FEDERAL RESERVE BANK OF ATLANTA

Monthly Review

Volume XXVI | Atlanta, Georgia, February 28, 1941 | Number 2

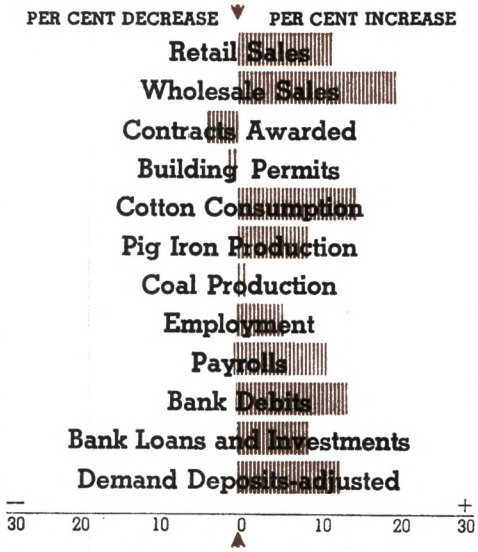
District Summary of Business Conditions

In January the tempo of trade and industrial activity continued high. Department store sales declined by slightly more than the usual amount from the record volume reported for December, while distribution by wholesale firms declined a little less than usual. New high levels were reached in activity at textile mills in the District. The value of construction contracts awarded in January was considerably below that of December, but construction activity on contracts already awarded continued at a rapid pace.

The January decline in department store sales was from an unusually high November-December level — one that had been exceeded only three times in the twenty-two years covered by the index. The seasonally adjusted index recorded a level higher than that of this November-December only in May, July, and August of 1920. In that year, of course, prices were considerably higher than they have been in recent years, and therefore there is little doubt that the physical volume of goods sold in December by the stores that report regu-

Continued on Page 9

Reconnaissance



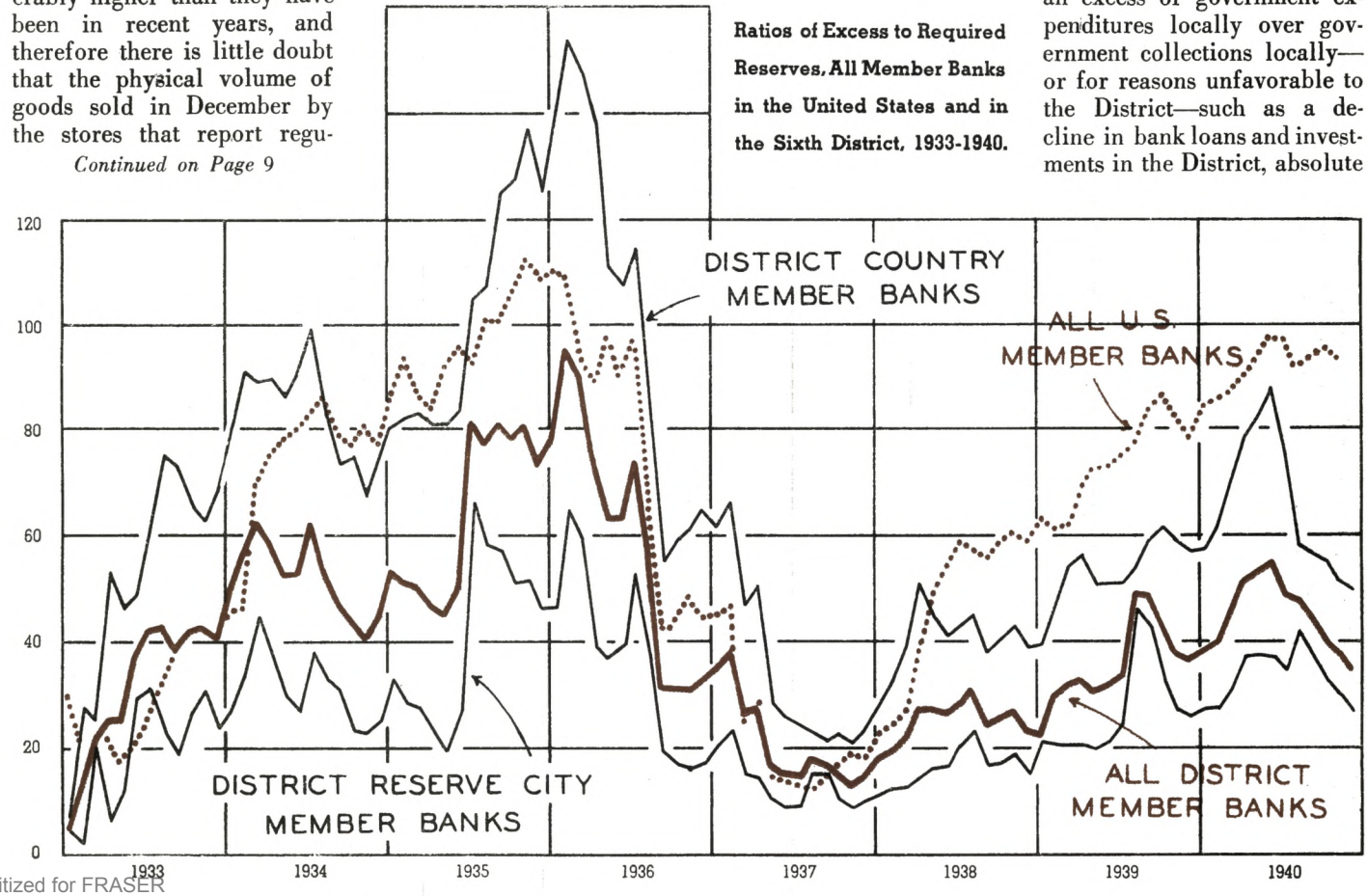
Sixth District Statistics for January 1941 compared with January 1940

