

MONTHLY

Business Review

APRIL 1953	
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FINANCE • INDUSTRY • AGRICULTURE • TRADE

FOURTH FEDERAL RESERVE DISTRICT

Vol. 35—No. 4

Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

Recent Banking Trends

THE EARLY months of 1953 were keynoted by further indications that the post-Korean growth in demand deposits was coming to a halt, at least for the time being. Concurrently with the leveling off in demand deposits, it became apparent that the shift in focus of credit demands which began last year was being accentuated. The net demand for new short-term funds in the early part of 1953 arose almost exclusively from the need to finance sales rather than production. The U. S. Treasury, meanwhile, was only an indirect factor in the equation of monetary supply and demand.

Growth of Demand Deposits Halts

Demand deposits owned by private businesses and individuals increased rapidly in the first eighteen months of the Korean war, but last year the expansion was much slower, and in the early months of 1953 it appeared that the expansion was tapering off. Cash balances usually decline noticeably in the early months of the year, and at weekly reporting banks throughout the country in February, demand deposits were less than 1 percent above the year-ago figure. As recently as December 1952, demand deposits showed a year-to-year gain of 2 percent.

The cessation of the accumulation of additional cash working balances is apparent in almost all regions of the country. Regional differences have influenced the degree, but not the direction, of the movement.

The slowdown in deposit growth first became visible in the Eastern states. This may have resulted partly from the impact of the world-wide recession

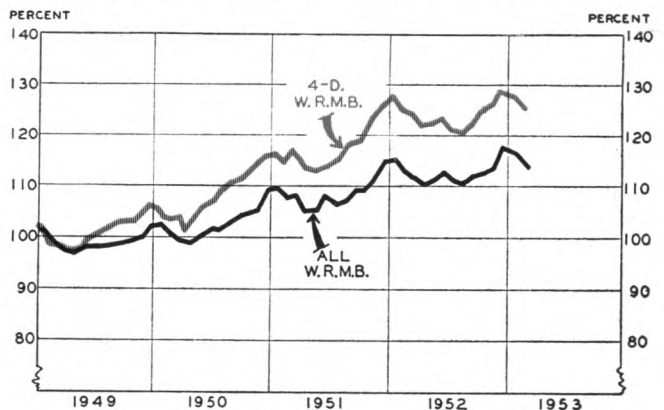
in textiles and the fall in commodity prices last year. Moreover, banks in New York City experienced a deposit drain due to the recent outflow of gold from the United States. In any case, adjusted demand deposits of weekly reporting banks in the New York District were 3 percent below the year-ago figure in February.

In the South and West, demand deposits at weekly reporting banks were still registering year-to-year gains of about 4 percent in February, although the

INDEXES OF ADJUSTED DEMAND DEPOSITS

1949 — 1953

Weekly Reporting Banks — Fourth District and U. S.



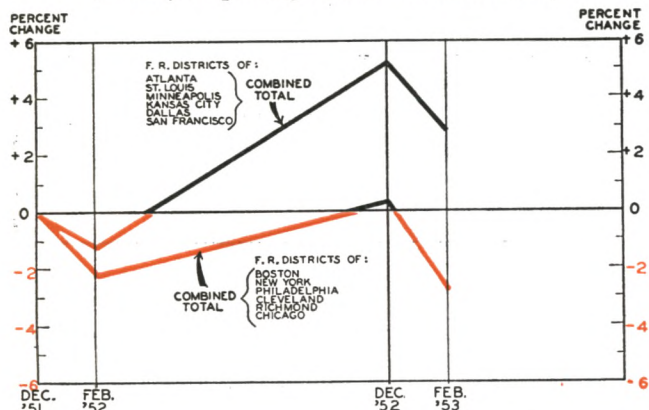
. . . adjusted demand deposits registered a more rapid seasonal decline in the early months of 1953, than in the comparable period of last year, at reporting banks in the Fourth District as well as throughout the country.

NOTE: Data plotted are monthly averages of weekly figures.

REGIONAL DIFFERENCES IN ADJUSTED DEMAND DEPOSITS

Dec. 1951 – Feb. 1953

(Weekly Reporting Banks – United States)



... the first quarter slowdown in deposit growth last year occurred primarily in the Eastern part of the country. This year, however, the seasonal shrinkage in demand deposits was more pronounced than a year ago in practically all regions.

NOTE: Data plotted are monthly averages of weekly figures.

margin of increase was also noticeably smaller than two months earlier. At reporting banks in the Fourth District, the movement of privately owned demand deposits corresponded closely to the national pattern during 1952 and the early months of this year.

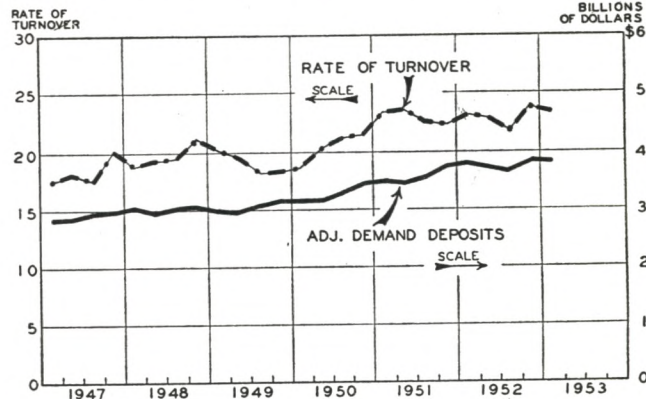
The leveling off in demand deposits, while industrial production continued to rise to new record post-war levels in the early months of this year, may be explained in part by the recent acceleration in the rate of turnover of demand accounts. During the first three quarters of 1952 the turnover rate of private demand accounts at weekly reporting banks in the Fourth District was consistently slower than in the comparable period of 1951. Toward the end of 1952, however, the rate of turnover of demand deposits rose to a long-time high, partly reflecting seasonal influences, and held close to this level in the early part of this year.

