

FEDERAL RESERVE BANK OF ATLANTA

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Number 4

District Summary of Business Conditions

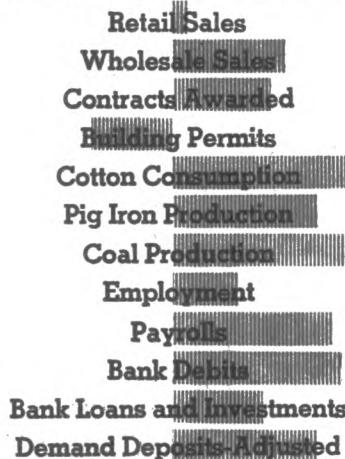
Trade and industrial activity in the Sixth Federal Reserve District continued at a high level in March. Distribution of merchandise through retail and wholesale channels increased, but by amounts slightly less than might have been expected, and life insurance sales increased substantially. Commercial failures increased in February and March but were substantially less than they were a year ago. March was a longer month than February by two business days, and this difference of 8.3 per cent accounts for small declines in the indexes reflecting the daily rates of cotton consumption by District mills and in pig iron production. As a matter of fact, the actual number of bales of cotton consumed in March was larger than had been used in any previous month, and the actual output of pig iron in Alabama was larger than in any other month excepting the month of December 1940. Coal production also increased, but construction contracts awarded in March declined.

Department store sales actually increased 24 per cent in this District in March over February, but on a daily average basis the gain was 15 per cent. This rise is slightly less than might have been expected on the basis of past performance, and after allowance for seasonal influences, including the later date of Easter this year, the adjusted index declined 2 per cent. The March index was, however, still above that for March last year and was at a level that had been equalled only once, and never exceeded, in March of any previous year. For the country as a whole, the Board's adjusted index continued in March at the February level and was 16 per cent above that for March 1940. In the first two weeks of April, which included pre-Easter business, sales in this District reported by a smaller number of firms than that included in the monthly index were 32 per cent greater than in the corresponding period last year (Easter was in March last year). For the country the gain for the two-week period was 27 per cent. Wholesale sales in the District increased 9 per cent from February to March, somewhat less than the usual rise at that time, and were 14 per cent greater than in March 1940. Business failures increased in February and

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Reconnaissance

PER CENT DECREASE ▼ PER CENT INCREASE



Sixth District Statistics for
March 1941 compared with March 1940

The Rising Trend of Currency Circulation

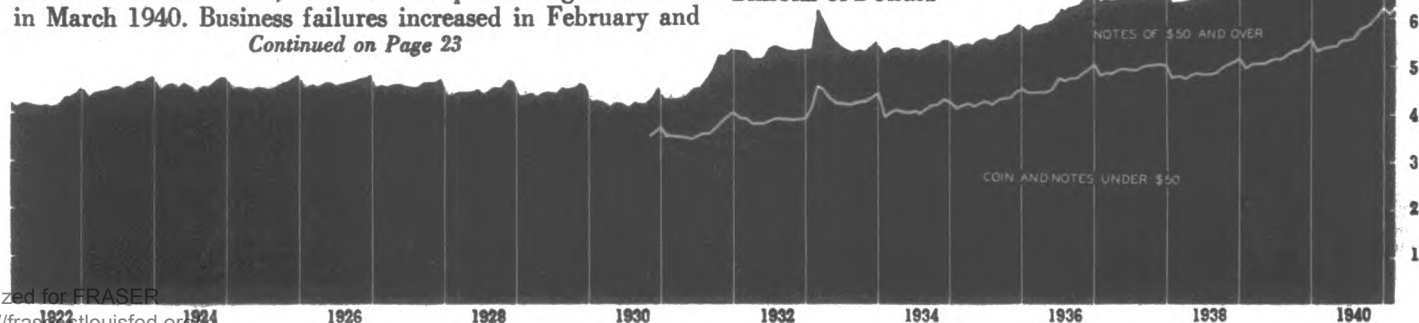
One of the most persistent trends throughout the past decade has been the continuing increase in currency in circulation in the United States. Beginning with a sharp increase in 1931, the volume of notes and coins outstanding has grown more or less steadily both during the years of business decline in the early 1930's and during the years of recovery from the middle 1930's to the present. This growth during more than a decade, punctuated only by the characteristic seasonal pattern of the series, by the sharp peak marking the banking crisis of 1933, and by the pause noticeable in 1937 and early 1938, shows at present no signs of stoppage or reversal. The circulation today—almost \$9 billion—is approximately twice

the average circulation of the 1920's. It should also be noted that, as may be seen in the chart, the denominational composition of the currency has been greatly altered through the period, since the circulation of notes of \$50 and over has increased much more rapidly than that of the total.

