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MONEY MARKET IN AUGUST

The movement of funds through the money market in August maintained the general pattern established with the beginning of the Treasury's public debt retirement operations on the first of March. As in the past, the Treasury's cash redemption of part of an issue of certificates of indebtedness maturing on August 1 tended to place some strain on member bank reserves because of the use of funds withdrawn from the banks to retire securities held by the Reserve Banks. The pressure on reserves was heightened by a further expansion in the volume of money in circulation, but this factor was more than offset by a substantial decline in foreign balances with the Federal Reserve Banks. Member banks had to counteract the effects of the Treasury's redemption operation by recourse to Federal Reserve credit in order to maintain their reserves at required levels. On the whole, however, comparatively little net change in Reserve Bank credit other than "float" occurred during the month.

Open market rates on bankers acceptances were raised another ⅛ of 1 per cent on August 22 (following the increase on July 12), presumably in an effort to broaden the market for acceptances. Thus the tendency toward greater firmness in short term interest rates other than on Government securities continued. The latest rise in acceptance quotations brought the open market rates virtually to the levels of this bank's buying rates, and a minimum buying rate of 1 per cent was announced by this bank, effective August 24. Few acceptances have been offered to the Reserve Bank in recent weeks, and total Federal Reserve holdings have been reduced by maturities from 42 million dollars on July 17 to 14 million on August 28.

During the past month as a whole, Treasury expenditures were approximately in balance with tax receipts including heavy collections of taxes withheld at the source. Consequently Treasury withdrawals from War Loan deposit accounts were small, except in the first week of the month when substantial amounts were called for use in retiring 1¼ billion dollars of a 2½ billion dollar issue of certificates of indebtedness maturing on August 1. The withdrawals in that week, amounting to 1 billion dollars on August 1 and 100 million dollars each on August 2 and 5, together with tax receipts, fell more than 150 million dollars short of the amounts required to pay off the certificates and meet the ordinary expenses of the Government, the balance being met by drawing down the Treasury deposits with the Reserve Banks. However, a substantial part of the Treasury's disbursements was utilized to retire the Federal Reserve Banks' share of the redeemed securities, and more funds were taken from the money market than were returned to it. The resultant strain on member bank reserves was augmented by a further rise of 81 million dollars in outstanding currency, which is now showing the usual seasonal increase that begins in midsummer. Nonbank investor purchases of securities from the banking system offset this strain to a minor extent, as the accompanying reduction in private demand deposits reduced reserve requirements. In addition, member banks had to sell short term Treasury securities directly and indirectly to the Federal Reserve System to adjust their reserve positions. A sharp expansion in excess reserves in that week reflected entirely the elimination of a previous reserve deficiency of the New York City banks.

In the following three weeks, Treasury receipts from taxes, including substantial amounts of revenue from taxes withheld at the source, together with relatively small War Loan deposit withdrawals, exceeded disbursements by a substantial margin. The effect of these transactions and a further small increase in currency in circulation was offset to a large extent by sizable disbursements from foreign deposit accounts with the Federal Reserve Banks, and since the banks' need for funds was met in good part by allowing their excess reserves to fall, only moderate amounts of Federal Reserve credit were sought by member banks in the adjustment of their reserve positions.

New York City banks had the benefit of a moderate gain of reserve funds through Treasury redemptions and other transactions in the two weeks ended August 7, but this was more than offset by transfers of approximately 570 million dollars of commercial and financial funds to other parts of the country. In the following two weeks, the movements of funds in the New York money market were reversed, and the City banks lost reserves on Treasury account and gained through an inflow of business funds from other parts of the country and through payments out of foreign deposit accounts with the Reserve Bank. Thus, the reserves of the New York City institutions

fluctuated widely during the month, and demand for Federal Reserve credit also varied widely.

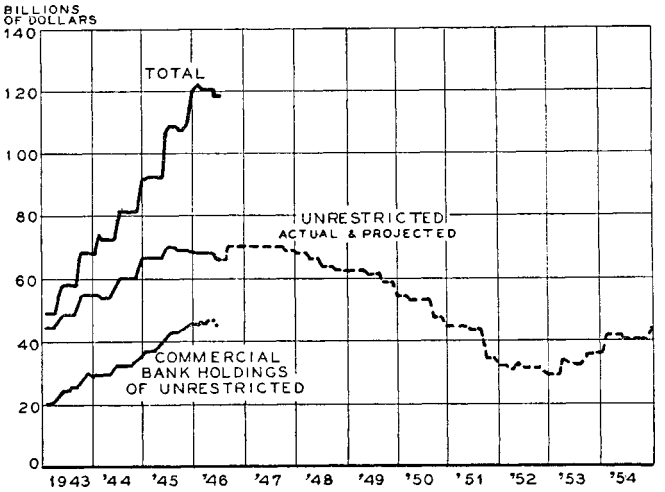
Toward the close of August, the Treasury again issued a heavy call on its depositary banks, payable on September 3, 4, and 5, in connection with the forthcoming cash redemption of 2 billion of a 4.3 billion dollar issue of certificates of indebtedness maturing on September 1. As the Federal Reserve Banks and Government agencies and trust funds held one third of the issue at the end of May, the redemption operation will probably cause a considerable drain on member bank reserves and a consequent demand for Federal Reserve credit.

Bank Holdings of Unrestricted Treasury Bonds

By early September, 15.4 billion dollars of Government securities will have been paid off in cash since the beginning of the Treasury's redemption program on March 1 of this year. While the retired securities have been mainly certificates of indebtedness and Treasury notes, they also include 2.3 billion dollars of unrestricted Treasury bonds (bonds eligible for bank ownership), ½ billion of which were retired on March 15 and 1.8 billion on June 15. Despite these redemptions, Treasury bond holdings of the banks are estimated to have declined less than 300 million dollars between the end of February and June 30, compared with holdings of 1.2 billion dollars of called bonds just prior to their redemption. As illustrated in the chart, banks responding monthly to a Treasury survey of the ownership of Government securities (currently numbering more than 7,300) more than replaced the bonds lost through the March 15 redemption, and judging from the data for the weekly reporting member banks, the banks apparently have almost offset the reduction resulting from the June 15 retirement operation as well. It is estimated that by mid-August, unrestricted bonds held by all banks reporting to the Treasury were 100 or 200 million dollars below the May 31 peak, but 300 to 400 million above the level at the end of February before the debt retirement program began.