The expansion of industrial output has not yet led to any widespread rise in prices, nor to any sharp increase in inventories. It may be that the volume of cash balances deemed necessary to support a full circuit of production and sales is less than that deemed necessary for an equivalent volume of output, part of which lodges in the pipelines of manufacturing and distribution. It is possible also that the use of tax anticipation bills by corporations in the place of accumulated cash tax reserves is becoming more widespread. Another factor tending to restrain further expansion of bank credit and demand deposits has been the substantial decline for more than a year in the prices received by farmers, thus reducing the working funds needed by the huge food processing, packaging and distribution industry.

ADJUSTED DEMAND DEPOSITS AND TURNOVER

Quarterly Averages – 1949-1953

(Weekly Reporting Banks, Fourth District)



... the rate of turnover of demand deposits increased to a long-time high in the last quarter of 1952, partly reflecting seasonal influences, and held close to that level in the first quarter of this year.

NOTE: First Quarter 1953, partially estimated.

Apart from these considerations which bear on the demand for money, it seems highly likely that the termination of the prolonged period of cheap money policies almost two years ago has taken some of the water out of the lush lending fields. The factors affecting *supply* conditions in the money market will be discussed later in this analysis.

Data from the annual survey of ownership of demand deposits of individuals and businesses at a large sample of Fourth District banks indicate considerable differences in the movement and composition of such deposits during 1952. At the largest banks,¹ demand deposits totaled virtually the same in January this year as a year earlier, marking the first time since the Korean war that such deposits had failed to expand substantially. At smaller banks, privately owned deposits continued to rise rapidly, and on the latest survey date stood 10 percent above the year-ago level.

An important factor in the disparity of movement (between large and small banks in the Fourth District) of privately owned demand deposits, was a slight decline in accounts of manufacturing and mining concerns at the large banks, the first since World War II. At smaller banks, accounts of such firms continued to expand at a fairly rapid pace.

Large personal accounts, as well as those of financial organizations (including security dealers, sales finance companies, credit unions, investment trusts, etc.) and of trust funds, declined substantially at the large banks during 1952, while increasing moderately at the smaller institutions.

¹ Banks with demand deposits of individuals, partnerships and corporations of \$100 million or more on December 31, 1945.

Deposits of public utility companies and retail and wholesale establishments continued their uninterrupted post-Korean expansion, at banks of all sizes, but the rate of increase at medium-sized banks last year generally outpaced the performance of the largest metropolitan organizations.

Changing Pattern of Loan Demand The expansion of the money supply in the first eighteen months of the Korean war was caused primarily by a heavy net demand for credit by businesses to finance increased inventories, prices, production and heavy expenditures on plant and equipment. During 1952, the accumulation of inventories slowed almost to a halt, wholesale prices receded further from the early 1951 highs, and industrial output, set back temporarily by the steel strike in mid-year, pursued a generally sidewise course until the closing months of the year.

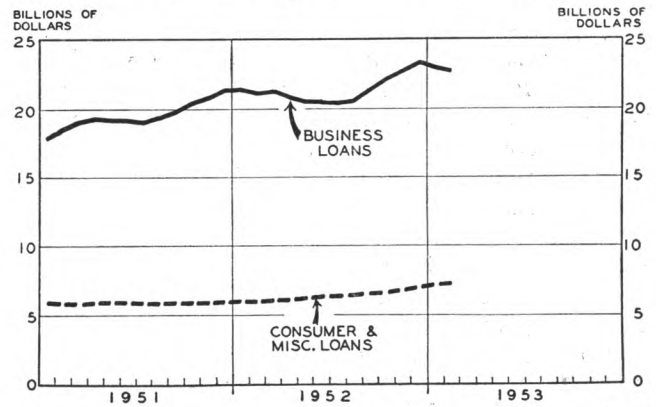
Business borrowing resumed its seasonal pattern last year as the emphasis of net credit needs began to shift from businesses to consumers. The shift continued in the early months of this year.

Total loans of weekly reporting banks throughout the country declined moderately during the first two months of this year, though the shrinkage was smaller than that usually attributable to seasonal factors. However, the shrinkage in business loans from the December peak to the end of February was the largest for the comparable period of any postwar year, including the recession year 1949. Moreover, according to data compiled weekly for a selected sample of banks, it appears that the reduction in the volume of business loans would have been considerably greater had it not been for the unusual strength of credit demand to finance sales.

Types of Business Borrowing Loans at reporting banks throughout the country to all types of manufacturing and mining industries declined slightly in the nine-week period from the December 1952 record to the end of February, due primarily to net repayments, seasonal in character, by processors of food, liquor and tobacco products. Producers of metals and metal products, on the other hand, as well as the petroleum, coal, chemicals and rubber group, were virtually out of the market for funds during the period, whereas in the comparable period of last year they incurred (net) a substantial volume of new bank debt.

In contrast to the relatively weak loan demand by producing industries, businesses concerned with the distribution of finished goods to civilian consumers were a relatively strong factor in the nationwide loan market. Wholesalers and retailers together reduced their outstanding bank loans much less than in the corresponding period of 1952. Sales finance companies increased their bank debt slightly in the

BUSINESS AND CONSUMER LOANS
 Monthly 1951 - 1953
 (Weekly Reporting Banks - United States)



... the post-Korean upsurge in business loans slowed down somewhat in 1952, and a moderate seasonal shrinkage was evident in the early part of this year. Consumer loans, on the other hand, began a substantial rise in mid-1952 which carried through the early months of this year.

NOTE: Data plotted are monthly averages of weekly figures.

early part of this year, in contrast to substantial net repayments a year ago.

