farms, and another one-fifth were general farms—farms on which no one group of products accounted for 50 per cent or more of the total value of products.

Dairy farms were most numerous in Wisconsin, accounting for nearly two-thirds of all farms in that state. Also, they were quite numerous in Michigan where about one-fourth of the farms were so classified. One-sixth of the farms in the area were reported as crop farms, this type being most numerous in Illinois, where 28 per cent were so classified. Specialty crop farms such as fruit and nut, vegetable, horticultural specialty, and forest product farms were relatively uncommon in these states, accounting for only three per cent of the total. Poultry and eggs accounted for 50 per cent or more of the total value of products on less than five per cent of the farms.

MANY SUBSISTENCE FARMS IN MICHIGAN, INDIANA

Some farms reported that more than half the total value of products was used in the farm household. These were classified as “farms producing products primarily for own household use” and are referred to here as “subsistence farms.” One-tenth of all farms in the area were included in this classification. Such farms were most numerous in Michigan and Indiana; about one-fifth and one-sixth of the total farms in these respective states were listed as subsistence farms. Iowa and Wisconsin had the lowest proportions of this type of farm, about 5 per cent. Relatively small farms producing a variety of products are most likely to be included in this group. Of the nearly 100,000 such farms in the five states, 45 per cent reported a total value of products sold and used in the household of $250 or less.

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Farm products sold and used in the household averaged $4,165 per farm for the Seventh District states in 1944. Farms in Michigan and Indiana were concentrated in the

![DISTRIBUTION OF FARMS BY TYPE OF FARM](https://fraser.stlouisfed.org/)
Michigan was in the $2,500 to $5,999 value-of-products group. For Michigan the $1,000 to $2,499 group included the largest percentage of farms.

**Production Concentrated on Large Farms**

Products with a value of $10,000 or more were reported by less than eight per cent of the farms, but such farms accounted for one-third of the total value of products for all farms in the five-state area in 1944. At the other end of the scale, one-fourth of the farms reported total value of products of less than $1,000 each, and as a group accounted for only 2.6 per cent of the total value of farm products for the area. By states, the lower one-third of the farms produced about the following percentages of total farm products in the respective states: Illinois, 4; Indiana, 5; Iowa, 10; Michigan, 6; and Wisconsin, 10. Corresponding percentages for the upper one-third of the farms were: Illinois, 73; Indiana, 74; Iowa, 66; Michigan, 74; and Wisconsin, 62. Thus, in each state in the Seventh District a large part of the total production of farm products was concentrated on a relatively small percentage of the farms. Conversely, the lower one-third of the farms are relatively unimportant insofar as the total supply of farm products is concerned. These farms are important, however, from the standpoint of providing living quarters and part of the food consumed by the people living on them.

The total value per farm of products sold and used in the household was greatest for the small group of enterprises classified as horticultural specialty farms, averaging $15,400. This group includes commercial nurseries. The livestock farms ranked next with average value of products per farm of $6,100, followed by fruit and nut farms and general crops farms which averaged $5,100. Dairy, vegetable, and poultry farms with respective averages of $3,500, $3,200, and $2,500 had the lowest average values of products per farm. Over one-third of the poultry farms reported total values of products of $400 to $999, many probably being part-time farms.
Consumer Spending Continues to Rise

"Consumer Resistance" Lowers Physical Volume of Sales

An increasing over-all dollar level of consumer spending, although at a slower rate than during the 12 months following V-J Day, and widespread reports of increasing "consumer resistance" characterize current consumer expenditure patterns in the Seventh Federal Reserve District. The outlook over the next three to six months is for continued increase in dollars spent with further lessening in the rate of increase and growing variations in expenditure trends for individual commodities. As a result of sharp price rises since decontrol, the physical volume of expenditures appears to be below that of a year ago.

