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MONEY MARKET IN SEPTEMBER

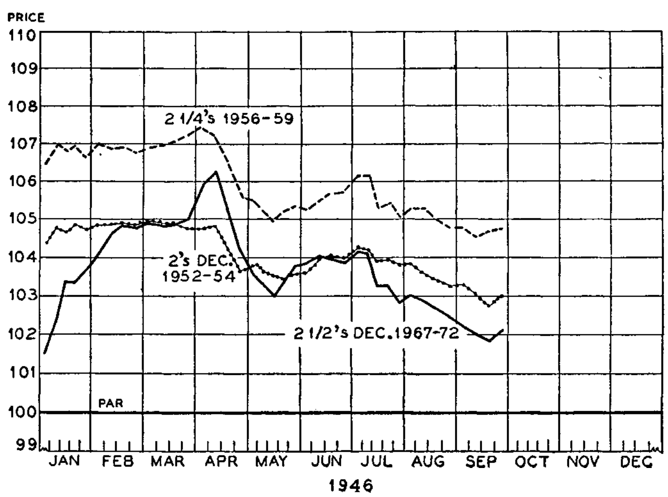
Major developments in the money market during the past month included moderate declines in Government bond prices, apparently in sympathy with the sharp decline in stock prices and the more limited recessions in corporate bond prices, and considerable pressure on member bank reserve positions which resulted chiefly from Treasury debt transactions and income tax receipts, and to a lesser extent from a seasonal increase in currency in circulation and increased reserve requirements. Member bank demands on Federal Reserve credit were consequently substantial during most of September.

There were further signs of stiffening short term interest rates in the money market in September in the form of somewhat higher quotations on commercial paper, and long term interest rates also rose slightly as bond prices reacted in sympathy with the sharp setback in the stock market. Government bond prices declined about ½ to ⅝ of 1 point in the first three weeks of the month and then showed some recovery in the last week. The recession in "Governments", however, goes back to March and early April when the various issues reached peak levels, as shown for selected Treasury bonds in the accompanying chart. Prices of the Victory Loan 2½'s of 1967-72, plotted in the chart, have fluctuated more widely during the year than most other issues (exemplified by the 2's of December 1952-54, eligible for bank investment, and the 2¼'s of 1956-59, ineligible until September 15, 1946), having risen from 101½ in January to 106½ in early April and then fallen below 102 during September. The wider range is attributable in part to the longer maturity of the Victory bonds and in part to the large speculative interest in the issue dating back to heavy subscriptions in the Victory Loan drive financed by bank loans, a portion of which were made for speculative purposes.

Price advances of Government bonds in the early part of the year, as throughout the war, had their source in (1) low interest rates maintained to facilitate the Government's financing during the conflict and in the early postwar period, (2) heavy commercial bank purchases, from nonbank investors, of unrestricted Treasury bonds, frequently with funds obtained from the sale of short term Treasury issues directly and indirectly to the Federal Reserve System, and (3) substantial purchases of restricted issues by nonbank investors with the proceeds of the sale of unrestricted issues to the banks or other available funds. In the case of the Victory 2½'s, demand was enhanced by the strong position of the Treasury's finances which indicated that the Government would not have to undertake new financing for some time. The dearth of new supplies of investments suitable for insurance companies and other institutional investors lent scarcity value to the 2½'s and other restricted issues in view of the continuing accumulation of funds by such institutions.

With the initiation in March of the Treasury's program of retiring part or all of its maturing or called securities, considerable pressure on bank reserves ensued, since sizable blocks of redeemed securities were held by the Reserve Banks and the Treasury withdrew funds from commercial banks for their redemption. As a result, bank purchases of unrestricted bonds diminished, and there was a consequent reduction in the reinvestment demand for restricted bonds on the part of non-

Prices of Selected Treasury Bonds*



* Averages of closing bid and asked prices, Wednesday dates.

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bank investors. At the same time, some banks with inadequate holdings of short term issues found it necessary to sell Treasury bonds in the open market in order to meet the Treasury's calls on War Loan deposits, chiefly in connection with the debt retirement operations. A hardening of short term interest rates replaced the earlier tendency toward lower levels, and was accentuated after the elimination of the Federal Reserve preferential rate on advances secured by short term Treasury issues toward the close of April.

Thus, the forces contributing to higher Treasury bond prices were reversed and a sizable fall in Government bond prices and rise in yields set in. Pricewise, the decline in the Victory Loan 2½'s was greater than in most other Treasury bonds, not only because of their longer maturity, but also because purchasers of these securities on credit for the purpose of resale at a profit liquidated considerable amounts of their sizable holdings, gradually but persistently.

The Treasury 2¼'s of 1956-59, which became eligible for bank investment on September 15, were firm around the middle of the month when other issues were falling along with stock prices. The strength in this issue apparently reflected buying principally by out-of-town banks; purchases were made largely with the proceeds of sales of other Treasury securities, including the Treasury 2's of December 1952-54 which showed larger declines than many other Treasury issues in mid-September. Sellers of the 2¼'s were provided with additional funds which they are reported to have invested in long term restricted bonds.

Member Bank Reserve Positions

During the past month, the money market continued to reflect the influence of Treasury transactions, which were heavier than usual because of quarterly income tax receipts and interest payments, in addition to the first-of-the-month cash redemption of part of the maturing issue of certificates of indebtedness. The net effect of these transactions was to place considerable strain on the reserve positions of member banks and particularly of those banks in certain parts of the country which had net losses of reserves as a result of Treasury withdrawals and tax collections. A seasonal increase in currency in circulation early in the month was the source of an additional drain on reserves. Reserve requirements rose substantially in the first half of the month, as a portion of the funds withdrawn by the Treasury from its reserve-free War Loan deposits in the beginning of September reached private deposit accounts against which reserves must be maintained, and as an expansion in bank credit, chiefly in the form of loans, caused an increase in private deposits and an accompanying rise in required reserves. Bank demand for Federal Reserve credit to ease these pressures was substantial, and as a result Federal Reserve Bank purchases of short term Government securities were substantial and loans to member banks increased.

With collections of quarterly instalments of income taxes continuing close to the heavy wartime totals while the expenses of the Government were substantially lower than during the war, Treasury receipts were considerably in excess of current disbursements in the month as a whole despite the usual large quarterly payments of interest on the public debt in the middle of September. As a result, the Treasury made no further withdrawals from War Loan deposits after that totaling 2.0 billion dollars, payable on September 3, 4, and 5, which was made in connection with the redemption of a like amount of a 4.3 billion dollar issue of certificates of indebtedness maturing on September 1.

