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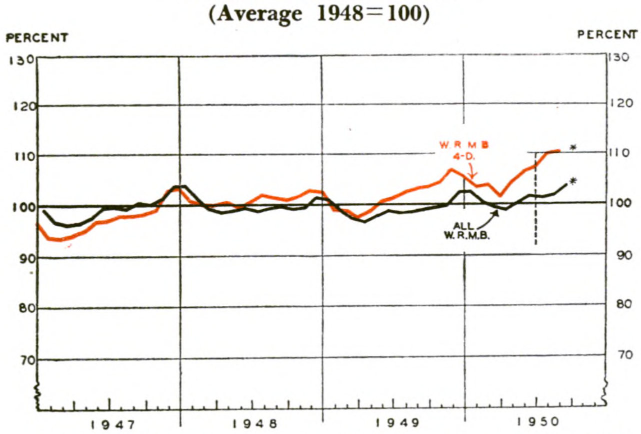
CONTENTS

Expansion of Bank Credit

DURING the second half of the year to date, the various aspects of the monetary and banking mechanism have reflected a sharp increase in the intensity of inflationary pressures which have been in evidence since the beginning of 1950.

Expansion of Money Supply With industrial production setting new peacetime records this summer, with personal income and expenditures also at levels high enough to prevent the accumulation of unwanted stocks in trade channels, and with business expenditures for plant and equipment

INDEX OF ADJUSTED DEMAND DEPOSITS 1947-1950
Weekly Reporting Member Banks
Fourth District and U. S.
(Average 1948=100)



. . . demand deposits have continued the expansion which began last year, and the rate of increase has been accelerated in recent months, particularly in the Fourth District.
*** September partially estimated.**
Note: **Figures plotted are monthly averages of weekly data. Vertical dashed line indicates outbreak of Korean War.**

rising sharply from the relatively low levels of the early months of the year, the amount of money required to finance economic activity has expanded noticeably. The upward trend in the volume of adjusted demand deposits at weekly reporting member banks which began last year in this District, as well as in the country as a whole, has been accelerated in recent months. This can be seen from the chart on this page, although the trend is obscured somewhat by seasonal fluctuations. From the seasonal low recorded in April, until late September, the increase in these deposits at the nationwide sample of banks exceeded that of the same period last year by more than $1.4 billion. The continued expansion in the active cash balances owned primarily by businesses and individuals since June can be attributed to the effect of the Korean war only in an indirect manner. Consumer and business incomes and expenditures have been stepped up in anticipation of mobilization controls on the one hand and greater production on the other. However, the direct impact of federal expenditures for rearmament has yet to make itself felt.

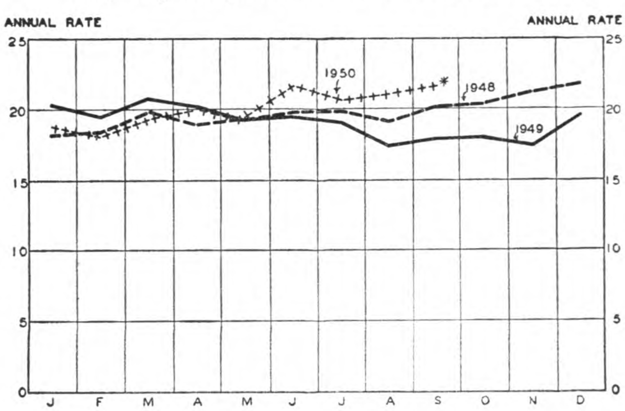
The fact that adjusted demand deposits expanded at a faster rate in this District than in the country as a whole may be attributable in part to the importance of steel, rubber, and metal manufacturing and fabricating industries in this area — industries which are in the forefront of the boom expansion. These industries should be among the first to feel the direct effects of the preparedness program, and a further expansion of economic activity in this District in the near future will tend to be limited more by manpower and equipment capacity than by any other factors. Should the need arise for invocation of the emergency controls over prices granted in the Defense Production Act of 1950, it is probable that these "essential" industries would be among the first to feel their imposition. In such circumstances, it is conceivable that the divergence in the rates of growth of demand deposits between this District and the country as a whole would be narrowed.

The improvement in farm income during recent months is probably a further factor in the demand deposit expansion. A gain of about $130 million between April and September at the so-called "country" member banks in this District stands out in comparison with a gain of only $30 million in the same period last year. This brought the total expansion of all types of demand deposits at all member banks in this District in the above-mentioned period to almost $500 million, as against a $200 million increase in the same months of 1949.

Demand Deposit Turnover Adding to the inflationary potential of an expanded money supply has been a steady increase in the rate of turnover of deposits. The temporary phase of scare buying, by consumers, retailers, wholesalers and manufacturers alike, which followed the outbreak of hostilities in Korea, presumably underlies the increase in checking account activity in August at Fourth District banks as compared with July, in contrast to the usual slowing down in the rate of turnover of demand deposits in the main holiday month (see chart below). Currently, the velocity of circulation of demand deposits is noticeably more rapid than in the corresponding months of any postwar year to date.

ANNUAL TURNOVER RATE OF ADJUSTED DEMAND DEPOSITS

Weekly Reporting Member Banks, Fourth District



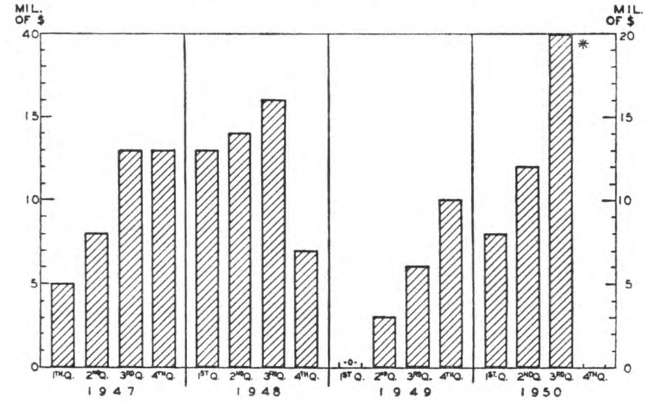
. . . the rate of turnover of demand deposits has risen noticeably during 1950, and is currently substantially faster than in the comparable months of any previous postwar year.

*** September partially estimated.**

EXPANSION OF REAL ESTATE LOANS

1947-1950, Quarterly

Weekly Reporting Member Banks, Fourth District



. . . during the third quarter of this year, the volume of real estate loans outstanding increased more rapidly than in any quarterly period since World War II.

* Third quarter partially estimated.

Mortgage Lending Boom The basis for the expansion of this component of the money supply has been the increasing supply of credit furnished by banks.