During March, a marked pickup in business borrowing at weekly reporting banks throughout the country was apparent, lifting the total close to the December 1952 record. This break in the seasonal downswing coincides with the deadline for the payment of 40 percent of corporate taxes on 1952 net earnings. The March borrowing was probably of a temporary and technical nature, and may be ascribed at least in part to the operation of the Mills plan, under which corporate tax payments are gradually being concentrated in the first half of the year.

Consumer Credit Grows Further evidence of the shift in the net demand for bank credit to finance sales rather than production can be seen in the rapid expansion of instalment credit during the early months of 1953. The seasonal slowdown in sales of automobiles and in the repair and modernization of homes during the winter months normally tends either to retard the growth of outstanding instalment credit, or to provoke a shrinkage. During the early months of this year, the rate of instalment credit expansion did slow down somewhat but, nevertheless, the gain was considerably greater than a year ago. The group of consumer and all other loans at weekly reporting banks throughout the country increased about \$200 million between December 24, 1952 (the all-time high for total loans) and the end of February, whereas in the comparable period of the three previous years such loans showed virtually no net change.

(CONTINUED ON PAGE 8)

Competition in Housefurnishings

THE MERCHANDISING of furniture, appliances, television sets and other housefurnishings, which has enjoyed such a spectacular volume during the post-war period, is known to be highly competitive. At present, competition is growing increasingly keen insofar as many elements of backlog demand have been satisfied.

Public information on the detailed progress of such competition is somewhat limited. Comparative sales scores among individual retailers fall, for the most part, within the realm of business privacy. The relative sales performance of different *types* of stores, however, is a subject open to analysis, as is the case with the specific information summarized below for Fourth District furniture stores and department stores. Such information has been obtained by analyzing the regular monthly sales reports transmitted to this bank by Fourth District department stores and furniture stores. It is designed to shed light on the relative sales performance during recent years of these two types of retail outlets, which are very important in the merchandising of housefurnishings although they are far from the only ones engaged in the trade.

A Basis for Comparison In order to draw comparisons between department-store and furniture-store performance it is necessary to separate the *housefurnishings* component of department stores from the remainder of the latter's sales. Since roughly three-quarters of a typical department store's business is in soft goods, it is obviously misleading to compare total sales by department stores with total sales by furniture stores. The housefurnishings departments which have been selected here because they comprise lines broadly comparable with the offerings of furniture stores include: furniture and bedding; floor coverings; draperies and curtains; lamps and shades; china and glassware; major household appliances; housewares; gift shop; radios, phonographs, television and related items. Altogether these are designated in department-store trade as departmental group No. 70, "Housefurnishings".

The toys and games department should be included along with housefurnishings in a segregation of the department-store lines to match the offerings of furniture stores, but it has not been practical to do so in the comparisons which follow.¹ An even more important qualification lies in the fact that the comparability or competitive character of the enumerated lines in the two types of stores is only approximate; the proportions of the mix often differ consid-

erably as between stores or types of stores, and price-lines are far from uniform.

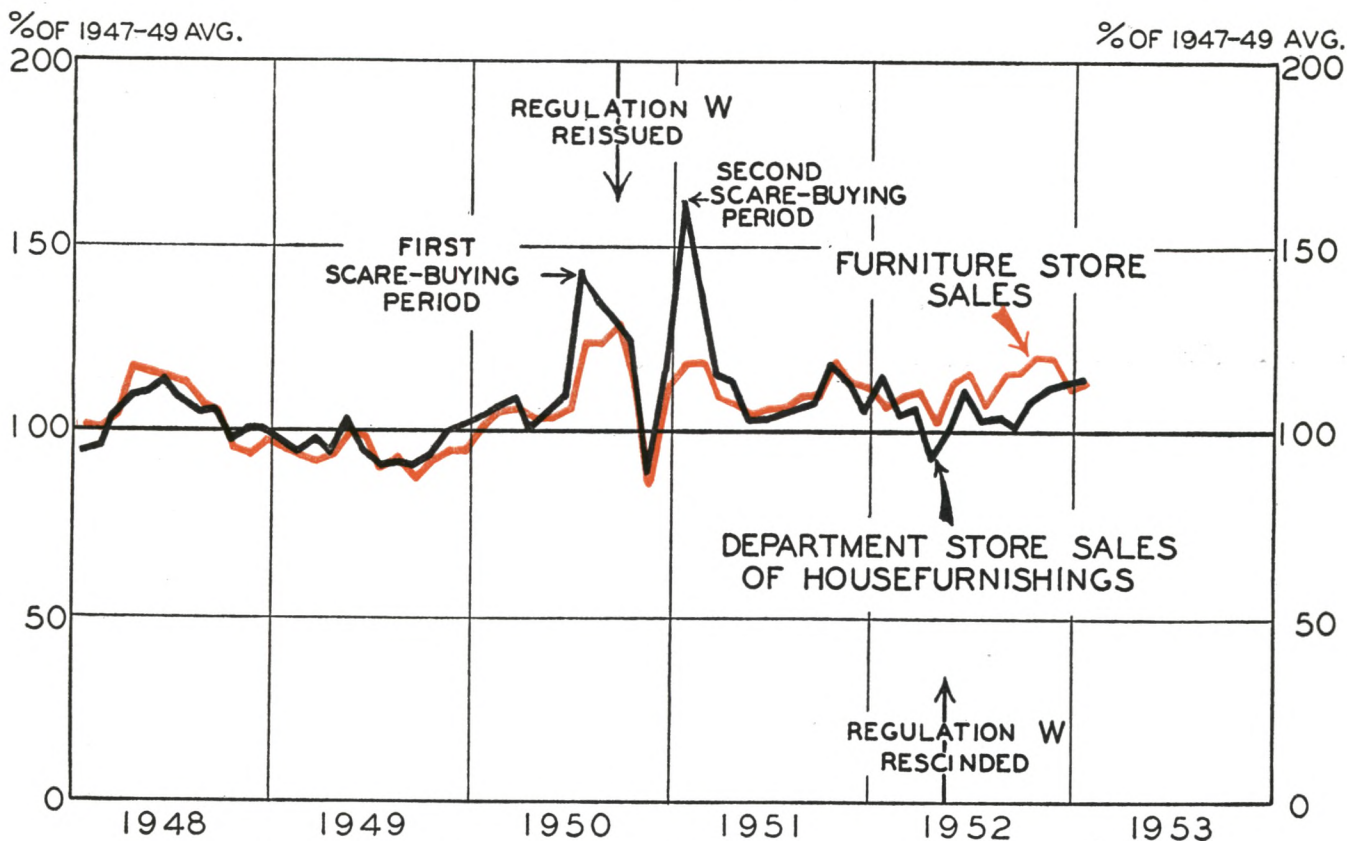
The largest of the accompanying charts gives a summary picture of the monthly course of sales during recent years made by the two types of outlets in the lines mentioned above. For the furniture stores, total store sales are charted; for the department stores, the housefurnishings component only is charted. In both cases the average of sales during the years 1947 through 1949 is taken as the base period. Dollar sales each month are charted as percentages of the base-period showings. In both cases also, the sales plotted are *seasonally adjusted*; that is, allowance has been made for normal seasonal variation in sales of these types of goods in these types of stores. (Such seasonal variations, the effects of which have been removed in the large chart, are shown separately and discussed briefly at a later point.) Allowances for differences in the number of trading days per month have also been made.