In the two weeks ended September 25, the full flow of quarterly income tax payments reached the Treasury, resulting in a large excess of receipts, and Treasury deposits with the Federal Reserve Banks reached the substantial total of 928 million dollars on September 25, thus enabling the Treasury to reduce its War Loan calls in connection with the October 1 cash redemption of an additional 2 billion dollars of certificates of indebtedness. In the first of these two weeks, tax receipts were offset to a large extent by the payment of approximately 425 million dollars in interest on the public debt, most of which was made on September 16. Nevertheless, the net effect of Treasury operations during the week was to exert some pressure on member bank reserves. A further increase in reserve requirements, only partly offset by a reduction in currency outstanding connected in part with payment of taxes in cash, added to this pressure. Demand for Federal Reserve credit from the banks was sizable, the increase of 115 million dollars in excess reserves merely reflecting the elimination by New York City banks of a deficiency in reserves of the preceding week.

In the final week of this period, tax receipts reached their peak and pressure on bank reserve positions was further increased, even though the payment of taxes into the Treasury by individuals and businesses brought a substantial reduction of demand deposits and a decline of about 150 million dollars in reserve requirements. As a result, the Federal Reserve Banks were called upon to make additional loans to the member banks and to purchase almost 450 million dollars of Treasury bills and certificates. Excess reserves fell 160 million dollars in the week to 770 million dollars.

Reserve positions of the New York City member banks also were under pressure during most of the month. Transfers of funds to other parts of the country totaled 880 million dollars in the four weeks ended September 25, reflecting both withdrawals of the proceeds of the redemption of certificates held in New York and transfers by corporations of balances held in the City for payment of income taxes in other localities.

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Reserve requirements rose during most of this period, and moderate currency withdrawals were made in each of the four weeks. The only sizable offset to the drain on reserves was net payments out of foreign balances in the Reserve Banks. Treasury disbursements in New York exceeded receipts here in the early part of the month when expenditures for debt redemption were large, and again in the middle of the month because of heavy interest payments on the public debt. Over the entire four-week period under review, however, the Treasury took more funds out of the New York money market than it returned to it, largely because of heavy tax collections in the latter part of the month. The net effect of all these transactions was to create a substantial need for reserves, and the New York banks sold large amounts of Treasury bills and certificates of indebtedness in the course of the month, most of which were absorbed by the Federal Reserve System.

THE SECURITY MARKETS DURING THE TRANSITION

The sharp downturn in stock prices during the past month carried the average level, measured by the Standard and Poor's Corporation index of 402 stocks, down by about 12 per cent, and, added to the gradual recession of the three preceding months, made the total fall from the peak at the end of May about 21 per cent. Many individual stocks and groups of stocks, of course, had much greater drops from their peak levels. A "correction" of some magnitude at some time before the end of this year had been rather generally expected, in view of the almost uninterrupted rise in the general level of stock prices for four years, but the extent of the fall was apparently greater than had been anticipated.

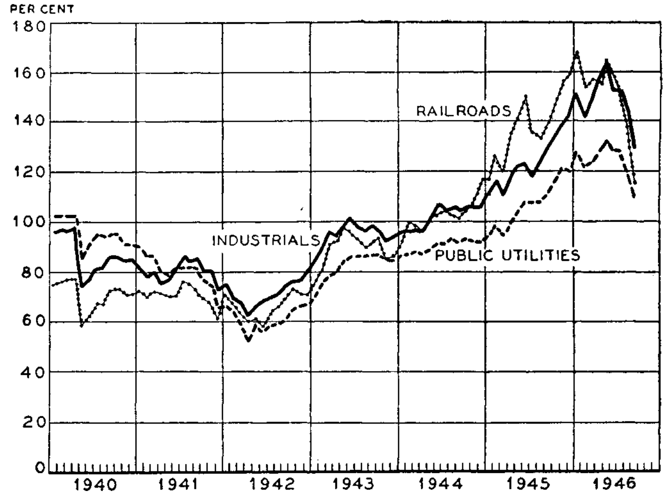
An irregular and limited recovery occurred in the final week of September. The extent of the recession and the recent levels of prices of the three major groups—industrials, railroads, and public utilities—can be seen in perspective in the accompanying chart, which shows price movements of these groups over most of the period since the beginning of the war. The major swings in stock prices during and since the war are summarized in the table. The indexes shown in the chart

Percentage Changes in Stock Prices during the War and Transition*

Group	Prewar to war period low#	War period low to war's end	War's end to post-war high‡	Postwar high to Sept. 25, 1946	Prewar to Sept. 25, 1946
402 stocks	— 32	+ 93	+ 35	— 21	+ 41
20 railroad stocks	— 6	+115	+ 27	— 30	+ 78
28 public utility stocks	— 46	+102	+ 23	— 18	+ 10
354 industrial stocks	— 30	+ 90	+ 38	— 21	+ 45
69 peace stocks	— 39	+117	+ 43	— 19	+ 53
35 war stocks	— 32	+ 52	+ 41	— 21	+ 16

* Based on weekly stock prices. High and low points based on the composite index of 402 stocks.
# August 30, 1939 (September 6, 1939 for war and peace stocks) to April 29, 1942.
‡ May 29, 1946.
Source: Standard and Poor's Corporation.

Standard and Poor's Weekly Indexes of Industrial, Railroad, and Public Utility Stock Prices*
(1935-39 weekly average = 100 per cent)



* Indexes of 354 industrial, 20 railroad, and 28 utility stock prices; data are for the last Wednesday of each month.

are based on average weekly prices for the years 1935-39, whereas most of the data in the table are based on comparisons with prices at the end of August 1939, which were below the 1935-39 average levels by varying amounts for different groups of stocks.

The factors involved in the wide fluctuations in stock prices during the war—the decline in value of about one third between the early stages of the war and the low point of the war period in April 1942, when the low ebb of Allied fortunes in the war was reached, and the subsequent long advance in prices as Allied prospects brightened until victory became a certainty and as the volume of business grew to new heights and corporate financial positions strengthened substantially—were surveyed in the May 1945 issue of this *Review.* From the 1942 low point to the end of the war in mid-August 1945, stocks just fell short of doubling in price on the average. Railroad shares, which showed the smallest decline of the three major industrial groups in the first years of the war, subsequently made the greatest gain. The increase in utility stock prices was also marked, with the industrials lagging somewhat behind. Among the industrial issues, however, prices of "peace" stocks more than doubled, while the "war" issues (which include those of aircraft, shipbuilding, railway equipment, and steel corporations) advanced only 50 per cent from the April 1942 low point. Compared with price levels immediately before the war, stock values were approximately one-third higher at the end of the war, a somewhat smaller increase than in wholesale commodity prices, and a considerably smaller increase than occurred in national income, and especially in business profits.

