

## FEDERAL RESERVE BOARD

## STATEMENT FOR THE PRESS

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The January, 1924, issue of the Federal Reserve Bulletin will carry the following review of banking and business developments during the year 1923.

The year 1923. - In the business and banking developments of the year 1923 the outstanding fact has been the high level of industrial and agricultural output and the demand for bank credit to finance a volume of production and trade never previously equaled. Throughout the year the buying power of consumers, arising out of practically full industrial employment and increased income of farmers, has been reflected in a growth of retail trade and in a more active distribution of merchandise than in any other year. The increase in the demand for commercial credit, which began in the middle of 1922, continued at a rapid rate during the early part of 1923 when there was an unusual degree of industrial activity and was maintained at a high level with a further rise during the months of crop moving and fall trade. Taking the year as a whole, the credit situation was characterized by a growth of credit to meet the renewed demand of active business.

Growth in bank credit. - The extent of the demand for bank credit is shown by the fact that the total loans of all member banks increased about three-quarters of a billion during the first nine months of the year. This increase of about 4 per cent followed upon an increase which took place during the last nine months of 1922 at an even more rapid rate. In that year the growth of loans was accompanied by an even more rapid growth in investments; in 1923, however, investments declined slightly while loans continued to increase. The growth of member bank credit since the spring of

1922 was at a rate more rapid than the previous loan liquidation, so that by the middle of 1923 total loans and investments were greater than in November, 1920. In 1922 the increase in loans was exceeded by the increase in demand deposits, while during the first nine months of 1923 there was a decrease in demand deposits. The chief source of increase in member bank funds during 1923 was the growth in time deposits, supplemented by additional borrowings at the Federal Reserve banks.

The growth in member bank credit in the agricultural districts during the period was to a much larger extent than in the industrial districts financed by borrowings at the reserve banks. The discounts at the six Federal Reserve Banks located in the agricultural districts (Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas) increased by 69 per cent between January and September, while discounts at all other reserve banks increased by 31 per cent. Loans increased more rapidly in industrial districts, and this increase was met in part through the sale of investments, while in the agricultural districts investments continued to increase. In the financial centers funds available for commercial loans were also increased through a reduction in loans secured by stocks and bonds. The volume of commercial borrowing at member banks in leading cities declined slightly after the first week in October and the lessened demand for credit was also reflected in somewhat easier money rates.

Constancy of reserve bank credit. - At the Federal Reserve Banks discounts increased rapidly during the year, but there was a corresponding decline in open-market holdings, with the result that total earning assets remained relatively stable. In fact, as shown by the attached chart, relative stability in the total volume, with changes in the composition, has

been the principal characteristic of Federal Reserve Bank assets during the past two years. During these two years the country steadily used from \$1,000,000,000 to \$1,200,000,000 of reserve bank credit. In view of this relatively constant demand, the years 1922 and 1923 afford an opportunity of observing the effect of changes in the volume of open-market holdings upon the volume of member bank discounts. This changing relationship was commented on in the May and July issues of the Bulletin, and it now seems appropriate, at the close of the year, to make a more complete review of the relation between the two elements of Federal Reserve credit policy -- rediscount operations and open-market operations.

In the early part of 1922 the reserve banks purchased a considerable volume of short term government securities in the open-market, partly for the purpose of obtaining earnings, while in 1923 they greatly reduced their holdings of these securities. In the absence of change in the aggregate demand for reserve bank credit, the increases in open-market purchases during 1922 were offset by a corresponding decline in the volume of discounts, and in 1923 the reduction in securities was accompanied by a substantially equivalent increase in discounts.

In 1922 when the reserve banks bought securities the funds which they paid to the sellers found their way into member banks and permitted these banks to repay an equal amount of their rediscounts. The aggregate amount of reserve bank credit in use was not increased or even materially changed; a certain amount of "rediscounts" were merely thus converted into "securities." But the effect on the member banks, particularly in the large centers, was to add to their loanable funds or to enable them to reduce their indebtedness at the reserve banks. Under such conditions banks are likely

to lend more fully to their customers and others.

