MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOL. 28 AUGUST 1946 No. 8

MONEY MARKET IN JULY

During the past month, there was a general tendency toward higher rates on security loans, and on short term "open market paper" other than Government securities. Several large New York City banks announced increases in rates on loans to brokers and dealers for purchasing or carrying Government obligations, and to brokers on reloans to customers on Government and other securities, effective July 22 and 31, respectively. Although there were some variations in the rate schedules posted by individual banks, in general the charges on loans secured by Treasury certificates of indebtedness and other Treasury securities maturing within one year were raised from ¾ to ⅞ per cent, and those secured by longer term Treasury issues from ¾ to 1 per cent, while the rate on brokers' borrowings for customers' accounts was advanced from 1 to 1½ per cent.

In view of this tendency toward higher short term rates, bankers acceptances became practically unsalable in the market at rates corresponding to ½ per cent for 90 day bills, which was the minimum buying rate of this bank, and on July 12 an increase of ⅛ to ¼ per cent was announced in the rates at which this bank would buy bankers acceptances of less than four months' maturity. This action was followed almost immediately by an advance in the buying and selling rates of acceptance dealers. Finally, toward the close of the month, commercial paper dealers raised their rates slightly to ¾-⅞ per cent for four to six months' notes of well known borrowers. Thus, the firming of short term interest rates during the month, while moderate, was more general than at any time in several years.

The upward revision of security loan rates was followed by some recession in bond prices and a slight rise in their yields. The higher rates on security loans to dealers and brokers and their customers tended to reduce the income derived from carrying Government securities on bank credit by narrowing the margin between coupon and borrowing rates, and some selling of the more speculative holdings was reported during the latter half of the month. On Treasury certificates the margin was eliminated altogether, and a substantial liquidation of borrowings by Government security dealers was reflected in the weekly reports of New York City banks in advance of the effective date of the rate increase.

The advance in bankers acceptance and commercial paper rates reflected principally an adjustment to the firmer short term rate structure rather than any increased demand for accommodation on the part of business organizations seeking funds through these forms of credit. The increase in the Reserve Bank buying rates for acceptances raised them slightly above the open market quotations and checked the selling of bills to the Reserve Banks, which had been increasing in volume. Thus, the action represented an adjustment of this bank's rates to conform with the current market pattern and promoted acceptance financing with private funds, rather than with Federal Reserve credit.

Member Bank Reserve Positions

Member bank reserve positions were subject to moderate pressure during July—in the first part of the month as a result of heavy preholiday demands for currency and as a result of Treasury transactions related to the retirement of maturing securities which brought about large shifts of funds between individual banks and communities; and in the latter part of the month, as a result of Treasury receipts substantially in excess of disbursements which more than offset the effects on reserves of a return of currency to the banks and a decline in reserve requirements. Although member bank reserves were affected unevenly by these transactions, in the aggregate the banks were in substantial need of reserve funds and sold short term Government securities in the open market, large amounts of which were absorbed by the Federal Reserve System.

On the first of July, the Treasury paid off 2 billion dollars of a 4.9 billion dollar issue of maturing 0.90 per cent notes and exchanged a new issue of certificates of indebtedness for the remainder. Even though a large withdrawal of funds from War Loan deposits in the banks was made, Treasury disbursements were substantially in excess of receipts during the first statement week of the month (ended July 3), but a large part of the net expenditure was absorbed by the retirement of Federal Reserve System holdings of the matured notes and by the Treasury's payment of its initial subscription to the World Bank into the latter's account with the New York Reserve Bank. Thus, only a small portion of the net disbursements reached member banks and this was insufficient to meet the strain on reserves caused by a heavy seasonal demand for currency prior to the Independence Day holiday and by the increase in reserve requirements associated with Treasury redemptions of notes held by nonbank investors.

In the following three weeks, Treasury receipts exceeded disbursements by a wide margin. Expenditures in this period, furthermore, included a deposit of 300 million dollars to British account with the Federal Reserve Bank, the initial instalment of the 3¾ billion dollar credit recently granted to the United Kingdom by Congress. Thus, a considerable part of the Treasury's disbursements in this period did not immediately reach the commercial banks. The net effect of these Treasury transactions more than offset the effects of the large post-holiday return of currency from circulation and a sizable reduction in reserve requirements. As a result, member banks were compelled to sell short term securities directly and indirectly to the Federal Reserve System to adjust their reserve positions. New York City banks were subject to particularly wide fluctuations in their reserve positions, which were attributable not only to the large-scale Treasury transactions, but also to heavy movements of funds between New York and other parts of the country. To a considerable extent New York City banks adjusted their positions by buying and selling Treasury bills, although their transactions in other Government securities were also on a substantial scale.

Member Bank Credit

Reflecting the July 1 redemption of maturing 0.90 per cent Treasury notes and intermittent pressure on member bank reserves, total Government security holdings of the weekly reporting member banks declined by 1.2 billion dollars in the four weeks ended July 24, at which date they were approximately 6.4 billion dollars less than at the beginning of the year. Of the decline in the four-week period, New York City banks accounted for 345 million dollars. They not only lost a sizable amount of Treasury notes through the redemption, but also had a small net decline in their certificate holdings in spite of receipts of certificates in exchange for that portion of the Treasury notes not redeemed. Holdings of Treasury bills fluctuated sharply, and at one time, bill holdings of the weekly reporting banks in New York City dropped to 47 million dollars, lowest since February 8, 1939 when holdings of Government obligations were first reported by types of issue. Nevertheless, in the four weeks under review, holdings rose about 80 million net. Net purchases of bonds amounted to about 170 million dollars.