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In the first nine months of the transition period, common stock prices continued the advance of the previous 40 months, but the rate of gain, which might have been expected to slow down, actually accelerated. Between mid-August 1945 and the close of May 1946, stocks made the striking gain of 35 per cent, a monthly rate of increase about half again as large as in the preceding period of rising prices. At the peak in May 1946, the combined index of 402 stocks stood 78 per cent higher than just before the war, but was only 13 per cent above the 1937 high point, although gross national product and corporate profits were substantially higher.

Industrial issues led in the postwar advance. Both "peace" and "war" stocks made better than average gains, and in fact the rise in "war" stock values after the war was greater than during the conflict. In part this reflected the fact that the steel issues were included in the war stock averages and postwar demands for steel proved to be greater than had been generally expected. In addition, investors may have adopted a more favorable view of the peacetime prospects of the "war" industries after the end of hostilities than they held during the war as a result of the announced expansion into other fields of many companies in those industries and the expectation of wider profit margins on peacetime business.

During this period, the general optimism with which the postwar business outlook was regarded carried prices of low priced stocks to such a point that Barron's was compelled to abandon the compilation of its index of 30 low priced stocks for lack of suitable securities. The rise in prices of railroad and utility shares lagged considerably behind that of the industrials in this period, however. In fact, the peak in railroad stocks was reached early in February. This was also the case for the automobile and electrical equipment groups among the industrials. The relatively small price gains made in these industries reflected the prolonged wage disputes besetting some of the major companies in these important fields and their suppliers and the other difficulties they have had in their efforts to restore their output to prewar levels. Conditions in these industries have been paralleled to some extent in other "reconversion" industries.

The general level of stock prices turned down in June and declined at an average rate of 4 per cent a month through August, with the decreases growing sharper toward the end of this period. Many investors were evidently growing restive watching their substantial long term profits dwindle, and the wave of selling that struck the stock market early in September apparently reflected in part the efforts of such investors to salvage their remaining gains (or to limit losses). Prices dropped at the rate of about 4 per cent a week in the first three weeks of September, as sharp a setback as that which occurred in 1937. The decline since the end of May canceled practically the entire preceding postwar advance and eliminated 36 per cent of the April 1942—May 1946 upswing. On September 25 of this year, the price index of 402 stocks had receded to a level only 41 per cent above the August 30, 1939 level. Prices of railroad stocks, which were particularly depressed before the war, still showed a net gain of 78 per cent, the industrials 45 per cent, and the utilities only 10 per cent.

Railroad shares have been particularly weak recently, reflecting the effects on net income of rising costs of operation, including the increase in their wage and other costs and the relative inflexibility of the charges for their services. Stocks of automobile and electrical equipment companies reacted more sharply than other industrials, as frequent "wild-cat" strikes and shortages of one material or component part after another retarded the growth of output in these industries and prevented more economical production, thus impairing profit margins. The utilities showed the smallest price declines of the three major groups, just as they had shown the smallest advance in the nine months following the end of the war.

Because transactions on the stock exchanges have been so largely on a cash basis, the repercussions of the decline in stock prices on business activity can hardly be as great as on some occasions in the past when credit was much more extensively employed. The reduction of bank loans for the purpose of purchasing or carrying stocks has been negligible, in contrast to past periods of severe stock price declines when wholesale repayment of security loans brought about a substantially larger contraction in demand deposits. Consequently, the substantial decline in security prices has not brought about any material reduction in the aggregate volume of liquid assets at the disposal of the public. Since the turnover of securities in a cash market merely results in a shift in the ownership of cash assets, the vast reservoir of purchasing power remains unchanged. Some individuals, however, may own more and others less depending upon whether their trading in stocks has resulted in profit or loss. The main questions concerning the effects of the fall in stock prices on business are whether it will induce a more cautious attitude on the part of business and the general public with respect to expenditures and commitments, and how long it will prove to be a serious obstacle to needed business financing through new security issues.

Corporate Bond Market

The recession in stock prices was accompanied by a more moderate decline in bond prices, particularly among the lower grade railroad and other junior issues. The decline in bond prices (and rise in bond yields) had been in progress for several months, apparently influenced by the tendency of short term interest rates to firm as well as by other factors, but the decline was at an accelerated rate during the September slump in stock prices.

In the unusually strong corporate bond market that prevailed during and for some time after the war, the average yield of Aaa bonds computed by Moody's declined from 2.93

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per cent in August 1939 to an all-time low of 2.45 per cent early in April of this year. The average yield of Baa bonds fell from 4.85 per cent just before the war to an all-time low of 2.93 per cent early in March. Subsequently, corporate bond yields began to move upward, the Aaa average reaching 2.61 per cent and the Baa average 3.16 per cent toward the end of September. The differential between medium and highest grade bonds, which had narrowed so perceptibly during the war and early transition period, has again widened somewhat. Just as the decline in railroad bond yields during the war was much more pronounced than that of the corresponding grades of other major groups, so the recent rise in railroad bond yields has been greater than that among other groups. (Yields of municipal bonds have also risen during the year, owing to the decline in Federal income taxes which made them less attractive relative to taxable bonds, and to the prospects of an increased volume of new municipal issues.)

The major influences contributing to the unusual strength of the corporate bond market during the war have been supplanted in peacetime by new factors tending to work the other way. The tendency of interest rates to decline during the latter part of the war period and the early postwar months has given way to somewhat firmer "money" rates, despite the end of large-scale borrowing by the Government. The heavy wartime accumulation of savings has been followed by an expansion of consumer spending and a reduction in the volume of current savings. The limited volume of corporate "new money" issues during the war has been succeeded by a substantial volume of such issues in the transition period. And the greatly strengthened financial position of the railroads, which during the war had been responsible for the pronounced advance of railroad bond prices, has begun to show some signs of possible future drains.

Corporate Security Issues

The unsettlement in the markets for outstanding securities had little effect upon the volume of new security offerings until August when a sharp drop occurred in the flotation of refunding issues, particularly bond issues, which up to that month had continued at about the same high volume as in 1944 and 1945. Some pickup occurred in September, but the volume was still substantially below the monthly average for the year to date. Bond financing for new capital purposes, in which interest savings are not the primary consideration, reached a new peak of 196 million dollars in August, but declined sharply in September to an estimated total of 75 million dollars. Offerings of stocks to raise new money, which had been an outstanding feature of the expansion of new capital issues that got under way in the last months of the war, were also adversely affected by the weakness in the securities markets; flotations of common and preferred stocks for that purpose fell from 184 million dollars in July to 158 million in August and to only 25 million in September. Refunding issues of preferred stocks also dropped precipitately.