Recent Sales It is apparent from the chart that, with certain notable exceptions, the month-to-month changes in furniture-store sales and department-store sales of housefurnishings have been strikingly similar. A good month for one is usually a good month for the other. During the past year, however, furniture-store sales seem to have been slightly more favorable than department-store sales of broadly comparable goods. This is indicated by the red line moving upward more sharply than the black line. (Whichever of the two lines is higher in the chart at any particular point shows merely which series has risen by a larger proportion since its own base-period position; it has no reference to which type of store has the larger dollar sales in the aggregate.)

The relative gain of furniture-store sales during the second half of last year, as indicated by the chart, followed in point of time the rescinding in May of Regulation W, which had applied to the terms of instalment sales. There may be some cause-and-effect relationship here, particularly insofar as the instalment-credit terms of many furniture stores are said to be customarily more liberal than those of department stores under free-market conditions. However, the lifting of Regulation W was only one factor at work, and in view of the fact that the difference in sales performance between the two types of stores during the following months was not strikingly large, considerable caution should be used in interpreting the point. In any event, by December of 1952 and January of this year the relative advantage accruing to the furniture stores appears to have worn off.

¹ Basement-store sales of housefurnishings in department stores have also been omitted from the index computations because of statistical limitations.

SALES OF HOUSEFURNISHINGS BY TWO TYPES OF STORES
(Seasonally Adjusted, monthly, 1948-52)
FOURTH DISTRICT



... furniture-store sales appear to have been slightly more favorable than sales of housefurnishings by department stores during the second half of last year; department stores, however, had shared much more conspicuously than furniture stores in the temporary sales bulges of the "scare-buying periods" immediately following the outbreak of the Korean war.

Scare-Buying Episodes

At certain points of the period under review, the shoe was on the other foot; that is, the department-store sales of housefurnishings were doing relatively better than furniture store sales. These times coincided with the two scare-buying episodes following the outbreak of war in Korea. The chart shows that the close correspondence of the red and black lines from early 1948 through mid-1950 was interrupted in July 1950. At that time, the first of the two scare-buying episodes, the seasonally adjusted sales of both types of stores climbed markedly,² but the rise in department-store sales of housefurnishings was appreciably sharper than the rise in furniture store sales. (The reaction which followed in the fall of 1950 was in-

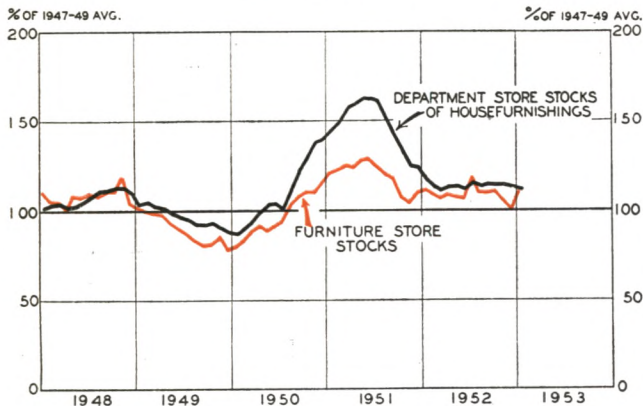
tensified for both types of stores by the November blizzard of that year, which was especially crippling for retail trade in the Fourth District.)

During the second scare-buying episode, which followed the Chinese attack in Korea and which peaked in January 1951, the relative gain of department stores over furniture stores was even more marked than in the case of the first episode.

How are these results to be explained? Probably one factor bearing on the unusual sales gains made by the department stores during these two hectic periods was the substantial inventory of housefurnishings goods already on hand, and the ability of the department stores to make quick replenishment of such stocks. While such an explanation is partly conjecture, it is corroborated to some extent by an accompanying chart which compares the inventory trends of the two types of stores. It is apparent that the building of inventories of housefurnishings by department stores during late 1950 and early 1951

² Without seasonal adjustment, July sales would not show a peak for either type of store. For example, in terms of unadjusted dollar volume, housefurnishings sales by department stores during July 1950 were 14% below the dollar volume during December of the same year.

**STOCKS OF HOUSEFURNISHINGS HELD
BY TWO TYPES OF STORES
(Seasonally Adjusted)
Fourth District**



... the rise and fall of housefurnishings stocks during the 1950-52 inventory cycle was more pronounced in department stores than in furniture stores.

was at a relatively sharper pace than the corresponding growth of furniture store stocks. The other side of the medal is the fact that the department store growth of stocks persisted well into the subsequent period of sales reaction, thereby necessitating an especially sharp readjustment in inventory during the second half of 1951. All of this is reflected in the inventory chart.