Reports received thus far indicate that the value of construction contracts awarded in the United States during the third quarter of this year will establish an all-time record. Prominent in the building boom has been an unprecedented volume of residential construction, facilitated by an ever-increasing amount of mortgage credit extended on relatively easy terms under both private and Government plans. In the third quarter, real estate loans outstanding at the nationwide sample of banks expanded more than in any previous quarter in history. A similar situation exists in this District, as can be seen from the chart above. A particularly heavy rate of mortgage lending during recent months was also reported by savings and loan associations in this area, and August reports of a record volume of new loans for the month give little indication of restraint in the extension of mortgage credit.

In an attempt to restrain the rapid expansion of mortgage credit, tighter terms were imposed by the F. H. A. and the V. A. effective July 19, 1950, and the F. N. M. A. was directed to hold its secondary market activities down to a minimum. As was pointed out in the lead article in the September issue of this *Review,* these restraints are in general, mild in character, and will tend to be more effective at a later date rather than in the immediate future.

The fact that borrowing has been stepped up in the face of these restrictions may be attributable in considerable degree to special factors such as the advancing of purchase plans by some borrowers through fear of higher prices, physical shortages and still tighter credit restrictions. Further, these anticipations may well have brought into the market a different class of borrowers than would have otherwise been the case. Potential purchasers of relatively high-cost homes, with cash balances adequate to meet the higher down-payment requirements may have replaced borrowers intending to build low-cost homes, who are now unable to meet the requirements of more cash and less time. Any estimate of future developments is obscured by the fact that on Presidential instigation, under the authority of the Defense Production Act, tighter controls on mortgage credit may be imposed by the Federal Reserve System.

Consumer Credit Further impetus to the inflationary potential of an expanding money supply has been derived from the rapid acceleration of instalment borrowing. At the end of August, total consumer instalment debt outstanding in the United States was estimated at $13,015 million an increase of $911 million, or 8 percent since the end of June. Data for a sample of banks in this District indicate that extension of this type of credit by commercial banks has also been expanding at a very fast pace during recent months. In fact, in the four months ended August 31, an unprecedented volume of new loans resulted in an increase in outstanding instalment debt greater than in any complete year since the end of World War II except 1948, and only slightly less than in that year of peak activity. In this field of credit, special stimulus to new borrowing may well have resulted from the widespread tendency to identify the requirements of the preparedness program with those of full-scale mobilization. Record purchases of automobiles and other major durable goods have continued to provide the mainstay for the expansion of instalment credit, while instalment financing of home repair and modernization projects has also been boosted sharply.

The recent application of selective controls to this area of credit may be expected to cause some reduction from the current high level of demand for instalment credit. The essential provisions of the controls in effect at the time of writing, which are more restrictive than the terms which prevailed recently in some markets, are listed below:

Basic Provisions of Regulation W
Effective September 18, 1950

Commodity Group	Minimum Down-Payment	Maximum Maturity
Automobiles	33⅓%	21 months
Household appliances	15	18 months
Furniture and rugs	10	18 months
Home repairs and improvements	10	30 months
Unclassified	-0-	18 months

From the standpoint of the individual bank, the extent to which the custom of marginal borrowers will be withdrawn because of the controls will depend largely on the relative laxity of that bank's previous instalment credit policy in comparison with the terms of the new Regulation. In general, commercial banks have tended to be more cautious in their lending policy than other enterprises, and accordingly may find the new terms less restrictive than will other sources of instalment credit.

In view of the complaint sometimes expressed, that on grounds of equitability, consumer credit controls discriminate unfairly against low-income groups, it may be noted that if they achieve their primary purpose of restraining credit and price inflation, the low-income groups will be the major benefactors.

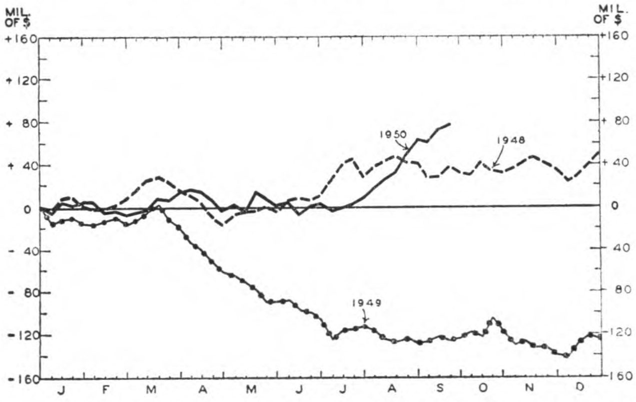
Commercial Loans The most spectacular aspect of the over-all loan expansion has been the sharp upsurge in business borrowing in recent months. At weekly reporting banks throughout the country, commercial, industrial and agricultural loans have registered an uninterrupted rise since the end of May, posting an aggregate increase of more than $2 billion, or 15 percent, by late September. Chiefly as a result of this recent expansion, the volume of this type of loans reached a level only $100 million below the December 1948 peak. Half of this expansion occurred since the Board of Governors of the Federal Reserve System announced its intentions of pursuing a tighter credit policy, accompanied by a series of increases in the rediscount rates of the Federal Reserve Banks from 1½ percent to 1¾ percent during the second half of August.

As can be seen in the following chart, Fourth District banks have shared in supplying business with needed funds in an amount exceeding seasonal expectations. Having shown no net change during the first half of the year, they have registered a gain of $80 million, or 10 percent, in the third quarter. They are still appreciably below the peak level of March 1949, however. Increased demand for working capital to finance inventory accumulation and expanded activity is presumably the main cause of the loan expansion. This demand has undoubtedly been stimulated by the buying splurge indulged in by consumers during July, by fear of shortages and allocations as rearmament progresses, and by the acceleration of the upward trend in commodity prices since the outbreak of the Korean war.

A relatively small offset to the loan expansion reviewed above derived from a shrinkage in collateral loans on stock market credit. By late September loans to brokers on securities other than U. S. Government obligations had fallen about $300 million from the relatively high June level at the nationwide sample of reporting banks.

COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS

Weekly Reporting Member Banks, Fourth District Cumulative Changes during 1948, 1949, and 1950



. . . business loans increased sharply during the third quarter of 1950, in contrast to the relative stability that prevailed a year ago, but are still nearly $60 million below the peak of March 1949.

Note: Latest figure plotted is for September 20, 1950.

In the three months since the invasion of South Korea, aggregate loans (exclusive of interbank loans) at these weekly reporting banks jumped nearly $3 billion (over 11 percent), in contrast to a gain of about $1 billion in the corresponding period of 1948. In this District, total loans at reporting banks increased $120 million, or eight percent, in the same period. This relatively slower rate of expansion is attributable in part to the fact that commercial loans at New York City banks, where the recent upswing in these loans has been particularly marked, weight the national sample rather heavily.