Despite the moderate firming of interest rates and the declines in prices of outstanding securities, some new issues have continued to be floated very successfully. Other issues, however, have been less successful and a considerable volume of securities offered is reported to have accumulated on dealers' shelves in recent months which are saleable only at prices well below the original offering prices. It has become increasingly difficult for public utility and railroad corporations to sell new securities to underwriters through competitive bids. In one instance, in September, the SEC suspended its competitive bidding rule to permit a public utility company to negotiate directly with investment bankers for the sale of a large, long term bond issue.

Recovery in the volume of new security flotations awaits the reestablishment of more stable conditions in the market for outstanding issues. While there undoubtedly remains a large demand for high grade securities from insurance companies, savings banks, and other institutions, even such investors hesitate to make commitments in declining markets. The ability of the capital market to absorb equity securities and to meet the financial requirements of companies of lesser credit standing, however, may have been impaired, at least temporarily, by the sharp decline in stocks and lower grade bonds. Here, a rising trend of stock prices may be needed to restore investor confidence.

SURVEY OF THE OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS, JULY 1946

The July survey of the ownership of business and personal demand deposits in all commercial banks in the Second Federal Reserve District reveals the changes in the various ownership classifications which have occurred during the six months ended July 1946 and during the first full year of a peacetime economy. Between January and July of this year the estimated level of such deposits as shown in the accompanying table rose an additional 1,106 million dollars, or 5.6 per cent, while during the preceding half year when most of the deposit increases were absorbed by sales of Government securities during the Victory drive, an over-all rise of only 13 million dollars, or 0.1 per cent, was recorded.

All classes of depositors listed in the survey increased their aggregate balances between January and July 1946, but two thirds of the total rise was in accounts of insurance companies, trust funds of banks, all other financial businesses, and public utility concerns. Furthermore, when compared with the gains shown in the preceding six months, sharply reduced rates of accumulations were apparent during the January-July 1946 period in accounts of retail and wholesale trade, deposits of nonprofit institutions, and personal accounts; current gains in

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the first two were only one-seventh as great as in the preceding six months and in the last, one-third as large. Manufacturing and mining accounts which had receded sharply during the preceding six months, reflecting expenses in connection with the conversion of plants to peacetime production, showed a small gain, probably reflecting the proceeds of new security issues and bank loans. Increases in balances of all other nonfinancial business which includes construction and services were at approximately the same rate in the latest six-month period as in the preceding period.

With respect to the current half-year gain of 479 million dollars in total financial accounts, all financial categories recorded substantial increases, with insurance company accounts showing the greatest rise. In all probability, the cessation of War Loan drives since the turn of the year, which removed a primary source of investment for firms of this type, resulted in larger cash accumulations than would otherwise have occurred. The rise of 251 million dollars in public utility balances accounted for approximately one half of the total increase in nonfinancial business accounts and in all likelihood was occasioned by receipts from new capital issues and bank loans, the proceeds of which had not as yet been expended for new plant or equipment or temporarily invested. The smaller accruals of deposits of trade accounts and personal accounts probably reflect in large part the greater availability of goods—in the former case to fill up trade channels, and in the latter case to fulfil long deferred consumer demand.

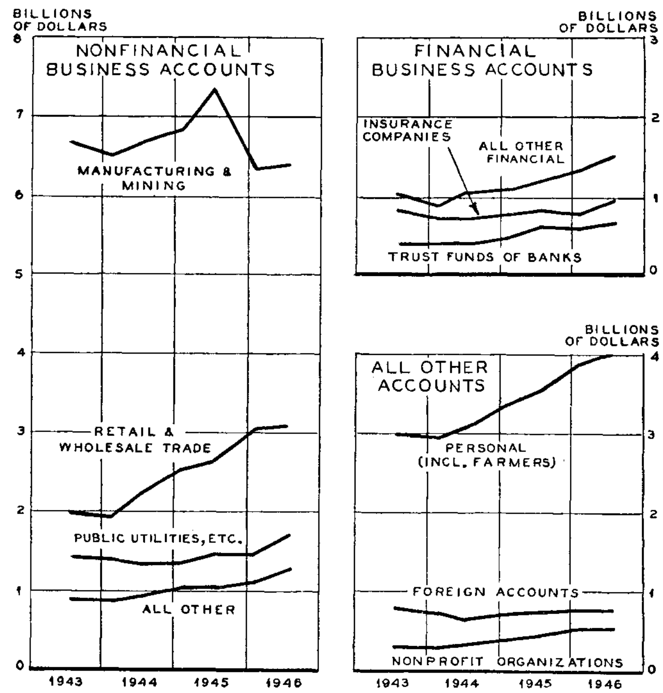
The estimated changes in business and personal demand deposits of all commercial banks in the District since July 1943 are shown for the various ownership groups in the accompanying chart. The total increase in such deposits during the

Estimated Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in All Commercial Banks in the Second Federal Reserve District

Type of owner	Millions of dollars		Percentage change	
	Dollar balance July 1946	Dollar change Jan. 1946 to July 1946	Jan. 1946 to July 1946	July 1945 to July 1946
Manufacturing and mining	6,383	+ 37	+ 0.6	—13.6
Public utilities, transportation, and communications	1,705	+ 251	+17.3	+15.1
Retail and wholesale trade and dealers in commodities	3,079	+ 62	+ 2.1	+17.4
All other nonfinancial business, including construction and services	1,277	+ 135	+11.8	+23.5
Total nonfinancial	12,444	+ 485	+ 4.1	— 0.6
Insurance companies	966	+ 217	+29.0	+17.9
Trust funds of banks	686	+ 100	+17.1	+12.3
All other financial business*	1,522	+ 162	+11.9	+26.2
Total financial	3,174	+ 479	+17.8	+20.4
Nonprofit organizations	529	+ 13	+ 2.5	+21.1
Personal (including farmers)	4,001	+ 122	+ 3.1	+14.8
Foreign accounts	774	+ 7	+ 0.9	+ 7.4
Total demand deposits of individuals, partnerships, and corporations	20,922	+1,106	+ 5.6	+ 5.7

* Including investment, loan, insurance agency, and real estate businesses, etc.

Estimated Ownership of Business and Other Demand Deposits for All Commercial Banks in the Second Federal Reserve District*



* On semiannual survey dates since July 1943.

three-year period amounted to nearly 3½ billion dollars. Of this total, 31 per cent, or 1,089 million dollars, lodged in accounts of retail and wholesale concerns; 29 per cent, or 1,011 million, was added to personal accounts (including farmers); 25 per cent, or 884 million, was distributed among the three classes of financial accounts; and the remaining 15 per cent, or 498 million, represented the net addition to all other ownership classes, of which two, manufacturing and mining and foreign, showed net declines.