The fact that the department-store lead in sales was even more noticeable during the second scare-buying wave than during the first may be connected not only with the inventory factor, but also with a differential impact of Regulation W. For the Regulation had been reissued in the meantime (September 1950) at the direction of Congress, and if the nature of the furniture store trade is such that instalment terms are normally easier than those of department stores, a differential impact on the volume of sales could easily be understood. To the extent that such a factor was at work in early '51 it would merely represent the obverse of the same series of events which has already been discussed in connection with the lifting of the Regulation.

Seasonal Patterns

The large chart showing seasonally adjusted sales, which has been discussed above, is based on data from which seasonal influences have presumably been removed. It is interesting to note, however, how those seasonal swings go for the two types of retail outlets under consideration. This is shown by another accompanying chart. The typical seasonal patterns of housefurnishings sales by department stores and of total furniture store sales are portrayed as they have been experienced in the Fourth District during the postwar period from 1947 through 1951.

The high month for both types of stores is December. During that month the Christmas sales of small appliances and housewares are large in both types of stores, although furniture and "big ticket" appliances are not especially strong at that time. (The fact that the red line is higher than the black in December is due in part to the fact that sales of toys and games in department stores are not included in the comparison although such goods make up a part of total furniture store sales as shown by the red line. The comparison for December is especially affected by this point.)

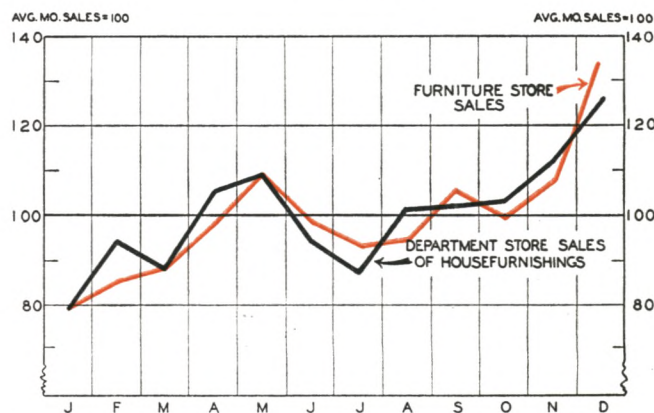
The second-largest month of sales in both cases is May. This may be attributed to such factors as the effect on the housefurnishings trade of spring marriages, spring housecleanings, and spring completions of new houses.

Divergences in the seasonal patterns of the two types of outlets appear at several points. In February and August the sales of housefurnishings by department stores are relatively stronger than furniture store sales; this is especially due to the traditional clearance sales in the furniture and bedding department, which are observed by the department stores. On the other hand, sales during July appear to be relatively stronger in the furniture stores.

Instalment Sales

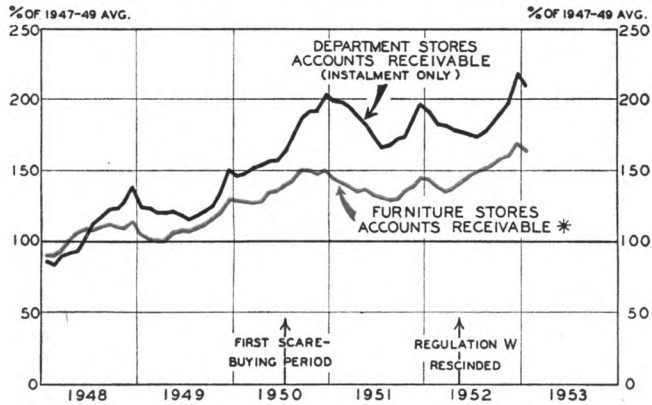
The role of instalment credit in housefurnishings sales, which has been mentioned above as a competitive factor, can be tested at least partially by data on instalment accounts receivable at the two types of stores in the Fourth District. The reporting sample of department stores provides information on end-of-month instal-

**TYPICAL SEASONAL PATTERNS
OF HOUSEFURNISHINGS SALES
Fourth District Stores**



... December and May are the leading months for housefurnishings sales, both in furniture stores and department stores; sales in February and August are relatively stronger in department stores than in furniture stores.

INSTALMENT ACCOUNTS RECEIVABLE
(Month end; *Not* Seasonally Adjusted)
Fourth District Furniture and Department Stores



... instalment accounts receivable began to climb again in the second half of last year, both in department stores and furniture stores; as compared with the base period of 1947-49, department store receivables have been at a relatively higher level than furniture-store receivables since the sharp growth at the time of the first scare-buying wave in mid-1950.

* Taking the form of instalment accounts to the extent of an estimated 95% or more of the total.

ment receivables,³ while the furniture stores report total receivables at end-of-month, including both instalment and charge accounts. However, a comparison between the instalment receivables of department stores and total receivables of furniture stores appears possible in view of the fact that an estimated 95 percent or more of receivables held by furniture stores are typically in the form of instalment receivables.

³ The instalment business done by department stores is predominantly in the housefurnishings lines, although some instalment sales are made in other departments such as furs and jewelry.

Such a comparison is shown in an accompanying chart. The end-of-month receivables for both types of stores are plotted monthly in terms of percentages of the respective 1947-49 averages. (It should be noted that this chart, unlike the others, is *not* seasonally adjusted. Repetitive movements for certain months are clearly visible.)

During the second half of 1950, following the Korean outbreak, the instalment receivables held by department stores rose more sharply than the receivables of furniture stores. This development tends to confirm the interpretation of sales already given. The reaction in the spring of 1951 is also more marked in the case of the department stores. From that point on, the volume of receivables held by department stores maintained a definite margin (in terms of gain over the base period) over the receivables held by furniture stores. The margin, however, became distinctly narrower during the second half of 1952 (following the rescinding of Regulation W) as furniture stores showed the sales gain relative to department stores previously noted. Receivables held by *both* department stores and furniture stores reached a new all-time high late last year.

