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MONEY MARKET IN MAY

During the past month further adjustments were made by member banks to meet the new conditions arising from the elimination by all Reserve Banks between April 24 and May 11 of the preferential discount rate. As outstanding borrowings came to maturity, the member banks had the option of renewing their loans at the regular discount rate of 1 per cent, or adjusting their reserve positions in other ways. Many banks chose to repay their borrowings in preference to paying the higher rate—frequently by selling short term Government securities from their portfolios. Other banks, however, continued to borrow from the Reserve Banks to maintain their reserves at the required levels, even though they had to pay the higher rate applicable after the preferential ½ per cent rate was eliminated. Discounts and advances of all Federal Reserve Banks were reduced 179 million dollars in the three weeks following April 24 to 145 million dollars on May 15, the smallest amount since July 18, 1945.

In addition to raising the funds required to repay a large part of their indebtedness, member banks also found it necessary to meet other needs for reserve funds during the past month. These needs arose out of Treasury withdrawals from War Loan deposit accounts in amounts which with tax collections exceeded Government disbursements, a moderate increase in the amount of money in circulation, and higher reserve requirements arising out of a growth in privately owned deposits. The reserve position of member banks, therefore, was under moderate pressure, especially in the early part of the month, and the banks sold substantial amounts of short term Government securities directly or indirectly to the Reserve Banks. In addition, excess reserves of all member banks were drawn down by about 175 million dollars net during the four weeks ended May 22, and on that date were approximately 700 million dollars, the smallest amount since April 1944.

The redemption at the beginning of May of an entire issue of somewhat over 1½ billion dollars of Treasury certificates of indebtedness had the net effect, like the preceding redemptions of March and April, of exerting some pressure on the reserve position of member banks in the aggregate. Treasury disbursements at that time somewhat exceeded receipts, but a substantial element in the disbursements was the redemption of certificates held by the Federal Reserve Banks, so that the funds did not reach the commercial banks. In fact, Treasury withdrawals from War Loan deposits exceeded the amount of Treasury disbursements which were received by or deposited in the commercial banks for the redemption of the matured securities.

Subsequently the Treasury built up its balances in the Reserve Banks moderately (presumably in anticipation of further redemptions of securities in June) through withdrawals from War Loan deposit accounts in excess of the amounts needed to meet current Government expenditures. At the same time the Government expenditures in excess of tax collections resulted in a growth in privately owned deposits and a consequent increase in member bank reserve requirements.

The New York City banks were subject not only to a steady drain of funds through Treasury operations during May, but also, in the early part of the month, to a substantial outflow of funds to other parts of the country, which in part probably reflected withdrawals of the proceeds of redeemed Treasury certificates which had been held in New York for the account of out-of-town banks and others. The New York banks found it necessary to sell substantial amounts of Treasury bills to the Reserve Banks, and they also sold other securities in the market. The New York money market position, therefore, was somewhat tight in the early part of May. Subsequently, however, there was an inflow of funds from other parts of the country and the money market was somewhat easier.

Retirement of Public Debt

In continuation of its program of using surplus working balances for the retirement of outstanding debt, the Treasury announced in May that it would retire approximately 2 billion of a 4.8 billion dollar issue of certificates of indebtedness due on June 1, and would redeem without replacement the entire amount of two bond issues totaling 1,855 million dollars, which had been called for redemption on June 15. A new issue of certificates was offered in exchange for the remainder of the June 1 certificates, and will be allotted on the basis of 66 per cent of the amount of maturing certificates offered in exchange for the new issue, except that subscriptions not in excess of 25 thousand dollars will be allotted in full. The June redemptions will bring the total retirement of Treasury marketable securities since the end of February to 10.2 billion dollars.

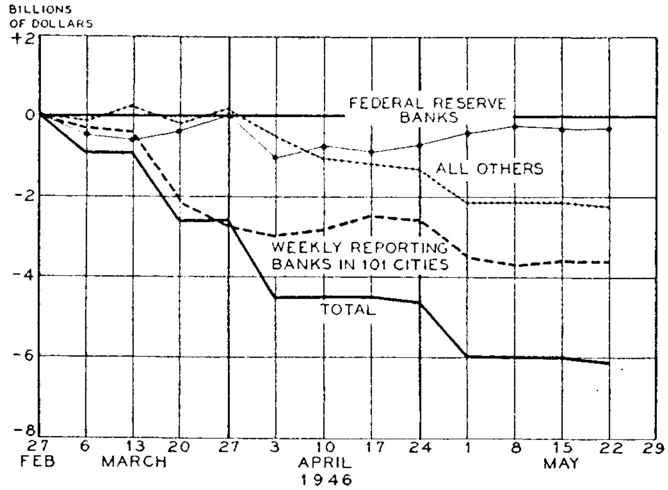
The effects of the public debt retirement operations on major classes of owners, as far as they are determinable from current data, are shown in the accompanying chart. Government securities held by the weekly reporting member banks declined 3.5 billion dollars between February 27 and May 1, an amount considerably in excess of their probable holdings of redeemed securities. The difference is accounted for by sales of other securities by these banks chiefly for the purpose of adjusting their reserve positions. The Federal Reserve Banks, on the other hand, had a net decline of less than 400 million dollars in their Government security portfolios during this period, although they held 1.2 billion dollars of redeemed securities. Thus the Reserve Banks made net purchases of more than 800 million dollars of Treasury obligations, either directly from member banks or in the open market, to provide reserves needed by member banks. The fact that securities from Reserve Bank portfolios redeemed by the Treasury had to be so largely replaced by purchases of other securities is a clear indication of the pressure on member bank reserve positions that is exerted by the debt redemption operations.