During the war and for several months afterward, the banks sharply expanded their holdings of unrestricted Treasury bonds, by direct subscription when they were permitted, and by purchases in the market, otherwise. In the process, the volume of bank deposits was expanded and, through the reinvestment of the funds by the sellers, bank purchases tended indirectly to add to the upward pressure on prices of high grade bonds generally and hence to the downward tendency in yields. It is evident, however, that the redemption program and other factors, including the tendency toward firmer short term interest rates and a sharp expansion in demand for business and other loans, have slowed up bank acquisitions of bonds in recent months, at the same time greatly reducing the expansion of deposits from this source. The increase in bank holdings of unrestricted bonds fell from 8.8 billion dollars in 1945 to an estimated annual rate of increase of 1.2 billion in the first half

Treasury Bonds Outstanding—Total, Actual and Projected Unrestricted Bonds, and Commercial Bank Holdings of Unrestricted Issues*



* Unrestricted bonds are those eligible for bank ownership. Projections (August 1946-54) based on assumption that Treasury will not issue unrestricted bonds for presently outstanding issues that become callable or mature. Latest data for total bonds outstanding are for July 31, 1946; commercial bank holdings estimated for May 31 and June 30, 1946.

Source: Actual data, U. S. Treasury Department; projections, Federal Reserve Bank of New York.

of 1946, partly, however, because of redemptions, market purchases being at a yearly rate of about 3½ billion dollars.

Although the rate of increase in Government bond holdings of banks has declined, the banks continue to own a larger and larger proportion of the total supply of unrestricted issues. As shown in the accompanying table, bank holdings rose from 45 per cent of the total early in 1943, to 54 per cent at the end of 1944, 65 per cent a year later, and 68 per cent at the end of May 1946. Principal expansion has occurred among issues callable or maturing in five to ten years at the time of purchase, although with the passage of time many of them are now of shorter maturity. At the end of May, "Treasury survey" banks held two thirds of the total outstanding in 5-10 year maturities as against 54 per cent early in 1943. Bank holdings of bonds callable or maturing in more than 1 year but under 5 rose even more—from 43 per cent of the total volume outstanding on January 31, 1943 to 72 per cent on May 31 of this year. The increase in dollar volume has been far the largest in this group, but that has been due largely to the shifting into this maturity range of bonds originally of longer term to maturity. The expansion in the proportion of bonds callable or maturing in over 10 years held by banks reflects substantial purchases which have sustained bank holdings of these long term bonds, despite the reduction in the volume outstanding as some issues moved into the 5-10 year range.

Making allowances for shifts of securities from one maturity range to the next lower, "survey" banks in 1945 purchased 155 million dollars of unrestricted bonds callable or maturing within one year, 2½ billion of the 1 to 5 year bonds, 5.4 billion of the 5 to 10 year maturities, and 1.5 billion of issues

Percent of Unrestricted Treasury Bonds Held by Commercial Banks by Maturity*

Maturity (In years)	Jan. 31, 1943	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1945	May 31, 1946
Within 1 year	36	41	43	51	52
1—5	43	59	67	72	72
5—10	54	54	52	63	67
Over 10	29	35	38	58	63
Total	45	51	54	65	68

* Maturities measured to first call date.

with more than 10 years to run. In the first five months of this year, medium term bonds (5-10 years) continued to be the major category purchased by the banks, although the rate of purchase was much slower.

If the holdings of "nonsurvey" banks, estimated roughly at 2½ to 3 billion dollars, are included, total bank holdings of unrestricted bonds may be estimated roughly at about 48½ to 49 billion dollars, or almost three quarters of the amount outstanding at the end of August. But since total unrestricted bonds outstanding amounted to 65.9 billion dollars at that time there is still a large potential supply in the hands of nonbank investors—perhaps as much as 17 billion dollars. As shown in the chart, no appreciable decline in total unrestricted bonds outstanding will occur until 1948 (even assuming that the Treasury issues no more such bonds in exchange for those that mature or become callable). By December 1950, the remaining volume of presently outstanding unrestricted bonds will fall to 44 billion dollars (less than current bank holdings), and by December 1952, to 29 billion. The amount will rise again two years later, however, as restricted issues becoming eligible for bank ownership will then exceed redemptions of issues that become callable. Meanwhile, the large volume of these bonds that will become callable or mature will create problems of suitable replacement, both for the Treasury and for the banks.

MONETARY AND FINANCIAL REFORM IN GERMANY

One of the principles laid down in the Potsdam declaration provides that, with a view to establishing uniform economic conditions in Germany, common policies should be adopted by the four occupying powers in regard to currency, banking, and taxation. Except in the field of taxation, very little has been done to implement this provision, despite the existence throughout Germany of inflationary pressures which call for corrective action by the Allied Control Council. No central German administrative department has been established in the field of finance, despite a provision to this effect in the Potsdam declaration. Meanwhile, currency and banking policies in the separate occupation zones have developed along radically different lines, and the task of rebuilding and unifying the monetary and financial structure of Germany has become increasingly complex. In recent months, this problem has been receiving a great deal of attention in various quarters. It has been widely discussed in the German press, and comprehensive reform plans providing for a reduction of the money supply and the public debt have been worked out by German economists and have been submitted to some of the zonal governments. Technical experts from the United States last spring made a close study of the financial position of Germany and, according to the March 1946 report of the Military Governor of the American occupation zone, their conclusions will serve as a basis for recommendations of a remedial nature to be submitted by the United States for quadripartite consideration. In view of the great interest and importance which attaches to the issue of financial stability in Germany, the major problems in this field are briefly surveyed below against the background of monetary and banking developments in occupied Germany.

In creating a new and uniform monetary and financial structure throughout Germany, the principal task of the Allies is to reduce the mass of money and monetary claims in the new Reich to a level which takes account of the impaired material wealth and relatively low national income of present-day Germany. In this connection, one of the most important problems to be solved is the disposition of the debt of the Nazi government, the bulk of which is held by Germany's financial institutions. A program for financial stability also involves a decision on whether compensation should be paid for domestic war damage and related claims against the government. If all or part of such claims are to be recognized, ways and means must be found to raise the necessary funds.

More pressing, perhaps, than the determination of the future status of the Nazi debt and the settlement of war damage claims, is a solution of the inflation problem. Little information is available on the size of the money supply of occupied Germany. As far as currency holdings are concerned, the last published statement of the Reichsbank (February 28, 1945) showed notes in circulation at 55.5 billion reichsmarks, which compares with 10.9 billion at the beginning of the war in September 1939. At the time of the surrender of the Nazi Reich, in early May of 1945, the total currency issue in Germany, according to informed opinion, had increased to approximately 70 billion reichsmarks. However, a substantial part of this amount was held in Nazi-annexed and other territories which were not included in the area falling under the administration of the Allied Control Council. For instance, it was found at the time of the currency conversion in Austria last December that more than 7 billion reichsmarks had been circulating in that country, not including small denomination notes. The aggregate reichsmark amount left in Poland and Czechoslovakia was probably very substantial, but some part of this money has been brought back into occupied Germany by the Germans evacuated from these two countries.