Investments New peaks in holdings of securities other than those of the U. S. Government—chiefly state, municipal and corporate bond issues—were also reached by reporting banks during the third quarter. The rate of increase in bank investments in these securities during this period was noticeably greater, both in this District and nationally, than in the earlier part of the year. To some extent, bank policies directed towards enlarging the proportion of higher-yield assets of lower liquidity in their portfolios may reflect the expectation that Treasury policies would require the Federal Reserve to condition the money market for permanently lower rates if a substantial amount of Government borrowing should become necessary to finance rearmament.

With excess reserves at the beginning of the third quarter at a level little above that generally considered to be a working minimum, commercial banks have been compelled to liquidate some of their holdings of U. S. Government securities in order to meet loan demand.

Between the end of June and mid-August, (immediately before the major policy statements of the Federal Reserve and the Treasury, which are discussed later), reporting banks throughout the country reduced their holdings of Governments by more than $1½ billion, a reduction greater than that of the previous six months combined. The banks' portfolios of Treasury bills were severely depleted by more than $1,100 million, while net sales of about $800 million of certificates of indebtedness were only partially offset by net purchases of $300 million of Treasury notes and $100 million of bonds. As a result aggregate investments in U. S. Government securities fell substantially below the year-ago level, when reserve requirement ratios were higher.

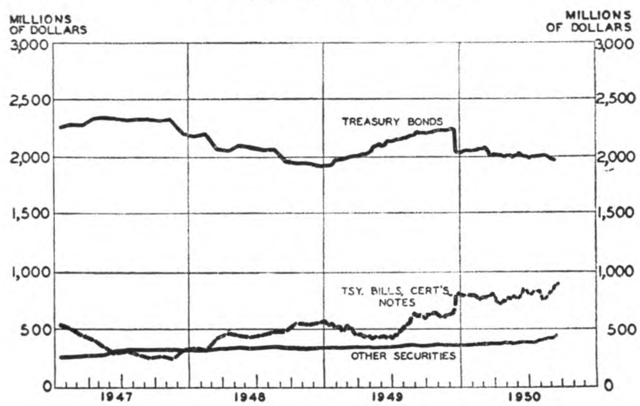
In this District, however, member banks reported only minor reductions in their holdings of Governments, which remained at levels only nominally below those prevailing at the beginning of the year. This is an additional pointer to the fact that the Fourth District is a net receiver of funds from other parts of the country.

In spite of the relatively large net sales of Governments by banks throughout the country, holdings of these obligations by the Federal Reserve Banks increased by only $100 million between the end of June and mid-August as nonbank investors took up the bulk of the offerings. An increase in other Reserve Bank credit, however, together with reductions in Treasury and other deposits, more than offset a sizeable outflow of gold which would otherwise have exerted greater pressure on member bank reserves.

Monetary and Debt Policies On August 18, a new element was injected into the money market with the joint policy statement of the Board of Governors and the Open Market Com-

INVESTMENTS OF REPORTING MEMBER BANKS

Fourth District, 1947-1950



. . . total investments showed little net change during the third quarter. Holdings of Treasury bonds were reduced to a postwar low as a result of the September refundings, but this decline was offset by increased holdings of bills and notes, and by a sharp jump in portfolios of corporate, state, and municipal securities.

Note: Latest figures plotted are for September 20.

mittee of the Federal Reserve System. This took the form of an increase in the discount rate of the Federal Reserve Bank of New York from 1½ percent to 1¾ percent, effective August 21. In support of this decision, the "excessive" expansion in loans and holdings of corporate and municipal securities was cited. As a key to future open-market policy, it was further stated that the Board and the Open Market Committee . . . "are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market."

Meanwhile, the Treasury announced the terms for refunding $13½ billion of securities maturing on September 15 and October 1. A thirteen-month note bearing 1¼ percent interest was offered. These terms were slightly lower than the market, which was anticipating an issue of longer maturity at a rate in line with a 1¼ percent 1-year pattern. At the same time the Treasury announced that a special offering of Series F and G Savings bonds would be made to institutional investors in specified periods during the last quarter of the year.

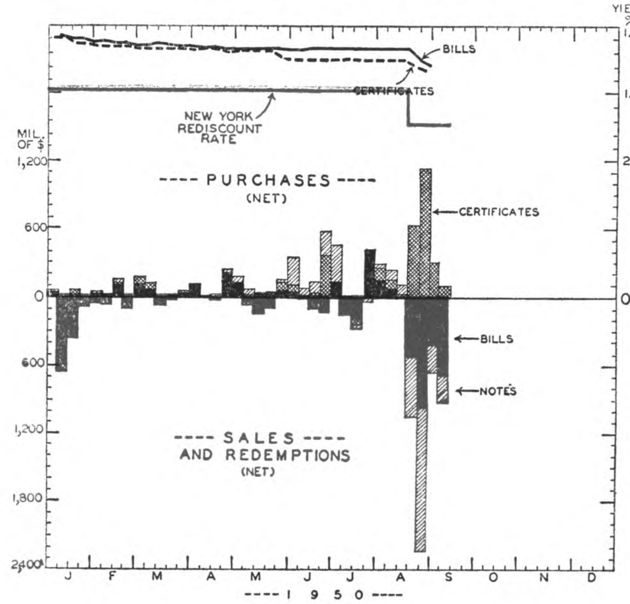
The operations undertaken by the Federal Open Market Committee (see chart at right) in an attempt to reconcile the conflicting decisions of the Federal Reserve and the Treasury were of a magnitude and character without parallel in the history of central banking. In effect, they involved creating conditions which enabled investors to do their own refunding. In the five weeks after August 18, the System acquired most of the outstanding securities maturing on September 15 and October 1, and sold in the market other short-term issues. Reserve Bank holdings of all types of U. S. Government securities increased by only a relatively small amount considering the large volume of transactions involved.

Increase in Short-Term Rates

Prices of short-term issues were allowed to fall sharply, except in the case of the maturing 2 percent and 2½ percent bonds and the 1⅛ percent certificates. For example, the average yield on new bills dated September 21 was 1.317 percent as against 1.173 percent for the August 17 issue. The annual yield on 9-12 month certificates was estimated at 1.33 percent for the week ending September 20 as compared with 1.23 percent for the week ended August 16. These yields are the highest on record since 1933. Short and intermediate term bonds also registered substantial increases in yield. The 2 percent bonds due or callable in December 1952-54 were selling to yield 1.49 percent in the week ended September 20, compared with 1.38 percent in the week before a tighter credit policy was promulgated by the Federal Reserve.