It must again be emphasized, as it has been in previous *Reviews,* that the data resulting from the current survey, which is the eighth in a series, are estimates based upon reports from 121 member banks which hold about three fourths of the business and personal demand deposits of all commercial banks in the District. The reporting banks classified about 68 per cent of their business and personal demand deposits into ownership groups; the accounts classified were the larger ones with the minimum size classified varying according to the size of the banks.

The following table shows the percentage changes in business and personal deposits in all commercial banks in the District by size of bank and type of owner during the year ended July 1946. There appears to be little tendency for percentage changes in ownership classes to vary with the size of the bank. It will be noted, however, that increases in total business and

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Percentage Changes in Estimated Business and Personal Demand Deposits in All Commercial Banks in the Second Federal Reserve District by Size of Bank and Type of Owner During the Year Ended July 1946

Type of owner	Banks having total business and personal demand deposits (In dollars)				
	Under 1 million	1–10 million	10–100 million	100–500 million	Over 500 million
Manufacturing and mining	+ 3.7	— 8.9	— 6.4	—14.6	—14.6
Public utilities, transportation, and communications	+ 28.5	+12.4	+12.4	+ 3.2	+16.8
Retail and wholesale trade and dealers in commodities	+ 25.8	+23.5	+30.8	+26.4	+11.4
All other nonfinancial business, including construction and services	+ 56.3	+31.8	+19.8	+22.9	+22.6
Total nonfinancial	+ 25.3	+10.2	+ 8.8	— 0.7	— 3.0
Insurance companies	— 37.2	+22.0	+27.6	+33.6	+15.8
Trust funds of banks	—	— 7.3	+ 9.2	+15.4	+12.8
All other financial business*	+157.0	+24.7	+30.6	+38.5	+23.6
Total financial	+124.3	+18.6	+27.3	+33.0	+18.3
Nonprofit organizations	+ 28.7	+19.9	+16.8	+27.0	+21.2
Personal (including farmers)	+13.6	+24.8	+24.4	+21.1	+ 7.5
Foreign accounts	†	†	†	†	+ 7.4
Total demand deposits of individuals, partnerships, and corporations	+ 20.4	+17.4	+15.2	+ 7.5	+ 2.5

* Including investment, loan, insurance agency, and real estate businesses, etc.
† Not reported.

personal demand deposits were largest for the smallest size banks and receded steadily as the size of the bank increased. The explanation lies mostly in the varying proportions of total deposits in the different ownership groups. The smaller the size of the bank the greater the proportionate holdings of deposits of the distributive trades and personal accounts, in which increases have been large, and the smaller the proportionate share of manufacturing and mining balances, in which substantial declines have been recorded.

POSTWAR FOREIGN TRADE OF THE UNITED STATES

United States exports to all major areas since V-J Day have been running far above prewar levels in dollar volume, and the month-to-month trend for most areas has also been pronouncedly upward. The picture that the statistics of total exports give of these changes and of their effects on the United States balances of payments with the various areas, however, is seriously distorted by the inclusion of a large volume of "non-commercial" shipments—now primarily UNRRA and private relief, although during the war lend-lease shipments dominated this type of export. Such shipments are distinguished by the fact that they do not call for payment. In the second quarter of 1946 they accounted for 16 per cent of total United States exports. This percentage is itself considerable, but as a global average it conceals great disparities as between particular areas. Apart from the fact that they are a relatively passing phenomenon in our trade, such "non-commercial" shipments are also confusing to any trade or trade-balance analysis because they fall almost as much outside the normal scope of international trade as the shipments made during and after the war to the United States Armed Forces abroad.

In the accompanying tables, the "non-commercial" shipments are segregated by areas and deducted from the export totals in order to arrive at the "commercial" exports—"commercial" in the sense that they are shipments intended for trade, reconstruction, or development purposes that have to be paid for by the importers, whether private or official. This residue of "commercial" exports in each case is then thrown against imports in order to obtain the "commercial" balance of trade with the area, comparisons being made with 1938 as the last prewar year. It is this "commercial" balance which measures the drain on or accretion to the area's foreign financial assets caused by its trade with the United States.

"Non-commercial" exports at present are most important in our trade with Continental Europe. During the second quarter of 1946 such exports to Europe averaged 102 million dollars monthly, out of total United States exports to the area of 298 million, or 34 per cent of the aggregate. Consequently, while the balance of total United States trade with the area showed an export surplus averaging approximately 242 million dollars monthly, on a "commercial" basis the surplus was only 140 million. Even this balance, it is true, is far above the 1938 average of 28 million, but it is inflated by the considerable volume of reconstruction exports to Western European countries financed through loans and other credit arrangements. The export surplus has been augmented also by the failure of imports from the continent to expand comparably with the 201 per cent rise in "commercial" exports, April-June imports into the United States exceeding 1938 by 51 per cent, primarily because of an increase in prices rather than in volume.

When Continental Europe is broken down into major regions, the need for eliminating "non-commercial" exports from the picture becomes even more apparent. Our trade with the western liberated countries (France, Belgium, Luxembourg, the Netherlands, Denmark, and Norway) is now virtually on a "commercial" basis, despite the continuation of a small volume of private-relief shipments from the United States. The export surplus with this area of about 107 million dollars monthly is of course far above the prewar level, but as noted above, it is largely the result of reconstruction shipments, together with higher prices. Trade with the wartime neutrals —Sweden, Switzerland, Spain, and Portugal—also is on a "commercial" basis. Switzerland and Sweden have been actively making good their wartime deficits both of United States products and of exports to us.

As we look eastward and southward, however, the picture alters radically, reflecting the extent of the economic dislocations in much of Europe and the impediments to normal trade there. "Non-commercial" shipments to Italy (primarily UNRRA), for example, currently account for more than two thirds of total United States exports to that country. Imports from Italy have been negligible until recently, but shipments

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United States Postwar Foreign Trade With Continental Europe (Monthly averages in millions of dollars; exports include re-exports, imports comprise general imports)