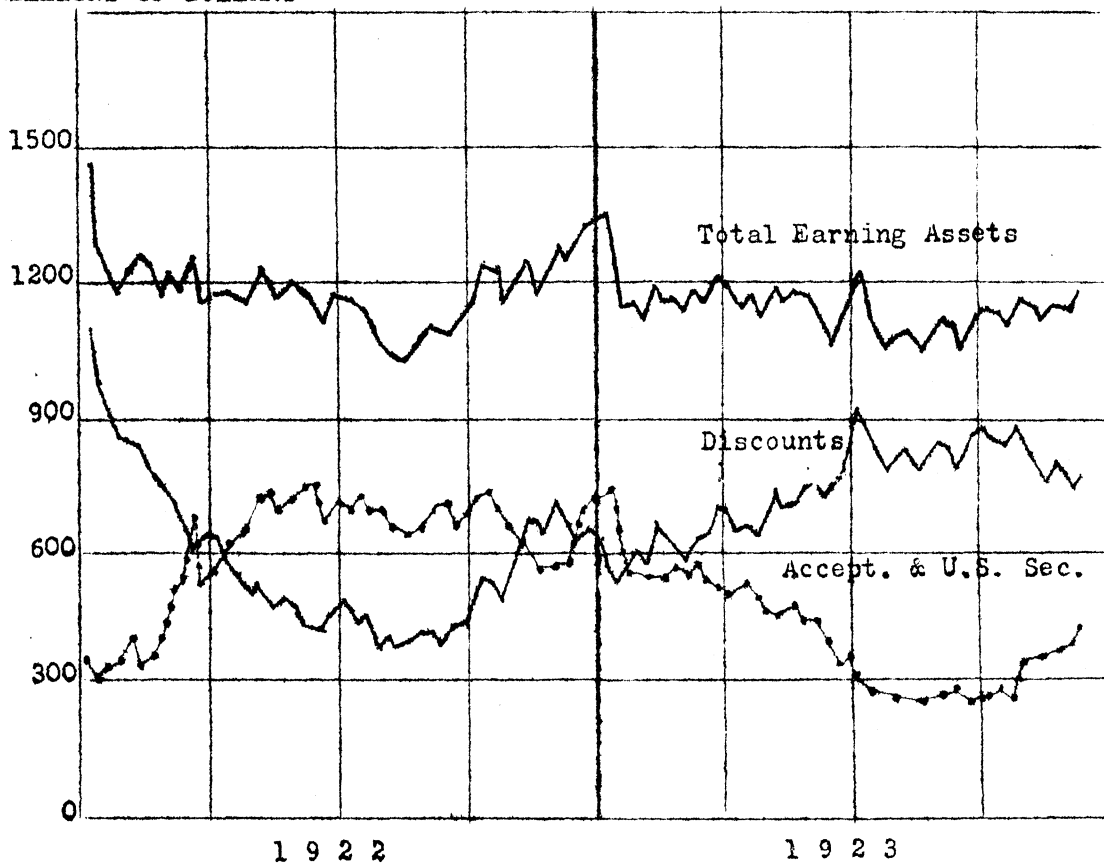
In 1923, on the other hand, when the reserve banks reduced their security holdings, they withdrew from the market an equivalent amount of funds. Following the withdrawal, the market borrowed substantially the same amount from the banks; and the banks, in turn, rediscounted substantially the same amount at the reserve banks, so that there was no material change in the total volume of Federal Reserve Bank credit in use.

Open-market policy. - The volume of open-market holdings with which the reserve banks entered the year 1923 put them in possession of an admirable instrument for testing the degree of dependence of the credit structure upon Federal Reserve Bank accommodation and for placing the initiative upon member banks to determine the volume of reserve bank credit required to meet the needs of ~~business~~ and industry. For in rediscount operations the initiative is taken by the member banks, which borrow from the reserve banks at the established discount rate, while in open-market operations the initiative may be taken by the reserve banks, which buy or sell short term securities in the market largely at their own volition and at market rates. The fact that the reduction of open-market holdings during 1923 was accompanied by an amount of discounting by member banks approximately equal to the volume of funds withdrawn from the market by Federal Reserve Banks indicated that the total volume of reserve bank credit outstanding was not in excess of requirements.

Federal Reserve credit policy during the year has been reflected chiefly in open-market operations. As the aggregate demand of the country for reserve bank credit may be met either through rediscount or open-market operations, the Federal Reserve Board felt that these two methods of extending credit should be brought into harmony. The Board, therefore, in April, 1923, appointed a committee of officers of reserve banks to act in conjunction with the Board in effecting a more complete coordination of all open-market operations of the reserve banks, both on their own account and in the execution of orders in government securities for the Treasury as fiscal agents of the government.

At the time the committee was appointed, the Federal Reserve Board

MILLIONS OF DOLLARS



EARNING ASSETS OF ALL FEDERAL RESERVE BANKS

adopted the principle:

"That the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."