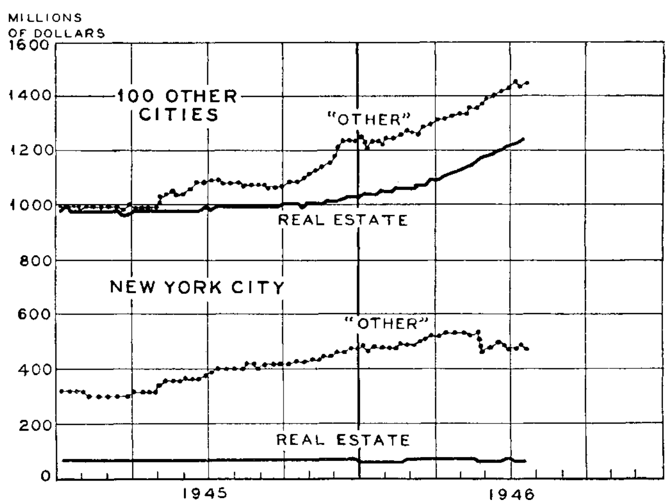
Government securities of the weekly reporting banks in 100 other cities fell 825 million dollars in the four weeks ended July 24, again owing partly to the retirement of Treasury notes. These banks made small net sales of bills and substantial sales of certificates, and purchased a small amount of bonds.

Total loans of the weekly reporting banks dropped 115 million dollars in the four weeks ended July 24, reflecting chiefly a decline in Government security loans which was heaviest among New York City institutions. Brokers and dealers liquidated 454 million dollars of their borrowings on Government obligations from New York City banks in the two weeks ended July 24, presumably in advance of the effective date (July 22) of the higher rates on loans secured by short term Government issues, and there were smaller repayments in other cities. Loans on Government securities to other borrowers also were reduced gradually throughout the period, both in New York and elsewhere. This liquidation of security loans more than offset the gains in other kinds of loans extended in this period. The tendency for security loan repayments to exceed the extension of credits for other purposes has been apparent among the New York City institutions since the beginning of the year and also prevailed in the banks in 100 other cities until recent weeks.

In the four weeks ended July 24, however, the growth of business and other kinds of loans outside New York was greatly accelerated, and surpassed the liquidation of security loans. The expansion of other than security loans has been more vigorous during the current year at out-of-town weekly reporting member banks than at New York City reporting institutions. Commercial, industrial, and agricultural loans of the reporting banks in 100 cities increased 525 million dollars (or 12 per cent) between January 2 and July 24, 1946, and more than half the gain took place in the last four weeks of this period. Business loans of the New York City banks fluctuated irregularly during 1946, but on July 24 showed a net gain of about 200 million dollars or 7 per cent over the amount outstanding at the beginning of the year. The increase between June 26 and July 24 came to about 160 million.

But the difference in the rate of growth of loans between the two groups of banks is even more striking for real estate and "other" loans (largely personal or consumer loans and loans to financial institutions other than banks and sales finance

Real Estate and "Other" Loans of Weekly Reporting Member Banks in New York City and 100 Other Cities*



*"Other" loans include consumer loans and loans to financial institutions except banks and sales finance companies, and exclude commercial, industrial, agricultural, and real estate loans, and loans for purchasing or carrying securities. (Latest figures are for July 17.)

companies, and to foreign governments), as illustrated in the accompanying chart. In contrast to increases of approximately 200 million dollars each in real estate and "other" loans among the weekly reporting banks in 100 other cities during 1946, the New York City banks reported no net gain in either category. Outside New York City, the expansion of both classes of loans appears to have been widespread among weekly reporting banks in most Federal Reserve Districts and in the remainder of the Second District.

As shown in the chart, the rise in "other" loans appears to have got under way in April 1945. The total increase since that month came to 160 million dollars for the New York City institutions and to 450 million dollars for weekly reporting member banks in 100 other cities. While a considerable part of this gain may be explained by the expansion of consumer borrowing at commercial banks (according to estimates of the Board of Governors of the Federal Reserve System total consumer instalment credits by the commercial banks increased by about 450 million dollars between April 1945 and May 1946), a sizable expansion of borrowings for miscellaneous purposes has apparently taken place, including borrowings by foreign countries. In fact, the relatively sharp decline of "other" loans at New York banks during the week ended May 29, 1946 reflects chiefly the liquidation of a large loan to a foreign government.

The expansion of real estate loans in the weekly reporting member banks appears to be of more recent origin, having begun toward the close of 1945. Undoubtedly, the increased activity of the banks in the mortgage field is closely related to the acute housing shortage which has compelled many borrowers to purchase homes in order to find shelter. While a large part of the new mortgage loans made by the banks represent the exchange of ownership of existing structures, construction loans probably comprise an increasing proportion in view of the sharp rise in residential building.

FINANCIAL OPERATIONS OF FEDERAL TRUST FUNDS[1]

Federal Government trust funds have become of increasing importance in recent years because of the effect of their operations upon Treasury financing. The principal Federal trust funds arose out of social insurance programs. These programs were set up for the most part on a reserve basis rather than on a pay-as-you-go basis, i.e., contributions to the funds were fixed at a rate which would exceed expenditures in the early years when benefit payments are low. These reserves, except for a small amount of cash set aside to meet current expenditures, are usually required by law to be invested in U. S. Government securities. If at any time expenditures of a fund exceed current receipts, as was the case with the Unemployment Trust Fund early in 1946, these reserves are drawn upon by redeeming securities or selling them in the market.