As these higher short and intermediate term rates

FEDERAL OPEN MARKET OPERATIONS*
(in short-term U. S. Government securities)
and Yields on Selected Issues



. . . the magnitude of the operations conducted in support of the September and October refundings dwarfed those of preceding months. In late August and early September, net sales and redemptions of bills and notes far exceeded purchases of the maturing certificates. Short-term rates, which had been stiffening throughout the year, rose in accord with the increase in the rediscount rate and the System announcement in mid-August.

* Exclusive of transactions involving exchanges, special issues, or use of the repurchase option.

Note: Latest figures plotted are for the week ending September 13.

were established, the yield on outstanding Treasury issues became considerably more attractive than the coupon offered on the new notes. Accordingly, investors sold large blocks of the maturing issues, and these were taken up by the Federal Reserve System. By the deadline for the exchange, the bulk of the $7.3 billion of issues maturing on September 15 were held by the System. Federal Reserve purchases of the $6.5 billion of certificates maturing October 1 have similarly been very large and the actual refunding on October 1 was a repeat performance of the September operation.

The bulk of the funds obtained by the sellers were reinvested in other U. S. Government securities, chiefly Treasury bills, notes, and longer term certificates, of which the Federal Reserve System was the main supplier.

In addition, a substantial volume of bank-eligible bonds, chiefly of an intermediate term, was liquidated from System Account, marking the first sales of eligible bonds since February. Sales of restricted bonds continued in diminishing volume into early September, by which time prices of long-term bonds, which rose temporarily on the knowledge of the open-

(CONTINUED ON PAGE 8

The Corn Supply

THE supply of corn is only a little below the all-time large supply of a year ago, but the price is once more above the Government support level after having been below it since the harvest of the bumper 1948 crop. Increased demand resulting from the present war is, of course, partially responsible for the price strength; but recovery of prices was in the making several months before the Korean outbreak and must therefore be accounted for largely by other factors. The story of the corn supply is told graphically by the accompanying charts based on statistics compiled by the U. S. Department of Agriculture.

New Crop Is Large The 1951 feeding year beginning this month (October 1950) wil be the third consecutive year of corn supplies larger than in any year previous to these three years. Making up this huge supply are the 1950 crop now estimated at 3,160 million bushels and a record carry-over of about 950 million bushels of old-crop corn.

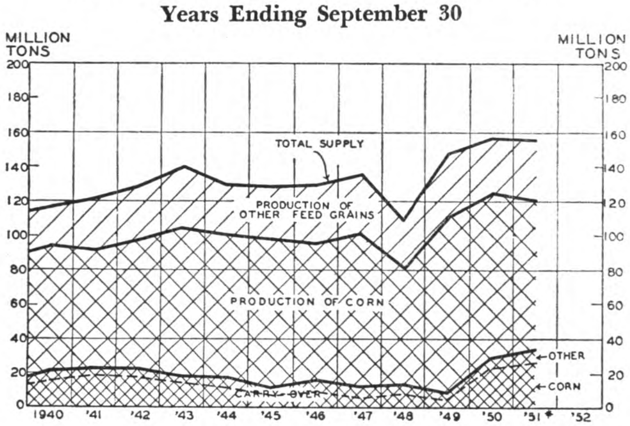
The feeding value of this year's corn may be lowered a little by the immaturity of some of it. Planting was delayed in some sections by wet weather last Spring, and the summertime development of the crop was retarded by cool weather. Unless killing frosts are unusually late there may be a fairly large harvest of immature corn.

This year's acreage for harvest—83 million acres—is the smallest in 56 years; yet the indicated production ranks second only to the very large crops of the preceding two years. Whenever weather conditions permitted in the last decade, yield per acre has tended steadily to rise as the result of widespread adoption of hybrid varieties, the use of more fertilizer and power equipment and more effective insect and weed controls. Some drop in yield occurred from 1949 to 1950, however, due partially to the imposition of acreage allotments for the first time since 1942: allotments called for reductions mainly in the higher yielding areas, thus tending to reduce the national average yield.

Acreage allotments are credited with a decrease of about 3.6 million acres for harvest. Allotments apply only in an area, mostly in the North Central region, which accounted for 66 percent of the total acreage planted in 1949 and is designated the "commercial corn area". In this area a reduction of 11.3 million acres was ordered and compliance on the part of individual producers is a requisite to eligibility for 1959 price-support loans. The cut actually taken in acreage planted in the commercial corn area was probably less than six million acres; many farmers in the affected area produce corn largely or entirely for their own livestock and are more concerned with maintaining their livestock production than with retaining eligibility for corn price supports. Moreover, total national acreage was affected by the planting of *increased* acreages in regions outside the commercial corn area.

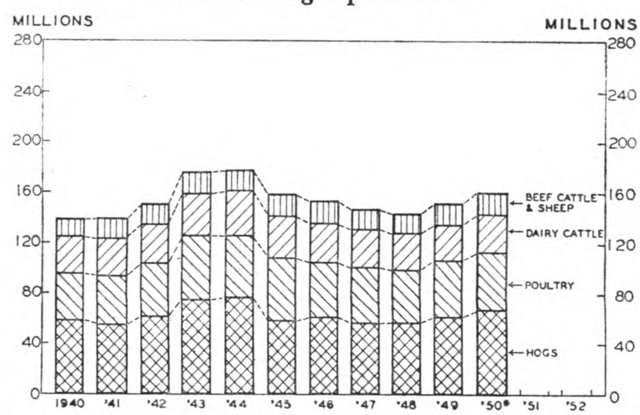
Livestock Feeding The supply of corn is important as the major part of the supply of grain feed for farm livestock. It is such a large part that adding the supply of other feed grains (oats, barley and grain sorghums)—as in the first accompanying chart—merely enlarges the picture somewhat

SUPPLY[1] OF DOMESTIC FEED GRAINS
Years Ending September 30



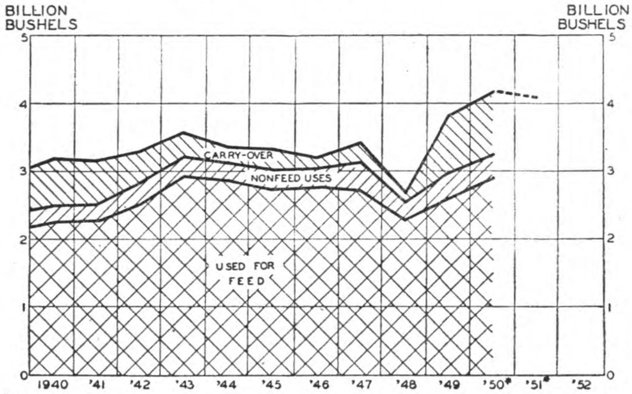
. . . the feeding year (1951) just beginning is the third consecutive year of huge feed-grain supplies. With an all-time large carry-over and another large harvest, the total supply is only about 1½ percent smaller than the record of a year ago.