► The growth in the volume of currency has been so persistent and so pronounced that it has attracted considerable attention, more, probably, than its importance since 1933 deserves. To appraise its significance properly it is necessary to recall that in our monetary system changes in the volume of currency in circulation occur directly in response to the demands of the public, and it is, therefore, the public rather than the Federal Reserve Banks or the Treasury that determines in the first instance how much currency there shall be in circulation at any time. Why the public may decide to hold more currency can of course be traced to many things, including the actions of the Government, the Reserve System, the commercial banks, or other groups, and some of these factors will be noticed below. It remains true, however, that currency comes into circulation in accordance with public demand.

The authority of the general public in this domain is easy

Currency in Circulation 1922 to Date Billions of Dollars



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

	April 16 1941	Mar. 12 1941	April 17 1940	Per Cent Change April 16, 1941, from	
				Mar. 12 1941	April 17 1940
Bills discounted.....	\$.06	\$.01	\$.2	+500	-70
Industrial advances.....	.2	.3	.8	-33	-75
U. S. securities.....	94.9	91.1	104.2	+4	-9
Total bills and securities.....	95.2	91.5	105.2	+4	-10
F. R. note circulation.....	205.2	200.8	159.6	+2	+29
Member bank reserve deposits.....	288.7	277.3	235.1	+4	+23
U. S. Gov't general deposits.....	26.9	11.5	32.2	+134	-16
Foreign bank deposits.....	27.8	26.9	13.4	+3	+107
Other deposits.....	5.7	5.9	6.8	-3	-16
Total deposits.....	349.2	321.5	287.5	+9	+21
Total Reserves.....	461.8	436.2	346.7	+6	+33
Industrial advance commitments.....					

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

	April 16 1941	Mar. 12 1941	April 17 1940	Per Cent Change April 16, 1941, from	
				Mar. 12 1941	April 17 1940
Loans and Investments—Total.....	\$703.6	\$702.8	\$633.9	+0	+11
Loans—Total.....	375.6	376.6	306.9	-0	+22
Commercial, industrial and agricultural loans.....	198.5	198.1	159.6	+0	+24
Open market paper.....	5.0	5.2	3.9	+4	+28
Loans to brokers and dealers in securities.....	7.0	7.1	5.4	-0	+30
Other loans for purchasing and carrying securities.....	11.2	11.4	10.7	-2	+5
Real estate loans.....	35.8	35.5	31.3	+1	+14
Loans to banks.....	1.2	1.2	.6	—	+100
Other loans.....	117.0	118.0	95.5	-0	+23
Investments—Total.....	327.3	326.2	327.0	+0	+0
U. S. direct obligations.....	158.2	153.4	151.5	+3	+4
Obligations guaranteed by U. S.....	53.2	56.8	69.6	-4	-24
Other securities.....	115.9	116.1	105.8	-0	+10
Reserve with F. R. Bank.....	172.4	173.8	139.7	-0	+23
Cash in vault.....	14.8	16.3	13.0	-9	+14
Balances with domestic banks.....	268.2	250.9	237.7	+7	+13
Demand deposits—adjusted.....	483.9	479.7	413.0	+1	+17
Time deposits.....	193.0	189.6	190.3	+2	+1
U. S. Government deposits.....	34.3	28.7	43.4	+20	-21
Deposits of domestic banks.....	386.4	384.8	318.4	+0	+21
Borrowings.....					