Greatest support to consumer dollar expenditures in the Seventh District during recent weeks has come from increased earnings. Urban incomes have benefited from high level employment, a slight tendency toward a longer work week, and second round wage increases in the District's major industries such as steel, automobiles, agricultural machinery, meat packing, and petroleum. District cash farm income has jumped as the result of rising livestock and cereal prices. Other sources of funds provide much less aggregate support to consumers' expenditures than they did in the early postwar period. This is particularly true of average ($2,400 a year for factory workers) and below-average income groups. Among these other sources of funds increased reliance on credit, both charge account and installment, has been more than offset by lower Federal demobilization and unemployment payments, smaller drawing down of accumulated savings, and return to prewar rate of savings from current income.

In spite of the upward over-all trend in consumer expenditures in the District and nation, many individual goods and services are encountering increasing "consumer resistance," and all purchases are being made with added attention to price and quality. This raises the question of whether the resistance reflects primarily a "buyers' strike" or inadequate purchasing power. Both of these conditions exist, but insufficient buying power now seems to be much more important than refusal to spend available funds. Consumers appear to be struggling to maintain a standard of living achieved during or since the war. Generally confident of employment-income prospects, they are willing to spend, but the increased prices of living essentials plus current payments on prior purchases have reduced sharply funds "left over" for semi-luxury and luxury items.

Several factors make the District short-run outlook somewhat better than that of the nation as a whole. District incomes promise to benefit from the continued high demand relative to supply for products turned out by the District's farms and major industries. In addition, Illinois and Michigan will disburse one-half billion dollars in veterans' bonuses in the coming months. These payments amount to approximately five per cent of total 1946 retail sales in the two states combined and to about three per cent of total District retail sales in the same period. Although non-recurring and relatively small in the aggregate, these bonuses will probably have considerable influence on expenditures for certain commodities.

INCOME-SPENDING RELATIONSHIPS

Consumer spending is subject to a wide variety of influences, the main one of which, however, is the level of individual incomes after taxes, i.e., disposable income. The United States Department of Commerce has shown that during the period 1922-41 about 70 per cent of any given increase in disposable incomes went for purchases at retail outlets. The figure is now apparently somewhat higher.

As the result of first round wage increases and a slightly longer work week, the weekly take-home pay of District non-agricultural wage and salary workers has increased approximately 11 per cent since price decontrol in July 1946. If a pattern of distribution similar to the first round occurs, and if hours worked per week remain unchanged, this percentage will be raised to a maximum slightly in excess of 15 when the second round of wage increases now under way is completed. According to present indications, however, the second round may not reach as many workers as the first round. Based on Illinois and Wisconsin experience, percentage increases in weekly earnings to date have been slightly greater in non-manufacturing than in manufacturing.

The price strength of livestock and cereal grains, which dominate Seventh District agriculture, has raised District farm cash income thus far this year at least 35 per cent over the same period of 1946. This compares with a corresponding estimated national gain of about one-fourth. Heavy export demands are expected to continue to support cereal prices. Increased cattle slaughter promises to hold up incomes from this source during the remainder of 1947 even though livestock prices moderate somewhat.

Supplemented by indicated high profits and dividend disbursements, and by bonuses in Illinois and Michigan, District income payments and hence disposable incomes appear likely to continue their upward trends in the next several months. Disposable incomes will not receive the added impetus of tax relief, at least for the remainder of the year, now that the President has vetoed the recent Congress-approved bill calling for reduced personal income taxes of over three billion dollars.

INCREASING CONSUMER RESISTANCE

In spite of rising income payments and disposable incomes, urban consumers in the Seventh District have been
compared, as already noted, with about 11 per cent in weekly take-home pay to date and an estimated maximum of 15 per cent when the second round of wage increases is completed. The prospects appear slight for any appreciable fall in the over-all cost of living during the next few months. Food prices continue firm in the face of heavy export requirements, and rent increases seem likely regardless of Presidential action on the "rent bill" now before him.

Consumers in rural areas of the District, on the average, have found their incomes more than keeping pace with price increases of the products they buy. However, like their urban counterparts, rural buyers are reported by retailers to be spending with noticeably greater selectivity than they did a year ago.