UNITS[2] OF GRAIN-CONSUMING LIVESTOCK ON FARMS
Years Ending September 30



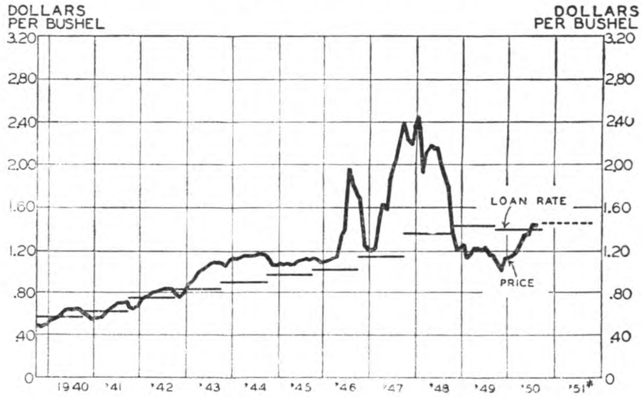
. . . the number of food-producing animals on feed has increased in response to large supplies of grain and is now at a five-year high, although considerably lower than in 1943 and 1944.

DISPOSITION OF CORN SUPPLIES[1]
Years Ending September 30



. . . recent crops of corn have been sufficiently large to allow an increase in feeding in the past two years as well as the accumulation of a record carry-over. A continued high rate of feeding in 1951 would reduce the carry-over somewhat.

CORN PRICES[4] AND PRICE-SUPPORT LOAN RATES
(National average, 15th of each month)



. . . the price of corn, which was below the loan rate for nearly two years, is again above the support level.

without altering its shape. These four feed grains together constitute the main bulk of the concentrate (high caloric) feeds. Of about 131 million pounds of concentrates fed in the feeding year just ended, 107 million pounds were feed grains and 5 million pounds were food grains (wheat and rye). The remainder (20 million pounds) were the by-products of such industries as milling, brewing and meat-packing, some of them providing highly valuable protein supplements.

Under the stimulus of large supplies of grain, numbers of animals on farms began to increase in 1949 after a four-year decline. Feeding per animal unit has also been heavy; dairy cows were fed at a record rate per head in 1950, and an unusually large number of beef cattle were grain-fattened for market. Ratios of the prices of livestock and livestock products to feed costs have been generally above average for the past two years and have encouraged heavy feeding and the building up of herds and flocks. Major exceptions are the egg-feed and chicken-feed ratios, which have been below average since about a year ago, and have tended to discourage somewhat the production of chickens and eggs, and the milk-feed and butterfat-feed ratios, both of which have been below average now for about half a year. In the case of milk, however, large total production with the aid of exceptionally good pastures has partially offset the lower returns per unit.

Total utilization of corn in the 1950 feeding year was about 300 million bushels larger than in the preceding year, and almost all of this increase is attributable to feeding. Food and industrial uses were about the same and exports were up moderately. These nonfeed uses for corn consume only a small part of the total supply.

The total number of animal units to be fed may not be materially enlarged in the next twelve months. The Department of Agriculture estimates that increases in numbers of hogs and cattle may be about offset by a continued decline in the number of horses and mules—not shown on the chart—and the production of eggs. "However, the accelerated defense program . . . will tend to increase employment and consumer incomes, and in turn the demand for livestock and livestock products. This could lead to more favorable livestock-feed price relationships which would induce farmers to increase feeding rates and livestock production."

Carry-over In spite of the increased feeding of corn, carry-over has grown to record proportions in each of the past two years. A large part of these carry-over stocks are Government-financed, the Government having acquired them in price-support operations or still holding nonrecourse price-support loans against them as security. The growth of price-support stocks of corn was occasioned by the low prices which began with the very large supply for the 1949 feeding year. The market price during that year remained substantially below the support level, largely because much of the corn was too moist to be eligible for loans.

In the 1950 feeding year, however, price-support stocks were sufficiently large to leave a rather tight

FOOTNOTES FOR ALL CHARTS

Source of data for all charts is U. S. Department of Agriculture.

* Preliminary.

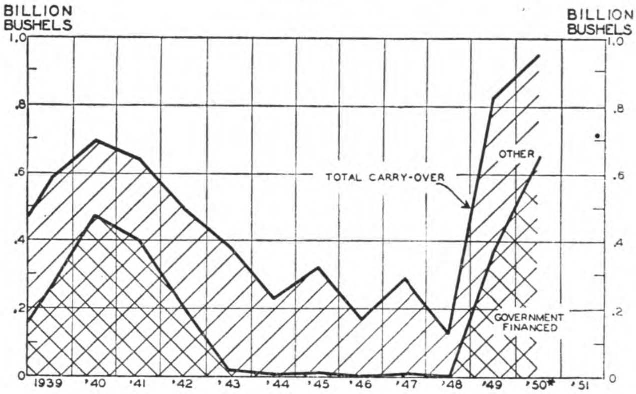
(1) Supply for each feeding year includes the production in the *preceding* year plus carry-over stocks.

(2) An animal unit is the equivalent in grain consumption of the average milk cow. Horses and mules are not shown.

(3) Supply includes small amounts of imported corn—approximately 0.5 million bushels in 1950. The utilization shown as "feed" includes small amounts of waste and other uses which could not be segregated.

(4) Price received by farmers.

CARRY-OVER OF CORN
October 1



. . . two years of prices below the support level (see preceding chart) have resulted in the accumulation of an unprecedented quantity of Government-financed corn—the major part of the total carry-over.

supply situation in the free market and thereby to raise the price. Also serving to strengthen corn prices are the increased feed requirements resulting from larger numbers of livestock, and the changed economic climate since the outbreak of war in Korea.

Since the present war began there has been a noticeable change in public and official attitudes toward the Government-financed stocks of corn. Where formerly these supplies were referred to as "surplus", it is now becoming common to refer to them as "reserves" and to regard them as a valuable stockpile of feed available to meet some of the needs of a war (or defense) boom economy. (It was the wartime expansion of livestock numbers in 1943 and 1944 which consumed the large price-support stocks accumulated up to that time.)

Until the flare-up in the Far East this summer, it was taken for granted that in 1951 the production of corn would again be subject to acreage allotments. Now, however, that prospect has become extremely doubtful. Large meat production for several years might be highly desirable in case incomes and employment should increase much above the present high levels. On the basis of this assumption and the difficulty of obtaining compliance with allotments, it is anticipated in some quarters that corn acreage allotments may be abandoned altogether.

EXPANSION OF BANK CREDIT

(CONTINUED FROM PAGE 5)

ing up of savings bonds and the lower rates offered by the Treasury, had fallen to levels slightly below those prevailing immediately before the August policy announcements, and to the lowest levels since early 1949. The spread between short and long-term rates, however, was narrowed somewhat by the recent operations.