As the Act provides that discount rates shall be fixed "with a view of accommodating commerce and business," the adoption of this principle definitely established open-market policies on the same basis as discount policies. Open-market operations provide a cushion of credit between the direct borrowings of member banks and the money market, and have facilitated the flow of credit into and out of the reserve banks in such a way as to exercise a steadying influence in the market and to reduce the tendency toward periodical tightness of money formerly felt by business in the spring and by agriculture in the autumn. Indeed, open-market operations, particularly sales of securities, have proved to be a valuable adjunct to discount policy. The minor influence which sales of securities by reserve banks exerts may, at times, avoid the necessity for resorting to the major influence of a change in discount rates.

Discount rate changes in 1923 were fewer than in any other year in the history of the system. Advances in discount rates from 4 per cent to 4-1/2 per cent at the Federal Reserve Banks of Boston, New York, and San Francisco were made early in the year, and since that time the level of rates has been the same at all the reserve banks. With the growth of discounts, however, which accompanied the reduction in the holdings of government securities, the influence of existing discount rates was extended to a larger proportion of the total Federal Reserve Bank credit in use, and the cost of obtaining reserve bank credit was borne more directly by member banks. Changes of discount rates made with a view of influencing the demand for rediscount

accommodation from Federal Reserve Banks are better understood by the general public than open-market transactions. The experience of the past year, however, shows that changes in the volume of securities held by the reserve banks, when such changes are well timed, are capable of exerting an important and useful influence on credit conditions. The weekly statements of condition of the Federal Reserve Banks show the amount and composition of open-market holdings and make it possible for the public to follow these changes from week to week.

Open-market operations during 1923. - In view of the importance during 1923 of the open-market operations, a detailed statement of the changes during the year in the composition of open-market holdings and of their relation to total earning assets is shown in the following table.



EARNING ASSETS OF FEDERAL RESERVE BANKS IN 1923.

(In millions)

	Total	Discounts	Open-market holdings			
			Total	U.S. Bonds and Notes	Treasury Certificates	Acceptances
January 10	1,246	512	734	176	332	226
February 14	1,191	653	538	163	190	185
March 14	1,183	613	570	161	184	225
April 11	1,135	623	512	163	75	274
May 9	1,148	695	453	149	37	267
June 13	1,085	708	377	125	33	219
July 11	1,134	847	287	94	7	186
August 8	1,091	823	268	83	7	178
September 12	1,121	842	279	95	5	179
October 10	1,143	869	274	87	5	182
November 14	1,150	791	359	79	12	268
December 12	1,188	762	426	77	19	330
Change between						
Jan. 10 and	-58	+ 250	- 308	- 99	- 313	+ 103
Dec. 12						

Of the two principal types of securities eligible for purchase by reserve banks -- acceptance and U. S. securities --, the volume of acceptances held by the reserve banks increased by about \$100,000,000 during the year, while government securities declined by over \$400,000,000. The increase in Federal reserve bank holdings of acceptances since the middle of October reflected in part the seasonal growth in the volume of acceptances created in connection with the financing of crop exports. The reduction in holdings of United States securities, chiefly certificates of indebtedness, continued almost without interruption throughout the year, though during November and December there was a slight increase in the holdings of Treasury certificates. A comparison of the composition of earning assets shows that the reduction in open-market holdings between the middle of January and the middle of December was somewhat larger than the increase in discounts, with the result that for the period the total volume of reserve bank credit decreased slightly.

Stability in the other principal items of the reserve bank statement has also characterized the year's operations. Reserves remained at about \$3,200,000,000; Federal reserve note circulation, after a seasonal decline early in the year, continued at about \$2,200,000,000; deposits, consisting largely of member banks' reserve balances, declined somewhat, reflecting the decrease in demand deposits with member banks; and the reserve ratio throughout the year remained near 76 per cent. This absence of change in the reserve bank statement during a year of growth in business activity and of increasing credit and currency demand is closely related, as was pointed out last month in this Review, to the use made of imported gold. During 1923 the inflow of gold continued in somewhat larger volume than during the previous year, net imports of \$262,000,000 for the

first eleven months exceeding the total of \$238,000,000 for 1922. This additional gold was not reflected in an increase in the reserves of the Federal Reserve banks because certain of these banks met the demand for currency by putting gold certificates in/circulation. Thus the increase of the total money in circulation of \$307,000,000 between December, 1922 and December, 1923, was largely in gold certificates, rather than in Federal reserve notes.