Excess Reserves in the Sixth District

In the December number of this *Review* there was presented a chart of the factors contributing month by month since 1933 to the accumulation of excess reserves in the nation. During the same period the Sixth District has also witnessed a growth of excess reserves, at a rate somewhat less than in the nation, but to an extent previously unknown. In this article and its accompanying charts an interpretation of the factors creating the District's excess reserves is attempted, although, because of the national scope of most of the factors involved, it is less easy to construct a quantitative picture of the growth of excess reserves in any region exactly similar to that presented for the nation.

If the District's reserve statistics are to be observed, some interpretation is necessary, for, like the nation's excess reserves, those of the District can increase in response to developments favorable to the District—such as an excess of government expenditures locally over government collections locally—or for reasons unfavorable to the District—such as a decline in bank loans and investments in the District, absolute

Ratios of Excess to Required Reserves, All Member Banks in the United States and in the Sixth District, 1933-1940.



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CONDITION OF FEDERAL RESERVE BANK OF ATLANTA
(In Millions of Dollars)

	Feb. 12 1941	Jan. 15 1941	Feb. 14 1940	Per Cent Change Feb.12,1941 from Jan. 15 1941	Feb. 14 1940
Bills discounted	$ .009	$ .025	$ .291	—64	— 97
Industrial advances	.3	.3	.8	...	— 62
U. S. securities	91.1	91.1	100.4	...	— 9
Total bills and securities	91.5	91.5	101.5	...	— 9
F. R. note circulation	197.2	193.3	158.2	+ 2	+ 25
Member bank reserve deposits	257.9	249.6	220.8	+ 3	+ 17
U. S. Gov't general deposits	26.3	12.6	24.4	+109	+ 8
Foreign bank deposits	27.5	27.5	13.8	...	+ 99
Other deposits	17.4	4.8	7.8	+263	+123
Total deposits	329.0	294.5	266.8	+ 12	+ 23
Total reserves	435.4	401.6	328.5	+ 8	+ 33
Industrial advance commitments	....	....	.1	...	...

CONDITION OF 22 MEMBER BANKS IN SELECTED CITIES
(In Millions of Dollars)

	Feb. 12 1941	Jan. 15 1941	Feb. 14 1940	Per Cent Change Feb.12,1941 from Jan. 15 1941	Feb. 14 1940
Loans and Investments—Total	$700.3	$691.0	$628.6	+ 1	+ 11
Loans—Total	372.4	367.4	310.8	+ 1	+ 20
Commercial, industrial and agricultural loans	196.5	196.4	169.5	+ 0	+ 16
Open market paper	4.4	4.0	4.1	+ 10	+ 7
Loans to brokers and dealers in securities	7.3	7.6	5.4	— 4	+ 35
Other loans for purchasing and carrying securities	11.2	11.1	10.8	+ 1	+ 4
Real estate loans	34.7	33.4	31.1	+ 4	+ 12
Loans to banks	1.3	1.4	.7	— 7	+ 86
Other loans	117.1	113.6	89.2	+ 3	+ 31
Investments—Total	327.9	323.6	317.9	+ 1	+ 3
U. S. direct obligations	155.9	146.1	143.9	+ 7	+ 8
Obligations guaranteed by U. S.	58.8	61.4	72.1	— 4	— 18
Other securities	113.2	116.0	101.9	— 2	+ 11
Reserve with F. R. bank	159.6	153.1	134.5	+ 4	+ 19
Cash in vault	16.1	14.8	14.1	+ 9	+ 14
Balances with domestic banks	227.9	218.6	217.6	+ 4	+ 5
Demand deposits-adjusted	468.7	458.6	414.1	+ 2	+ 13
Time deposits	189.2	188.5	188.7	+ 0	+ 0
U. S. Government deposits	28.9	29.1	44.2	— 1	— 35
Deposits of domestic banks	358.4	342.5	291.6	+ 5	+ 23
Borrowings	....	....	....	...	...