Greater selectivity is being encouraged not only by the need on the part of consumers to spend their dollars more carefully in the interests of striving to maintain past standards of living but also by the changing conditions under which they are shopping. After V-J Day, many consumers attempted to build up abnormal inventories of goods actually in short supply or which they expected to become scarce at an early date. With increasing elimination of scarcities, particularly in "soft" goods lines, consumer psychology has once again moved in the direction of buying for "present" needs based on more restrictive standards of selection.

Two types of articles have been primarily affected by consumer resistance to date: (1) luxury goods and services, and (2) off-brand or relatively low quality items among types of goods still generally in strong demand. The increasing price consciousness of buyers is also evident in current sales trends among various classes of stores. The largest over-all dollar increases in sales from a year ago are occurring among retail establishments appealing for sales on a low price basis, including mail order houses and chain stores.

Many retail outlets currently report that their dollar sales increases over comparable periods a year ago are to an important extent attributable to price mark-downs stimulating buying. This development clearly indicates that consumers are very price conscious but are willing to spend readily when they feel that the quantity and quality offered are in reasonable relationship to the price asked.

If consumers with their present incomes were engaged in a concerted buyers' strike, organized or unorganized, an increase in their savings, a rise in currency in circulation, and a decrease in credit obligations could be expected. To date, there is no evidence in the over-all statistics to indicate that these trends have developed among individuals of average or less than average income. While sales of large denominations of Series E bonds (e.g., $500 and $1,000) have been increasing generally, sales of smaller denominations (e.g., $25 and $50) are less than half of their year-ago volume, and still falling. Total time deposits continue to rise very slowly, but some District banks, especially those situated in areas seriously affected by postwar labor disputes, report recent declines. No marked change in the volume of currency in circulation outside of banks has occurred in recent weeks.

After a seasonal drop from a Christmas peak, consumer credit has resumed its upward trend. The national and approximate District rise in amounts outstanding since the end of price control exceeds 60 per cent in instalment sale debt, 35 per cent in instalment loans, and 20 per cent in charge account debt. Part of the rise in instalment debt has resulted from a relative shift away from cash buying. After V-J Day, for example, less than 20 per cent of automobile sales were on credit compared with a prewar norm of over 50 per cent. The ratio is now approaching an estimated 30 per cent and may be expected to climb at a quickening rate as rising prices increase pressures on consumers' incomes and as accumulated individual savings become further depleted. There is as yet no indication that existing credit controls have exercised any retarding influence on over-all sales of automobiles.

Some, although probably small, increase in non-automobile instalment debt has been caused by a noticeable tendency toward longer maturities following relaxation of Regulation W in December of last year. The counterpart of less strict credit terms in charge accounts has been slower collections. A slight weakening, about two to three per cent, is reported, but collections are still more prompt than before the war. Payments remain exceptionally good on obligations involving scarce items, particularly where a good credit rating is a prerequisite to further purchases.

RETAIL SALES TRENDS

Retail sales in the Seventh Federal Reserve District states represent an estimated two-thirds of total consumer
uniform trends among the District's major industrial areas. For reasons already developed covering consumer expenditures as a whole, continued leveling tendencies seem probable in retail sales in the months immediately ahead.

Studies by the United States Department of Commerce show that consumers nationally were at the end of the war spending about 12 billion dollars more on nondurable goods and 12 billion dollars less on durable goods than could have been expected from prewar spending patterns. The shift back toward durable goods was retarded in the months immediately after the end of the war by scarcities of major items such as automobiles and higher priced household appliances. As increased supplies have reached the market, the shift in favor of durables has accelerated.

For 1946 as a whole, District dollar sales of automobiles and household appliances showed increases over 1945 of 192 and 115 per cent, respectively, compared with increases in food of less than 30 per cent, and in men's and women's apparel of less than 15 per cent.