[1] Copies of a more extensive analysis made by this bank, upon which this study is based, may be obtained upon request.

TABLE I
Holdings of U. S. Government Securities by Federal Government Trust Funds*
(As of June 30 each year; in millions of dollars)

Fund	1935	1940	1945	1946
Federal Old-Age and Survivors Insurance Trust Fund	—	1,738	6,546	7,549
Unemployment Trust Fund	—	1,710	7,307	7,409
National Service Life Insurance Fund	—	—	3,187	5,240
Civil Service Retirement and Disability Fund	270	550	1,848	2,155
U. S. Government Life Insurance Fund	61	828	1,141	1,188
Railroad Retirement Account	—	79	501	657
Adjusted Service Certificate Fund	156	11	15	13
Miscellaneous small funds	8	18	34	35**
Total ‡	495	4,936	20,578	24,246

* U. S. securities include also U. S. guaranteed securities.
** Estimated.
‡ Figures are rounded and do not necessarily add to totals.
Source: Annual Reports of the Secretary of the Treasury for fiscal years 1935, 1940, and 1945. Figures for June 30, 1946 from *Daily Statement of the United States Treasury.*

Prior to inauguration of the Social Security program in 1936, Federal trust funds had accumulated only a small investment in Government securities, amounting to less than 500 million dollars on June 30, 1935. Only three trust funds existing at that time were of any importance in Treasury financing. The Civil Service Retirement and Disability Fund established in 1920 accounted for 270 million dollars of the total as a result of accumulated employee and Government contributions in excess of benefits paid. The Adjusted Service Certificate Fund, established in 1924 to receive annual appropriations to cover eventual payment of the veterans' bonus, held 156 million dollars of Government securities. Most of the receipts to this fund from annual appropriations were used to make loans to veterans during the depression against their adjusted service certificates, so that the reserve available for investment in Government securities was relatively small in 1935. Similarly, the U. S. Government Life Insurance Fund, established in 1920 to handle financing of converted life insurance policies of World War I veterans, had employed much of its reserve in loans to veterans, so that investments on June 30, 1935 included only 61 million dollars of Government securities.

With the start of the Social Security program in 1936, three new trust funds came into being—the Unemployment Trust Fund, the Federal Old-Age and Survivors Trust Fund, which soon became the largest holders of Government securities among the Federal trust funds, and the Railroad Retirement Trust Fund. By the start of the defense program in July 1940, reserves accumulated through excess of payroll tax receipts over benefit payments were invested in Government securities in the amount of more than 1,700 million dollars each for the Unemployment and Old-Age Funds.

Among the older funds, the Civil Service Retirement and Disability Fund invested 280 million dollars in Government securities in the five-year period ended June 30, 1940, primarily as a result of increased Government contributions. The Government Life Insurance Fund increased its Government security investments by nearly 770 million dollars, but most of this represented the issuance of 500 million dollars of special adjusted service bonds to the fund in cancellation of a like amount of loans outstanding to veterans against their adjusted service certificates at the time the bonus became immediately payable in 1936. The Adjusted Service Certificate Fund virtually completed its operations in 1936, as a result of this early payment of the bonus. Loans to veterans by this fund were canceled against their rights to the bonus, and Government security holdings of the fund were liquidated except for a negligible reserve to cover bonus payments not yet claimed.

During the defense and war period covering fiscal years 1941-45, reserves of the Federal trust funds were built up at a much faster rate because of the expansion in payrolls, reduction in unemployment benefit payments, and establishment of the National Service Life Insurance program for members of the Armed Forces. Government security holdings of the funds rose by more than 15.6 billion dollars to a total of nearly 20.6 billion on June 30, 1945. The annual rate of addition to total holdings increased sharply from 1.3 billion dollars in the fiscal year 1941 to 5.2 billion in fiscal 1945. The Unemployment and Old-Age Funds continued to predominate, adding 5.6 billion dollars and 4.8 billion, respectively, of Government securities during the five-year period. Both funds reached a peak annual increase in fiscal 1944 when the Unemployment Fund invested 1.5 billion dollars and the Old-Age Fund nearly 1.2 billion. Benefit payments of the Unemployment Fund had declined to a negligible amount by that year, reflecting the small number of unemployed workers. Reserves accumulated in fiscal 1945 were slightly less for the Unemployment Fund because a further decline in percentage contribution rates, resulting from use of merit ratings by the States, was not offset as in prior years by substantial increases in payrolls subject to taxation. The Old-Age Fund also accumulated a slightly smaller amount for investment in fiscal 1945 than in the previous year because payroll tax receipts leveled off while benefit payments continued to rise.

A new large fund was added with the establishment of the National Service Life Insurance Fund in the latter part of 1940. By June 30, 1945, this fund had invested nearly 3.2 billion dollars in Government securities. The bulk of these investments were made in the fiscal years 1944-45, amounting to nearly 0.9 billion dollars in fiscal 1944 and 2.0 billion in fiscal 1945. Premium receipts alone exceeded benefit payments by 1.9 billion dollars up to June 30, 1945. In addition the Federal Government contributed over 1.2 billion dollars, virtually all in the fiscal year 1945. The Government contributes lump sum amounts sufficient to cover the present value of all future payments arising from war risk deaths. Premium receipts were based on the normal American experience table of mortality. The large invested reserve of this fund is to cover the continued benefit payments in future years. Under present legislation payments to beneficiaries are made only in instalments over several years rather than in lump sum amounts.

The Unemployment, Old-Age, and National Service Life Insurance Funds accounted for 87 per cent of the 15.6 billion dollar increase in all trust fund investments during the five-year period ended June 30, 1945. As in the previous period the Civil Service, Railroad Retirement, and Government Life Insurance Funds accounted for virtually all of the remainder.