DEBITS TO INDIVIDUAL ACCOUNTS
(In Thousands of Dollars)

	Jan. 1941	Dec. 1940	Jan. 1940	Per Cent Change Jan. 1941 from Dec.1940	Jan.1940
ALABAMA					
Birmingham	$ 124,426	$ 130,538	$ 107,721	— 5	+ 16
Dothan	3,629	3,808	3,067	— 5	+ 18
Mobile	56,135	54,458	44,687	+ 3	+ 26
Montgomery	28,080	27,667	24,732	+ 1	+ 14
FLORIDA					
Jacksonville	120,506	122,420	90,076	— 2	+ 34
Miami	84,296	74,784	70,809	+ 13	+ 19
Pensacola	11,136	12,797	9,127	— 13	+ 22
Tampa	40,990	41,468	34,367	— 1	+ 19
GEORGIA					
Albany	7,486	6,945	5,151	+ 8	+ 45
Atlanta	233,798	291,420	224,603	— 20	+ 4
Augusta	22,422	24,787	24,237	— 10	— 7
Brunswick	3,231	3,615	2,777	— 11	+ 16
Columbus	25,323	26,248	16,243	— 4	+ 56
Elberton	1,314	1,562	1,007	— 16	+ 30
Macon	23,046	22,006	16,524	+ 5	+ 39
Newnan	2,483	2,856	1,894	— 13	+ 31
Savannah	34,728	39,953	29,862	— 13	+ 16
Valdosta	4,720	4,780	4,275	— 1	+ 10
LOUISIANA					
New Orleans	256,057	259,702	244,447	— 1	+ 5
MISSISSIPPI					
Hattiesburg	12,558	14,330	5,010	— 12	+151
Jackson	34,887	30,028	32,174	+ 16	+ 8
Meridian	14,611	15,701	11,934	— 7	+ 22
Vicksburg	8,402	9,148	8,295	— 8	+ 1
TENNESSEE					
Chattanooga	58,976	62,243	49,177	— 5	+ 20
Knoxville	43,472	41,907	39,634	+ 4	+ 10
Nashville	99,808	109,410	83,924	— 9	+ 19
SIXTH DISTRICT					
26 Cities	1,356,520	1,434,581	1,185,754	— 5	+ 14
UNITED STATES					
274 Cities	41,133,000	46,673,000	37,786,000	— 12	+ 9

RETAIL TRADE — JANUARY 1941
(Cities for which no indexes are compiled)

Sales for January compared with:

	Dec.1940	Jan.1940		Dec.1940	Jan.1940
Baton Rouge	— 57	+ 34	Knoxville	— 57	+ 21
Chattanooga	— 54	+ 17	Macon	— 61	+ 16
Jackson	— 59	+ 10	Montgomery	— 62	+ 6
Jacksonville	— 59	+ 24	Tampa	— 49	+ 25

or relative to other Districts. Moreover, unlike the nation's excess reserves, those of the District can increase or decrease importantly without there being any change in the banking resources of the District. This latter follows from the fact that transfers of inter-bank deposits between Districts can be, and frequently are, responsible for major changes in the reserve position of any District, although the funds involved have merely been shifted from one center to another without any change in their availability to the banks of the District depositing them. For these reasons it is necessary to inquire into the cause of changes in excess reserves before their significance can be appraised.

▶ The factors ultimately responsible for increases or decreases in the excess reserves of the District may be conveniently classified under two headings:

(1) developments in the District that, when relatively greater or lesser than similar developments in the nation, cause reserve funds to move into or out of the District; and

(2) developments that, independently of similar developments in the nation, cause reserve funds or the proportion of existing funds in the excess category to increase or decrease.

(1) Reserve funds move from District to District through the transfer of deposits from banks in one District to those in another, in exactly the same manner as such funds move from bank to bank, i. e., Districts receiving deposits acquire reserves, and those losing deposits lose reserves. These deposit transfers reflect more fundamental developments. First, they reflect the balance of trade between Districts, i. e., the amount by which the purchases of out-of-District goods and services by any District exceed or fall short of the sales of goods and services out of the District. Second, they reflect the balance of capital movements, or the net transfers between Districts of funds, including bank deposits, in exchange for evidences of indebtedness. Capital movements are occasioned by individuals and businesses that move funds from District to District for investment or for deposit in banks; by the government, which similarly moves funds and sells, pays interest upon, and retires securities in every part of the country; and by the banks themselves, which make inter-District investments, and which make deposits with and receive deposits from out-of-District banks. Third, the deposit transfers reflect the non-capital transactions of the government, i. e., the balance in each District of the government's expenditures other than for the servicing and retirement of debt and of the government's receipts other than from bond sales. Throughout the period under review the government has contributed to the reserve funds of the District by spending within the District more than is collected locally from taxes and sales of government services.