Conclusion The information above indicates clearly that the variations in sales performance between department stores and furniture stores in recent years have not been uniformly or persistently in favor of either group. It is apparent that neither type of store is driving the other out of the housefurnishings business, at least so far as the Fourth District is concerned. There is no moral here, unless it be the simple one that it takes all kinds of stores to make a good distribution system.

RECENT BANKING TRENDS

(CONTINUED FROM PAGE 3)

Loans to finance home purchases continued to rise steadily during the early months of this year, according to data reported by banks and savings and loan associations. At the nationwide sample of weekly reporting banks, real estate loans have been outpacing the year-ago performance, but some part of the expansion at least may reflect increased financing of commercial properties now that materials are more readily available and the program for Voluntary Credit Restraint has been terminated. Certainly it does not appear that 4 percent mortgage money, used to finance much of the construction under the V.A. home loan insurance programs in earlier postwar years, is any more readily available than last year. Part of the strength in demand for real estate credit, however, may derive from transfers of existing properties.

In the Fourth District, the movement of loans, and the shift in emphasis from additional bank financing of production to financing sales (in the form of loans to consumers, sales finance companies and to distributors of consumer durables in such forms as floor-plan loans to carry rising inventories), has been similar to the movement for the country as a whole. The decline in business loans from the December 1952 peak to the end of February exceeded that of the corresponding period of any other postwar year. Subsequently, borrowing presumably associated with tax needs lifted the total to a new all-time high in March. Consumer and miscellaneous other loans rose rapidly and continuously to new record heights. Real estate loans, however, although expanding, registered a considerably slower growth than in the comparable year-ago period.

Bank Holdings of Governments Decline

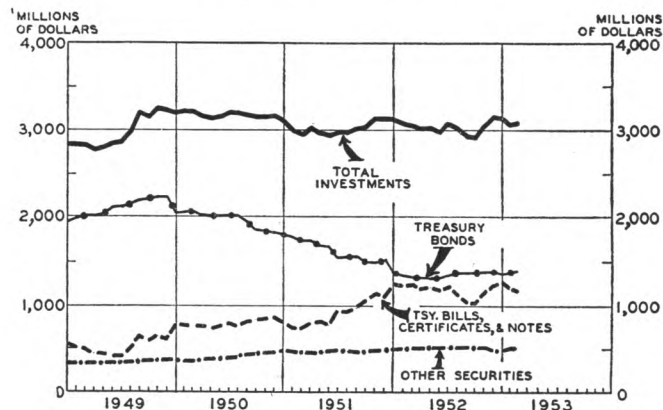
Commercial bank investments in U. S. Government securities declined sharply in the early months of 1953, with the shrinkage being concentrated largely at the money market banks in major cities throughout the country. The decline in commercial bank holdings of these securities is probably closely associated with the seasonal reduction in the Federal debt during the first quarter of the year. Also contributing to the shrinkage in bank holdings of Governments was the pressure maintained on member bank reserves by the Federal Reserve System's policy of mopping up reserves accruing to banks as a result of the return of currency from circulation.

Most of the reduction in commercial bank portfolios occurred in Treasury bills and was probably due in large part to the sale of such bills to corporations for them to present in payment of taxes in March and June. Approximately \$4.5 billion of tax

INVESTMENTS

Monthly 1949 - 1953

Weekly Reporting Banks - Fourth District



... investments of reporting Fourth District banks declined moderately during the early months of 1953. The shrinkage was due entirely to a reduction in holdings of short-term Governments.

anticipation bills were sold by the Treasury toward the end of last year, in order to smooth the flow of cash receipts. Initially, the sale of these securities was, in effect, underwritten by the banks but, subsequently, some of the securities found their way into nonbank portfolios. Bank holdings of certificates, notes and bonds were also reduced somewhat. The decline in holdings of bonds was moderated by the Treasury's refunding operation in February.

This first refunding operation in 1953 presented investors with the alternative of taking 1-year certificates bearing $2\frac{1}{4}\%$ interest, or 5-year-10-month bonds carrying a $2\frac{1}{2}\%$ coupon, in exchange for maturing $1\frac{7}{8}\%$ certificates. Although the short-term securities found favor with most investors, about 7 percent of the nearly \$9 billion of maturing certificates were replaced by the intermediate-term bonds, some being added to bank portfolios.

The large city banks in the Fourth District experienced a similar reduction in the bill portfolio to that of banks in leading cities in the country as a whole. At the smaller banks, located in smaller urban and rural areas, holdings of U. S. Government securities showed little change during the early months of this year, and remained slightly above the year-ago figure.

Other Investments and the Capital Markets

Banks throughout the country reported a continued expansion of their holdings of state, municipal and corporate securities to new record levels early this year. The increase appears to have been approximately equal to that of the same period of 1952. Banks in leading cities in

the Fourth District also reported gains in their holdings of these securities, following a prolonged period of virtual stability in the portfolio during 1952.

The acquisition of such securities by banks may be associated with several factors. State and municipal securities are among the few types of issues, other than U. S. Governments, which are suitable for bank investment. Moreover, their tax-exempt feature is particularly attractive while income tax rates are high. The volume of security flotations by states, municipalities and corporations, to raise new capital (largely for the construction of highways, schools, recreational facilities, public buildings, and for the expansion of manufacturing and public utility plant capacity and equipment) reached a record figure last year, totaling approximately \$12 billion. So far this year new issues coming onto the market have exceeded the comparable year-ago volume. The major part of the corporate security issues are in the form of bonds, rather than equities.