The note circulation of Germany has been swelled during the occupation by the issue of Allied military marks. As of December 31, 1945 there were 3.7 billion of such marks outstanding in the three western zones. Almost one half of this amount was issued by the British. The American share was

1,230 million marks, while the French issue was 657 million. Nothing is known regarding the amount of Allied military marks issued by the Soviet Military Government. There is a tendency among Germans to hoard Allied military marks, largely because of the belief of some Germans that such marks will receive preferential treatment in the event that the reichsmark is devalued. The general preference for Allied military marks is indicated by the fact that premiums in reichsmarks are being paid for Allied marks.

Any estimate of the present note circulation in Germany should take into account the fact that since the occupation the amounts deposited in bank accounts appear to have exceeded withdrawals by a large margin. No information has been released, however, on the aggregate amount of the money supply held in the form of commercial bank deposits. In the Russian occupation zone, the amount of bank money available for withdrawal or transfer has been drastically reduced by the blocking of all pre-occupation bank deposits, except limited amounts of savings deposits. The Reichsbank and all other banks operating in that zone at the time of occupation have been closed and replaced by state, provincial, district, or municipal institutions. In the three western occupation zones, on the other hand, the pre-occupation banks, including the branch offices of the Berlin banks,[1] continue to operate, and deposits, whether banked before or after occupation, are freely available—except for some minor withdrawal restrictions. Consequently, the unusual situation prevails in Germany today that some Germans are still in full possession of all their bank deposits while others have, for all practical purposes, lost their pre-occupation deposit claims. But Germans in the Russian occupation zone who withdrew their bank balances prior to the surrender and redeposited them subsequently remain in full control of such funds and have been promised that no change will be made in this respect. This zonal divergence of monetary conditions is one of the factors which greatly complicate the elaboration of a monetary reform program.

Despite the overabundance of money in relation to national income, runaway inflation, of the kind recently experienced in Hungary, and in 1944 and 1945 in Greece, has not occurred in Germany. On the contrary, price and rationing controls have been more successful there, under occupation as well as under the Nazi regime, than in other Continental countries, and even in the United States and Great Britain. Legal prices and wages in Germany have changed little since 1939 and are completely isolated from those of the outside world.

A substantial measure of interzonal price control has been achieved on the basis of a quadripartite agreement concluded last February, which provided for the continuation of price controls, establishment of prices for basic commodities by the Allied Control Authority, and uniformity of price increases.

[1] The branch offices of the Reichsbank no longer issue currency but operate as separate banks with special functions.

Selected Indexes for Germany and Other Countries
End of 1945
(First half of 1939 = 100)

Country	Cost of living	Wholesale prices	Wage rates
Germany	114—117	118—120	115
United States	131	140	137
United Kingdom	132	174	157
Sweden	143	175	(a)
Switzerland	151	202	(a)
Norway	157	170	(a)
Denmark	159	186	(a)
Czechoslovakia	174	169	(a)
Portugal	196	228	(a)
Finland	399	214	(a)
France	(a)	353	(a)

(a) Not available.
Source: Monthly Report of the Military Governor, U. S. Zone, June 20, 1946, Trade and Commerce.

Marshall Zhukov, then the Russian representative in the Allied Control Council, subsequently ordered the application of these principles to the Soviet zone. In May, each of the four occupation authorities formally relinquished independent control over the prices of thirteen major commodities which then became subject to inter-Allied control.

While food and other rationed essentials continue to be available at the controlled prices, there is some diversion of foodstuffs and other consumer goods into black market channels. However, black markets do not appear to have reached a highly developed stage. But the German price level has yet to absorb cost increases arising from the Allied-imposed contraction in the level of industry, the reduced size of the labor force, and war damage. There is little doubt that present legal prices do not reflect the actual worth of the German mark and that direct price controls alone cannot indefinitely assure that the inflationary pressures will be contained.

Diffidence among the Germans concerning the future value of their currency finds expression in various ways. Cigarettes are preferred to money. Goods are bartered rather than sold against cash. There is a widespread reluctance to work for wages. Manufacturers tend to hold back production because they do not want to exchange their remaining stocks of raw materials for money which is likely to depreciate. The existence of large currency hoards and uncertainty as to the timing of the long expected monetary reform program act as a drag on the recovery of the German economy.

While an inter-Allied program for the removal or sterilization of a considerable part of the huge cash balances in the hands of the German population remains still to be adopted, common action has been taken in the taxation field with a view to reducing disposable income. Under a series of laws approved last February by the Allied Control Council, tax rates on salaries, wages, and professional incomes have been increased in all four occupation zones by 25 per cent, and those on the income of landlords, farmers, and businessmen have been raised by 35 per cent. Tax rates on dividends and interest are now 60 per cent higher than in the spring of 1945. Corpora-

tion taxes, which under the Nazi regime ranged from 30 to 55 per cent of annual net income, are now from 35 to 65 per cent. Of special importance during the current period of generally low incomes is the fact that the property tax has been raised from one half of 1 per cent to between 1 and 2½ per cent. Inheritance, alcohol, beer, and tobacco taxes have also been substantially increased. Thus far, however, the Allied Control Council has not seen its way open to enact a capital levy or increment taxes such as various other European countries have adopted during the last twelve months.

Despite the increase in tax rates, most German Laender (states) and provincial administrations show substantial deficits for the fiscal year ended March 31, 1946. For the Laender of the American occupation zone, the deficit amounted to almost 600 million reichsmarks. A new governmental debt is thus being superimposed on the debt of the Nazi Reich, which (including the debt held by public institutions such as the Reichsbank and its subsidiaries) amounts to about 390 billion reichsmarks and involves annual interest payments (now suspended) of approximately 11 billion reichsmarks.[1] To this amount must be added such diverse items as the pre-occupation debt of provincial and local governments, overdue bills of Germany's extinct armed services, compensation claims for war damage, and reparations removals and requisitions by the occupation authorities; together these items total probably more than the pre-occupation debt of the central government. Whether the debt of the Nazi Reich should be repudiated entirely or in part, and whether and to what extent compensation claims should be recognized, constitute some of the most crucial policy decisions still to be made by the Allied Control Council.

Any decision on the future status of the German government debt and of other monetary claims must take into account the fact that cash, government bonds, and mortgages make up the bulk of the assets of Germany's financial institutions. A reform program under which monetary assets are scaled down would seem to call for the imposition of equalizing burdens on those who hold real estate and other assets which have risen or remained stable in value. Recognition of war damage and related claims would necessitate the introduction of measures by which substantial amounts of wealth and purchasing power could be shifted from those who have gained much or lost little or nothing during the war to those who have suffered severe losses. These problems are mentioned to illustrate the difficulties in devising an equitable monetary and financial reform program in Germany. Many of these problems are unique in that they are without precedent. Their solution will tax the ingenuity and skill of the technical experts of the occupying powers.