(2) The volume of reserve funds in a District, and the proportion of excess reserves, may be changed without a flow of funds between Districts. These changes may occur in response to (a) changes in the demand for currency, since banks must obtain currency for their customers by surrendering reserve deposits at the Federal Reserve Bank; and to (b) the deposit with the banks of proceeds from the sale of gold to the Treasury. Moreover, the volume of reserve funds in the excess

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category may be changed without an inter-District flow of funds by shifts in deposits within the District between member and nonmember banks and between member banks of different reserve classifications.

▶ In the chart on page 5 some comparisons are made between the excess reserve situation in the District and in the nation. The ratio of excess to required reserves of all member banks of the District collectively, is compared with that for the nation and the ratio of the country and reserve city banks of the District is separately compared. The extent to which the curves are above the zero line indicates the extent to which that group of banks is holding more reserves than required by law and regulation, and, for example, banks with a ratio of 100 are holding exactly twice as great a volume of reserves as required. Expressing the data in this form makes the relative magnitudes of the excess reserves in the various groups directly comparable.

The chart suggests several generalizations:

(1) While the Sixth District has accumulated excess reserves, the ratio of excess to required reserves in the District has been less than for the nation as a whole since 1934, and remarkably less since 1938. Indeed, throughout the period the ratio of excess to required reserves in this District, while large in absolute terms, has typically been considerably smaller than that of any other District.

(2) Within the District it is the country banks that have the largest ratios of excess to required reserves, and until 1938 country bank ratios were considerably higher than the national average. This relationship between the excess reserve positions of country and city banks has been generally typical of all the Districts.

(3) The latest data available indicate that the District is currently experiencing a sharp fall in the excess reserve ratio of both its country and reserve city banks.

▶ In the chart on page 10 an informal interpretation of some of the factors creating the District's reserve situation is attempted. The reader will note that the factors discussed do not cover all the points of the outline, particularly, the expenditures and tax receipts of the government and changes in the demand for currency. It is planned to present an analysis of these factors in a later issue of the *Review*.

Changes in the relative excess reserves of the Sixth District and of the nation are shown on the chart by curve 1. A rise in this curve indicates that the reserve position of the nation is improving relative to that of the District.[1] Curve 2 shows the relative expansion of loans and investments of member banks of this District and of the nation. A rise in this curve indicates that the banks of the District are expanding their portfolios more rapidly than the banks of the nation.[2] The curves are

Continued on Page 9

[1]These data are a ratio of two ratios, as follows:

$$\frac{\text{Excess reserves of all member banks}}{\text{Required reserves of all member banks}} \Big/ \frac{\text{Excess reserves of Sixth District member banks}}{\text{Required reserves of Sixth District member banks}}$$

[2]These data are:

$$\frac{\text{Loans and investments of Sixth District member banks}}{\text{Loans and investments of all member banks}}$$

SIXTH DISTRICT BUSINESS INDICATORS
Indexes
(1923-1925 average = 100, except as noted)

	Adjusted			Unadjusted		
	Jan. 1941	Dec. 1940	Jan. 1940	Jan. 1941	Dec. 1940	Jan. 1940
RETAIL SALES* (1935-1939 Av. = 100)						
DISTRICT (47 Firms)	122	129	108	93	223	83
Atlanta				95	230	80
Birmingham				90	223	77
Nashville				88	213	69
New Orleans				88	206	89
RETAIL STOCKS						
DISTRICT (21 Firms)	81	80	75	74	72	69
Atlanta	155	158	140	142	138	129
Birmingham	75	74	78	67	68	70
Nashville	59	56	58	51	50	51
New Orleans	67	65	60	61	58	54
WHOLESALE SALES						
TOTAL				68	69	66
Groceries				60	50	52
Dry Goods				49	50	51
Hardware				127	123	99
Drugs				142	119	144
CONTRACTS AWARDED						
DISTRICT				80	179r	83
Residential				63	168r	74
Others				91	187r	89
Alabama				141	76	81
Florida				48	101	67
Georgia				85	199	86
Louisiana				51	262	69
Mississippi				184	941	248
Tennessee				111	68	108
BUILDING PERMITS						
20 CITIES				50	47	51
Atlanta				22	47	42
Birmingham				39	21	18
Jacksonville				86	60	64
Nashville				12	31	47
New Orleans				44	51	31
PIG IRON PRODUCTION*						
Alabama				135	137	124
COAL PRODUCTION (1935-1939 Av. = 100)						
TWO STATES	131	132	134	148	143	147
Alabama				152	148	147
Tennessee				139	130	149
COTTON CONSUMPTION*						
THREE STATES				232	217	201
Alabama				280	266	235
Georgia				214	200	191
Tennessee				205	184	165
EMPLOYMENT (1932 Av. = 100)						
SIX STATES				142	144	134
Alabama				155	157	139
Florida				120	117	114
Georgia				157	159	149
Louisiana				129	131	120
Mississippi				114	117	104
Tennessee				134	138	130
PAYROLLS (1932 Av. = 100)						
SIX STATES				207	212	185
Alabama				292	297	238
Florida				119	119	102
Georgia				229	235	211
Louisiana				159	163	145
Mississippi				149	153	134
Tennessee				204	191	173