Further offsets to the expansion of Reserve Bank credit resulting from the establishment of higher rates while still supporting the refunding operation were provided as the open market account permitted a substantial volume of Treasury bills to run off at maturity, and as a heavy outflow of gold occurred without a commensurate decline in foreign and other deposits with the Federal Reserve Banks.

The main effect of these operations on commercial banks, as indicated by the weekly series, was to cause a relatively small depletion in their aggregate portfolio of Governments, a considerable change in the composition of their holdings, with bills and notes replacing bonds and certificates, and a relatively small increase in their reserve balances. In spite of the expansion of the marketable public debt, through increased bill sales earlier this year, bank holdings of Governments are substantially below comparable year-ago figures.

Savings One of the effects of the establishment of higher interest rates as a result of Reserve Bank operations may be the provision of an additional stimulus to both personal and business saving. In spite of increased tax rates, the volume of private saving which will be required to finance the prospective Government deficit and the high level of gross private domestic investment necessary to maintain and expand the nation's productive capacity with a minimum of inflationary disturbance in 1951, will probably be considerably greater than in any previous postwar year. While expanded savings by the business sector of the economy may be anticipated in the form of increased undistributed profits and depreciation charges, it is almost certain that a substantial increase in personal saving will also be essential.

In recent months, the rate of liquid saving by individuals as indicated by the trend of time deposits, savings and loan shares and savings bond holdings, has been low. Time deposits at reporting Fourth District banks continued their decline from the high April level at an increasing rate during July and August. In part, this may reflect the wave of "scare buying" which followed the outbreak of war in the Far East. Withdrawals also exceeded new savings at reporting savings and loan associations in the area during these months. The increase in withdrawals as compared with the same months of last year was noticeably greater than the increase in new savings. Net sales of F and G bonds have shrunk progressively throughout the year.

It is uncertain whether these unfavorable trends will continue in a period of expanding income. If they are reversed, the extent to which savings thus restrain inflationary pressures will be an important factor in determining the extent to which savings, in the form of reduced real consumer expenditures may be "forced" by an inflation.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for Publication September 28, 1950)

Industrial output has shown a further marked increase in August and September above the record peacetime level reached in June. Business and consumer demands, however, have continued to be in excess of output and additional sharp rises have occurred in prices. Numerous industrial materials have risen by about as much since March as during the six-month period following the elimination of wartime price controls in 1946. A very rapid expansion in private credit and some drawing on liquid assets have been important factors, along with increased incomes, in financing the expanded rate of buying. Consumer credit controls became effective on September 18 under authority of the Defense Production Act, enacted September 8, which also authorized additional restrictions on real estate credit.

Industrial production

The Board's index of industrial production showed a marked rise in August to 207 and a further rise of about 5 points is likely in September. Output in August increased substantially in all major groups of industries except primary metals, automobiles, and foods.

Nondurable manufactures rose to a new all-time high of 191 per cent of the 1935-39 average, which was 6 per cent above the level prevailing in the first half of this year. The sharpest increases in production were at textile mills, where cotton consumption rose one-sixth above the June rate, and at paper and paperboard mills. Rubber consumption continued at a record level in August, but was apparently reduced in September by a Federal order establishing maximum limits for use in civilian output during the last four months of this year.

Production of durable goods showed a considerable increase in August, reflecting mainly marked increases in output in the furniture, machinery, and iron and steel fabricating industries. Activity at aircraft plants and shipyards also expanded rapidly. Production of primary metals, bricks, cement, and lumber continued to show little change from the advanced levels reached in the spring of the year. Demand for these materials — especially metals — has remained far in excess of market supplies. In mid-September the National Production Authority instituted regulations aimed at limiting inventory buying of most metals and various other industrial materials.

Construction

Contract awards for new construction expanded further in August to a new peak about one-tenth above the previous record reached in July and almost three-fourths higher than in August 1949. This expansion reflected large increases in the value of awards for most types of private construction which more than offset a small decrease in awards for publicly financed construction. The number of housing units started in August was close to earlier record levels and two-fifths greater than in August 1949.

Distribution

Buying at department stores in the four-week period ending September 9, although below the seasonally adjusted peak reached in July, was about one-tenth above year-ago levels. Sales of durable goods spurted again in mid-September reflecting in part buying in anticipation of the instalment credit controls. August sales at all retail stores were only slightly less than in July, on a seasonally adjusted basis, and 17 per cent greater than in August 1949.

Commodity prices

The rise in the average level of wholesale prices has continued through the first three weeks in September, reflecting further sharp increases in prices of commodities other than farm products and foods. These commodities, as a group, are about one-tenth higher than in March and prices of numerous materials are up 20 to 60 per cent. Since mid-September buying of these materials has been less urgent and prices have shown some decline.

Retail food prices have been maintained at the advanced levels reached in July and prices of a number of other consumer goods have been raised since that time.

Bank credit

Since midyear, credit to private borrowers and State and local governments has expanded by over 2½ billion dollars at banks in leading cities, which is an exceptionally large amount for this season of the year. From mid-August to mid-September, business loan expansion accelerated and loans to real estate owners and consumers continued to show large increases.

Following mid-August the Federal Reserve System purchased from banks and other investors a substantial volume of the bonds and certificates involved in the Treasury's current refunding program. Reserves supplied through these purchases were offset by System sales of other types of Government securities, by cash redemptions of System-held maturing Treasury bills, and by currency and gold outflows. As a result, member bank reserve balances were unchanged over the five-week period, August 17—September 20. Because of the credit expansion, required reserves increased somewhat further, while excess reserves declined.

Following an increase in the Federal Reserve discount rate and a rise in short-term money rates in August, interest rates to bank customers increased somewhat.

Security markets

Common stock prices rose moderately during the first three weeks of September. Railroad shares continued to show pronounced strength, while public utilities issues recovered slowly. Yields on long-term Treasury bonds and highgrade corporate obligations increased slightly.