Under present legislation, there will be a substantial drop from the 5.2 billion dollars invested by trust funds in the fiscal year 1945. In the fiscal year 1946, investments of the trust funds increased 3.7 billion dollars, and a further decline is likely in future annual increments. This drop reflected primarily the changed position of the Unemployment Trust Fund. The invested reserve of this fund increased only 0.1 billion dollars in fiscal 1946 as compared with more than 1.4 billion in fiscal 1945. The primary reason for this change was the sharp rise in unemployment benefit payments following V-J Day. It is unlikely that the reserve of this fund will be allowed to increase more than a moderate amount beyond the present 7.4 billion dollars. If unemployment should stabilize at a low level, it is likely that contribution rates would be lowered still further or that benefits would be liberalized. Chairman Altmeyer of the Social Security Board recently stated that the reserve was adequate to meet expected levels of unemployment, and suggested a reduction in the standard contribution rate.

The rate of increase in the Old-Age Fund tapered off only slightly in fiscal 1946, amounting to 1.0 billion dollars, compared with 1.1 billion in the previous year. Receipts of this fund are likely to stabilize at about the present level, unless Congress allows the payroll tax rate to increase or extends the program to workers not now covered, as benefit payments are rising gradually as more covered workers become eligible for pensions.

The National Service Life Insurance Fund invested nearly 2.1 billion dollars in fiscal 1946, largely as a result of Government contributions amounting to 1.4 billion, but future Government contributions will be relatively small since the bulk of war risk death claims have now been settled. Furthermore, premium receipts have declined as some veterans dropped or reduced their insurance coverage, while benefit payments have increased sharply as claims were settled. Investments of the Civil Service Retirement and Disability Fund reached their largest annual increase of 400 million dollars in fiscal 1945, and dropped to 300 million in fiscal 1946. Some further decline in the annual accumulations is likely because of the shrinkage in Federal payrolls. The Railroad Retirement Account provided less than 200 million dollars of investment funds even in fiscal 1945 and is likely to stabilize at this annual rate or slightly more if pending legislation increasing the contribution rates and eventual benefits is passed. Reserves of the Government Life Insurance Fund increase only about 50 million dollars annually.

The types of securities acquired by the trust funds are determined largely by requirements set forth in the Acts

TABLE II
Types of Government Securities Held by Federal Government Trust Funds June 30, 1946
(In millions of dollars)

Fund	Special certificates	Special notes	Treasury bonds	Total
Federal Old-Age and Survivors Insurance Trust Fund	3,401	2,509	1,638	7,549
Unemployment Trust Fund	6,699	—	710	7,409
National Service Life Insurance Fund	—	5,240	—	5,240
Civil Service Retirement and Disability Fund	—	2,155	—	2,155
U. S. Government Life Insurance Fund	682	2	504	1,188
Railroad Retirement Account	—	657	—	657
All other funds	13	22	12**	48†
Total ‡	10,795	10,586	2,864	24,246

** Estimated.
† Includes one million dollars in Savings bonds.
‡ Figures are rounded and do not necessarily add to totals.
Source: *Daily Statement of the United States Treasury.*

creating the various funds. A breakdown by type of security is shown in Table II. For the most part, these funds hold special issues obtained directly from the Treasury. The special certificates are of one year maturity but are redeemable on demand, while the special notes have a five year maturity but are redeemable after one year from date of issue. The only special bonds were the adjusted service bonds issued to the Government Life Insurance Fund in cancellation of loans to veterans against their adjusted service certificates. These bonds were redeemed in June 1946 and replaced by special certificates.

Only three of the principal trust funds hold marketable Treasury bonds. The other three cannot obtain yields on marketable issues equal to the interest basis on which the funds were set up, which is 3 per cent for the National Service Life Insurance and Railroad Retirement Funds, and 4 per cent for the Civil Service Fund (except for a negligible amount of additional voluntary contributions on a 3 per cent basis). The Treasury issues to these funds special securities carrying the required coupon rates. The Government Life Insurance Fund is on a 3½ per cent basis, but acquired various marketable issues in earlier years when interest rates were higher. Furthermore, the adjusted service bonds held by this fund until June 1946 carried a 4½ per cent rate which offset the lower rates on marketable holdings. Special issues to this fund have generally carried a 3½ per cent rate.

In the original Social Security Act, all obligations acquired by the Old-Age Fund had to yield at least 3 per cent, but the 1939 amendment dropped this requirement and provided that special issues should carry a rate to the nearest one-eighth per cent below the computed average rate on the entire public debt. As a result of this provision, the rate on special issues to the fund has been reduced to 1⅞ per cent on new issues since June 15, 1943. Special obligations are issued to this fund only if the managing trustee (Secretary of the Treasury) determines that the purchase of other interest-bearing obligations on original issue or at the market price is not in the public interest. The fund had acquired 1.6 billion dollars of marketable Treasury bonds up to June 30, 1946, while special issues amounted to 5.9 billion dollars.

Stipulations as to the issue of special obligations to the Unemployment Trust Fund are similar to those of the Old-Age Fund, without the provision, however, that such investment be made only if it is not in the public interest to acquire regular issues. On the other hand, marketable securities may be bought by the Unemployment Fund only on such terms as to provide an investment yield not less than that which would be required at the time on special issues. At present, therefore, the fund would be unable to acquire short term public issues. In view of the nature of this fund, it would not be desirable to invest a substantial amount in long term Treasury bonds which might have to be liquidated at an inopportune time. Investment holdings as of June 30, 1946 consisted of 6.7 billion dollars of special certificates and 0.7 billion of Treasury bonds.