DEBITS TO INDIVIDUAL ACCOUNTS (In Thousands of Dollars)

	Mar. 1941	Feb. 1941	Mar. 1940	Per Cent Change Mar. 1941 from	
				Feb. 1941	Mar. 1940
ALABAMA					
Birmingham.....	\$ 119,841	\$ 101,951	\$ 98,601	+18	+22
Dothan.....	3,963	3,297	2,966	+20	+34
Mobile.....	54,569	45,741	40,978	+19	+33
Montgomery.....	27,197	24,688	22,664	+10	+20
FLORIDA					
Jacksonville.....	122,035	102,718	89,519	+19	+36
Miami.....	84,313	77,259	71,151	+9	+18
Pensacola.....	12,013	10,400	9,533	+16	+26
Tampa.....	40,522	36,504	35,366	+11	+15
GEORGIA					
Albany.....	6,568	5,697	5,567	+15	+18
Atlanta.....	286,648	246,941	234,500	+16	+22
Augusta.....	25,469	21,637	19,575	+18	+30
Brunswick.....	3,174	2,893	3,047	+10	+4
Columbus.....	24,417	22,337	16,579	+9	+47
Elberton.....	1,345	1,233	1,143	+9	+18
Macon.....	26,530	25,478	16,601	+4	+60
Newnan.....	2,601	1,974	1,968	+32	+32
Savannah.....	35,832	30,364	29,906	+18	+20
Valdosta.....	4,312	4,020	4,378	+7	-2
LOUISIANA					
New Orleans.....	270,115	219,188	245,215	+23	+10
MISSISSIPPI					
Hattiesburg.....	11,209	10,499	5,386	+7	+108
Jackson.....	31,923	30,765	31,432	+4	+2
Meridian.....	15,385	13,596	12,377	+13	+24
Vicksburg.....	7,877	7,293	7,948	+8	-1
TENNESSEE					
Chattanooga.....	56,267	46,964	44,449	+20	+27
Knoxville.....	37,483	33,581	32,276	+12	+16
Nashville.....	104,371	87,917	86,948	+19	+20
SIXTH DISTRICT					
26 Cities.....	1,415,979	1,214,935	1,170,073	+17	+21
UNITED STATES					
274 Cities.....	44,558,000	35,783,000	37,768,000	+25	+18

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

Sales for March compared with:

	Feb. 1941	Mar. 1940		Feb. 1941	Mar. 1940
Baton Rouge.....	+17	-9	Knoxville.....	+25	+7
Chattanooga.....	+48	+6	Macon.....	+33	-1
Jackson.....	+34	+5	Montgomery.....	+33	-3
Jacksonville.....	+25	+17	Tampa.....	+27	+15

to understand. Currency that is in circulation is at all times held in the pocket or in the strong-box of some person, business, commercial bank, or other institution. If the community believes that the volume of cash it is holding is excessive, the excessive portion may be deposited in banks, and the banks, having in consequence more cash than they consider necessary, may exchange the excess for reserve deposits at the Federal Reserve Banks.¹ Conversely, when the public desires additional cash, it may obtain more by withdrawing deposits in the form of currency, and the banks, whose cash holdings will thereby be depleted, may replenish their stock by calling upon the Federal Reserve Banks, either directly, as in the case of member banks, or indirectly in the case of non-members, to provide currency in exchange for reserve deposits. The large volume of currency presently in circulation thus represents the desires of the holders of currency, not of the creators of currency.

It is in this connection that the Federal Reserve System has been able to make one of its notable contributions to banking stability. Under the National Banking System as it existed before 1913 the volume of cash available to the banks was rigidly limited by the amount of Treasury currency outstanding and the supply of circulation-privilege bonds against which National Bank notes might be issued. Establishment of the Federal Reserve System made additional currency readily available in exchange for reserve deposits, through the discount of eligible paper, through direct borrowing, and through open market operations undertaken at the initiative of the System. Easiest of these methods is, of course, the exchange of existing reserve deposits for currency, and since the banks at present generally possess large excess reserves, they have been easily able to pay out the cash for which they have been called upon without in any way restricting their lending and investing activities.

► For convenience in discussion, the holders of currency may be classified into three groups: (1) the general public, (2) the commercial banks, and (3) foreign individuals, businesses, or banks. Since, then, all currency in circulation lies in the possession of one of these groups, which between them hold the currency because it is in their opinion desirable to do so, the growth in circulation may be explained by pointing out the reasons that have led each group to desire additional currency.