Course of business. The trend of member bank credit during the year, rather than of Federal reserve bank credit, has reflected the course of business developments. The period of most rapid increase in the demand for credit was the first quarter of the year, when trade was active and the volume of production in basic industries was greater than at any previous time. Production reached its peak for the year in May, and after that time the growth in the demand for credit for commercial purposes slackened. The recession in industrial activity during the summer months, however, was not accompanied by a decline in the distribution of merchandise, and in the autumn the demand for additional credit, largely from agriculture, resulted in a further increase in commercial loans at member banks in leading cities. The slackening in trade activity during the latter part of the year arose more from the hesitancy of business concerns in placing forward orders than from a lessened demand on the part of ultimate consumers; and the price declines of the period were chiefly in materials used in industry rather than in consumers' goods. The year as a whole was characterized by a large industrial output, practically full employment, a sustained consumers' demand for goods, and a level of prices more stable than in any year since 1915.

A national income larger than in 1922, arising both out of increased earn-

ings of factory workers and larger proceeds from the sale of farm products furnished the buying power to absorb the year's increased output of goods. The income of industrial workers, as the result of a volume of employment approximately 13 per cent larger than in 1922 and of wage advances, greatly exceeded that of the previous year. The total value of agricultural production was about \$900,000,000 greater than in 1922. This increase in income was not accompanied by a corresponding rise in the cost of living and the large growth in savings deposits indicates that there was a considerable margin of income above expenditures. The increased buying during the year is reflected in the volume of retail trade, which was larger for every month of 1923 than of 1922 so far as monthly figures are now available, and the total of department store sales for the ten months exceeded those for the corresponding months of last year by 13 per cent. The distribution and marketing of goods was facilitated by the improvement of transportation facilities and the volume of railroad traffic was the largest on record.

In agriculture the final estimates for the year indicate a physical volume of production larger than the year before and at the prevailing level of farm prices the total value of the year's crops is about 12 per cent above that of 1922. Furthermore, a larger proportion of farm income was available for current expenditure since less of the income than in preceding years was used in the repayment of loans. Sales of mail order houses, representing chiefly purchases in rural communities, increased by 31 per cent in 1923. The recovery of agriculture, however, is still incomplete, particularly in the wheat and livestock industries, and the unusual business growth of the year has been chiefly in the industrial sections. It is the demand on the part of industrial workers which, even with the decreased foreign demand, has resulted in a better market for agricultural products.

In addition to the large purchases of goods for immediate consumption there was also an exceptionally heavy demand for houses and automobiles, as indicated by the growth in the construction of buildings and the manufacture of motor cars. The automobile output of the year will total nearly 4,000,000, an increase of more than 50 per cent over 1922. The building activity which had been at a high level during 1922 reached a maximum in the spring of 1923 and then slackened somewhat owing to the rapid advance in wages and in prices of materials. With the subsequent decline in construction costs activity was renewed and for the eleven months ending in November contracts awarded totaled more than for the corresponding months of 1922. Building operations on a considerable scale were general throughout the country and residential building not only increased more rapidly than construction for business and industrial purposes but constituted a larger proportion of the total than in the four previous years. The large volume of construction not only led to increased production of building materials, but also resulted in large sales of furniture and other household goods and was an important factor in the demand in many lines of trade.

Price readjustments. Prices of building materials and house furnishings, while they declined during the latter part of the year, remained, nevertheless, considerably above the average for all commodities. The general price level, as measured by the wholesale price index of the Bureau of Labor Statistics, after advancing somewhat during the first three months of the year, declined by November to a point below that of November, 1922, but the average for the 11 months of 1923 was slightly higher than the average for the year 1922. More significant than these changes in the general level, however, are the readjustments which have taken place between various groups of commodities, particularly the increase in the

prices of certain agricultural products and the continued decline in fuel prices. Prices of farm products as a whole were higher in November, 1923, than at any time since December, 1920. This rise was due entirely to the higher prices of crops, as the prices of livestock and animal products were lower in November than at any time during the year.

Attitude of business. The fact that the year, taken as a whole, has been one of unparalleled industrial and trade activity has been somewhat obscured by the recession from the unusually high levels reached during the first quarter. The growth during the early months was a continuation of the expansion which had been under way for a year and a half, and carried the volume of production to a record level. Stocks of materials had been replenished, the available supplies of labor and equipment were being utilized near to capacity, and manufacturers began to feel some uncertainty about the possibility of marketing at profitable prices the large current output. Wide recognition that there had been a rate of advance which could hardly be maintained gave rise to hesitancy and the recession which followed was an expression of the conservative attitude taken by the business community. In the fall months, however, with the continuance of active trade and an undiminished demand from consumers, business became more confident. Throughout 1923, a year when business volume, prices, and credit were adjusting themselves to the new levels, it was primarily the attitude of business which moderated both the upward and the downward movements and exercised a stabilizing influence upon trade and industry.

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