FINANCIAL AND OTHER BUSINESS STATISTICS

Time Deposits at 57 Banks in 12 Fourth District Cities

(Compiled September 8, and released for publication September 9)

City and Number of Banks	Time Deposits Aug. 30, 1950	Average Weekly Change During: Aug. 1950	July 1950	Aug. 1949
Cleveland (4)........	$ 867,612,000	—$1,483,000	—$1,637,000	—$ 855,000
Pittsburgh (10)......	478,572,000	— 424,000	+ 254,000	+ 40,000
Cincinnati (8)........	177,038,000	— 230,000	— 313,000	— 152,000
Akron (3)...........	100,109,000	— 183,000	— 468,000	— 98,000
Toledo (4)...........	105,323,000	— 158,000	— 24,000	+ 86,000
Columbus (3)........	83,831,000	— 91,000	— 138,000	— 29,000
Youngstown (3)......	61,579,000	— 168,000	— 38,000	— 96,000
Dayton (3)..........	45,592,000	— 32,000	— 149,000	— 77,000
Canton (5)...........	41,246,000	— 65,000	— 105,000	— 56,000
Erie (4).............	40,824,000	— 1,000	+ 25,000	+ 11,000
Wheeling (5).........	26,328,000	— 111,000	—0—	— 24,000
Lexington (5)........	10,226,000	— 54,000	— 64,000	— 4,000
TOTAL—12 Cities	$2,038,280,000	—$3,000,000	—$2,657,000	—$1,254,000

The aggregate of time deposits at reporting banks in 12 Fourth District cities dropped at an average weekly rate of $3,000,000 during the five weeks ended August 30. This marked the fourth successive month of contraction, thus maintaining a similar pattern to that of last year. Although the August decline reduced the total of time deposits by only 0.7 percent, it was the most rapid since the beginning of this series early in the postwar period.

For the first time on record, savings were drawn down in each of the 12 cities during the month, with every city except **Dayton** reporting an unfavorable movement in comparison with August 1949. At the end of the month, the volume of time deposits in **Akron, Canton, Cincinnati, Cleveland, Lexington, Youngstown,** and **Wheeling** was slightly lower than on the comparable dates of 1949 and 1948. With the exception of **Youngstown** and **Wheeling**, however, the rate of shrinkage in these cities was slower than in July, as also was the case in **Columbus.**

In **Erie** and **Pittsburgh** time deposits declined for the first time this year, in contrast to the relatively small expansion which occurred in these cities in August last year.

Adjusted Weekly Index of Department Store Sales*

Fourth District

(Weeks ending on dates shown. 1935-39 average=100)

1949	1950	1949	1950
Jan. 8.....326	Jan. 7.....273	July 2.....285	July 1..... 316
15.....317	14.....307	9.....283	8..... 308
22.....324	21.....305	16.....283	15..... 345
29.....298	28.....302	23.....276	22..... 381
		30.....272	29..... 409
Feb. 5.....301	Feb. 4.....301	Aug. 6.....265	Aug. 5..... 365
12.....303	11.....290	13.....248	12..... 337
19.....290	18.....273	20.....267	19..... 320
26.....274	25.....250	27.....262	26..... 315
Mar. 5.....270	Mar. 4.....255	Sept. 3.....276	Sept. 2..... 289
12.....282	11.....276	10.....282	9..... 315
19.....268	18.....262	17.....279	16..... 335
26.....275	25.....261	24.....268	23..... 311
			30.....
Apr. 2.....304	Apr. 1.....281	Oct. 1.....288	
9.....306	8.....275	8.....249	Oct. 7.....
16.....270	15.....260	15.....251	14.....
23.....278	22.....279	22.....244	21.....
30.....299	29.....327	29.....263	28.....
May 7.....320	May 6.....296	Nov. 5.....259	Nov. 4.....
14.....277	13.....290	12.....241	11.....
21.....301	20.....293	19.....256	18.....
28.....280	27.....290	26.....276	25.....
une 4.....277	June 3.....290	Dec. 3.....286	Dec. 2....
11.....283	10.....306	10.....293	9.....
18.....293	17.....303	17.....304	16.....
25.....299	24.....300	24.....257	23.....
		31.....289	30.....

* Adjusted for seasonal variation and number of trading days. Based on sample of weekly reporting stores which differs slightly from sample reporting monthly.

Bank Debits*—August 1950 in 31 Fourth District Cities

(In thousands of dollars)

(Compiled September 13, and released for publication September 14)

No. of Reporting Banks	Aug. 1950	% Change from Year Ago	3 Months Ended Aug. 1950	% Change from Year Ago
188 ALL 31 CENTERS.......	$8,425,527	+28.7%	$24,395,078H	+19.1%
10 LARGEST CENTERS:				
5 Akron.................Ohio	282,168H	+26.9	816,513H	+22.1
5 Canton................Ohio	125,860	+29.9	376,640H	+27.2
15 Cincinnati............Ohio	1,037,962H	+25.3	3,029,903H	+22.6
10 Cleveland.............Ohio	2,034,735	+20.7	6,121,454H	+15.6
7 Columbus..............Ohio	681,758H	+19.2	1,846,683H	+10.1
4 Dayton................Ohio	266,436H	+25.8	785,068H	+23.1
6 Toledo................Ohio	416,266	+34.6	1,192,783H	+18.1
4 Youngstown............Ohio	182,353H	+30.4	536,501H	+25.1
6 Erie.................Penna.	103,958H	+27.8	305,929H	+23.4
49 Pittsburgh...........Penna.	2,551,152H	+40.8	7,234,774H	+21.4
110 TOTAL.................	$7,682,648H	+28.9%	$22,246,248H	+19.0%
21 OTHER CENTERS:				
9 Covington-Newport.....Ky.	$ 47,609H	+37.7%	$ 137,503H	+20.4%
6 Lexington..............Ky.	67,685	+35.4	184,611	+17.4
3 Elyria.................Ohio	23,027	+38.7	67,606H	+33.9
3 Hamilton...............Ohio	46,019H	+23.9	130,105H	+17.3
2 Lima...................Ohio	54,619H	+25.2	155,809H	+21.3
5 Lorain.................Ohio	19,206	+10.1	55,860	+ 7.4
4 Mansfield..............Ohio	48,597	+34.0	148,493H	+34.7
2 Middletown.............Ohio	42,233H	+38.6	121,386H	+35.0
3 Portsmouth.............Ohio	22,959	+29.6	66,578	+18.2
3 Springfield............Ohio	50,961H	+14.9	145,796H	+ 7.8
4 Steubenville...........Ohio	25,335	+17.4	75,621	+17.7
2 Warren.................Ohio	44,591	+32.3	130,928H	+25.1
3 Zanesville.............Ohio	31,023H	+23.9	89,504H	+20.0
3 Butler...............Penna.	34,463	+22.4	102,064H	+22.6
1 Franklin.............Penna.	8,018	+26.0	23,367	+20.3
2 Greensburg...........Penna.	25,413H	+24.0	72,267H	+16.1
4 Kittanning...........Penna.	10,605	+16.6	31,610	+ 8.0
3 Meadville............Penna.	15,411	+18.3	44,958H	+24.9
4 Oil City.............Penna.	19,653	+13.7	62,092	+14.1
5 Sharon...............Penna.	31,708	+34.6	91,430H	+17.3
6 Wheeling............W. Va.	73,744	+23.9	211,242H	+17.0
78 TOTAL..................	$ 742,879	+26.8%	$ 2,148,830	+19.9%

*Debits to all deposit accounts except interbank balances. H—denotes all-time high.