(1) Throughout the 1920's the public at large exhibited a growing preference for deposit money relative to currency; a continuously larger proportion of business transactions was made by check, and such idle balances as existed were held more and more completely in the form of time or demand deposits. At the opening of the 1930's, however, this trend was sharply reversed; idle balances grew as all elements of the public sought to obtain liquid balances, and as, through fear of bank failures, more and more of these idle balances were withdrawn from the banks to be held in currency. It has been estimated that in February 1933 currency hoarding absorbed about \$1.8 billion, or almost 30 per cent of the circulation of that date.

Since then the circulation has continued to increase, but,

¹Non-member banks would typically deposit excess currency with a member correspondent, and the excess currency would thus find its way indirectly to the Federal Reserve Banks.

banking difficulties having been straightened out and deposit insurance having been established, the reasons for the continued increase are quite different. Following 1933 the volume of business activity has been growing and additional currency has therefore been needed for business transactions, but the circulation has been far larger than that needed to support in the 1920's comparable levels of business activity, and it is apparent that the public has changed—how permanently remains to be seen—the proportion of its liquid balances that it wishes to keep in the form of currency, as well as increasing its demand for all types of liquid balances.

Clearly, the public's decision to hold one form of money rather than another depends upon (a) the relative costs and (b) the relative conveniences involved in either case. Equally clearly, during the past decade the public has been encouraged to hold currency by a decline in the relative cost of holding that medium on the one hand and by an increase in its relative convenience on the other hand.

(a) The relative cost of currency as a payment medium has been reduced by the general establishment and increase of bank service charges, and by the low interest returns payable on time deposits, together with the abolition of interest payments on demand deposits. Service charges have developed rapidly in the past decade, and through progressive adoption by more and more banks, and progressive increases of rates, have made the holding of demand deposits continuously more expensive, and conversely the holding of cash continuously more attractive. In 1933 receipts from service charges of all member banks amounted to \$20.6 million, or .0017 per cent of all demand deposits of individuals and corporations. By 1939 receipts had risen to \$54.4 million, which amount, despite the doubling of deposits during the interval, represented .0024 per cent of such demand deposits. In this comparison it should, of course, be remembered that service charges are collected chiefly from small deposits, which deposits in dollar amounts account for a very small proportion of the total. The cost to the depositors affected is, therefore, several times as great as would be suggested by the percentages quoted.

(b) Similarly the relative convenience of holding cash has been increased by a number of factors: by the curtailment of bank facilities in some communities in the early 1930's, by the refusal of some banks to accept large savings deposits, by the growth of coin machine vending, and most of all, by the increase since 1933 of the incomes of those—relief recipients and wage earners—who typically hold cash rather than deposits.

(2) Banks, as well as the general public must determine by a balance of (a) costs and (b) convenience, the proportion of their liquid assets that they will hold as vault cash, and in their case, too, the balance has resulted in steadily larger currency holdings. The vault cash of member banks, presently about \$1 billion, has more than doubled since 1933.

(a) The cost to most banks of holding vault cash has been reduced to zero through the accumulation of unprecedented excess reserves and through the abolition of interest payments on inter-bank deposits. More than enough reserve funds to meet the requirements of law and regulation are available to the banks, and since neither deposits at the Reserve Banks nor at correspondent banks yield an interest return, banks

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SIXTH DISTRICT BUSINESS INDICATORS

Indexes

(1923-1925 average = 100, except as noted)