Area	United States exports			United States imports	"Commercial" trade balance†
	Total	"Non-commercial"*	"Commercial" only		
Western liberated countries‡					
1938	29.6	—	29.6	12.2	+ 17.4
1945 October–December	91.6	9.2	82.4	6.9	+ 75.5
1946 January–March	119.8	7.1	112.7	9.7	+103.0
1946 April–June	122.3	1.6*e*	120.7*e*	13.3	+107.4*e*
Sweden and Switzerland					
1938	6.2	—	6.2	5.7	+ 0.5
1945 October–December	15.1	0.4	14.7	21.7	— 7.0
1946 January–March	20.3	*a*	20.3	13.4	+ 6.9
1946 April–June	25.5	*a*	25.5	11.1	+ 14.4
Spain and Portugal					
1938	1.9	—	1.9	1.1	+ 0.8
1945 October–December	5.5	—	5.5	6.8	— 1.3
1946 January–March	7.3	—	7.3	6.8	+ 0.5
1946 April–June	10.4	—	10.4	6.4	+ 4.0
Italy					
1938	4.9	—	4.9	3.4	+ 1.5
1945 October–December	20.4	14.1*b*	6.3	0.8	+ 5.5
1946 January–March	35.9	24.8*b*	11.1	0.7	+ 10.4
1946 April–June	34.7	24.8*b*	9.9	8.7	+ 1.2
U.S.S.R. #					
1938	6.1	—	6.1	2.2	+ 3.9
1945 October–December	37.6	11.4	26.2	1.6	+ 24.6
1946 January–March	38.3	16.6	21.7	10.2	+ 11.5
1946 April–June	36.3	17.0	19.3	8.7	+ 10.6
Other Eastern Europe§					
1938	16.0	—	16.0	12.6	+ 3.4
1945 October–December	59.5	58.8	0.7	0.9	— 0.2
1946 January–March	72.4	69.9	2.5	2.3	+ 0.2
1946 April–June	68.4	60.0*e*	8.4*e*	7.3	+ 1.1*e*

* "Non-commercial" exports comprise UNRRA and private relief shipments, and such lend-lease as is not to be paid for.
† Excluding "non-commercial" exports; (+) = export surplus, (—) = import surplus.
‡ France, Belgium, Luxembourg, the Netherlands, Denmark, and Norway.
# Including also Estonia, Latvia, and Lithuania.
§ Soviet-controlled zone, and also Greece and Finland, and all of Germany and Austria.
a Less than $50,000.
b Italy; "non-commercial," in addition to private relief and UNNRA, includes nonrepayable lend-lease, plus "commercial" lend-lease exports for the account of the British forces (the latter are "commercial" so far as the U. S.-British trade balance is concerned, but "non-commercial" in regard to U. S. trade with Italy).
e Partly estimated.
Source: Computed by Federal Reserve Bank of New York from reports of U. S. Department of Commerce.

of Italian silk have now been resumed. They account for the bulk of the second-quarter increase in United States imports from Italy and are contributing substantially to the financing of our "commercial" exports to that country.

Of our exports to the U.S.S.R., "non-commercial" shipments (chiefly UNRRA, but also including considerable private relief) comprise nearly half; much of the balance represents goods financed by long term credits under the lend-lease settlement agreement of October 15, 1945. While Russian needs are practically unlimited, their actual satisfaction by the United States is of course conditioned by Russia's ability to finance their payment. The increase in shipments from Russia to the United States in the first six months of 1946 is an obvious effort in this direction.

In the rest of Eastern Europe, "normal" trade is even more conspicuous for its absence. Almost seven eighths of United States exports to the region consist of relief shipments, either UNRRA or private. "Commercial" exports, although reaching a new postwar high in June, nevertheless averaged in the April-June quarter barely one half of the 1938 value—the only instance in this study in which the 1938 export figure has not been exceeded. The second-quarter rise in imports reflects chiefly the gradual resumption of foreign trade by Czechoslovakia and shipments of tobacco from Greece.

Our export trade with Latin America is of course on a "commercial" basis, although it also included a certain amount of lend-lease during the war. The postwar increase in United States exports to the twenty Latin American republics has been especially noteworthy, our sales to them in the second quarter of 1946 averaging 315 per cent in value above 1938, compared with a rise in "commercial" exports to all other areas of 143 per cent. The upward trend since V-J Day has continued the pronounced expansion in "commercial" shipments to this area that the United States had effected during the war in the face of shipping difficulties and the diversion of domestic production to war needs. Thus the Latin American republics have taken on increased importance in our foreign trade. In the second quarter of 1946 they accounted for 23.9 per cent of all our "commercial" exports, against only 15.5 per cent in 1938. Imports from Latin America have recorded a similar gain over prewar levels, and in April-June supplied 37.4 per cent of all our imports, compared with only 23.3 per cent in 1938. The net result has been the emergence of a sizable United States export surplus with the twenty republics, in contrast to the large import excess that characterized most of the prewar and war years.

Our trade with Canada, too, has continued far above prewar levels. The monthly data are distorted by the seasonal closing and reopening of Great Lakes navigation, but postwar imports from Canada dropped sharply with the curtailment of United States war production. Nevertheless, Canada, like Latin America, is now supplying a greater part of our import needs than before the war—17.4 per cent in April-June, against 13.5 per cent in 1938. The downward tendency of imports has been reflected in an increasing movement of the United States balance of trade "against" Canada.

"Commercial" exports to the United Kingdom, which had been drastically curtailed during the war years, recovered gradually in 1945 from the low 1944 level, and are currently running about 50 per cent above 1938 in value. Imports from Great Britain have been increasing steadily, as the British have sought to revive their export trade, imports in June being the largest since the war. Nevertheless, the United Kingdom is currently accounting for little more than half of its prewar percentages of our total exports and imports. The United States export surplus in our British trade continues high, but recent months have shown signs of a possible reduction as a result of a somewhat lower rate of exports and of the increase in imports.

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United States Postwar Foreign Trade With Major Areas
(Monthly averages in millions of dollars; exports include re-exports, imports comprise general imports)

Area	United States exports			United States imports	"Commercial" trade balance†
	Total	"Non-commercial"*	"Commercial" only		
World					
1938	258	—	258	163	+ 95
1945 October–December	610	103	507	321	+186
1946 January–March	762	138	624	366	+258
1946 April–June e	829	133	696	396	+300
Continental Europe					
1938	65	—	65	37	+ 28
1945 October–December	230	93	137	39	+ 98
1946 January–March	294	117	177	43	+134
1946 April–June e	298	102	196	56	+140
20 Latin American republics					
1938	40	—	40	38	+ 2
1945 October–December	122	—	122	117	+ 5
1946 January–March	144	a	144	136	+ 8
1946 April–June e	166	a	166	148	+ 18
Canada					
1938	39	—	39	22	+ 17
1945 October–December	94	—	94	76	+ 18
1946 January–March	89	—	89	63	+ 26
1946 April–June e	108	—	108	69	+ 39
United Kingdom					
1938	43	—	43	10	+ 33
1945 October–December	50	a	50	7	+ 43
1946 January–March	76	a	76	11	+ 65
1946 April–June e	65	a	65	14	+ 51
Other British					
1938	25	—	25	22	+ 3
1945 October–December	48	1	47	55	— 8
1946 January–March	54	a	54	74	— 20
1946 April–June e	62	a	62	60	+ 2
All other ‡					
1938	45	—	45	35	+ 10
1945 October–December	66	6	60	28	+ 32
1946 January–March	105	13	92	38	+ 54
1946 April–June e	130	20	110	50	+ 60

* "Non-commercial" exports comprise UNRRA and private relief shipments, and such lend-lease as is not to be paid for; as well as in the case of the world total only, so-called United States Government shipments (which exclude shipments for the Armed Forces).