The pressure of heavy financing demands on the market has forced the prices of corporate and municipal bonds down, making them more attractive from an earnings standpoint and perhaps also more competitive with other types of relatively high-yield investments such as mortgages. During the first three months of this year, the yield on high-grade municipal bonds was computed to have risen from 2.42% to a new postwar high of 2.61%. The yield on high-grade corporate bonds during the same period was computed to have risen from 2.99% to 3.14%, also a new postwar high. At the end of February last year, the respective yields on these high-grade municipals and corporates were 2.04% and 2.95%.

Aside from the increased earnings attractiveness of municipals it is probable that the large volume of new flotations has caused dealers to step up their selling efforts and perhaps to attempt to develop a larger bank market for these securities. Also, in view of the heavy issues of new securities, it is probable that the supply of seasoned bonds available for purchase has increased. Banks may regard such issues with particular favor as investment outlets. The vast majority of municipal and corporate issues, however, continue to be absorbed and held outside the banking system.

The Money Market and the Federal Reserve System Among the reasons why deposits have declined seasonally in the early part of 1953, despite substantial demands for credit, both long and short-term, must be listed the continued absence of the injection of additional funds into bank reserves except on a temporary basis.

From the end of 1952 to mid-March, the Federal Reserve Banks' combined holdings of U. S. Government securities were reduced about \$850 million, largely offsetting the acquisition of reserves by mem-

ber banks due to the seasonal return of currency from circulation. The reduction in System holdings of Governments took the form of resales to security dealers of bills held under repurchase option, as well as some sales in the open market and the turn-in of maturing issues. The reduction in the portfolio was concentrated entirely in short-term securities and was an almost continuous process.

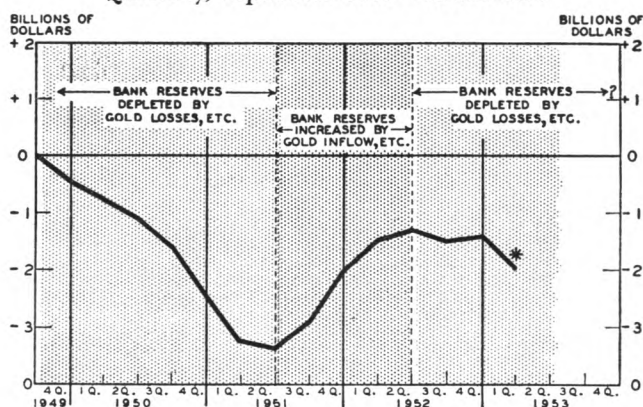
Supplementing the policy of the Federal Reserve System of mopping up any loose reserves which might be around was an outflow of gold aggregating nearly \$600 million during the first ten weeks of 1953. The outflow of gold represented an excess of payments by the U. S. Treasury for military and economic aid abroad, over the net deficit of foreign countries with the United States on private current and capital account, as well as the drawing down of balances owned by foreign countries and held at the Federal Reserve Banks.

Largely as a result of these two factors, member bank reserves declined substantially during the early part of this year, despite the fact that borrowings from the System continued to exceed \$1 billion as a rule, and remained much higher than in the comparable period of 1952.

The raising of the discount rate of the Federal Reserve Banks from 1¾% to 2% in January brought it into line with the prevailing yields on 1-year U. S. Government securities and reduced the possibility of profitable arbitrage by banks between the discount rate and the yield on Treasury bills.

The unwillingness of the Federal Reserve System to permit additional permanent reserve funds to be available contributed to the maintenance of tight conditions in the money market. Excess reserves of banks, particularly the large money market institutions, remained nominal in volume.

EFFECT OF GOLD AND FOREIGN ACCOUNT TRANSACTIONS ON BANK RESERVES
Quarterly, September 1949 — March 1953



... the outflow of gold from the United States which was resumed last year reached sizeable proportions in the first quarter of 1953, and exerted pressure on bank reserves.

* 1st Quarter, 1953, partially estimated.

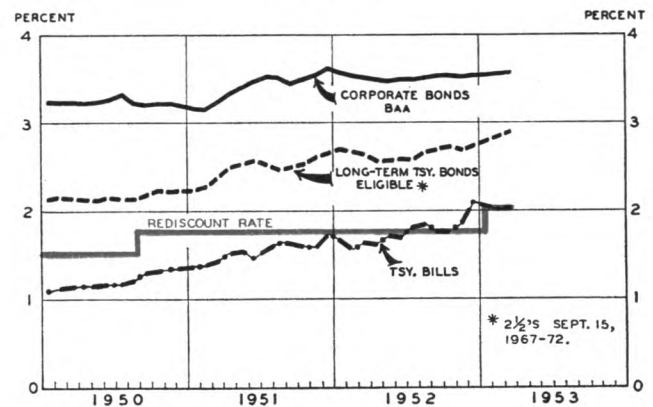
Treasury Security Yields Rise

Yields on short-term securities, accordingly, remained close to the postwar highs established last December. The average yield on new Treasury bills issued during the first quarter of 1953 was slightly over 2.00%. A year ago, the average yield on new bills was about 1.64%. The higher yield structure was acknowledged by the Treasury in its February refunding when a 2¼% return was offered on a 1-year certificate, the highest 1-year rate offered by the Treasury in many years. The terms of this refunding were apparently well suited to the market as the attrition on the maturing issue was extremely small (less than 2%), and the refunding was completed without Federal Reserve assistance. A small volume of additional bank credit was created, though only temporarily, by an increase in collateral loans, presumably financing minor shifts in the ownership of the maturing issue. At this juncture it may be pertinent to note that there is little evidence of additional bank credit being used to finance stock exchange activity in general, despite the lowering by the Federal Reserve System of margin requirements on security transactions from 75 percent to 50 percent in January. With the reduction in margin requirements, all the measures of selective credit control imposed since the outbreak of the Korean war have now been either modified or abandoned.