	Adjusted			Unadjusted		
	Mar. 1941	Feb. 1941	Mar. 1940	Mar. 1941	Feb. 1941	Mar. 1940
RETAIL SALES* (1935-1939 Av. = 100)						
DISTRICT (47 Firms).....	125	127	120	125	110	123
Atlanta.....				130	120	126
Birmingham.....				134	104	127
Nashville.....				122	101	116
New Orleans.....				109	100	112
RETAIL STOCKS						
DISTRICT (21 Firms).....	83	83	77	86	81	80
Atlanta.....	162	160	141	165	154	144
Birmingham.....	76	76	72	78	73	74
Nashville.....	60	60	57	61	57	58
New Orleans.....	71	67	66	74	67	68
WHOLESALE SALES						
TOTAL.....				72	66	69
Groceries.....				64	56	56
Dry Goods.....				54	49	58
Hardware.....				132	121	103
Drugs.....				125	118	134
CONTRACTS AWARDED						
DISTRICT.....				77	99	69
Residential.....				83	88	80
Others.....				73	107	62
Alabama.....				69	62	41
Florida.....				62	78	63
Georgia.....				54	75	88
Louisiana.....				122	271	56
Mississippi.....				90	104	176
Tennessee.....				109	84	89
BUILDING PERMITS						
20 Cities.....				54	57	60
Atlanta.....				28	24	29
Birmingham.....				29	24	28
Jacksonville.....				90	112	80
Nashville.....				14	109	148
New Orleans.....				26	27	33
PIG IRON PRODUCTION*						
Alabama.....				136	143	115
COAL PRODUCTION (1935-1939 Av. = 100)						
TWO STATES.....	146	134	117	160	156	126
Alabama.....				163	158	133
Tennessee.....				152	146	111
COTTON CONSUMPTION*						
THREE STATES.....				235	238	173
Alabama.....				279	300	202
Georgia.....				221	215	162
Tennessee.....				188	205	156
EMPLOYMENT (1932 Av. = 100)						
SIX STATES.....				146	146	136
Alabama.....				159	157	140
Florida.....				124	128	122
Georgia.....				162	160	148
Louisiana.....				130	130	121
Mississippi.....				116	116	112
Tennessee.....				140	137	132
PAYROLLS (1932 Av. = 100)						
SIX STATES.....				221	217	184
Alabama.....				312	307	232
Florida.....				123	125	111
Georgia.....				247	240	204
Louisiana.....				167	164	145
Mississippi.....				160	156	150
Tennessee.....				220	214	170
ELECTRIC POWER PRODUCTION*						
SIX STATES.....				Feb. 1941	Jan. 1941	Feb. 1940
Alabama.....				486	467r	397
Florida.....				702	626	535
Georgia.....				710	642	610
Louisiana.....				254	271r	219
Mississippi.....				636	646r	626
Tennessee.....				118	74r	71
				338	359	260

Statistics
(000 Omitted)

	Mar. 1941	Feb. 1941	Mar. 1940	Year to Date 1941	Year to Date 1940
COMMERCIAL FAILURES					
Number (Actual, not thousands).....	44	40	55	124	177
Liabilities.....	\$ 439	\$ 331	\$ 680	\$ 1,073	\$ 1,786
FARM INCOME**					
SIX STATES.....	54,257	64,700	51,381	118,957	102,556
Alabama.....	5,402	5,918	8,651	11,320	14,332
Florida.....	12,314	13,996	8,327	26,310	19,349
Georgia.....	9,543	8,590	6,823	18,133	12,679
Louisiana.....	6,533	9,201	6,552	15,734	13,187
Mississippi.....	9,430	9,398	10,980	18,828	20,829
Tennessee.....	11,035	17,597	10,048	28,632	22,180

*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.

National Summary of Business

Prepared by the Board of Governors of the Federal Reserve System

Industrial activity increased further in March but declined somewhat in the first half of April owing to temporary reductions in output of bituminous coal and automobiles. Wholesale prices of many commodities advanced considerably and the Government took steps to limit price advances of some additional industrial materials.

Production

Volume of industrial output continued to increase in March and the Board's seasonally adjusted index rose from 141 to 143 per cent of the 1935-39 average. Activity increased further in most durable goods industries, particularly in those producing machinery, aircraft, ships, and armament. Steel production increased to about 100 per cent of rated capacity.

Automobile production, which usually increases considerably in March, showed little change from the high rate reached in February. In the first half of April output was reduced considerably owing to a shutdown at plants of the Ford Motor Company during an industrial dispute which was settled about the middle of the month. Retail sales of new and used cars advanced to new peak levels in March and dealers' stocks at the beginning of April amounted to about a month's supply at the current rate of sales. Output of lumber, which had been sustained at unusually high levels during the winter months, rose less than seasonally.

Activity in the textile and shoe industries increased further in March. Cotton consumption rose to a record level of 854,000 bales and there was also an increase in rayon deliveries. At wool textile mills activity was sustained at the peak rate reached in February, not showing the usual large seasonal decline, and in the chemical and rubber industries further advances were reported.