POSTWAR FINANCING OF THE UNITED STATES MERCHANDISE EXPORT SURPLUS

The foreign trade of the United States has, in the relatively short period since the end of hostilities, undergone a number of fundamental changes which had a far-reaching effect on the character of the United States balance of international payments. During the war years, the huge merchandise export surplus of the United States reflected largely heavy lend-lease shipments which did not require concurrent payment of dollars by the recipient countries. At the same time our wartime purchases of foreign products either for import or stockpiling abroad were for the most part paid for in cash. Consequently, foreign countries as a whole were able to accumulate considerable amounts of dollar exchange and gold as a result of their wartime trade with this country.

This situation was reversed after V-J Day when "commercial" and other cash exports began to exceed our imports in increasing amounts. While total merchandise exports still remain materially below wartime levels despite increases in late 1945 and early 1946, the relative share of "commercial" exports has risen sharply. Simultaneously, the nature of "lend-lease" exports has changed fundamentally, as most of such shipments since V-J Day have required either full cash payment or a substantial cash down payment with the balance due over a number of years under credit arrangements. Inasmuch as these shipments provide the United States with immediate or deferred receipt of dollars from abroad, both commercial exports and most post-armistice lend-lease shipments may be combined under the common classification of "cash and credit" exports. The steady increase in these cash and credit exports was in direct contrast to the sharp reduction—in comparison with the war period—in those post-armistice exports which did not require payment of dollars by foreign importers. At present this category consists of shipments under the UNRRA program, private relief shipments, United States Government exports, and a small amount of special lend-lease shipments.

Meanwhile, United States imports have remained close to wartime levels. The large excess of United States cash and credit exports over imports can be seen from the following table, based on data published by the Bureau of the Census.

Dollar Value of United States Foreign Trade
(In millions of dollars)

Period	Exports from United States			General imports to U. S.	Excess of "cash and credit" exports over imports
	Total	"Non-cash" (a)	"Cash and credit" (b)		
Prewar					
Monthly average 1936-38	247	—	247	207	40
Postwar					
1945 October	455	72	383	344	39
November	639	106	533	322	211
December	736	134	602	297	305
1946 January	800	161	639	394	245
February	671	126	545	319	226
March	815	133	682	384	298
April	758	106	652	406	246

(a) Exports not resulting in receipt of dollars from foreign sources. Primarily UNRRA exports, but also includes private relief shipments, U. S. Government exports to its agencies abroad, some exports to Belgium in settlement of that country's net claim against the U. S. on lend-lease account, and certain special lend-lease shipments to Italy.
(b) Exports resulting in immediate or deferred receipt of dollars from foreign sources.

The data above indicate that the foreign trade of the United States resulted in a total excess of cash and credit exports over imports of more than 1½ billion dollars during the first seven full calendar months following the official date of termination of hostilities with Japan. To this amount should be added some part of such indirect exports as the sale of United States surplus property abroad, from which a total of 345 million dollars had been obtained in cash by the end of March, or will be obtained eventually under special dollar credit arrangements.

With respect to the financing of this large excess of cash and credit exports over imports, it is significant to note that although there has been a decline in combined foreign holdings of gold and dollar assets since V-J Day, this decline has been far from commensurate with the excess of such exports. From the end of September 1945 through April 1946 there was a net foreign loss of gold to the United States of about 272 million dollars. This loss was supplemented by a reduction in foreign-owned dollar assets during the same period.

An important source of funds required in settlement of the remainder of our post-armistice surplus of cash and credit exports has been the various types of dollar credits extended under the United States Government's coordinated foreign lending program. This program, in fact, now has assumed a position similar in some respects to the one occupied throughout the war years by the lend-lease program, and it can be credited with having contributed to the substantial increase in United States merchandise exports from the low point reached after the cessation of straight lend-lease shipments in September and October 1945. Dollar credits made available by the United States Government to foreign countries since the end of hostilities have reached a total of about 8 billion dollars, including the recently approved 3,750 million dollar credit to the United Kingdom; only a relatively small fraction of this total has been utilized to date, however.

Since the over-all purpose of many recent United States Government loans is to aid in the reconstruction of war-devastated countries, it was necessary to restrict their use to a well coordinated flow of capital goods and selected raw materials and foodstuffs to those countries. In this manner the foreign lending program has had a strong bearing not only on the financing but also on the composition of our cash and credit exports. With the exception of the 3,750 million dollar British credit, most foreign loans were tied to prescribed transactions. For example, the Export-Import Bank has restricted the use of most of its loans to the purchase of definitely designated types of products, while loans by other Government agencies have usually consisted of credit arrangements for the deferred payment of obligations for lend-lease supplies and for purchases of United States surpluses and installations abroad.

Of similar importance has been the bearing of the United States Government lending program on the geographical distribution of our foreign trade. Many of the countries which needed reconstruction materials most urgently, such as France and the Netherlands, have suffered severe losses of gold and foreign exchange reserves since 1939, or had been short of such reserves even before the war. A large flow of foreign loans has been directed to them in order to increase their ability to make emergency purchases in this country.

Similar to the influence of United States Government foreign loans on cash and credit exports has been the effect of United States relief contributions on the magnitude and direction of our so-called "non-cash" exports. For example, exports by UNRRA, which comprise the largest part of non-cash exports, accounted for about 14 per cent of the total value of United States merchandise exports during the first quarter of 1946.