	Dec. 1940	Nov. 1940	Dec. 1939
ELECTRIC POWER PRODUCTION*			
SIX STATES	441	445	382
Alabama	507	500	470
Florida	600	568	588
Georgia	285	240	190
Louisiana	663	665	647
Mississippi	89	102	111
Tennessee	396	475	301

Statistics (000 Omitted)

	Jan. 1941	Dec. 1940	Jan. 1940
COMMERCIAL FAILURES			
Number (Actual—not 000's)	40	33	67
Liabilities	$ 303	$ 363	$ 484

	Dec. 1940	Nov. 1940	Dec. 1939	Year to Date 1940	Year to Date 1939
FARM INCOME**					
SIX STATES	83,955	109,193	80,620	797,822	817,457
Alabama	10,866	18,890	9,057	115,463	112,170
Florida	14,129	12,397	9,272	113,486	122,085
Georgia	11,951	18,806	13,352	168,048	151,579
Louisiana	10,092	17,831	15,798	112,114	133,868
Mississippi	17,960	23,148	19,209	147,221	166,961
Tennessee	18,957	18,121	13,932	141,490	130,794

*Indexes of retail sales, electric power and pig iron production, and of cotton consumption are on a daily average basis.

**Includes Government benefit payments.

r = Revised.

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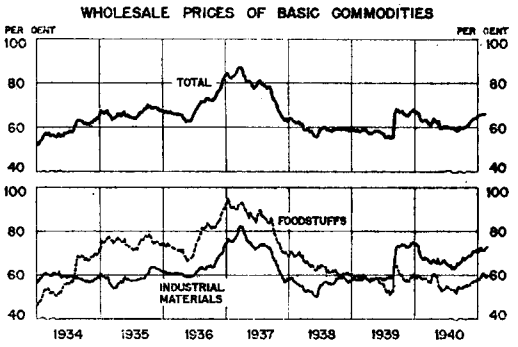
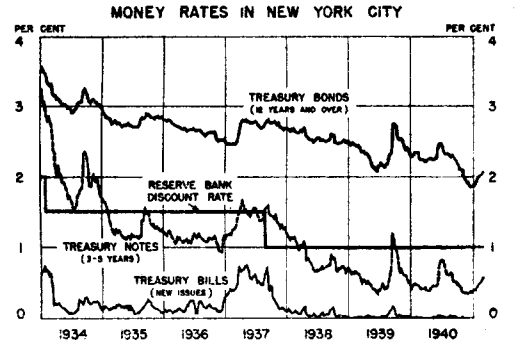
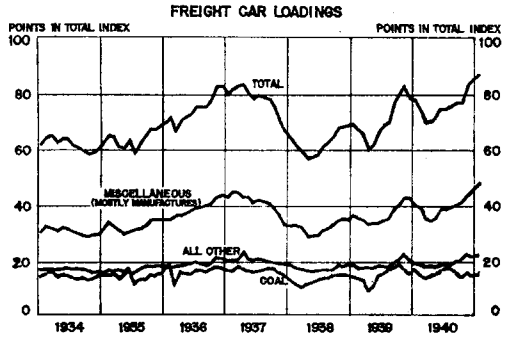


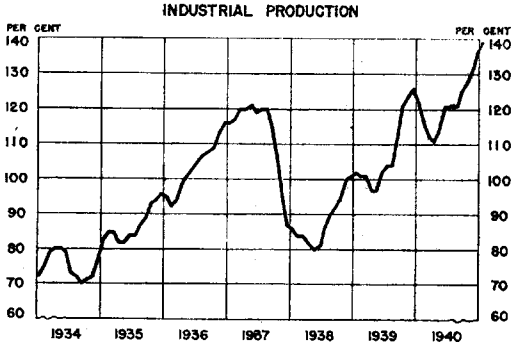
Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. By months, January 1934 to January 1941.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. Miscellaneous, coal, and all other expressed in terms of points in total index. By months, January 1934 to January 1941.



Federal Reserve groupings of Bureau of Labor Statistics' data. Thursday figures, January 4, 1934, to February 13, 1941.



For weeks ending January 6, 1934, to February 13, 1941.

National Summary of Business

Prepared by the Board of Governors of the Federal Reserve System

Industrial activity continued at a high level in January and distribution of commodities was maintained in large volume.