The constant pressure in the money and capital markets during the early part of this year, due to the deliberate ceiling imposed on excess reserves and to the heavy demands for external financing by states, municipalities and corporations, resulted in a decline in prices of all but the shortest Treasury bonds to new postwar lows. The longest Treasury bonds, the Victory 2½'s, dipped below 94 in March. In general, the decline in bond prices reflected a lack of investment interest, rather than selling pressure.

In addition to the pressure caused by heavy current and anticipated corporate and municipal bond flotations, it appears that a "wait and see" attitude was prevalent in the bond market, with investors being reluctant to make portfolio adjustments due to the uncertainty surrounding reports of a forthcoming long-term Treasury bond with a higher coupon than those currently outstanding. Caution with respect to new commitments may also have been induced by the somewhat indecisive movement of commercial loans and doubts as to the amount of tax borrowing which might be needed by private business and industry.

YIELDS ON SELECTED SECURITIES 1950 - 1953



... yields on long-term bonds, both private and public, rose to new postwar highs early this year, while yields on new Treasury bills eased somewhat from the seasonally high December level.

NOTE: Data plotted for March are partially estimated.

Saving Sustained

The sharp rise in saving, both personal and corporate, since mid-1951, has been a major factor permitting the expanded level of industrial and agricultural output to be financed with relatively little recourse to additional bank credit. Buoyant revenues and a lag in Treasury expenditures have also enabled the cash deficit incurred to help finance the defense program to be held to a low figure.

Personal saving in liquid form continued at a high rate during the early months of 1953, both in this District and for the country as a whole. Time deposits at commercial banks in the Fourth District rose to new record levels in January and February, with one of the largest gains for the comparable interval in the postwar period. Savings and loan associations reported a continued net inflow of funds of record proportions.

Net sales of savings bonds in this District picked up toward the end of last year, and have run continuously above the year-ago figure in the early months of 1953.

The flow of savings into life insurance companies throughout the country also continued at a high rate, and pension funds, both private and public, continued to receive funds far in excess of disbursements.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

Released by the Board of Governors of the Federal Reserve System

Economic activity rose further in February and March. Industrial output reached new postwar highs and construction activity increased somewhat from earlier advanced levels. Retail trade expanded as auto sales showed considerable strength and other lines generally gained somewhat. Wholesale prices continued at about the January level, while consumer prices were somewhat lower.

Industrial production

The Board's industrial production index rose further in February to 239 per cent of the 1935-39 average. Output of both durable and nondurable goods increased moderately. The March index is estimated at 241, with the gain reflecting mainly greater activity in the automobile industry.

Production of passenger cars since mid-February has been at an annual rate of about 6.5 million units, close to 50 per cent above the reduced rate of a year ago; output for the entire first quarter was not far below the 1951 record for this period. Output of major household goods in February apparently changed little following the rapid expansion of last autumn and early winter. Activity in industrial and military equipment lines has continued at advanced levels. Output of metals and building materials was maintained in February in unusually large volume, and in March steel ingot production rose to a new record level.

Activity in the cotton textile, leather, paper, and printing industries rose somewhat further in February. Production of shoes and of paperboard was in exceptionally large volume. Output of manufactured dairy products continued to expand and was considerably greater than a year ago owing mainly to a sharp increase in butter. Meat production in the first half of March was moderately above a year ago as substantially larger beef output more than offset a decline in pork.

Bituminous coal mining declined further in February and early March. Crude petroleum output was maintained in February but has been curtailed slightly in March.

Construction

Value of construction contract awards declined slightly in February, reflecting chiefly decreases in awards for public construction. Housing units started advanced to a seasonally adjusted annual rate of 1.23 million from 1.16 million in January. Total new construction activity declined less than seasonally from earlier advanced levels.

Employment

Seasonally adjusted employment in nonagricultural establishments at 47.9 million in February was up moderately from January. Hourly earnings and the average work week at factories remained at about the January level. Unemployment, after a seasonal

rise in January, declined to 1.8 million in February, a postwar low for this month.

Distribution

Total retail sales rose in February after seasonal adjustment and as in other recent months were substantially higher than a year ago. Sales by automotive dealers were up considerably and sales at other durable and most nondurable goods stores showed moderate gains. Seasonally adjusted sales at department stores increased somewhat in February and the first three weeks of March; during the corresponding period last year they had shown some decline. Stocks at department stores are estimated to have changed little in February, after rising in January, and at the end of the month were moderately higher than a year ago.

Commodity prices

The average level of wholesale prices changed little from mid-February to the end of March. Following removal of controls, prices of coffee, cigarettes, and various industrial materials were raised. Grains also advanced, while rubber, hides, and some cotton textiles declined. Prices of passenger automobiles were reduced by a major producer.

The consumer price index declined somewhat further in February, reflecting chiefly further decreases in beef prices. Little change is indicated in March.

Bank credit

Loans and investments at banks in leading cities increased somewhat in the first half of March following substantial reductions in January and February. The March rise was due in part to a sharp expansion in borrowing by businesses in a number of lines. Outstanding loans to commodity dealers and food processors, however, continued to decline seasonally. Consumer and real estate loans of banks rose further and bank holdings of U. S. Government securities continued to decline.

Member bank reserve positions were generally tight in the first half of March, reflecting an increase in currency in circulation and a further outflow of gold. In the week ending March 11, member bank borrowing from the Federal Reserve averaged 1.4 billion dollars, almost 900 million dollars more than excess reserves. After the middle of the month, however, there was some temporary easing in reserve positions due in large part to Treasury operations around the quarterly tax date.

Security markets

Yields on intermediate and long-term Treasury bonds and on corporate bonds rose to new postwar highs during the first three weeks of March. Yields on Treasury notes and short-term bonds were relatively stable and bill rates declined somewhat. Common stock yields declined moderately as a result of a continued rise in stock prices.