Substantial export surpluses in this country's foreign trade may be expected to continue—at least during the transition period—if the United States is to undertake to meet the huge pent-up foreign demand for American capital and consumers' goods at a time when exports to this country will be hampered by low productive capacity in the war-devastated countries. As a reserve to cover net imports from this country during the coming years, foreigners now have, or may be expected to have, at their disposal (aside from the wartime accumulation of dollar exchange and gold by a number of countries) the large unutilized portion of the United States Government's loans, together with any subsequent loans from this source; the unutilized portion of the United States' contribution to UNRRA; loans from the newly organized International Bank for Reconstruction and Development; and funds derived from a possible revival of private United States lending abroad.

However, all these means of financing our trade surplus during the coming years of transition can be considered only as temporary expedients. The long-range problem is a distinctly different one, as it will become necessary eventually for the borrowing countries not only to meet the costs of their current imports of goods and services but also to meet the service charges on debts incurred during the early postwar years. The National Advisory Council on International Monetary and Financial Problems estimates that the annual requirements for the servicing of United States Government foreign loans, including loans which may be floated in the United States by the International Bank, will amount to "less than 1 billion dollars". This will constitute a substantial strain on the balance of international payments of debtor nations, unless they find means of obtaining additional dollar exchange through sources other than United States capital exports.

In the long run, therefore, sustained large United States exports will have to be financed through increased United States imports of goods and services and, in a more general way, through the maintenance of a large volume of multilateral trade. A program of increased imports would, of course, involve a partial reorientation of our foreign trade policies, which would be in line with a possible depletion of some of this country's natural resources and the increased productive capacity of foreign countries owing, in part at least, to United States exports of capital goods. In recognition of the over-all necessity for a large volume of multilateral trade, the United States has been actively engaged in the sponsorship of an International Trade Conference for the purpose of laying the basis for international economic cooperation.

EMPLOYMENT SINCE THE END OF THE WAR

Following the long decline in factory employment from the wartime peak, reflecting at first cutbacks in war production, and then the layoffs incidental to reconversion, followed by a succession of widespread strikes, the number of employed workers once again is on the increase. During the first week in June, total civilian employment was estimated by the Bureau of the Census at 56.7 million persons, the highest level in this nation's history, and an increase of a million and a half over May. When the 3 million members of the Armed Forces are included, it can be seen that we are already rapidly approaching the much publicized peacetime goal of "60 million jobs". Unemployment has declined from its postwar peak of 2.7 million persons, despite the summer influx of students and seasonal workers into the labor market. By June nearly 12 million veterans of World War II had returned to civilian life, and less than a million of them were unemployed. Except for about a million and a half who were in school or not yet looking for employment, the rest had returned to old jobs or found new positions.

Industry, however, has not yet approached full capacity peacetime production, and manufacturing employment is still far below the record wartime level. Consequently, as hiring in manufacturing, construction, and trade continues, it is now expected that the country may be faced by fall with a labor shortage instead of the widespread unemployment that was anticipated at one time. Scattered shortages of skilled workers and a gradual tightening of the labor market are already in evidence, and the United States Employment Service estimates that eventually the demand for workers may be great enough to absorb those currently unemployed plus the returning veterans and necessitate the recall of more than half of the 4 million workers (mostly women) who left the labor force after V-J Day.

The number of construction workers in June was the greatest since the end of 1942, and employment in the finance and service industries reached an all-time high. The number of civilian government employees had declined about three quarters of a million from the wartime peak. Manufacturing employment, however, dropped from a wartime peak of 17.2 million in November 1943 to a low of 11.4 million in February 1946, and successive gains during the following four months recovered less than one quarter of the loss.

During the first five months of 1946, 82 million man-days were lost in industrial disputes, more than double the number for the entire year 1945 and five times the 1935-39 annual average. At present, prospects for a period of comparatively peaceful labor-management relations appear more favorable than at any time since V-J Day. Strike notices filed in the first part of July showed a sizable decline, despite the ending of price control.

In New York State, as in the rest of the country, manufacturing employment in June had not recovered to the level prevailing at the end of the war, and was still 23 per cent below the wartime peak. During the war the number of manufacturing employees in New York State rose about 58 per cent above the 1939 average, compared with an increase of more than 80 per cent in the country as a whole. War production leveled off earlier in this State and by V-J Day employment had declined 21 per cent from the wartime peak. After the end of the war, reconversion and then strikes cut the number of employed workers 13 per cent further, compared with 18 per cent in the entire country, but in recent months the trend has been upward.

Indexes of Business

Index	1945 June	1946 April	1946 May	1946 June
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	220	165	159	170p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	205	191	189	188p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	235	145	140p	
Sales of all retail stores*†, 1935-39 = 100 (*Department of Commerce*)	190	236	235p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	157	137r	138	139p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	134	124	124	125p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	315	249	246p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	264r	245	245	249p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	245	236	240p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	170	177	179p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	129	131	132p	
Velocity of demand deposits*‡, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	99	100	92	86
Outside New York City	90	80	79	75

* Adjusted for seasonal variation. p Preliminary. r Revised.
† Series revised beginning January 1945.
‡ Series revised beginning 1941; available upon request.

RETAIL TRADE

After adjustment for seasonal variation, department store sales in the Second Federal Reserve District were higher during June than in any previous period. Sales during July are estimated to be at approximately the same level when seasonally adjusted, but actual dollar sales, of course, are considerably lower, as department store sales touch their seasonal low in this month. At the end of June the seasonally adjusted index of department store stocks had reached a new high of 204 for the year, only a few points below the all-time high of 214 for July 1942 at the then prevailing lower price level. In spite of this high level of stocks, outstanding orders continued to increase during June; a part of this increase is undoubtedly seasonal.