Production

In January volume of industrial production declined less than seasonally and the Board's adjusted index rose one point further to 139 per cent of the 1935-39 average. There were further considerable increases in activity in industries making machinery, aircraft, ships, and similar products important in the defense program, and output of industrial materials, such as steel and nonferrous metals, continued at near capacity rates. Lumber production also was in unusually large volume owing to demand arising from construction under the defense program as well as from private building.

Automobile production, which ordinarily declines considerably at this time of year, was maintained at a high rate in January and the first half of February. This reflected in part an unusually large volume of retail sales and in part the industry's efforts to build up dealers' stocks of cars as much as possible with a view to having an adequate supply on hand in case priorities or work on defense orders should necessitate curtailment of automobile production. Currently dealers' stocks of new cars are probably near record levels.

In the cotton textile industry, activity in January showed some further increase from the record level reached in December but the rise was less than usually occurs at this season. At wool textile mills there was some decline from the high level of November and December, while output at rayon mills was maintained in large volume. Defense program orders for textiles, particularly wool and cotton products, have been substantial for some time, and these combined with considerable civilian demand have resulted in the accumulation of large order backlogs at most mills. Activity at meatpacking establishments was reduced in January owing chiefly to a sharp decline in hog slaughter, which had been exceptionally large in the latter part of 1940. Shoe production advanced by less than the usual seasonal amount following a high rate of output in November and December.

At mines output of most metals continued at record levels in January. Production of fuels was sustained in large volume but was not at such high levels as output of other minerals owing in part to the existence of considerable stocks, particularly of petroleum products.

Value of construction contracts, as reported by the F. W. Dodge Corporation, declined in January. The decrease reflected chiefly a sharp reduction in awards for public construction from the exceptionally large December total, which had included a number of defense projects not previously reported by the Dodge Corporation for lack of detailed information. Contracts awarded for private nonresidential building declined somewhat in January but as in December were twice as large as the amount awarded in the corresponding period a year ago. Awards for private residential building increased and on a seasonally adjusted basis were at the highest level since the middle of 1929.

Distribution

Distribution of commodities to consumers in January was maintained at the high level reached in the latter part of 1940. Sales at department and variety stores declined seasonally following an unusually large amount of Christmas trade, while sales of automobiles continued near the rate prevailing in December. In the early part of February department store sales were sustained in large volume.

Total freight-car loadings, which usually decline from December to January, showed little change this year and the Board's seasonally adjusted index rose two points further to 86 per cent of the 1923-25 average.

Wholesale Commodity Prices

Prices of industrial materials and foodstuffs generally showed little change from the middle of January to the middle of February. Some imported commodities, principally coffee, cocoa, rubber, and tin, rose slightly and there were increases also in prices of lard and wool tops, while declines were reported for livestock and meats, hides, grains, lumber, and scrap metals. Prices of some finished commodities, particularly textile products, showed advances in this period.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities increased substantially during January and the first half of February, reflecting largely purchases of new Defense Notes issued by the Government. Commercial loans at these banks increased further while loans to New York security brokers and dealers declined.

United States Government Security Prices

Prices of United States Government securities continued to decline in the latter half of January and the first half of February, more than canceling the gains from the end of October to the peak on December 10. The 1960-65 bonds on February 14 were selling on a yield basis of 2.28 per cent, compared with a low of 2.03 per cent on December 10.

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District Summary of Business Conditions

Continued from Page 5

larly to this Bank was the largest in history. The decline in the index for January may not, therefore, be particularly significant. January sales were 12 per cent greater than in January 1940, and the adjusted index for January was higher than it has ever before been in January with the single exception of 1920. For the country as a whole, the Board of Governors' adjusted index for January remained at the December level and was 10 per cent above that for January last year. Wholesale distribution in this District declined in January by 2 per cent and was 20 per cent greater than it was a year earlier. Business failures declined in both number and liabilities, compared with December and with January last year.

In August, October, and December last year construction contracts were awarded in this District in unusually large volume. The totals included, of course, large amounts of contracts directly connected with the national defense program. The District total of construction contracts awarded in the year 1940 was about $488 million, a total that had previously been exceeded only by the figures for the years 1925 and 1926. In January contract awards declined from the large December total and were also slightly less than in January last year because of a decrease in residential awards. Building permits issued at twenty reporting cities in the District increased 7 per cent in January but were 1 per cent less than in January a year ago.

Textile activity in the District, reflected in the consumption of cotton by mills in Georgia, Alabama, and Tennessee, advanced 6 per cent in January to a new high level that was 15 per cent above that of January 1940. In the country as a whole, according to the Board's index, the rate of cotton consumption gained 1 per cent in January and was 15 per cent higher than a year ago.