[1] Before the war the reichsmark was nominally valued at about 40 cents. While no new official exchange rate has been fixed, conversions are made for military occupation purposes at 10 reichsmarks to the dollar.

EARNINGS AND EXPENSES OF THE SECOND DISTRICT MEMBER BANKS

Net profits of the 37 central reserve New York City banks, after all charges but before dividends, receded 1.8 per cent in the first six months of 1946 compared with the corresponding period of 1945. The decline in net profits, as can be seen in the accompanying table, was occasioned entirely by smaller profits on securities sold. Net current operating earnings were 3.6 per cent higher than a year ago and the amounts set aside for taxes on net income were 2.7 per cent less.

Gross operating income of these banks rose 9.2 per cent, with increased income from loans, trust department operations, and miscellaneous income providing the bulk of the gain. The growth in loan income, which rose 24.8 per cent, accompanied a rise of approximately similar proportions in the average volume of outstanding loans, while the increased income from trust departments probably reflects chiefly operations in connection with the greater activity in the new securities market. Miscellaneous income, which includes gross income from foreign departments and rentals from banking house, other real estate, and safe deposit boxes, was generally higher for most banks, and exceptionally large gains in several banks swelled the increase to 37.3 per cent.

Interest and dividends received on securities, predominantly Government securities, rose only 0.8 per cent, whereas the average security holdings increased 3.3 per cent between the two periods. The indicated reduction in the rate of return on securities occurred despite an increase of about 1,450 million in the aggregate holdings of Treasury bonds by these banks, which was offset only in part by a reduction of about 900 million in lower yielding Treasury bills, certificates of indebtedness, and notes. The explanation apparently lies in the large amounts of Treasury bonds which were sold in 1945 for profit-taking purposes and subsequently replaced with other

Earnings and Expenses of the Central Reserve New York City Member Banks (Dollar amounts in thousands)

Item	First 6 months		Dollar change	Per cent change
	1945	1946		
Interest and dividends on securities	120,979	121,944	+ 965	+ 0.8
Interest and discount on loans	46,710	58,289	+11,579	+24.8
Service charges, fees, etc	10,652	9,939	− 713	− 6.7
Trust department income	19,433	22,598	+ 3,165	+16.3
Other current income	11,624	15,956	+ 4,332	+37.3
Total current operating earnings	209,398	228,726	+19,328	+ 9.2
Salaries and wages—officers and employees	55,419	66,550	+11,131	+20.1
Interest on time and savings deposits	2,651	3,293	+ 642	+24.2
Taxes other than on net income	5,955	5,052	− 903	−15.2
All other expenses	40,412	45,071	+ 4,659	+11.5
Total current operating expenses	104,437	119,966	+15,529	+14.9
Net current operating income	104,961	108,760	+ 3,799	+ 3.6
Profits on securities sold	36,352	26,665	− 9,687	−26.6
Recoveries	11,539	14,063	+ 2,524	+21.9
Losses and charge-offs	16,471	15,975	− 496	− 3.0
Net profits before income taxes	136,381	133,513	− 2,868	− 2.1
Taxes on net income	45,339	44,114	− 1,225	− 2.7
Net profits	91,042	89,399	− 1,643	− 1.8
Dividends paid	34,576	35,382	+ 806	+ 2.3

Government bonds at higher prices and lower yields. Furthermore, the greatest increase in Treasury bond holdings of these banks between the first six months of 1945 and 1946 was in relatively short maturities. Total service charges and fees declined 6.7 per cent entirely as a result of lower service charges and fees on loans which receded to less than half the 1945 total, owing to a continued falling off in fees on loan commitments since the termination of the war.

Total operating expenses increased 14.9 per cent, absorbing four fifths of the rise in gross operating income and leaving a net gain of 3.6 per cent in net current operating earnings. Total salaries and wages, which normally constitute the largest single item of operating expenses, followed the upward trend in other industries and increased 20.1 per cent. This increase was occasioned partly by a rise in the number of officers and employees and partly by higher average wage and salary rates. With respect to the other expense items, interest paid on time and savings deposits was substantially higher, reflecting the growth of such deposits, and "all other expenses" increased 11.5 per cent, because of the general rise in costs of operation such as heat, office supplies, the purchase of furniture and fixtures, and because of other miscellaneous items such as pension fund payments, and Federal Deposit Insurance assessments.

Total profits on securities sold, while substantial, were 26.6 per cent less than in the first half of 1945. Recoveries on previously charged off securities were much smaller, but recoveries on previously charged off loans were more than double the 1945 level, and all other recoveries, because of a few large sales of real estate, were about four times those of 1945.

Total charge-offs were slightly less than in 1945, owing entirely to a drop in "all other" charge-offs as substantial transfers to general reserves and purchases of service annuities in 1945 were not duplicated in 1946. Charge-offs on securities and on loans were 32 and 21 per cent, respectively, heavier than in 1945.

Other Second District Member Banks

In order to get an indication of the first-half results in the remainder of the Second District, samplings were taken of large and small Second District banks outside New York City. In contrast to results in New York City, both of these groups showed gains in net profits compared with the corresponding period of 1945, which in the case of the larger banks were substantial (nearly 15 per cent, compared with 4 per cent for the smaller banks). The principal factor in the gain in profits of the larger banks was a further sharp increase in the amount of profits taken on securities sold. In the smaller sized banks a rise in net current operating income accounted for much of the better showing in the first half of 1946, although these banks also had larger profits on securities sold than in the corresponding period of 1945.

In both cases, it appears that gross operating income increased more sharply than in the large New York City banks, the smallest banks showing the largest gains. These gains reflected an increase in income from securities at least commensurate with the rise in average holdings and a greater increase in loan income than in the amount of loans outstanding, indicating increases in higher yielding loans such as real estate, and personal and instalment loans. Total operating expenses of both groups of banks showed increases approximating those in the New York City banks, and the individual expense items showed only minor differences. Net profits of both the larger and smaller banks outside New York City would have shown considerably larger gains, had they not been subject to income tax to a greater extent than in 1945. For both groups, provision for taxes on income was about 80 per cent greater this year than last.

POSTWAR DEMAND FOR CAPITAL

Substantial demand for funds by business has developed in the period of transition from industrial operations for war to peacetime business activities. Although the financial position of many business enterprises was greatly strengthened during the war, resort to external sources of financing has been frequent since the closing phases of the conflict. It has exceeded by a wide margin plans for financing through outside sources the anticipated postwar capital outlays as revealed in an initial survey of manufacturing, railroad, and utility enterprises made by the Department of Commerce before the middle of last year.[1] To some extent, outside financing has been heavier than originally planned as a result of a tendency of management to maintain a strong cash position owing to unbalanced inventories and labor disputes, while at the same time the postwar expansion plans of many business concerns grew more ambitious and the increased values placed on goods and services in the market necessitated a larger amount of funds to transact the same physical volume of business.