Bituminous coal production rose considerably, while output of crude petroleum was maintained in March at about the rate that had prevailed in the four preceding months. In the first half of April coal production declined sharply, however, as most mines were closed pending conclusion of contract negotiations between mine operators and the miners' union. Production of nonferrous metals continued in large volume in March and deliveries of refined copper showed a sharp rise as domestic production was supplemented by supplies received from South America.

Construction contract awards rose sharply in March and were larger than in any month since the middle of 1930, according to the F. W. Dodge Corporation data. The rise was chiefly in awards for publicly-financed work, which had been reduced considerably in January and February, and in private nonresidential projects, particularly factory construction. Awards for private residential building, which had been unusually large during the winter months, showed less than the customary seasonal rise in March.

Distribution

In March distribution of commodities to consumers was sustained at the high level reached in February. Sales at mail-order houses and department stores increased seasonally and variety store sales showed more than the usual seasonal rise.

Freight-car loadings increased by about the usual seasonal amount. Loadings of coal and grain rose considerably, while shipments of miscellaneous freight, which in previous months had risen steadily, on a seasonally adjusted basis, showed a smaller increase than is usual at this time of year.

Commodity Prices

Prices of basic commodities continued to advance sharply from the middle of March to the middle of April. There were substantial increases in prices of domestic foodstuffs and further advances in burlap, cotton, rubber, and lead. Increases were also reported in wholesale prices of a number of manufactured products and the general index of the Bureau of Labor Statistics rose two points to 83 per cent of the 1926 average.

Informal action was taken by the Government to discourage price increases of some additional industrial materials and maximum price schedules were established for steel, bituminous coal, secondary and scrap aluminum and zinc, and iron and steel scrap. Sharp reductions in prices of some kinds of nonferrous metal scrap resulted. Announcement of an expanded Federal purchase program for hog, dairy, and poultry products was followed by price increases for these and related products.

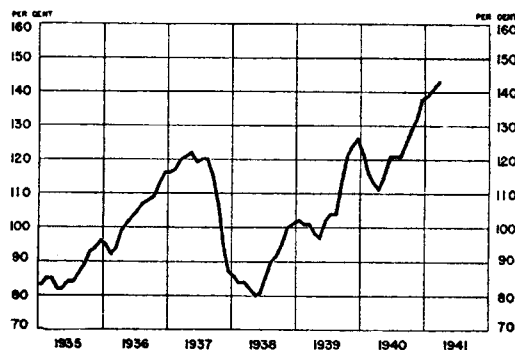
Bank Credit

Total loans and investments at reporting member banks in 101 cities increased during March and the first two weeks of April. Commercial loans continued to rise substantially, and holdings of United States Government securities increased further, reflecting purchases of new Treasury offerings.

United States Government Security Prices

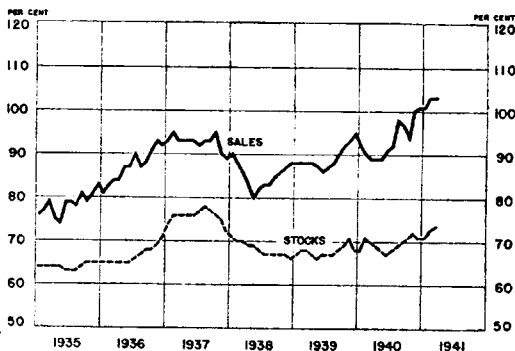
Prices of United States Government securities declined irregularly from March 15 to April 9 but subsequently rose slightly. The 1960-65 bonds showed a net loss of about $\frac{3}{4}$ of 1 point on April 15, following a rise of about $\frac{3}{4}$ points in the previous month. The yield on this issue on April 15 was 2.14 per cent, compared with 2.03 per cent at the all-time peak in prices on December 10, and 2.30 per cent at the recent low in prices on February 15.