The rate of pig iron production in the Alabama area reached successive peaks in November and December, and declined 1 per cent in January, when it was 9 per cent higher than in January last year. Steel mill activity in the Birmingham area has been at 94 per cent of capacity, according to the *Iron Age*, since the beginning of the year. At this time last year it was reported at 94 per cent through February 3, when it dropped to 88 per cent. For the country as a whole, steel mill activity has recently been at 96 per cent, slightly lower than in January, and compared with about 84.5 per cent in January last year.

Coal production in Alabama and Tennessee during January was at a daily rate 4 per cent higher than in December, slightly higher than in January last year, and the highest for any month in about eleven years.

Electric power production in the six states of this District declined 1 per cent in December, the latest month for which figures are available, from the record level reported for November, but was 15 per cent greater than in December a year earlier, which compares with a gain of 11 per cent for the United States as a whole.

Cash farm income in the six states of this District amounted in 1940 to about $798 million. This represents a decline of 2 per cent from 1939 and is also somewhat smaller than for other years since 1935. December receipts were 4 per cent larger than in that month a year earlier, although seasonally smaller than for the month before.

Excess Reserves in the Sixth District

Continued from Page 7

defined in this manner to facilitate visual comparison.

Clearly, a relative expansion of the portfolios of banks in this District must be expected to transfer reserves to other Districts when the borrowers of the loans or the sellers of the securities utilize their proceeds for purchases throughout the nation. On the other hand, a relative contraction of portfolios of banks in this District can be expected to attract reserves here. These results may be expected because an increase of expenditures by individuals or corporations in any region would, if sufficiently large and general, follow for the most part the pattern of their previous expenditures—maintaining the present distribution of bank funds if all regions keep in step, or shifting bank funds out of those regions that march more rapidly than the column. A comparison of curves 1 and 2 indicates that the relative expansion of loans and investments has an important influence upon the balance of trade and capital movements, and through these factors, upon the excess reserves position of the District. The general movements of curves 1 and 2 are in almost all cases similar, and in two thirds of the months the two curves move upward or downward together. Particularly it should be noted that the decline in excess reserves in recent months reflects the sharp rise, both absolutely and relatively, of this District's loans and investments. Serious discrepancies between the two curves occur only at those months checked at the bottom of the chart, and in most cases these discrepancies are readily explainable.

Curve 3 serves to explain some part of the discrepancies, and to interpret further the general movements throughout the period. This curve represents the net inter-bank balance of the member banks of the District, one of the important items in the balance of capital movements. Our member banks collectively hold considerable deposits for the nonmember banks of the District, and some balances of member and nonmember banks outside the District. At the same time, however, most of the District's member banks keep balances in New York and other centers both within and outside the District. The net position of District member banks can be determined by subtracting the "due to banks" total from the "due from banks" total of all District member banks collectively. These data, however, are available only at call report dates, and there are therefore only 3 or 4 readings on the curve each year. It should be noted that these data refer only to District member banks, and the net balance does not, therefore, represent the total banking indebtedness of one *region* to others. The District as a whole, including nonmember as well as member banks, is the creditor of other Districts, particularly those in which the large money centers are located, to a very considerable amount.

When the member banks of the District are building up this net balance their excess reserves will be smaller than would otherwise be true, and, in consequence, the ratio of excess reserves in the nation to excess reserves in the District will rise more or fall less than would otherwise be the case. This follows from the fact that the net balance of member banks of the District can be increased only by sending reserve funds to other banks or by diminishing their indebtedness to other

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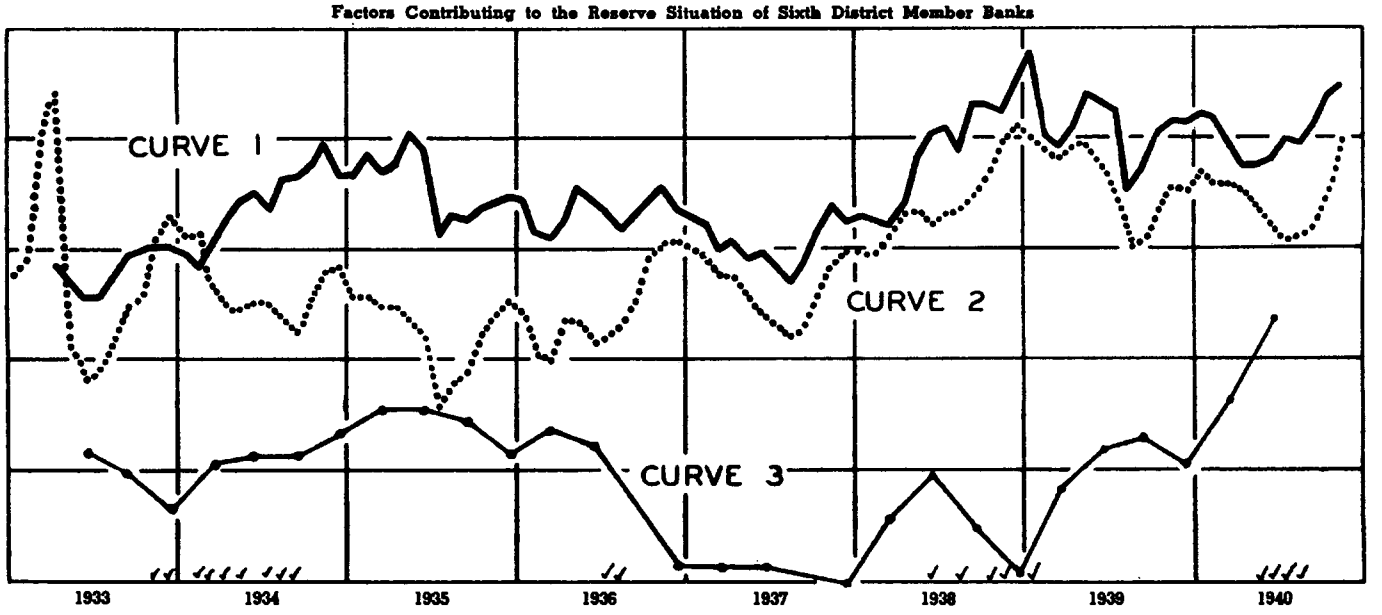
Federal Reserve Bank of St. Louis