In the twelve months ended June 30, 1946, commercial and industrial loans of all insured commercial banks increased 2.8 billion dollars to the highest level on record. Although some part of the increase in loans was to retire securities and for purposes other than for working capital and plant reconversion and expansion, most of the enlarged loan volume was entered into to facilitate an expanding volume of production and trade. Corporate security flotations for strictly "new money" purposes also reached the greatest volume since the late twenties or early thirties and totaled 1.4 billion dollars in the twelve months ended June 30, 1946. While no definitive information is available concerning the nature of the business demand for bank credit, the character of the demand for capital is indicated by the results of an analysis of new securities issued during the past year, which has been made by the Research Department of this bank. The accompanying tables show the industry and size of companies that have raised new capital through security flotations, and thereby offer some

[1] See, *Survey of Current Business,* July 1945, pp. 15-23.

New Capital Issues of Domestic Corporations by Industry*
(Dollar amounts in millions)

Industry	1945		1946	Per cent of total		
				1945		1946
	First half	Second half	First half	First half	Second half	First half
Total	292	622	781	100	100	100
Finance, insurance, and real estate	1	37	36	#	6	5
Nonfinancial	291	585	745	99	94	95
Manufacturing	205	342	561	70	55	72
"War" industries	*127*	*134*	*397*	*43*	*22*	*51*
Iron, steel, nonferrous metals and products	19	20	22	7	3	3
Machinery, including electrical	42	28	99	14	5	13
Transportation equipment including automobiles	19	40	117	7	6	15
Chemicals and allied products	30	29	56	10	5	7
Petroleum products	7	17	55	2	3	7
Rubber products	10	#	48	3	#	6
"Nonwar" industries	*78*	*208*	*164*	*27*	*33*	*21*
Food, beverages, tobacco	48	123	59	16	20	8
Textile mill products, apparel, leather and leather products	5	28	41	2	5	5
Paper and allied products, printing and publishing	1	27	35	#	4	4
Stone, clay, and glass products, and lumber and products	18	24	25	6	4	3
Miscellaneous	6	7	4	2	1	1
Nonmanufacturing	86	243	185	29	39	24
Mining	2	1	2	1	#	#
Construction	#	2	2	#	#	#
Railroads	37	75	19	13	12	2
Electric and gas utilities	3	22	15	1	4	2
Air transportation	6	87	112	2	14	14
Communication, other transportation, and public utilities	13	17	4	5	3	1
Wholesale and retail trade and services	25	39	31	9	6	4

* Items do not necessarily add to totals because of rounding.
\# Less than one-half million dollars or ½ of 1 per cent.

indirect clue as to the importance of reconversion expenses and postponed plant and equipment expenditures in swelling the total of new capital financing.

The gathering momentum of "new money" security flotations during the postwar period is shown in the first table. Such security offerings just about doubled between the first and second halves of 1945 and increased another 30 per cent in the first six months of 1946. Initially in the postwar period, those corporations most closely engaged in production for the war effort (designated in the table as "war" industries—metal producers and fabricators and firms in the chemical, rubber, and petroleum product industries), and presumably with urgent reconversion problems and immediate financial needs, did not enter the capital markets for any greater amounts of funds than in the first half of 1945. Since reconversion expenditures during the second half of that year were substantial, concerns in these industries in the aggregate must have drawn heavily on their large cash resources, a presumption supported by the substantial decline in deposit accounts of manufacturing and mining enterprises between July 1945 and January 1946. Such companies were also able to avail themselves of funds received from the Government in payment of claims on terminated war contracts and through tax refunds and credits which were usually taken mainly in the form of a reduction in current tax payments, as well as other external sources of funds including bank credit.

On the other hand, manufacturing companies in other industries, with presumably only minor, if any, reconversion problems and no prolonged interruption in the flow of business receipts, came increasingly into the capital markets soon after the war for funds needed to make good postponed replacements and to finance expansion. New security offerings of such companies in the second half of 1945 were more than 2½ times the volume of the first half and exceeded 200 million dollars. But this amount was small in comparison with the capital expenditures in all "nonwar" manufacturing industries, so that in the aggregate enterprises in these fields also apparently drew largely upon funds retained from earnings during the war and from current operations, or set aside for depreciation of plant and equipment.

Sharp gains were also recorded in "new money" issues of nonmanufacturing industries, including railroads, electric and gas utilities, air lines, other transportation and communication, and utility companies. Security flotations of air transport companies were particularly heavy, as public demands for their services have been great and their capital requirements correspondingly large. Their growth was retarded during the war, but has been greatly accelerated subsequently.

It was not until the first six months of the current year that the security flotations of those industries which were largely engaged in producing munitions and other "war" supplies reached very substantial volume. Issues of automobile and automobile parts and accessories manufacturing concerns reached particularly large proportions, reflecting in part the entry of a new concern into the passenger car field. Little change in the volume of new securities of iron, steel, and nonferrous metal producers and fabricators and of transportation equipment concerns took place, since the metal producers such as iron and steel rolling mills and foundries had less need for reconversion and expansion of plants, and since the war contracts of the transportation equipment companies had been cut back some time prior to the end of hostilities and the reconversion process had advanced considerably toward completion by the war's end.

Among the other groups of corporations, offerings of "nonwar" manufacturers fell off in the first six months of 1946 from the total for the preceding six months, almost solely because of a drop in new issues of food, beverage, and tobacco companies. New securities of the railroads also declined sharply, but to some extent this may merely have been the result of a shifting of the channels of financing, as some railroads purchased rolling stock through the banks on the security of conditional sales contracts to an increasing extent, instead of through the sale of equipment trust obligations in the capital market. Despite the pressing demand for housing and other building, financing of the capital needs of the construction, lumber and furniture, and the stone, clay, and glass product companies has not shown any appreciable increase. New security offerings of the air transport lines continued to increase in this period.

New financing of about 35 companies organized in 1945 and 1946 (excluding those firms created to acquire long established enterprises) came to nearly 85 million dollars, or more than 5 per cent of the total volume of new money offerings in the twelve months ended June 30, 1946. Among these were the securities of four chemical and four "service" companies, amounting to 1 and 11 million dollars, respectively, ten air transport companies, amounting to 7 million dollars, and one automobile manufacturing enterprise for more than 50 million.