† Excluding "non-commercial" exports; (+) = export surplus; (—) = import surplus.

‡ Non-British Asia, Oceania, and Africa, and non-British European possessions in Western Hemisphere.

a Less than $500,000.

e Partly estimated.

Source: Computed by Federal Reserve Bank of New York from reports of U. S. Departmen of Commerce.

Imports from other British countries, although less than during the early 1946 "bulge," are still supplying the United States with a larger share of its total imports than before the war. Exports, almost entirely "commercial", have increased steadily, and are far above prewar levels, but still account for a smaller proportion of our total exports than in 1938.

"Commercial" exports to the rest of the world (principally non-British Asia) have risen sharply during the past year, and are currently far above the 1938 dollar volume. They account, however, for a reduced proportion of our total exports, compared with the 1938 distribution. An appreciable part of the "commercial" shipments is represented by reconstruction goods. United States imports from these regions are steadily rising, as the channels of trade for the raw materials in which they specialize are restored. Such imports still lag, however, with the result that the export surplus in our "commercial" trade with these areas is currently running at a high rate.

DEPARTMENT STORE TRADE

September department store sales in the Second Federal Reserve District are estimated to have increased 25 per cent over September 1945. The seasonally adjusted index of sales for September is expected to show a decline from the all-time high established in August of a magnitude exceeding considerably the several minor setbacks since V-J Day. This decline is at least partly a result of the trucking and delivery strikes which have been hampering trade in the Metropolitan area.

Stocks of Second District department stores at the end of August are estimated at 266 million dollars, about 18 million dollars greater than the previous record high level of inventories at the end of September 1942. But the increase from July to August this year appears to have been little more than seasonal. At the August rate of sales, stocks were equivalent to 2.9 months' supply, comparable figures being 3.6 for August 1945, and 3.1 for August 1941. Outstanding orders continued to increase during August, contrary to the seasonal pattern in recent years.

Because demand has remained high, it has not been generally realized at what rate scarce merchandise has been moving into department stores in this District. When the increase in department store sales for the half year February through

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

Locality	Net sales		Stocks on hand Aug. 31, 1946
	August 1946	Jan. through August 1946	
Department stores, Second District	+57	+37	+26
New York City	+57	+38	+25
Northern New Jersey	+65	+40	+30
Newark	+63	+38	+31
Westchester and Fairfield Counties	+67	+38	+36
Bridgeport	+63	+34	+35
Lower Hudson River Valley	+59	+39	+30
Poughkeepsie	+50	+38	+32
Upper Hudson River Valley	+47	+37	+28
Albany	+56	+51	+28
Schenectady	+38	+22	+30
Central New York State	+57	+35	+18
Mohawk River Valley	+46	+28	+23
Utica	+45	+24	+27
Syracuse	+62	+38	+16
Northern New York State	+51	+38	—
Southern New York State	+56	+31	+29
Binghamton	+63	+35	+31
Elmira	+54	+23	+13
Western New York State	+51	+30	+26
Buffalo	+55	+32	+26
Niagara Falls	+29	+13	+17
Rochester	+49	+30	+30
Apparel stores (chiefly New York City)	+45	+31	+33

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

Item	1945	1946		
	August	June	July	August
Sales (average daily), unadjusted	120	221	158	189
Sales (average daily), seasonally adjusted	165	240	236	259
Stocks, unadjusted	173	192	196	218
Stocks, seasonally adjusted	170	204	213	214

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Department Store Sales and Stocks by Type of Merchandise
Second Federal Reserve District

Type of merchandise	Sales in millions of dollars, Feb.–July 1946†	Percentage change in sales: Feb.–July 1945 to Feb.–July 1946	Percentage change in sales: Feb.–July 1935–39 average to Feb.–July 1946	Ratio of stocks to sales* July: 1935–39 average	Ratio of stocks to sales* July: 1945	Ratio of stocks to sales* July: 1946
Total#	536.7	+ 35	+128	3.2	3.7	3.3
Women's and misses' wear						
Coats, suits	24.5	+ 30	+162	3.0	5.4	5.2
Dresses	32.1	+ 27	+145	0.9	1.2	1.3
Juniors' and girls' wear	19.0	+ 24	+192	2.2	4.4	4.6
Blouses, sportswear	20.1	+ 22	+162	1.1	3.1	3.0
Furs	4.4	+ 24	+146	15.9	11.4	11.2
Neckwear, scarfs	5.9	+ 19	+143	1.7	4.1	4.0
Millinery	7.4	+ 20	+ 50	0.7	1.9	2.3
Handbags	7.8	+ 31	+105	1.9	3.5	3.6
Shoes	19.3	+ 34	+ 97	5.8	4.4	3.8
Hosiery	13.7	+ 22	+ 83	2.1	1.7	1.2
Lingerie	20.3	+ 18	+138	2.3	2.2	2.4
Corsets, brassieres	8.7	+ 26	+139	3.1	2.5	2.7
Infants' wear	15.5	+ 15	+188	3.1	5.0	5.0
Men's and boys' wear						
Men's clothing	13.6	+ 46	+ 72	4.3	4.0	2.5
Men's furnishings	24.6	+ 68	+110	2.9	4.9	2.9
Boys' wear	7.8	+ 23	+105	7.5	10.6	8.4
Homefurnishings						
Furniture	44.5	+ 56	+139	4.6	4.6	3.6
Domestic floor coverings	15.3	+ 71	+160	9.4	4.0	3.4
Draperies, upholstery	19.5	+ 38	+165	8.0	5.0	4.4
China, glassware	8.1	+ 40	+101	12.3	6.5	5.7
Housewares	28.3	+ 77	+188	3.7	4.5	4.0
Major appliances	6.2	+838	+104	2.2	1.6	0.4
Musical instruments	6.5	+322	+280	3.6	6.4	3.4
All other						
Yard goods	14.6	+ 18	+114	4.7	3.1	3.4
Linens, towels	12.1	+ 44	+162	5.9	3.6	3.8
Sheets, pillowcases	8.6	+ 45	+137	3.1	1.6	1.6
Blankets, spreads	6.8	+ 66	+195	7.9	5.7	5.5
Toilet articles, drugs	14.0	+ 14	+ 45	2.5	3.8	4.1
Jewelry	7.8	+ 20	+215	5.8	5.0	5.8
Silverware	5.0	+106	+239	6.5	4.7	4.3
Stationery	6.1	+ 24	+166	4.7	5.8	4.6
Luggage	3.8	+ 84	+163	2.0	1.8	2.2
Sporting goods, cameras	5.0	+110	+ 68	2.0	3.9	3.4
Groceries, meats	8.0	+ 37	+235	2.1	2.4	2.1
Wines, liquors	8.6	— 5	+109	6.1	7.8	8.5

* Stocks as of July 31.
† Estimated by Federal Reserve Bank of New York.
# Includes types of merchandise not shown separately.