With the recently inaugurated publication of the *Monthly Retail Trade Report* series by the Bureau of the Census, Department of Commerce, new and more inclusive data on the dollar volume of retail sales are available for several areas within the Second Federal Reserve District. For New York State, releases are available beginning January on retail trade in New York City and Westchester County combined, Orange and Rockland Counties combined, Monroe and Wayne Counties combined, and Erie County. For Northern New Jersey releases are available for the predominantly agricultural Counties of Hunterdon and Warren and the industrial Essex and Hudson Counties. While for Hunterdon and Warren Counties only total retail trade is shown, more detailed data are available for the more populous areas. For the New York area, thirty-six kinds of business are shown separately. The Bureau of the Census is gradually expanding its reporting sample in each locality, and as more firms are added, the Census will publish local data in greater detail. The latest District data available, through May of this year, are summarized in the accompanying table. The Census data cover independent retailers only and show percentage changes in sales from a year ago and from the previous month, and sales for the year to date compared with the same period a year earlier. The number of stores reporting for each kind of business and their aggregate dollar sales for the month are also indicated in the Census releases. These figures provide the retailer with a basis for comparing changes in his volume of business with average changes for his locality. Each locality release carries on the facing page a similar report for the United States as a whole.

As the *Monthly Retail Trade Report* covers independent retailers only, changes shown for the kinds of business in which chain stores are a major factor cannot be taken as representative of total sales in those lines. However, the Department of Commerce publishes monthly chain store figures for the United States by kind of business.

Figures released by this bank on furniture store trade by major localities differ somewhat from those published by the Census because this bank's report includes firms having four or more stores (the Census definition of a chain).

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

Locality	Net sales		Stocks on hand
	June 1946	Jan. through June 1946	June 30, 1946
Department stores, Second District	+37	+34	+16
New York City	+39	+35	+15
Northern New Jersey	+41	+36	+23
Newark	+39	+34	+22
Westchester and Fairfield Counties	+39	+34	+32
Bridgeport	+38	+29	+34
Lower Hudson River Valley	+36	+34	+30
Poughkeepsie	+34	+35	+25
Upper Hudson River Valley	+35	+35	+16
Albany	+42	+51	+21
Schenectady	+31	+18	+11
Central New York State	+32	+31	+ 8
Mohawk River Valley	+25	+25	+14
Utica	+19	+20	+13
Syracuse	+35	+33	+ 5
Northern New York State	+30	+33	—
Southern New York State	+28	+26	+ 9
Binghamton	+30	+30	+14
Elmira	+22	+17	+13
Western New York State	+28	+27	+15
Buffalo	+28	+28	+18
Niagara Falls	+ 7	+10	+20
Rochester	+30	+27	+ 9
Apparel stores (chiefly New York City)	+31	+30	+22

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

Item	1945 June	1946 April	1946 May	1946 June
Sales (average daily), unadjusted	155*r*	219	214	221
Sales (average daily), seasonally adjusted	169	219	226	240
Stocks, unadjusted	166	182	192	192
Stocks, seasonally adjusted	176	180	190	204

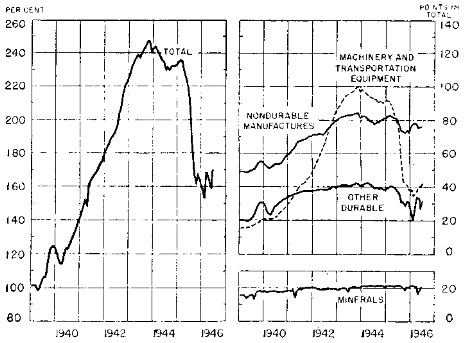
r Revised.

Net Sales of Independent Retail Stores by Kind of Business, United States and Second District Localities

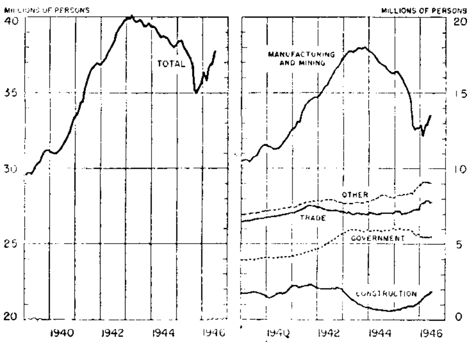
Kind of business	Percentage change, January-May 1946 compared with January-May 1945					
	United States	New York City and Westchester County	Erie County	Monroe and Wayne Counties	Orange and Rockland Counties	Essex and Hudson Counties
Total stores	+24	+29*r*	+27	+28	+36	+28
Department stores	+22	+34*r*	+25	+24	+26*	+32
Other stores	+25	+25*r*	+29	+32	—	+25
Food stores	+16	+13	+ 7	+11	+15	+19
Eating and drinking places	+ 6	+11	+ 7	+15	+13	+ 5
Liquor stores	+15	+13	+11	—	—	+10
Florists	+11	+14	—	—	—	—
Filling stations	+35	+69	+10	—	—	+29
Fuel and ice dealers	+ 7	+17	+21	+26	+16	+11
Farm and garden supply stores	+19	+24	—	—	—	—
Drug stores	+17	+17	+14	+34	—	+17
Dry goods and general merchandise stores	+11	+16	—	+15	*	+15
Apparel stores	+20	+28	+27	+16	+16	+23
Sporting goods stores	+50	+37	—	—	—	—
Jewelry stores	+30	+31	+37	—	—	+33
Automotive stores	+71	+57	+101	+73	+74	+91
Furniture, household, radio stores	+47	+48*r*	+66	+60	—	+60
Lumber, building, hardware stores	+35	+25	+28	+29	+53	+22

r Revised.