Although the capital market is traditionally the vehicle for financing large enterprises, an increasing number of businesses with total assets of less than one million dollars have had access to it since the end of the war. No offerings of securities by such small firms were recorded in the first half of 1945, but seven were made in the second half, and 72 in the first six months of 1946, almost a fourth of the total number of "new money" issues in that period. The dollar amount was small, however, and as shown in the second table comprised only a fraction of the total of "new money" issues. Most of these companies were engaged in manufacturing (chiefly metal fabricating and chemical industries), with a sprinkling of newly organized air transport lines carrying cargo or passengers on unscheduled flights. In many cases, the new securities offered by these companies contained an element of speculation, consisting principally of common stock issues, the flotation of which was stimulated not only by a receptive securities market and a favorable business outlook but also by a regulation of the Securities and Exchange Commission exempting new issues of 300 thousand dollars or less from registration with that agency, thus eliminating one item of expense which may be of some importance in small issues.

New Capital Issues of Domestic Corporations by Size of Company, Twelve Months Ended June 30, 1946*

Size of company†	Number of companies	Amount (In millions)	Per cent of total	
			Number of companies	Amount
Under $ 1 million	79	$ 33	17	2
$ 1—$ 10 million	203	191	43	14
$ 10—$ 25 million	78	238	17	17
$ 25—$ 50 million	43	275	10	20
$ 50—$100 million	27	221	6	16
$100—$500 million	28	340	6	24
Over $500	11	106	2	8
Total	469	$1,403	100	100

* Because of rounding, items do not necessarily add to totals.
† As measured by total assets, on or near December 31, 1945.

The general tendency that emerges is the broadening of the postwar new issue market to include a wider range of business enterprises, both as to industry (particularly as to subgroups in the manufacturing field) and as to size of business. Nevertheless, in the predominance of issues of manufacturing companies, the postwar capital market more closely resembles wartime than peacetime conditions. The return of more normal conditions may be accompanied by a decline in the proportion of manufacturing issues and an increase in that of the other industrial groups, the utilities and the railroads in particular.

For the twelve months ended June 1946 as a whole, the major purposes for which "new capital" financing was undertaken may be given the following rough weights: reconversion and additions in "war" industries, one third; postponed additions to and replacements of productive facilities in other manufacturing industries, one fourth; capital needs of rapidly growing industries, chiefly the air lines, 15 per cent; newly organized companies 5 per cent; and expansion of all other industries, the remaining 22 per cent.

CREDIT UNIONS IN NEW YORK STATE

The first law providing for the chartering of credit unions in this country was passed in Massachusetts in 1909, largely through the efforts of Edward Filene, a wealthy Boston merchant who had become interested in the success of the mutual credit societies of farmers and workers in Germany in meeting the credit needs of the middle and lower income groups. The idea spread rapidly and the first credit union in New York was chartered early in 1914. A credit union is a cooperative society with the twofold purpose of providing its members with readily available credit at a reasonable cost, and of encouraging systematic savings yielding a fair rate of return. Its capital is derived from the sale of shares to members, each of whom has one vote in its affairs regardless of the number of shares he holds. Members elect from their own number a board of directors, a credit committee, and a supervisory committee. The treasurer, selected by the board of directors, is the managing head of the organization and usually the only officer, if any, to receive compensation for his services. In most States a credit union may be chartered under either State or Federal law.

Membership in a credit union is generally restricted to a group of individuals having some common bond such as the same employer, or membership in the same labor union, lodge, fraternal order, or church. Members must own at least one share of stock, the par value of which is generally $5 although in some unions in New York it runs as high as $25. Shares can be purchased on the instalment plan. Federal legislation places no limit on the investment of an individual member, but New York State legislation restricts the amount to a maximum of $5,000.[1]

Loans are made only to members[2] for "constructive or provident purposes". The maximum allowable rate is 1 per cent per month on the unpaid balance, or, in the case of New York State credit unions, 6 per cent discount in advance. Although State and Federal regulations differ somewhat, in general, terms

[1] At the end of 1945 average shareholdings in New York were approximately $124.

[2] Or in some instances to other credit unions.

are limited to 18 months or 2 years,[1] and the amount of an unsecured loan to between $100 and $400. On secured loans State unions may lend up to 3 per cent of their unimpaired capital or a maximum of $2,000 to any one borrower, Federal unions up to 10 per cent of their capital.

The credit union movement in both New York and the country as a whole grew rapidly in the years immediately following World War I, but toward the end of the 1920's, it lost its momentum and after the crash in 1929, membership, and assets in particular, declined sharply. The passage of the Federal Credit Union Act in 1934, however, acted as a new stimulant and in the eight years between the end of 1933 and 1941 the number of operating credit unions in New York increased from 130 to 805, their membership from 50 thousand to close to 309 thousand, and their assets from 7 million dollars to over 31 million.

The average credit union has between 300 and 400 members and assets amounting to only a few thousand dollars, although there are a number in the State with resources of over 100 thousand dollars, and the Municipal Credit Union in New York City has resources of over 6.5 million dollars. The large unions are concentrated in the Greater New York area, although there are some large unions in Rochester and other up-State cities. At the end of 1944, 74 per cent of the total assets of all State chartered credit unions were located in the five New York City boroughs.

During the war, as the accompanying table shows, the total share capital of credit unions in this State continued to show small net gains each year, despite the fact that a number of them were voluntarily liquidated. The wartime restrictions on the production of consumers' durable goods, however, cut sharply into their loan volume. This factor combined with the increase on their investable funds forced the credit unions, and other financial institutions, to seek new outlets for their funds, principally United States Government securities, and consequently reduced their earning power. The proportion of loans to total assets of all reporting credit unions in the State declined from 67 per cent at the end of 1941 to 34 per cent at the end of last December, and their annual loan volume from about 37 million dollars in 1941 to less than 24 million in 1944. Reports from the State chartered unions indicate that the proportion of their members borrowing at any one time decreased from a prewar average of around 55 to 60 per cent to about a third by the end of 1945.

Assets and Liabilities of Credit Unions in New York State, 1939-45
(End-of-year figures; dollar amounts in thousands)

Item	1939	1941	1943	1944	1945
Number of reporting unions	*584*	*805*	*737*	*730*	*721*
Assets					
Loans to members	14,180	21,016	14,056	12,901	12,609
Investments	2,175	5,052	14,211	17,706	18,147
Cash and other	3,967	5,365	6,304	5,969	5,945
Total*	20,322	31,432	34,572	36,576	36,701
Liabilities					
Share capital	16,913	26,948	30,060	31,847	32,052
Reserves and other liabilities	2,603	3,257	3,385	3,764	3,614
Undivided profits	807	1,229	1,127	964	1,035

* Because of rounding the individual asset and liability items do not necessarily add to the total.
Source: New York State Banking Department and Federal Deposit Insurance Corporation.

Currently these trends are being reversed. The volume of loans extended by State credit unions rose from 2.7 million dollars in the first quarter of 1945 to 3.0 million during the first quarter of 1946, and the number of new credit unions chartered is increasing.