"All others," including nonreporting member and nonmember banks, as well as other investors, reduced their holdings of Government securities by about 2.1 billion dollars during the same period, an amount which is probably somewhat less than their holdings of redeemed securities. It appears that these banks and other investors replaced in part their redeemed securities by buying other securities in the market.

It is apparent from the chart that changes in the Government security holdings of the different groups of investors were not closely synchronized with the debt retirement operations of the Treasury. On some occasions, notably in connection with the March 1 and April 1 redemptions, the weekly reporting member banks made at least partial replacements of the redeemed securities on or before the date of redemption. On these occasions the Treasury had built up large balances in the Reserve Banks in advance of the redemptions and drew down its balances in retiring the securities, so that the commercial banks gained funds and were able to purchase other securities, some of which were supplied by the Reserve Banks. On the other hand, in the weeks that included the March 15 and May 1 redemptions, the reductions in the reporting member banks' holdings of Government securities were substantially in excess of the amount of their securities that were redeemed. In those weeks (and also the weeks ended March 27 and May 8) the reporting member banks sold securities to meet their reserve requirements, and the Reserve Banks bought securities to maintain the stability of the market and to supply needed reserves to member banks. In general, other investors, including nonreporting commercial banks, bought securities in March to replace redeemed securities, but sold securities in April while the reporting member banks were buying.

The retirement of 2 billion of Treasury certificates on June 1 will probably involve only minor strain on bank reserves. Redemptions of these securities held by the Reserve Banks will probably be largely offset by a reduction in the Treasury's balance with the Reserve Banks, so that little net withdrawal of funds from commercial banks will occur. The June 1 certificate was issued during the Seventh War Loan drive and is widely held, the latest Treasury figures showing that more than 60 per cent of the total was owned by nonbank investors at the end of February. Some of these investors, including nonbank corporations, may use the proceeds of the redeemed securities to pay quarterly instalments on their income taxes due June 15 or for other business purposes, but an unexpectedly large proportion of the holdings of such investors were offered in exchange for the new issue of certificates. Nevertheless, the proportion of redeemed June 1 certificates that will come out of commercial bank portfolios is likely to be smaller than in the case of previous redemptions of Treasury certificates.

Changes in the Ownership of the Public Debt*
(Cumulative weekly from February 27, 1946)



* Total interest-bearing debt exclusive of special issues and Savings notes.

NEW CORPORATE FINANCING

The volume of new corporate security issues offered has been well sustained in recent months despite the irregularity in bond prices. Successive new monthly peaks for the year, of 660 and 850 million dollars, were reached in April and May, respectively. Flotations of new bond issues were at new high levels for the year, but the totals might well have been still larger were it not for unsettlement in the bond market. Stock financing also was in large volume. Securities issued for the purpose of expanding working capital and plant and equipment accounted for approximately 45 per cent of all corporate offerings in April and 21 per cent in May, and were well above the levels of the corresponding months of 1945. "New money" issues in April were highest since August 1941. The total of refunding issues in April and May 1946, taken together, was about the same as in the corresponding months of 1945.

Unsettlement in bond prices started early in April among Government securities and then spread to municipal and corporate obligations. The recession in prices adversely affected the distribution of new corporate bond offerings. In a number of instances, new issues sold in the open market at a discount of a point or more from offering prices. Weakness was especially evident among new railroad issues where distribution to the public was interrupted, not only by the decline in quotations on outstanding securities, but also by other factors affecting the railroads, including the coal strike and the threatened railroad stoppage, as well as prospects of higher wages, and of a delay in obtaining higher freight rates.

The weakness in prices led to the postponement of some new issues and also to lower bids on securities offered to underwriters on a competitive basis and to lower prices (or higher yields) on reofferings to the public. Terms of a number of new securities were modified so as to make them more attractive to investors, and in one case, the coupon rate was advanced above that originally contemplated.

Substantial changes occurred in the new issue market with respect to types and purposes of new issues in the first five months of 1946, as compared with the same period in the preceding year. Although the total volume of new issues in the 1946 period (2½ billion dollars) was only 22 per cent larger than in the corresponding five months of 1945, the amount of new securities offered for expansion purposes rose more than 90 per cent while refunding issues increased 5 per cent. Total new stock issues exceeded 900 million dollars, or 2½ times the preceding year's figure, while bond financing fell off about 6 per cent. Securities floated by industrial corporations were twice as large in the aggregate this year (to the end of May) as last year, while financing by railroads and public utility companies dropped about 25 and 10 per cent, respectively. Changes in the percentages of total new issues accounted for by new capital financing, by industrial securities, and by stock issues between the first five months of 1945 and 1946 are summarized in the following table.

	1945	1946
New capital	20	31
Industrial	30	51
Stock	17	36

New capital financing, which had increased steadily during the second half of 1945, totaled over three fourths of a billion dollars in the first five months of 1946, the largest volume for any similar period since 1931. Nevertheless, while the demand for capital has grown substantially since the end of the war, the volume of new capital issues remains small in relation to gross national product or any other measure of business activity. To a large extent, however, capital needs have probably been met out of corporations' own cash or other liquid resources.