Factors Contributing to the Reserve Situation of Sixth District Member Banks



Curve 1 rises when the excess reserves of the nation are growing relatively to those of the District. Curve 2 rises when the loans and investments of Sixth District banks are growing relatively to those of the nation. It will be noticed that the two curves move substantially together, since when District banks expand their portfolios more rapidly than banks in the nation, the District loses reserves to other regions. Curve 3 represents the net balance of inter-bank deposits owned by banks of this District. When Curves 1 and 2 fail to move together, it will frequently be found to be true that District banks have maintained their reserve balances in the face of a relative expansion of portfolios by drawing down their inter-bank balances, and, similarly, the converse will also be found to be true.

banks through transferring reserve funds in liquidation of their deposit obligations.

▶ Comparing all three curves it will be noticed that when a relative expansion of the deposits of member banks of the District failed to cause a relative loss of reserves to the District, the transfers necessary as a result of the expansion were frequently accomplished by drawing down the District's member banks' deposits with other banks. That is, when curve 1 rises without a simultaneous rise in curve 2, the adjustment will frequently be found to have taken place in a rise in curve 3. Conversely, when the portfolios of the District member banks are relatively expanding without there being a relative decline of reserves in the District, it will frequently be found that District banks are drawing down their credit balance of inter-bank deposits.

While these two factors, the relative rate of expansion of District bank portfolios and the net credit balance of inter-bank deposits of District banks, explain between them a large part of the movements of reserve funds, they do not account fully for either the balance of trade or the balance of capital movements, and they do not touch at all upon currency movements nor upon the non-capital receipts and expenditures of the federal government.

The principal divergence of curves 1 and 2 occurs in the spring of 1934, and while partially accounted for by the rise in the District's credit balance, the explanation lies to a large degree in the inflow of new funds from abroad to the New York money market. In March 1934, following the devaluation of the dollar, considerable repatriations of American capital and importations of foreign capital took place. Such short-term balances would move typically to New York City, serving to increase the excess reserves of the nation relatively to the Sixth District, and it is believed that this factor accounts for the new relationship between curves 1 and 2 reached in early 1934. The effect of these capital importations upon the excess reserves of the nation is clearly shown in the chart on page 5.

Some of the other changes in the general spread between the two curves resulted partly from the changes in reserve requirements occurring in 1936, 1937, and 1938. Since the reserve requirements of country banks, reserve city banks, and central reserve city banks are graduated, and also since banks in higher reserve requirement centers typically hold deposits of country banks subject to being withdrawn to meet reserve stringencies of the country banks, an equal percentage increase in all reserve requirements falls with unequal incidence upon the excess reserves of the District and the nation.

For both of these reasons New York City experienced great relative declines in its ratio of excess to required reserves, when the reserve requirements were increased, and, because of its tremendous quantitative importance, caused the nation's ratio to decline considerably relative to the District. The effect of the existence in New York and elsewhere of deposits subject to call by country banks is reflected in the decline of curve 3, and, together with the unequal incidence of the changed reserve requirements, accounts for the narrowed spread between curves 1 and 2 from 1936 onward. Similarly, the slight tendency in 1938 for curve 1 to increase faster than curve 2 resulted in large measure from the reverse effect of the small reduction in reserve requirements in that year.

▶ As pointed out above, neither the charts nor this accompanying text account fully for the month-by-month development of the excess reserve situation in the Sixth District. The two factors—the relative rates of bank portfolio expansion and inter-bank deposits—charted on page 10 are, however, important and informative.

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