The decline in loan volume, however, was accompanied by a decline in interest rates and some increase in the average size of loans, particularly in the last twelve to eighteen months. While many unions are still charging rates close to the maximum of 1 per cent per month on the unpaid balance of a loan, some are operating successfully at rates well below this, and the trend, perhaps under competition from other agencies, is downward. Between 1943 and 1945 the average loan made by the Federal unions increased from $120 to $140. The average loan granted by the State chartered unions at the end of 1945 and in the first quarter of 1946, however, was approximately $250. Over half of the loans of the State institutions are made for a term of 50 weeks, about an eighth for 25 weeks, and the others range from 1 week up to 36 months for repair and modernization loans. The ratio of loss on loans made by credit unions has generally been low. In the ten years from 1934 to the end of 1944, less than 0.1 per cent of the total volume of loans made by Federal credit unions in this State was charged off.

The earnings of credit unions have shown wide variations, as they depend to a large extent upon the efficiency of their managers and on the volume of loans maintained. The cost of their operations is generally a negligible factor, as salary expenses are limited and office space is often provided by the employer or lodge. For the year 1945, 19 per cent of the State credit unions paid no dividends at all, 29 per cent paid under 2 per cent, 29 per cent paid 2 per cent, and the remaining 23 per cent paid from 2¼ to 6 per cent. Very few, mostly small credit unions which for some special reason have been able to maintain an exceptionally large loan portfolio, are currently paying 4, 5, or 6 per cent. Credit unions pay dividends only once a year and then only on fully paid shares outstanding at the end of December.

In the thirty-two years since the establishment of the first credit union in New York State, the movement has come of age. The mortality rate has been high, but through experience the advantages and disadvantages of this kind of mutual credit society have become apparent. Forty-one per cent, or 159 of the 389 credit unions chartered by New York State from the time the enabling legislation was passed in 1913 to the end of 1944, have been liquidated, most of them voluntarily and several before they even got into operation. Members' capital losses in general, however, have been small. The credit union's two great handicaps have proved to be first, the lack of qualified

[1]Amendment to Regulation W issued by the Board of Governors of Federal Reserve System August 14 limits the maturity of consumer loans to a maximum of 15 months.

managing officers, as few individuals in the groups which it is designed to serve have had any experience in the field of finance; and second, the tendency to expand beyond a homogeneous group with the result that the credit committee is no longer able to judge the credit risk of the loan applicant. The failure of a number of the so-called "open" credit unions led to a revision of the New York State Banking Code in 1929 and again in 1931 to limit the granting of credit union charters to groups with a definite community of interest. Credit union associations also have been active in attempting to overcome these difficulties.

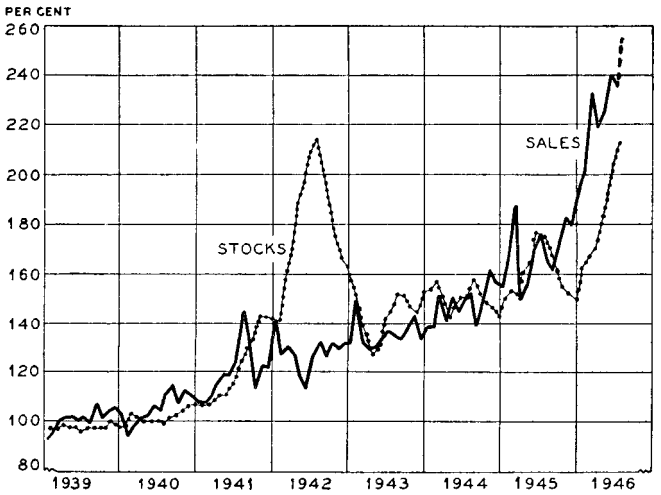
Compared with the total volume of savings deposits or consumer loans extended in this State, the operations of the credit unions are on a very small scale. By their very nature the proportion of the population which they can serve is strictly limited. But they are one of the factors in the stiff competition which is developing in the consumer credit field.

DEPARTMENT STORE TRADE

August sales of Second Federal Reserve District department stores are estimated at about 90 million dollars, an increase of about 55 per cent over August 1945. The seasonally adjusted index of sales is expected to rise above the previous all-time high level reached in June. Trade sources indicate that much of the increase in sales is caused by purchases of higher unit-price merchandise such as household appliances and other home furnishings.

The index of department store stocks for July, seasonally adjusted, continued its steady climb which has been under way since December, and rose almost to the peak established in July 1942. As a result of the large dollar volume of sales, however, the ratio of stocks to sales remained low; the ratio for July 1946 was 3.3, compared with 3.7 for July 1945, and 6.4 for July 1942. Outstanding orders at the end of July were also higher than at any previous period, but the ratio of orders plus stocks to the month's sales was lower than for any July since 1941.

Indexes of Department Store Sales and Stocks, Second Federal Reserve District, Adjusted for Seasonal Variation*
(1935-39 average=100 per cent)



* August 1946 sales estimated.

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

Locality	Net sales		Stocks on hand
	July 1946	Jan. through July 1946	July 31, 1946
Department stores, Second District	+39	+34	+22
New York City	+40	+36	+19
Northern New Jersey	+45	+37	+33
Newark	+43	+35	+34
Westchester and Fairfield Counties	+39	+34	+30
Bridgeport	+36	+30	+22
Lower Hudson River Valley	+42	+35	+24
Poughkeepsie	+43	+36	+18
Upper Hudson River Valley	+41	+36	+27
Albany	+48	+51	+31
Schenectady	+32	+20	+22
Central New York State	+37	+32	+21
Mohawk River Valley	+28	+26	+20
Utica	+23	+21	+22
Syracuse	+41	+34	+21
Northern New York State	+55	+36	—
Southern New York State	+37	+27	+19
Binghamton	+43	+31	+26
Elmira	+31	+18	+15
Western New York State	+30	+27	+24
Buffalo	+30	+29	+25
Niagara Falls	+19	+11	+22
Rochester	+32	+28	+24
Apparel stores (chiefly New York City)	+26	+30	+34

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

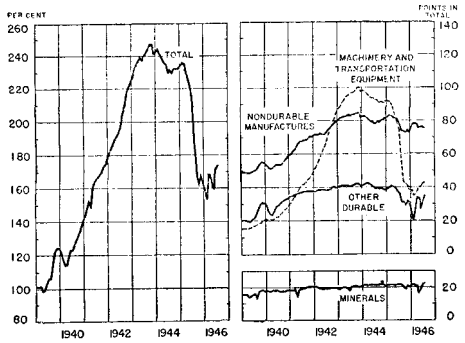
Item	1945	1946		
	July	May	June	July
Sales (average daily), unadjusted	118	214	221	158
Sales (average daily), seasonally adjusted	177*r*	226	240	236
Stocks, unadjusted	161	192	192	196
Stocks, seasonally adjusted	175	190	204	213

r Revised.