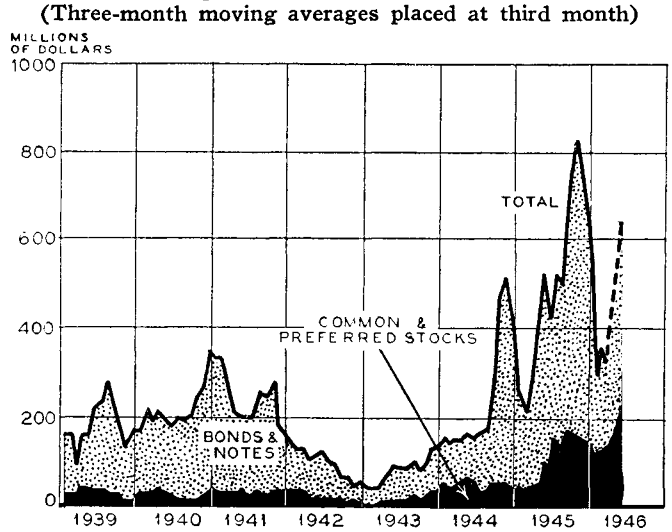
Most of the expansion over last year in new money issues was in securities of industrial corporations, especially those engaged in certain categories of manufacturing where reconversion problems are more pressing than among other types of issuers. Industrial issues also accounted for more than half the total, including refunding, reflecting not only the expansion in industrial securities but also a reduction in public utility and railroad refundings.

Investment bankers sold more than 900 million dollars of common and preferred stocks in the first five months of 1946, the largest sum for any comparable period since 1930. While a sizable proportion of the new stock issues were for refunding purposes, chiefly preferred stocks with lower dividend rates, a larger part consisted of "new money" offerings. In fact, close to 70 per cent of the new capital issues took the form of stocks.

A major factor in the expansion of stock financing has been the rising trend in equity security prices, which up to February of this year had been in progress for more than three years and has greatly stimulated investor interest in new stock issues. New offerings have been so well received that the shares have quickly sold at substantial premiums above issue prices, and profits in the so-called "free rides" have been large. The extent of the profits that could have been obtained through "free rides" in new stock issues is indicated in the accompanying table. For 65 common and preferred stock issues placed in the first four months of 1946, investors purchasing at the issue price could have liquidated their securities on or near the date of offering with an average profit of more than 5 per cent. Proportionate gains were much larger on common stock issues than on the preferred issues which were usually higher priced, indicating a greater demand for the more speculative securities in the low price range. In general, lower priced issues, common or preferred, advanced more rapidly than the higher priced ones.

However, for the 39 new common and preferred issues for which market quotations were available, prices reached by the close of the date of offering were higher, on the average, than

New Corporate Issues of Stocks and Bonds
(Three-month moving averages placed at third month)



Source: *Commercial and Financial Chronicle;* April and May 1946 estimated by Federal Reserve Bank of New York.

Ratio of Market to Issue Price of New Stock Flotations on Date of Offering*
(In per cent)

Type and price of shares	Ratio
Common	109.6
Under $25	111.8
Over $25	103.8
Preferred	103.3
Under $100	107.0
Over $100	102.5
Common and preferred	105.3

* Data cover 65 new issues (23 common and 42 preferred) of 1 million dollars or more offered from January through April 1946, for which market quotations were available. Weighted averages computed by the Federal Reserve Bank of New York.

two weeks or a month later. The average market price was 106.5 per cent of offering price on the date of offering, 104.1 per cent two weeks later, and 103.9 per cent a month later. Owing to the irregularity of stock prices in this period (January-April 1946), however, it is not certain whether those who bought the new issues in the market on the offering date and held them for a month after acquisition fared any better or worse, on the whole, than those who acquired outstanding securities. It appears that market prices of new stocks issued in the early part of the period increased more in the month after issuance than did the general level of outstanding stocks (or fell less in a period of falling prices). In the latter part, particularly for new flotations toward the end of February and in March, the reverse held true, with new issues showing lesser gains or greater declines than the general market level. In most of the cases tabulated by this bank, however, purchasers who acquired new stock issues at the offering prices had "paper profits" one month after issue date, and in a smaller majority of cases, the premiums exceeded the rise in prices of outstanding issues.

SAVINGS AND LOAN ASSOCIATIONS IN NEW YORK STATE

Although the first savings and loan association[1] in this country was founded in Philadelphia in 1831, it was not until 1848 that a similar institution was organized in New York. After that date, however, the number here increased rapidly and in 1851 the State legislature passed the first law recognizing this development and authorizing the incorporation of "Building, Mutual Loan and Accumulating Fund Associations." These early societies were patterned after the English building and loan associations which were small mutual institutions organized for the specific purpose of assisting their members to finance the purchase or building of homes. They were founded with the idea that they would be terminated as soon as each member had acquired a home or after a certain number of years.

As these associations grew and developed considerable change occurred in their character and operating principles. The advantages of a permanent organization and greater flexibility in their membership were very soon recognized, and while home financing has remained one of their primary functions, their role as savings institutions has been increasingly emphasized and today their position in our economy is somewhat analogous to that of the mutual savings banks. A member still technically buys shares in an association which he may resell to the association when he wishes to withdraw his savings. But for all practical purposes the purchase of shares amounts to a time deposit. Most of these associations, like the savings banks, ordinarily waive their right to a period of notice before withdrawal.

This development made necessary a greater degree of liquidity in their investment position or some means of rediscounting their mortgage loans in case of sudden and heavy withdrawals. In 1914 the New York State Legislature took a pioneering step in establishing the Land Bank of the State of New York[2] which was designed to provide rediscount facilities for savings and loan associations in the State. Membership in the Land Bank was and is voluntary. Its own capital was raised through the sale of shares to member institutions and of its obligations to the public. The idea did not meet with immediate or widespread favor, however, and for a number of years only a small proportion of the State's savings and loan associations joined.