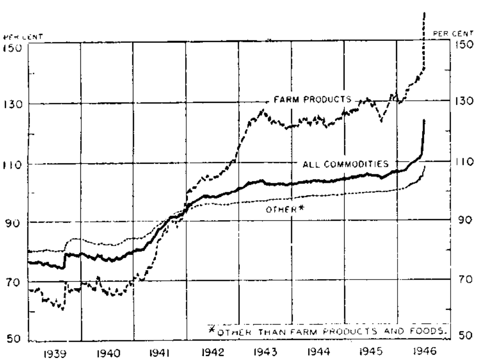
* Dry goods and general merchandise stores included with department stores.
Source: *Monthly Retail Trade Report*, Department of Commerce.



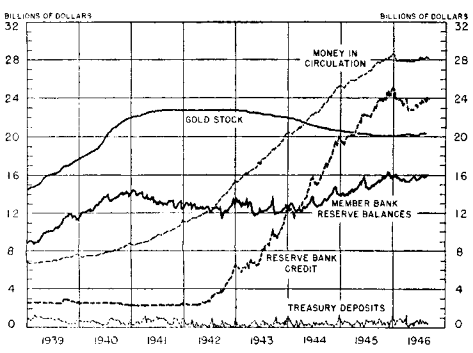
Indexes of Physical Volume of Industrial Production, Adjusted for Seasonal Variation. 1935-39 Average =100 Per Cent (Groups shown are expressed in terms of points in the total index)



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 July 20)



Member Bank Reserves and Related Items (Latest figures are for July 17)

National Summary of Business Conditions

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

WITH settlement of major industrial disputes, output at factories and mines increased sharply in June. Retail trade was in exceptionally large volume in June and the early part of July. Prices of agricultural commodities rose sharply in the first half of July following the lapse of Federal controls, and prices of industrial commodities showed some further rise.

Industrial Production

The Board's seasonally adjusted index of industrial production rose from 159 per cent of the 1935-39 average in May to 170 in June. This compares with earlier post-war highs of 168 in November and in March. Most of the increase from May to June reflected sharp advances in output of coal and of iron and steel after settlement of the coal strike.

Output of durable manufactures increased about 10 per cent in June, reflecting chiefly the recovery of iron and steel output from the sharply reduced May rate. Steel mill activity advanced from 44 per cent of capacity at the end of May to 87 per cent of capacity at the end of June and in July rose somewhat further to a rate of 89 per cent during the current week. Output of nonferrous metals and of machinery showed moderate gains in June, largely reflecting settlement of wage disputes in these industries, and production of stone, clay, and glass products recovered from the low May level. Lumber production showed about the usual seasonal increase.

Output of nondurable goods as a group showed little change from May to June, with a further decline in manufactured food output offset in the total by moderate gains in most other lines. Meat production under Federal inspection dropped further in June to a rate about 80 per cent of the 1935-39 average, but rose sharply after the lapse of price controls on June 30. Output at textile mills continued to advance slightly in June and was at a level 10 per cent above a year ago. There were slight gains in activity in the paper, chemical, petroleum, and rubber products industries.

Minerals output rose 23 per cent as coal and metals production showed sharp gains with the settlement of wage disputes, and crude petroleum production advanced further to a new record rate under the pressure of exceptionally large demand for petroleum products.

Construction

Value of construction contract awards, according to the F. W. Dodge Corporation, declined in June, following a sharp rise during the past year. Residential awards were reduced by one fourth from the record level reached in May, while those for nonresidential construction showed only slight declines.

Employment

Employment in nonagricultural establishments continued to advance in June, after allowance for seasonal changes, reflecting large increases in mining and construction and a slight gain in manufacturing. The number of persons unemployed, other than students looking for summer jobs, showed little change from May to June.

Distribution

Department store sales in June, after allowance for seasonal changes, were the largest on record, and in the first half of July sales showed about the usual seasonal decline.

Loadings of railroad revenue freight increased sharply in June, following interruptions to shipments in April and May as a result of industrial disputes. All classes of freight shared in the rise. After a temporary decline in the week of July 4, there was a further rise and in the middle of the month coal, livestock, forest products, and less than carload lot shipments exceeded those during the same period last year.

Commodity Prices

Prices of farm products and foods advanced sharply during the first half of July after the lapse of Federal price controls. Subsequently prices of grains and some foods declined somewhat while prices of livestock advanced further. Prices of hides, cotton goods, newsprint, lumber, lead, and zinc also increased in July.

Bank Credit

Treasury operations in connection with retirement of maturing obligations and quarterly income tax collections dominated bank developments in June and the first half of July. Member bank reserve positions fluctuated somewhat as Treasury balances at the Reserve Banks were built up and drawn down around the security redemption dates of June 1, June 15, and July 1. Reserve positions tightened generally during the period as a whole, however, reflecting both the shift of deposits from Treasury balances to private accounts accompanying security retirement and cash redemption of about 800 million dollars of Government securities held by the Reserve Banks. Drains on bank reserves were met by purchases of about 1 billion dollars of Government securities by the Reserve System.

Holdings of Government securities at reporting banks declined further by 3 billion dollars in June and the first half of July, reflecting the sale of these securities to the Reserve Banks as well as cash redemption by the Treasury. Loans for purchasing and carrying Government securities showed further declines. Commercial and industrial loans expanded considerably at banks outside New York City and real estate and other loans continued to increase.