INDUSTRIAL PRODUCTION



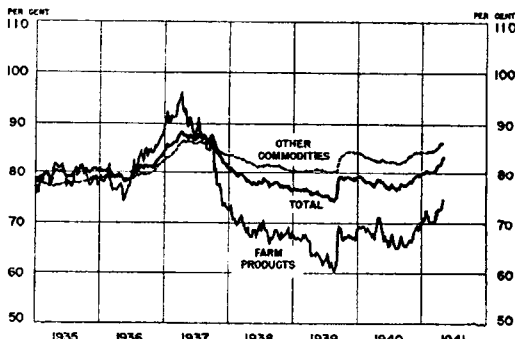
Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. By months, January 1935 to March 1941.

DEPARTMENT STORE SALES AND STOCKS



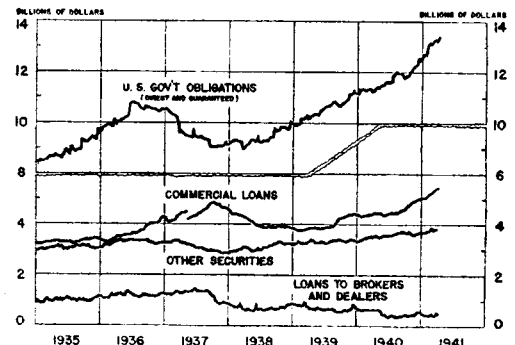
Federal Reserve indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1935 to March 1941.

WHOLESALE PRICES



Bureau of Labor Statistics' indexes, 1926 = 100. "Other" includes commodities other than farm products and food. By weeks, January 5, 1935, to April 12, 1941.

MEMBER BANKS IN 101 LEADING CITIES



Wednesday figures, January 3, 1935, to April 9, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other Loans" as then reported.

District Summary of Business Conditions

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March, following a three-months decline. In March, however, they were 35 per cent less than a year ago. In the first quarter of 1941 the number of failures in the District was smaller by 30 per cent than in the first three months of 1940, and liabilities were less by 40 per cent. First quarter life insurance sales in the District were greater than a year ago by 11 per cent, and in the country by 4 per cent.

Construction contracts awarded in March in the Sixth District were down 22 per cent in value from February, although 12 per cent greater than in March last year. Residential awards declined 5 per cent and other contracts 32 per cent from February. For the first quarter of 1941, however, total awards were 19 per cent greater than in that part of last year. This first-quarter increase of 19 per cent for the District compares with a gain of 58 per cent for the 37 Eastern States, but it should be recalled that for the year 1940 the District gain over 1939 was 51 per cent as compared with an increase of 13 per cent for the country. Building permits in the District declined in March and were somewhat less than a year ago, but the first-quarter total is slightly above that for the first three months of 1940.

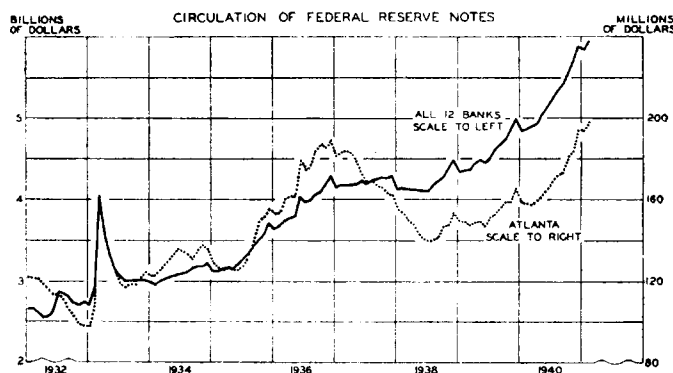
The rate of textile activity in the District, which reached new high levels successively in October, November, January, and February, declined 2 per cent in March, but was 36 per cent above that for March last year. In actual bales of cotton consumed, however, by mills in Alabama, Georgia, and Tennessee, a new high level, at 289,232 bales, was reached in March. In the current cotton season, August through March, consumption has been 14 per cent greater than in that part of last season.

Steel mill activity in the Birmingham-Gadsden area has been reported by The Iron Age at 95 per cent of capacity in March and the first three weeks of April, and in the country it has been at about 100 per cent. Pig iron production in Alabama actually increased in March to a total that had been exceeded only by that for December 1940, but the daily rate of output was slightly lower in March than in the shorter month of February, although 18 per cent above that for March last year. In the second week of April output was curtailed by an explosion that caused the temporary shutdown of two furnaces and the shutdown for an indefinite period of a third furnace.