The economic crisis of the 1930's and the plight of many home owners unable to meet their mortgage payments and of savers unable to withdraw their funds led to the passage of the Federal Home Loan Bank of 1932 and the Home Owners' Loan Act of 1933. The latter provided for the Federal chartering of new savings and loan associations and the conversion of State associations to Federal charter. The Federal associations were required to become members of the Federal Home Loan Bank System. In 1935 the Federal Savings and Loan Insurance Corporation was organized to insure savings and loan association shares up to $5,000 per account. Insurance was made compulsory for the Federal associations and voluntary for State institutions. At the end of last December 65 of the 240 savings and loan associations in New York State held Federal charters. Seventy-seven State associations were members of the Federal Home Loan Bank System of which 50 were insured. Close to 75 per cent of the State associations were also members of the Savings and Loan Bank of the State of New York.

The assets and the private share capital of the savings and loan associations increased very rapidly during the war period along with those of all other types of banking institutions. At the end of 1945 savings and loan associations in New York had about 775 thousand members or shareholders, and assets of 729 million dollars compared with 422 million in

[1] These associations are also sometimes called building and loan associations or cooperative banks, but the term savings and loan association which is becoming more widespread throughout the country today is used in this article.

[2] In 1932 its title was changed to Savings and Loan Bank of the State of New York.

Private Repurchasable Share Capital of Savings and Loan Associations, Deposits of Mutual Savings Banks, and Time Deposits of Member Banks in New York State, 1939-45
(In millions of dollars)

December 31	Share capital of savings and loan associations	Deposits of savings banks	Time deposits of all member banks*
1939	323	5,599	1,606
1940	354	5,688	1,684
1941	378	5,555	1,731
1942	394	5,574	1,706
1943	442	6,174	1,987
1944	521	7,122	2,417
1945	628*e*	8,292	3,003

* Individuals, partnerships, and corporations.

e Estimated by the Federal Reserve Bank of New York.

Source: New York State Banking Department, Federal Home Loan Bank Administration, Savings Bank Trust Company , and Board of Governors of the Federal Reserve System.

December 1939. The Federally chartered associations expanded much more rapidly in this period than State institutions and now hold nearly 50 per cent of the total assets of all savings and loan associations in the State.

The total assets of savings and loan associations as a group are still small in comparison with deposits of mutual savings banks or the time deposits of individuals, partnerships, and corporations in the commercial banks, as the accompanying table indicates, but showed a much larger proportionate growth over the war years than did the State's mutual savings banks. This development may in part be attributed to the fact that the savings and loan associations are fairly well distributed throughout the State, with large associations in the Upstate war production centers of Niagara Falls and Rochester, while the savings banks are more largely concentrated in New York City where deposit growth lagged during the war. Also, in contrast to savings banks and commercial banks which lost deposits in 1941 and 1942, savings and loan associations did not experience any net decrease in share capital (although the rate of increase did slacken) when many people drew down their accounts at savings banks to purchase consumers' durable goods or Savings bonds. The repurchase ratio or the ratio of withdrawals to new deposits for Federal associations in New York, for example, was 85 per cent in 1942 and 52 per cent in 1944 compared with 105 and 63 per cent, respectively, for savings banks. The bonus paid by many associations on so-called instalment shares, that is, regular deposits against which no withdrawals are made over a long period of time (a practice not followed by either the savings or commercial banks), may at least partly account for this development.

The major portion of the assets of savings and loan associations have been traditionally invested in mortgages; at the end of the 1920's close to 90 per cent of their assets were in mortgage loans. But in succeeding years, as the result of the depression, the number of mortgages available declined and by the end of 1939 the proportion of their assets invested in first mortgages was down to 75 per cent. Wartime restrictions on building and remodeling reduced this ratio to an estimated 60 per cent by the end of 1945. But these restrictions have not had as great an effect on the mortgage portfolios of the savings and loan associations, which concentrate on home loans, as they have had on those of the savings banks. The outstanding mortgage investments of the latter institutions have declined every year since 1940. First mortgage loans of the savings and loan associations, however, while they showed virtually no net change in 1942 and declined slightly in the following year, showed substantial increases in 1944 and particularly 1945 as the result of the accelerated activity in real estate markets and the rising trend of urban real estate prices. The higher prices are reflected in the fact that in 1939 the average size loan made by State associations was around $2,600; in 1943 it was $3,000; and by 1945 it had risen to $3,600.

The wartime improvement in general business conditions and incomes and the acute housing shortage made it possible for the savings and loan associations to reduce greatly the ratio of their mortgage loans in default and to dispose of most of the real estate they had acquired through foreclosure proceedings. The proportion of mortgages in default to total mortgages held by State associations declined from 15 per cent in 1939 to 1.5 per cent by 1945, while the amount of real estate owned by both Federal and State associations declined from about 9 per cent of total assets to a negligible figure.

Because of the rapid increase in their available funds and the limited mortgage volume, the savings and loan associations, like other banking institutions, invested an increasing proportion of their assets in Government obligations. As the accompanying table shows, their holdings of these securities rose from an estimated 9 million to an estimated 218 million dollars during the six war years. During the Victory Loan drive the associations borrowed heavily to purchase drive issues in anticipation of a further rise in their investable funds. These purchases are reflected in the very large increase in their holdings of Government obligations during 1945.

In the mortgage field the savings and loan associations face keen competition from other lenders. The volume of home mortgages has been rising, however, since the housing shortage is forcing many people, who would not otherwise do so, to purchase homes. The anticipated increase in home building will increase the demand for mortgage funds. The volume of loans made by these associations in the first quarter of 1946 is estimated to have exceeded all previous records.