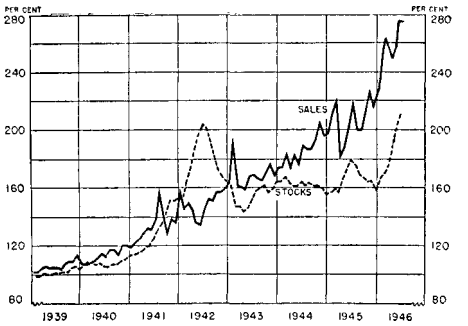
Indexes of Business

Index	1945	1946		
	July	May	June	July
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	210	160*r*	171	174*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	202	189	188	195*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	233	141	196*p*	
Sales of all retail stores*†, 1935-39 = 100 (*Department of Commerce*)	198	237	238*p*	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	152	137*r*	139	141*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	128	124	125	123*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	299	248	257*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	249	245	249	244*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	243	240	239*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	170	180	182*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	129	132	133	141*p*
Velocity of demand deposits*‡, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	93	92	86	96
Outside New York City	76	79	75	81

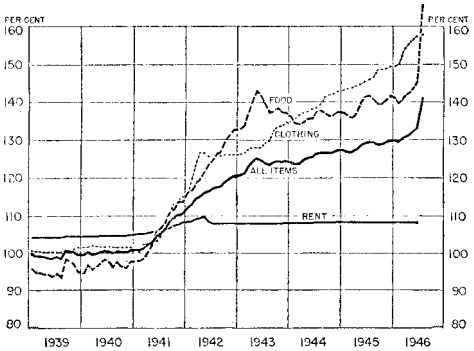
* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Series revised beginning January 1945.
‡ Series revised beginning January 1941; available upon request.



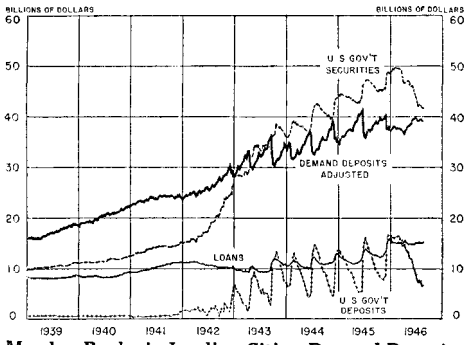
Indexes of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of the Cost of Living as Compiled by Bureau of Labor Statistics. Last Month in Each Calendar Quarter through September 1940, Monthly Thereafter (1935-39 average=100 per cent)



Member Banks in Leading Cities. Demand Deposits (Adjusted) Exclude U. S. Government and Interbank Deposits and Collection Items. Government Securities Include Direct and Guaranteed Issues (Latest figures are for August 14)

National Summary of Business Conditions

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

INDUSTRIAL production increased somewhat further in July, after a sharp advance in June. Prices of commodities rose rapidly in July and continued to advance, although at a more moderate rate, in the first three weeks of August.

Industrial Production

Industrial production advanced from 171 per cent of the 1935-39 average in June to 174 in July, according to the Board's seasonally adjusted index. Output of durable goods and of minerals generally increased while output of nondurable manufactures as a group showed little change, with increases in some lines offset by declines in others.

Production at steel mills in July rose about one sixth and in August has increased somewhat further, with output of ingots increasing to about 90 per cent of capacity. Activity in the machinery and transportation equipment industries continued to advance in July. Production in the nonferrous metal industries rose again but was still about 7 per cent below the January level. Output of stone, clay, and glass products continued to increase and the July index, at 197, was well above the previous high in March, with an increase in production of glass containers accounting for most of the July advance. Lumber production showed a decline, owing in large part to vacations for lumber workers on the Pacific Coast in the early part of July. Activity in the furniture industry remained at about the June rate.

In the nondurable industries, production at textile mills declined, owing to worker vacations during the first week in July, while output of manufactured food products increased considerably. Meatpacking rose sharply to the highest level since February and there were increases also in the output of flour, bakery goods, and dairy products. Sugar meltings declined. Output of paperboard and paper boxes declined from recent high levels while newsprint consumption showed a further advance. Activity in the chemical and rubber industries showed little change.

Mineral production rose to a new high 46 per cent above the 1935-39 average. Increases in the output of anthracite, copper ore, and iron ore accounted for most of the July rise in production of minerals.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in July, but was still more than twice the prewar average. The drop reflected a continued decline in residential awards to a level about two-fifths below the May peak. Nonresidential building awards increased slightly in July, after a small decline in June.

Employment

Nonagricultural employment continued to rise in July, with major gains in the construction and manufacturing industries and some decrease in government employment. Total unemployment decreased to about 2.3 million in July, the lowest of the year.

Distribution

Value of department store sales declined less than seasonally from June to July and the Board's adjusted index rose to 278 per cent of the 1935-39 average as compared with an average of 254 for the first six months of the year. In the first three weeks of August sales continued at a high level. As a result of large receipts of merchandise, value of department store stocks continued to increase in July but relative to sales was still lower than before the war. Unfilled orders were at an exceptionally high level.

Loadings of railroad freight increased further in July as shipments of livestock and grains and of ore and coke rose sharply and shipments of other classes of freight showed little change.

Commodity Prices

Commodity prices, which had advanced sharply in July, rose somewhat further in the first three weeks of August. There were increases in prices of textiles, housefurnishings, and fuels as well as in some farm products and foods. Grains, however, declined and corn future contracts were still substantially below cash quotations, reflecting the continued prospect of a large harvest. With the renewal of price control at the end of July, ceiling prices were re-established but in many cases at higher levels than prevailed on June 30. Announcement was made that ceilings would not be re-established at this time on most grains or on dairy products but would be on livestock and meats and on cottonseed and soybeans and their products.

Bank Credit

The Treasury retired for cash 3.3 billion dollars of Government securities during July and early August; war loan balances at commercial banks were reduced by approximately the same amount. As most of the securities were held by banks, retirement operations had little effect on deposits of businesses and individuals. Drains on bank reserves resulting from redemption of securities held by the Reserve Banks were met by System purchases of Government securities and by reductions in Treasury deposits. Need for reserve funds resulted also from an increase in nonmember balances at the Reserve Banks, reflecting the deposit of the first instalment of the British loan, and from some outflow of currency into circulation. Changes in required and excess reserves, on the average, were negligible.

As a result of the Treasury debt retirement operations as well as security sales to the Reserve Banks in connection with reserve adjustment Government security holdings at banks in 101 leading cities were reduced by an additional two billion dollars during the seven weeks ended August 14. Total loans for purchasing or carrying Government securities declined further to a level comparable to that which prevailed prior to the Victory Loan Drive. Commercial loans, both in New York City and outside, increased substantially over the period.