The rate of coal production in Alabama and Tennessee increased 3 per cent further in March, and was at the highest level in more than eleven years. The District gains of 3 per cent over February and 27 per cent over March last year compare with increases for the country of 7 per cent over February and 38 per cent over March 1940.

Electric power production in the six states of the District, on a daily average basis, increased further in February (latest figures available) by 4 per cent and was at another all-time peak. February production of current in the District was 23 per cent above that for February last year, as compared with a gain of 15 per cent for the country.

Cash farm income in the six states of the District declined further in February, as it nearly always has, but was 6 per cent greater than it was in February last year, and was larger than in February of any other recent year with the exception of 1937. In February Government benefit payments increased



The Rising Trend of Currency Circulation

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have little incentive to return excess currency holdings to the Reserve Banks.

(b) From the side of convenience, banks have had reason to increase their holdings of vault cash. The growth of cash circulation amongst the public—particularly that growth attributable to increasing business activity, increasing pay rolls, and increasing retail sales—has increased the vault cash inventory necessary to facilitate the banks' business.

(3) Foreign individuals, businesses, and banks also hold considerable quantities of American currency, both abroad and in domestic safe deposit boxes. Their holdings, however, cannot be easily determined. The compilations of net currency shipments to Europe from certain New York City banks indicate that foreigners were increasing their holdings of American currency abroad most rapidly in 1933, 1934, and 1937. Since late 1938 the net movement has largely represented a return of currency to this country. The extent to which foreign holdings of currency can be measured is admittedly inadequate, but the total of such holdings, measurable and non-measurable, is generally believed to be quite large.

► Much the same type of untraceable transaction that prevents adequate measurement of the circulation of American currency amongst foreigners also prevents adequate measurement of the total circulation within any Federal Reserve District. Currency is free to move across District lines in the pockets of tourists, in the letters of citizens and businesses, and through many other unaccountable routes. Federal Reserve Banks, however, are not permitted to pay out the notes of other Federal Reserve Banks; and Federal Reserve notes that cross District lines are thus rapidly withdrawn from circulation by being returned to the Bank of issue. A comparison of the circulation of this Bank with that of the other Federal Reserve Banks is therefore possible, and in the chart above this comparison is shown graphically.

The most striking comparison in this chart is the sharp fall in the circulation of this Bank during 1937 and 1938, a period in which the circulation of the twelve Banks remained relatively stable. This difference is the result of

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over January but were 27 per cent less than they were a year earlier, so that February receipts from marketings of crops, and livestock and livestock products, were up 18 per cent from February last year. Better prices account for a part of the gain.

The Rising Trend of Currency Circulation

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technical note policy, and not the result—nor in itself an indication—of any unequal incidence of economic developments between the Sixth District and the nation at large.

During the early 1930's individual Federal Reserve Banks began to adopt the policy of paying out silver certificates rather than Federal Reserve notes in the \$5 denomination. This Bank was one of the last to make that change in policy, and, upon adopting it, in March 1937, succeeded in reducing its circulation both absolutely and relatively to the other Banks. Our delayed adoption of the policy accounts for the slight relative rise of our circulation up to March 1937, and adoption itself accounts for the sharp fall from that point.

After the substitution in this District of silver certificates for Federal Reserve notes in this denomination was approximately completed, the circulation of this Bank again began

to move roughly in proportion to that of all Federal Reserve notes, but at a distinctly lower level. This might suggest that the circulation of lower denomination notes had been relatively more important in this District than in the nation, but the evidence available from an analysis of our circulation at several dates does not support this explanation. It is perhaps more probable that the lower level of our circulation relative to that of the nation results from the substitution beginning in 1934 of Cuban notes for those of this Bank (notes of this Bank having previously been the principal part of all notes over \$5 circulating in Cuba) and the final closing of this Bank's Havana Agency in 1938. The opposite effect had followed the establishment of the Havana Agency in 1923. Before 1923 this Bank's circulation had been about 5 per cent of the total circulation of Federal Reserve notes, but in that year it rose to over 6 per cent, and by 1925 to over 9 per cent.