In the past, savings and loan associations with relatively low operating expenses and good profit records have usually been

Assets of Savings and Loan Associations in New York State, 1939-45
(End of year figures; in millions of dollars)

Assets	1939	1941	1943	1944	1945*e*
First mortgage loans	325	379	374	396	446
Other loans	4	3	2	1	1
Real estate sold under contract	8	10	8	6	4
Real estate owned	37	27	14	8	5
U. S. Government securities	9*	13*	73	143	218
Other investments	11*	11*	11	10	12
Cash on hand	22	26	37	34	37
Other assets	6	7	6	6	6
Total	422	476	525	604	729

e Breakdown of total estimated by Federal Reserve Bank of New York.

* Breakdown between U. S. Government securities and other investment estimated.

Source: New York State Banking Department and Federal Home Loan Bank Administration.

able to pay dividends to their members at a rate well above the interest paid elsewhere on savings deposits. But during the war the competition for the available supply of mortgages, changes in the composition of assets, and the decline in the general level of interest rates reduced their rates of earnings considerably. The growing proportions of Government obligations in their investment portfolios have meant a reduction in the average return on earning assets, and the average rate of interest in effect on the mortgage loans of State associations declined from 5.68 per cent in the fall of 1939 to 5.07 per cent in 1945 and the average rate charged on new loans in the latter year to 4.98 per cent. Operating expenses have increased roughly in proportion to the rise in total assets. The average rate of dividends paid by the associations, therefore, has had to be reduced, the ratio for State associations declining from about 3.3 per cent in 1939 to 2.45 per cent in 1945 and for Federal associations last year to 1.74 per cent.

The ratio of undivided profits to total assets rose from 2.4 per cent at the end of 1939 to 3.4 per cent in 1943, but subsequently declined slightly. Reserves and surplus have just about kept pace with the growth in assets and at the end of 1945 were equal to about 4 per cent of total assets.

INTERNATIONAL LENDING SINCE THE END OF HOSTILITIES

Since the middle of 1945, the principal creditor nations have made advances to foreign countries, or completed negotiations for such advances, totaling more than 10 billion dollars. Of this aggregate, over 6 billion represents credits actually extended; the remainder consists of contracts negotiated but not yet formally signed or ratified. These amounts do not include the loans by individual countries which are still in course of negotiation. Of the 6 billion dollars of postwar loans actually consummated to date, the United States alone accounts for over 4 billion dollars, including credits granted to the United Kingdom, France, and other countries for the settlement of lend-lease and other war accounts and for the purchase of United States surplus property abroad.

This network of foreign lending is predominantly intergovernmental in character. It includes outright loans, granted as a rule directly by the Treasury or other government agency of the lending country to the government of the borrowing country, as well as the amounts which certain central banks hold of each other's currency under the monetary agreements negotiated by their respective governments, the central banks acting merely as agents.

As to the specific foreign loans that have been extended since the end of the war, the greater part of the American loans have been made by the Export-Import Bank, the lending power of which was increased in July 1945 from 700 million dollars to 3,500 million. To May 31, 1946, the bank had authorized loans totaling over 2,100 million dollars, of which 1,870 million is for Europe,[1] 195 million for Asia,[2] and 76 million for South America. Of the total amount already authorized, only 169 million had actually been disbursed by the end of March 1946.

Sizable credits have also been granted by the United States Government for financing goods contracted for under the lend-lease procedures but which had not been delivered prior to the termination of lend-lease. Credit arrangements have also been negotiated for financing the sale abroad of United States surplus property. The United Kingdom has obtained 650 million dollars and France 720 million dollars in connection with the settlement of their lend-lease and other accounts and the purchases of surplus property.

Loans extended by Canada total the equivalent of 1,645 million U. S. dollars, of which 1,125 million are to the United Kingdom, 450 million to Western Europe,[3] 54 million to China, 13 million to the Netherlands East Indies, and 3 million to the Soviet Union.

Great Britain occupies third place among post-armistice lenders, but this is due only to the existence of a large unsettled balance in her favor under the Franco-British financial agreement of March 27, 1945, which expired on February 28, 1946. France's sterling debt under that agreement is stated to amount to the equivalent of 440 million dollars. The only outright British credits have been one of 10 million pounds sterling to Greece and credits to Czechoslovakia totaling 6 million pounds sterling. The mutual overdraft facilities provided for in the monetary agreements made by Great Britain with Belgium, the Netherlands, and Czechoslovakia, are expected to result in the temporary accumulation by the United Kingdom of moderate amounts of the currencies of these three countries.

Reconstruction and commercial credits extended by Sweden total the equivalent of 242 million dollars.[4] Sweden, in addition, is to accumulate sterling balances under her monetary agreement of March 6, 1945 with the United Kingdom. No formal limit to the latter has been fixed, but the balances accumulated so far are believed much larger than Sweden originally envisaged. Altogether, according to an authoritative Swedish source, Sweden during the twelve months ending June 1946 will have loaned to foreign countries approximately one seventh of her national income.

Switzerland has granted monetary and other credits totaling the equivalent of 150 million dollars.[5] Spain, Portugal, Argen-

[1] Of the 1,870 million dollars for Europe, France has received commitments of 1,200 million, the Netherlands 300 million, Belgium 100 million, Norway 50 million, Finland and Poland 40 million each, Greece 25 million, and Denmark 20 million. The remainder consists of a 95 million dollar cotton credit line to European countries to finance the purchase of United States cotton.

[2] Of which 67 million for China and 100 million for the Netherlands East Indies.