These general trends have gained further momentum in the first half of this year. However, prewar patterns have not yet been restored. Although continued scarcities of automobiles and a few household appliances still provide one underlying explanatory factor, another of considerable importance is the existence of low rent ceilings and reasonably effective rent controls. As a result, urban consumers are spending a much lesser proportion of their incomes on rent than they did prewar. In Chicago, for example, moderate income families occupying rental facilities probably divert less than 15 per cent of their expenditures to rent at the present time compared with about 20 per cent in 1939. Savings having fallen in relation to incomes since V-J Day, the surplus provided by rent controls has been spent, probably in large measure on nondurables. Sharp rises in prices other than rents since decontrol have tended to channel much of the “rent-created surplus funds” into food at the expense of other more readily postponable nondurable goods such as apparel and jewelry.

The President, faced with the choice between relaxed or no rent control, will probably sign the bill which recently received Congressional approval. Rising rents will force many urban consumers to reduce their money expenditures in other directions. This will intensify the pressure on business for higher wages on the one hand and for lower prices on the other. The latter pressure will probably be the greater, at least in the short-run, and will be particularly strong in the non-food sector of the soft goods group. However, even food and durable goods prices may recede somewhat in the competitive struggle of each industry to maintain or increase its share of the consumer's dollar.

Based on department store data, retail sales have shown uniform trends among the District's major industrial areas since price decontrol almost a year ago (see Chart 2). This contrasts with the period following V-J Day in which regional variations in sales resulted from differential amounts and speeds of physical reconversion and variations in the incidence of work stoppages which grew out of first round wage controversies. High levels of employment and the general absence of second round work stoppages have reduced the dissimilarities in retail sales trends among the four areas.

Leveling tendencies are apparent in Chicago, Detroit, and Milwaukee sales since the first of the year. The spurt in Indianapolis sales from March to April was probably in large part the result of better pre-Easter weather than in the other cities which are located farther north and have been severely afflicted by rain and cold.

The sharp rise in dollar volume of sales which occurred in July of 1946 resulted from temporary ending of price control.

Scattered information indicates that retail sales in towns located in rural areas have increased faster than in the larger population centers in the last several months.

**IMPORTANCE TO NATIONAL TRENDS**

The five District states in 1946 accounted for almost one-fifth of total income payments to individuals. This proportion will probably be somewhat higher in 1947 as the result of two factors: greater percentage of second round wage increases in durable than in nondurable goods (the reverse of the first round) and movement of relative farm prices in favor of livestock and cereals.

With so large a share of the national income payments and with prospects of continued strong demands for the products of its farms and industries, District incomes and expenditures trends promise to exercise an important buoyant influence on those of the nation in the months ahead.
BANKING TRENDS AND DEBT POLICY

(Continued from Inside Front Cover)

Commercial bank-held debt by withdrawals on war loan accounts has no effect on bank reserves, the decline in investments being balanced by a reduction in reserve-exempt war loan deposits. To the extent, however, that the redeemed securities are held by the Reserve Banks, commercial bank reserves are subjected to pressure. To adjust their reserve positions the banks sell other securities to the Reserve Banks. Retirement of nonbank-held debt results in a shift from war loan to private deposits, thus increasing the volume of reserves required. If the pay-offs are financed through tax receipts, the net effect of retirement of securities held by the commercial banks is a reduction in private deposits and bank investments, while retirements from the Reserve Banks reduce private deposits and reserve balances. Payments to the public produce no net change in member bank accounts.

To date the net effect of the retirements has been some tightening in reserve positions accompanied by moderate shifting of short-term securities to the Reserve Banks. Estimates of ownership indicate that all interest-bearing marketable debt held by the commercial banks declined roughly 21 billion dollars for the year ending February 28, 1947, indicating sales in the market of about six billion dollars in addition to redemptions. For the same period, net holdings of the Reserve Banks increased slightly more than one billion.