Debits to deposit accounts (except interbank) in 31 Fourth District cities in August established a record volume for the month of $8,425,527,000, only slightly below the all-time high reached in December 1948. This represented a substantial increase over the July total of debits, in sharp contrast to the usual seasonal decline. The year-to-year gain of 28.7% was the largest for any month during the postwar period. Aggregate debits in August were 22% greater than in the comparable month of 1948.

The year-to-year increase in debits was of approximately the same magnitude at both large and small centers. In both cases, an expanded volume of deposits accounted for part of the increase, and in addition, the rate of turnover of these deposits was considerably faster than in August last year, or than in any postwar month except December 1948. (Debits and deposit turnover are always relatively high in December due to seasonal factors.)

TEN LARGEST CITIES

Debits in the ten largest centers registered a new all-time high in August, 28.9% above the year-ago level. All-time highs were established in seven individual centers, with year-to-year gains ranging from 19.2% in **Columbus** to 40.8% in **Pittsburgh.** During the past three months, the year-to-year increment in the volume of debits has been steadily increased, and the aggregate of debits for the past three months combined reached an all-time high in each of the large centers.

TWENTY-ONE SMALLER CENTERS

Each of the smaller centers again reported a higher volume of debits than in the comparable month of last year. A majority of the smaller centers registered gains of more than 20%. **Covington-Newport, Elyria** and **Middletown** each had a volume of debits 38%-39% in excess of the August 1949 figure.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939=100

	Adjusted for Seasonal Variation: August 1950	July 1950	August 1949	Without Seasonal Adjustment: August 1950	July 1950	August 1949
SALES:						
Akron (6)...............	348	393	281	296	330	239
Canton (5)...............	385	449	305	339	377	268
Cincinnati (8)............	370	386	298	307	298	248
Cleveland (10)...........	300	318	248	264	257	218
Columbus (5).............	382	409	327	321	327	274
Erie (3).................	373	420	291	310	328	242
Pittsburgh (8)............	322	332	259	274	239	220
Springfield (3)...........	331	321	282	275	260	234
Toledo (6)...............	317	353	279	267	272	234
Wheeling (6).............	286	309	223	229	235	179
Youngstown (3)...........	350	413	297	305	314	258
District (96).............	334	364	269	290	284	234
STOCKS:						
District.................	265	252	229	280	251	242

Back figures for year 1949 are shown in the February issue. For years 1946-48 see August 1949 issue, page 7.

Announcements

The following changes in this bank's discount rates became effective August 25, 1950:

Discounts for and advances to member banks:

(a) Advances secured by Government obligations and discounts of and advances secured by eligible paper under sections 13 and 13a of the Federal Reserve Act: Rate raised from one and one-half percent to one and three-quarters percent per annum.

(b) Other secured advances to member banks under section 10b: Rate raised from two percent to two and one-quarter percent per annum.

Advances, secured by direct obligations of the United States, to borrowers other than member banks under paragraph 13, section 13:

Rate raised from two and one-half percent to two and three-quarters percent per annum.

* * *

On September 8, the Board of Governors of the Federal Reserve System issued the following statement pertaining to the issuance of Regulation W which became effective September 18:

Under the authority of the Defense Production Act of 1950, the Board of Governors today reinstituted regulation of consumer instalment credit through Regulation W effective at the opening of business September 18, 1950.

The regulation covers automobile instalment credits of $5,000 and less and other instalment credits of $2,500 and less. Except that home improvement credits are now covered and terms are generally tightened, the regulation is in much the same form as the regulation which expired June 30, 1949.

The limitations initially established are:

Down payments of at least one-third, and maximum maturities of 21 months for automobiles.

Down payments of at least 15 per cent, and maximum maturities of 18 months for appliances: refrigerators, food freezers, radio or television sets, phonographs, cooking stoves, ranges, dishwashers, ironers, washing machines, clothes driers, sewing machines, suction cleaners, air conditioners and de-humidifiers.

Down payments of at least 10 per cent, and 18 months maximum maturity for furniture and rugs.

Down payments of at least 10 per cent, and 30 months maximum maturity for home repairs, alterations or improvements.

Following the past policy of placing fewer restrictions on small credits, the new regulation does not contain down payment requirements for articles costing less than $100 although, unlike the former regulation, maturities are limited.

Instalment loans for the purchase of any listed article carry the same limitations that apply to the instalment sale of the article; other instalment loans are limited to a maximum maturity of 18 months.

In establishing the initial terms the Board took into account the prevailing practices and terms in the trades affected. There has been a material relaxation of instalment credit terms during the past year or more, and the requirements of the regulation are substantially tighter than the terms now widely offered.

In the automobile field the great majority of recent instalment sales of new cars and late model used cars are reported as having been financed on substantially easier terms, either as to down payments or maturities or both, than permitted by the new regulation.

Similarly, many instalment sales of appliances and furniture are reported as having been made with down payments of 10 per cent or less; in many cases only token or no down payments have been required. Maturities of 24 months on instalment sales of such articles have been reported as widely prevalent with longer maturities offered in some cases.

Consumer credit has undergone an unprecedented expansion, particularly in recent months. Under present conditions continued excessive growth of consumer instalment credit adds materially to inflationary pressures.

The regulation of consumer credit is one of the fiscal, monetary and credit measures designed to restrain the inflationary pressures that result in higher prices and to facilitate diversion of critical material and manpower to production of defense needs as such diversion is required.

As the Board has frequently emphasized, the regulation is a useful supplementary instrument to combat inflation. It applies to an important part, but only to one part, of the credit structure and therefore cannot by itself effectively control inflationary forces.

The regulation is being published in the Federal Register and copies of the regulation will be made available through all Federal reserve banks and branches as soon as possible. The regulation will be administered in the field by the 12 Federal reserve banks and their 24 branches located conveniently throughout the country. Inquiries should be addressed to the nearest Federal reserve bank or branch.

Regulation W was first put into effect under Executive Order September 1, 1941. It expired November 1, 1947. It was reinstated September 20, 1948 under statutory authority which expired June 30, 1949. The business community and the buying public, the Board and the Federal reserve banks have thus had extensive experience with this type of credit regulation.

Through the 12 Federal reserve banks and their 24 branches, and the more than 250 directors of the reserve banks and branches, the Board has the advantage of immediate and close contact with all segments of commerce, trade and industry, and with consumers affected by the regulation. Because of this advantage, a regulation of this kind can be promptly adapted in the future, as it has in the past, to changing conditions as reported on the basis of experience in all parts of the nation.