[3] Of which 218 million to France, 112 million to the Netherlands, 91 million to Belgium, 17 million to Czechoslovakia, and 12 million to Norway.

[4] Of which 70 million dollars to Norway, 57 million to Finland, 29 million to Denmark, 24 million each to Belgium and Poland, 18 million to the Netherlands, and 20 million to other countries.

[5] Of which 60 million to the United Kingdom under the monetary agreement of March 12, 1946, 58 million to France, 18 million to the Netherlands, 12 million to Belgium, and 1 million each to Czechoslovakia and Norway.

tina, and other South American countries have likewise extended sizable commercial and monetary credits to Western Europe.

So far there have been only a few cases of commercial bank participation in postwar foreign lending. In the United States, commercial bank credits of 100 million and 16 million, respectively, were extended to the Netherlands and Norway last year, and arrangements have been made to allow commercial banks to participate in the new 200 million dollar Export-Import Bank loan to the Netherlands of March 1946. In Switzerland a group of large commercial banks has reportedly participated to a somewhat greater extent in loans to foreign governments. Under the very first postwar arrangement of this kind, a British bank extended a one million pound revolving credit to a group of nationalized Czechoslovakian commercial banks under the guarantee of the National Bank of Czechoslovakia. Such instances, however, remain relatively rare.

In terms of the recipient countries, the distribution of post-armistice foreign borrowing may be summarized as follows: Of the 6 billion dollars that has already been loaned, about 5 billion has gone to Western Europe, including more than 1.8 billion to the United Kingdom. The remainder is distributed between Eastern and Mediterranean Europe (about 370 million), Russia (400 million), Asia (about 300 million), and Latin America (76 million).

The following table shows the sources from which the principal European borrowers have obtained their postwar financial assistance. The creditor countries are listed under the name of each borrowing country in the order of size of the amounts received from them. Where the amounts are known, they are given in millions of dollars.

Known Post-Armistice Foreign Borrowing of Certain European Countries*
(In millions of dollars)

France	United Kingdom	Netherlands	U.S.S.R.	Belgium
U.S........1,920	Canada....1,125	U.S........400	U.S.....400	U.S........100
U.K....... 440	U.S....... 650	Canada.....112	Canada.. 3	Canada..... 91
Canada..... 218	Switzerland 60	Switzerland.. 18		Sweden...... 24
Switzerland. 58	Sweden.... †	Sweden...... 18		Switzerland.. 12
Argentina... 36		U.K........ †		U.K........ †
Total.......2,700	Total......1,850	Total.......550	Total....403	Total.......230

* Because of the nature of the data, the aggregates shown are approximate and subject to revision.
† Not available.

Of the aggregate of 2.7 billion of credits received by France, 1.9 billion has been granted by the United States. In addition to the 550 million Export-Import Bank loan arranged in September 1945, France was granted, under an agreement concluded on May 28, a further credit of 650 million from the Export-Import Bank, as well as the 720 million credit for settlement of lend-lease, reciprocal aid, surplus war property, and other claims referred to above.

The major item in the total credits of 1,850 million dollars received by the United Kingdom to date is the 1,125 million Canadian credit. Second in size is the 650 million United States credit for settlement of lend-lease and other claims. The remainder represents a rough estimate of the sterling holdings that Sweden and Switzerland agreed to accumulate under their monetary agreements with the United Kingdom. Although no formal limitation to this sterling debt was stipulated in the Anglo-Swedish monetary agreement, the Anglo-Swiss agreement of March 12, 1946 limited the Swiss obligation to accept sterling to 5 million pounds sterling, "plus such additional sum as may be determined by the contracting governments in the light of the estimated balance of payments between the sterling area and Switzerland." The Bank of England has stated that the upper limit of such "additional sums" is estimated at 5 million pounds sterling for the first year, and a further 5 million for the second, making with the 5 million of basic credit an aggregate of 15 million pounds.

In addition, the United Kingdom is to receive, under the financial agreement now pending before Congress, a United States Government credit of 3,750 million dollars for the financing of necessary imports during the transition period.

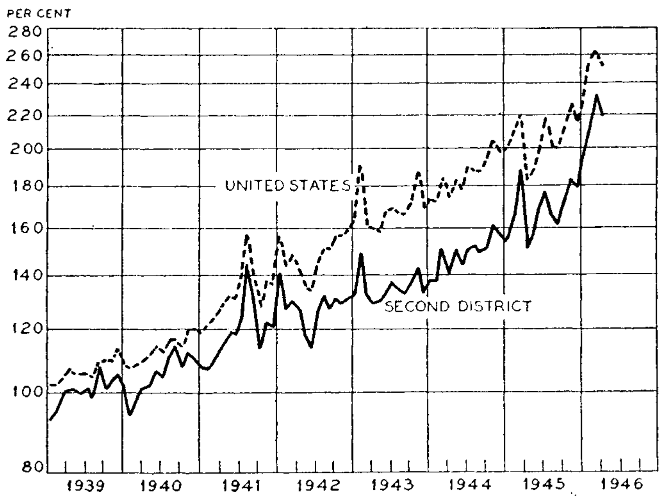
Borrowing by the U.S.S.R. has consisted almost entirely of the American "3(c)" lend-lease loan of 400 million dollars, plus a small Canadian loan. A Russian application for a one billion dollar loan is reported to be on file with the United States Government, and preliminary negotiations concerning such a loan are reported to have taken place.