After the first of the year, part of the redemptions were made out of the cash surplus. During March and the early part of April, bank reserve positions were eased by disbursements out of Treasury deposits with the Reserve Banks and by payments to the market from foreign accounts. Member banks purchased Treasury notes and certificates and renewed their acquisition of Treasury bonds. From February 26 through June 4, total Reserve Bank holdings declined by 2.4 billion dollars, reflecting partly the April 1 and June 1 certificate redemptions and partly sales of short-term securities in the market.

In April and May the Treasury redeemed approximately one billion dollars of Treasury bills. Since about 85 per cent of outstanding Treasury bills are held by the Reserve Banks, retirement of bills is most effective in reducing member bank reserves. The net reduction in Reserve Bank holdings of bills was less than 400 million dollars, indicating substantial shifting of bills from the commercial to the Reserve Banks.

The effects of retirements on bank investments are reflected in the following tabulation which compares changes in the holdings of Government securities by the Federal Reserve Banks and by the weekly reporting member banks with the amount of each type of public marketable debt which has been redeemed. The figures cover the period February 27, 1946, through June 4, 1947.

<table>
<thead>
<tr>
<th></th>
<th>Total Redeemed</th>
<th>Federal Reserve Holdings</th>
<th>Reporting Bank Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills</td>
<td>1,042</td>
<td>+1,554</td>
<td>-1,124</td>
</tr>
<tr>
<td>Certificates</td>
<td>16,116</td>
<td>-1,545</td>
<td>-9,005</td>
</tr>
<tr>
<td>Notes</td>
<td>11,410</td>
<td>-1,003</td>
<td>-5,531</td>
</tr>
<tr>
<td>Bonds</td>
<td>2,357</td>
<td>-200</td>
<td>-8</td>
</tr>
</tbody>
</table>

It is apparent that the retirement program has not resulted in any severe stringency in credit. The reporting banks have managed to maintain the volume of their long-term holdings and at the same time have been able to expand their lending activity. Concentration of the retirements in the short-term maturities has, of course, resulted in a shift in the maturity distribution of bank-held debt. Latest available data from the Treasury Survey of Ownership show that on February 28, 1947, 43 per cent of bank-held debt was in the category due and callable from one to five years compared with 30 per cent a year earlier, while the proportion maturing within one year diminished from 37 per cent to 23 per cent.

MONEY SUPPLY EXPANDED

Total money supply, as measured by the volume of deposits and currency privately held, increased from 152 billion dollars at the end of February 1946 to 162 billions at the close of last March. Demand deposits adjusted rose eight billion dollars from March 1946 through December but declined somewhat in the first three months of 1947. Meanwhile, currency in circulation, except for seasonal variations, expanded at a greatly reduced rate.

The increase in private deposits and currency is in part attributable to payments by the Treasury for redeemed securities held by nonbank investors and also to some continued purchases of Governments by banks from nonbank holders. The deposit expansion also reflects a substantial rise in commercial bank loans, especially in loans to business. Commercial, industrial, and agricultural loans of the weekly reporting member banks have risen 3.3 billion in the past 15 months, while real estate and other loans also expanded. Loans for purchasing and carrying Government securities, however, have declined more than three billion dollars since their peak in the Victory Loan Drive.

Accompanying the expansion in demand deposits, required reserves of all member banks have risen more than 800 million dollars since the redemption program began. Excess reserves were estimated at 670 million on June 4, about 500 million below the average level of February 1946. In addition to Federal Reserve purchases of securities in the market, member banks gained reserves through a sizable inflow of gold and through disbursements from foreign accounts which were more than sufficient to offset the increase in currency outflow for the period.

Nearly 19 billion dollars of marketable issues other than bills will mature or become callable during the last six months of 1947. In view of the present low level of the Treasury's balance, prospects for an extension of the debt retirement program depend largely upon the size of the budget surplus. In any event, cash pay-offs from this source will be minor compared with retirements during the past year.

With the debt retirement program approaching an end, the resulting moderate pressure on banks to maintain their reserve positions will also end. The need for adopting other measures of credit restraint will depend upon whether there should be a resumption of credit expansion and declining long-term interest rates resulting from the practice of monetizing the public debt.