As a rule, the post-armistice credits have been "tied" loans, utilizable only for exports from the creditor to the borrowing country; bilateralism is thus a conspicuous commercial policy feature of the post-armistice network of international lending. In the case of the British monetary agreements with Western Europe, however, the sterling which the British agree to make available is utilizable throughout the sterling area. In contrast to the above types of lending, the proposed American credit to the United Kingdom is fully multilateral in conception and implementation; its proceeds may be spent for British purchases of goods and services not only in the United States but in other countries as well. Together with the underlying Proposals for Expansion of World Trade and Employment, the Anglo-American financial agreement is an attempt to restore international lending and world trade to a multilateral basis and thus preserve the economic unity of the world. Because of its size, terms, and implications, therefore, the proposed American credit to Britain is the keystone of the post-armistice network of international lending. The restoration of a multilateral, nondiscriminatory trading system which it envisages is a prerequisite to the successful implementation of all of the international financial and monetary agreements achieved so far.

DEPARTMENT STORE TRADE

Department store sales in May in the Second Federal Reserve District are estimated at 102 million dollars, a slight increase over April, and about 50 per cent greater than sales in May 1945. The seasonally adjusted index declined in April from the record high established in March, but it is expected that the adjusted index for May will equal or exceed that of March. Sales in the Second District for the first four months of 1946 have shown a greater gain over the same period in 1945 than has the United States total. Thus this District is gradually regaining its position in the country's total department store sales after a marked decline of its percentage share during the early war years. The Second District seasonally adjusted index of department store sales for April, however, was still more than 10 per cent below the comparable index for the country as a whole.

Indexes of Department Store Sales, United States and Second Federal Reserve District* (1935-39 daily average=100 per cent; adjusted for seasonal variation)



* Plotted on ratio scale to show proportionate changes. Index for United States preliminary for April 1946.

Department store stocks in this District have not paralleled the rise in sales but were 12 per cent higher at the end of April 1946 than on the same date last year, and only slightly below the estimated dollar volume of stocks at the end of April 1942 when they were approaching an all-time peak. The ratio of stocks to sales for April remained at 2.2 months' supply at the April rate of sales, unchanged from March.

A seasonal decline in outstanding orders in April reduced the estimated total to about 260 million dollars, which, however, is more than a fifth higher than the amount of orders outstanding a year ago. The ratio of stocks plus orders to sales declined from 5.2 in March 1946 to 4.7 in April.

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand
	April 1946	Jan. through April 1946	April 30, 1946
Department stores, Second District	+59	+30	+12
New York City	+61	+31	+11
Northern New Jersey	+63	+32	+15
Newark	+62	+31	+16
Westchester and Fairfield Counties	+69	+30	+23
Bridgeport	+63	+25	+26
Lower Hudson River Valley	+66	+30	+16
Poughkeepsie	+65	+30	+20
Upper Hudson River Valley	+58	+32	+23
Albany	+65	+50	+26
Schenectady	+49	+13	+22
Central New York State	+56	+27	+ 6
Mohawk River Valley	+53	+20	+16
Utica	+50	+17	+ 9
Syracuse	+57	+30	0
Northern New York State	+54	+30	—
Southern New York State	+51	+23	+15
Binghamton	+57	+27	+19
Elmira	+42	+15	+13
Western New York State	+51	+24	+13
Buffalo	+53	+26	+16
Niagara Falls	+35	+ 8	+13
Rochester	+51	+24	+ 7
Apparel stores (chiefly New York City)	+55	+28	+13

Indexes of Department Store Sales and Stocks Second Federal Reserve District (1935-39 average=100 per cent)

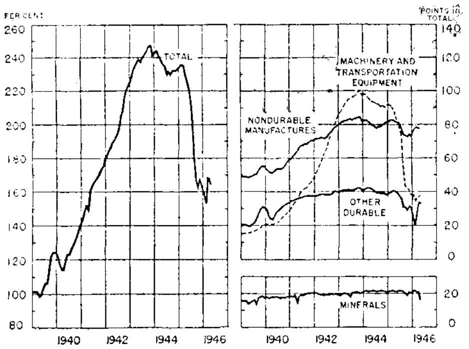
Item	1945	1946		
	April	Feb.	March	April
Sales (average daily), unadjusted	143	174	206	219
Sales (average daily), seasonally adjusted	150	210	232	219
Stocks, unadjusted	162*r*	156	171	182
Stocks, seasonally adjusted	160	166	170	180

r Revised.

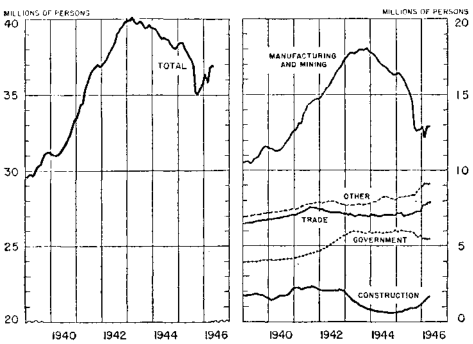
Indexes of Business

Index	1945	1946		
	April	Feb.	March	April
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	230*r*	152*r*	168	164*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	207	185	190	191*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	248	188	203*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	175	235	232*p*	
Factory employment				
United States, 1939 = 100† (*Bureau of Labor Statistics*)	163	122	130	135*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	141	112	117	124*p*
Factory payrolls				
United States, 1939 = 100† (*Bureau of Labor Statistics*)	333	210	233*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	284	206	229	245*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	242	232	232*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	170	171	174*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	127	130*r*	130	131*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	76	91	91	100
Outside New York City	73	79	81	80

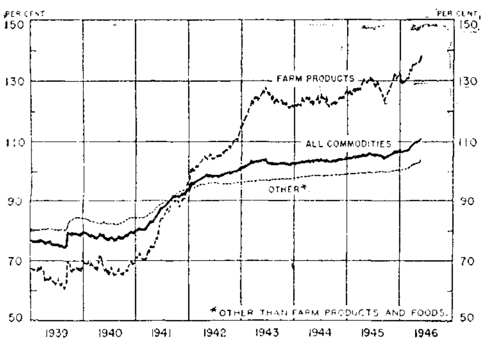
* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Series revised beginning January 1944.



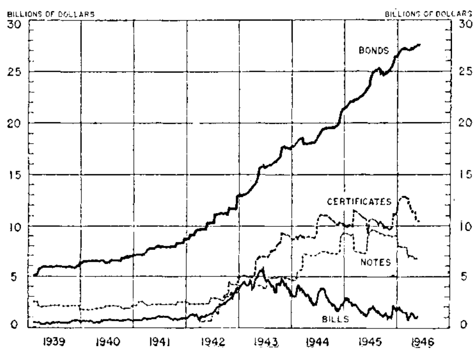
Indexes of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



Employment in Nonagricultural Establishments. Bureau of Labor Statistics' Estimates, Adjusted for Seasonal Variation by Board of Governors. "Other" Includes Transportation, Public Utilities, Finance, Service, and Miscellaneous. Proprietors and Domestic Workers Excluded



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended May 18)



Government Security Holdings of Banks in Leading Cities. Excludes Guaranteed Securities. Data not Available Prior to February 8, 1939; Certificates First Reported on April 15, 1942

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System)

INDUSTRIAL output declined somewhat in April and the early part of May owing to the coal strike. Employment in the economy as a whole, however, continued to expand in April. The value of retail trade was maintained at record levels and commodity prices rose further.

Industrial Production

The Board's seasonally adjusted index of industrial production declined 2 per cent in April and was at 164 per cent of the 1935-39 average. The drop in coal output after April 1 and the resultant curtailment in operations in some industries were offset in part by substantial increases in activity in the automobile and electrical machinery industries following settlement of wage disputes in the latter part of March.

Production of durable manufactures as a group rose 3 per cent in April. Iron and steel production declined about 6 per cent; decreased output of pig iron and open hearth and bessemer steel was partly offset by a sharp rise in electric steel production. In May activity at steel mills continued to decline as a result of coal shortages and during the past two weeks has averaged only about 50 per cent of capacity.

The number of passenger cars and trucks assembled in April was 80 per cent greater than in March, and there also were substantial increases in activity in the railroad equipment industry and in output of many types of electrical equipment. Production of lumber and stone, clay, and glass products was maintained at the March level, which was above the same period last year.

Output of most nondurable goods was maintained in April at about the March level. Activity at cotton mills declined slightly, owing to reduced coal supplies, but output at other textile mills advanced further. The number of animals slaughtered under Federal inspection continued to decline sharply in April. Output of flour and bakery products decreased somewhat in April and is expected to decline substantially in May as a result of the stringent wheat supply situation.

Minerals production declined by a fourth from March to April, reflecting primarily the drop in bituminous coal output. There was also a further reduction in output of metals, while crude petroleum production increased in April and early May. On May 13 bituminous coal production was resumed under a temporary work agreement, and during the week ended May 18 output was 70 per cent of the pre-strike weekly rate.

Value of construction contracts awarded rose sharply in April, according to reports of the F. W. Dodge Corporation. The increase reflected a very large expansion in awards for private residential construction to a record level; awards for most other types of private construction were maintained at recent high levels.

Employment

Nonagricultural employment continued to gain in April notwithstanding the bituminous coal strike, and unemployment decreased by about 350,000. Manufacturing employment rose by about 400,000 largely because of settlement of major labor disputes, and construction employment showed a further large gain.

Commodity Prices

Price ceilings on grains were increased substantially on May 13 and ceilings for a number of nonagricultural products have also been raised during the past month. Recent price increases for industrial products have usually been between 10 and 20 per cent. Recent advances announced for automobiles were smaller than these amounts but they were in addition to price increases made earlier this year.

Retail prices of most groups of commodities continued to show small advances in April and the consumers' price index increased one-half per cent to a point 3 per cent higher than in April 1945.

Distribution

Retail sales continued at a high rate in April and the first half of May. During the past four weeks department store sales have been one-third larger in value than in the corresponding period of 1945.

Freight carloadings declined sharply in April, reflecting chiefly the drop in coal shipments. Shipments of most manufactured products continued to increase until the week ended May 18. In that week interruptions in freight service resulted in large decreases in loadings of manufactured products but bituminous coal shipments were resumed, and total loadings increased slightly.

Bank Credit

Treasury deposits declined, reflecting disbursements in excess of receipts, and deposits subject to reserve requirements increased during April and the first three weeks of May. Reserve balances increased less than required reserves, and excess reserves declined to about 700 million dollars on May 22. Federal Reserve holdings of Government securities, which declined substantially in the early months of the year, have increased somewhat since the middle of April.

Member bank holdings of Treasury bills, certificates, and notes declined in April and the first half of May, while holdings of Treasury bonds increased further. Loans at member banks in leading cities declined, reflecting largely reductions in loans for purchasing and carrying Government securities.

In the latter part of April the Reserve Banks, with the approval of the Board of Governors, eliminated the wartime preferential discount rate of about one half of one per cent on advances to member banks secured by Government obligations due or callable in not more than one year. The regular discount rate on advances secured by Government obligations or eligible paper remains at one per cent.

Yields of Government securities, which declined in the early weeks of the year, rose sharply in the latter part of April and early in May.