July, compared with the same period of 1945, is analyzed by departmental classifications, it is found that the major groups having the greatest increases both percentagewise and in dollar volume are those where supplies are reported to be particularly tight—homefurnishings, men's and boys' wear, and piece goods, including bedding. Consumer durables with a high unit price are still moving in relatively small volume, but show the greatest percentage increases. The greatest dollar increases were in sales of housewares, floor coverings, men's furnishings, and furniture. Women's wear and miscellaneous departments had smaller-than-average gains for the six months. However, relative to the 1935-39 average, sales of women's wear were higher than those of men's wear and about as high as sales of homefurnishings, as sales of women's wear registered larger gains during the war than any other major group.

Unfortunately it is not possible to estimate the influence of price increases and of up-trading upon the rise in dollar sales. From the 1935-39 base, the influence of increased prices is undoubtedly substantial, but up-trading was probably more important than price changes in the gains compared with last year, as most retailers "held the line" during July, the time of some large breaks through price ceilings previously in effect.

In spite of the fact that for the past few months stocks of durable goods have shown greater-than-average increases over last year, nearly all kinds of durable goods are still scarce relative to the current rate of sales; at the end of July only luggage and jewelry showed higher stock-sales ratios this year than last. Supplies of yard goods, and linens and towels appeared somewhat less tight than at the end of July last year, but the ratios of stocks to sales were considerably below the averages for July in the 1935-39 base period. A number of women's wear departments also had higher stock-sales ratios this July than last, but comparison with the 1935-39 average showed no consistent tendency; in several large departments the stock-sales ratios were much higher on the 1935-39 base, while in others they were lower. Stocks of men's wear were low, both in relation to the previous year's supply and to the current rate of sales.

Estimated dollar sales of thirty-five departments for February through July 1946, together with the percentage changes in sales over the same period last year and against the 1935-39 base, are presented in the three left-hand columns of the accompanying table. Stock-sales ratios for July on the 1935-39 base, in 1945, and in 1946 are shown in the three right-hand columns.

Indexes of Business

Index	1945 August	1946 June	1946 July	1946 August
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	186r	170r	172	176p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	192	188	195	202p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	198	195	190p	
Sales of all retail stores*#, 1935-39 = 100 (*Department of Commerce*)	196	239	247p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	149	139	141	145p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	128	125	123	127p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	267	257	261p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	232	249	244	259p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	236	241	251p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	169	183	184p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	129	133	141	144p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	87	86	96	88
Outside New York City	72	75	81	85

* Adjusted for seasonal variation. p Preliminary. r Revised.
# Series revised beginning January 1945.

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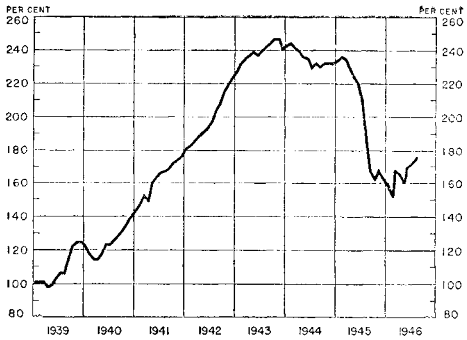
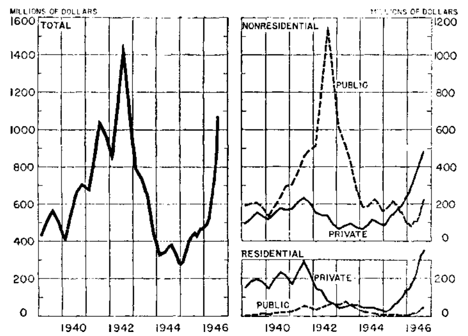
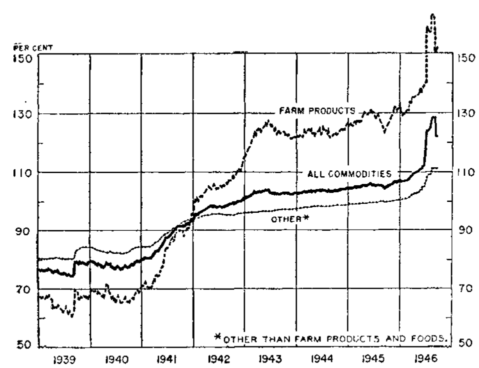


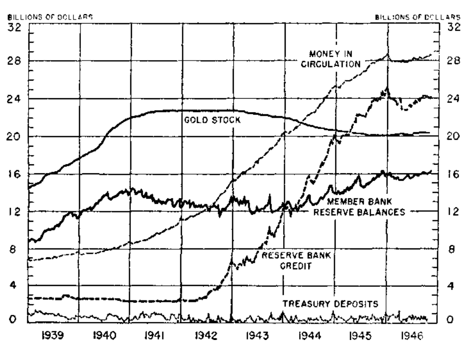
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average = 100 per cent)



Value of Construction Activity. Figures Beginning in 1944 Are Joint Estimates of the Departments of Commerce and Labor; Earlier Figures Estimated by Department of Commerce. Data Exclude Repair and Maintenance Work. Monthly Averages from Quarterly Totals Prior to July 1944; Monthly Data, Thereafter



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended September 14)



Member Bank Reserves and Related Items (Latest figures are for September 18)

National Summary of Business Conditions

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

PRODUCTION and employment at factories continued to expand in August. The value of retail trade reached new record levels, reflecting partly further advances in prices for goods. In the early part of September prices of agricultural commodities were reduced considerably by Federal action.

Industrial Production

Industrial production rose further in August to a new peacetime peak and, according to the Board's seasonally adjusted index, the level of output was 176 per cent of the 1935-39 average as compared with 172 in July.

Production of durable manufactures continued to gain, reflecting further advances in output of metals and metal products. Activity at steel mills averaged 88 per cent of capacity in August as compared with 85 per cent in July and operations in September have been maintained at about the August rate. Output of copper continued to advance in August and exceeded the pre-strike rate in January. Activity in the machinery and automobile industries increased in August. Ouput of passenger cars rose 10 per cent and trucks, 13 per cent; production of trucks totaled 105,500 units, which was the highest monthly rate on record.

Production of nondurable goods as a group advanced in August to the same level as in June, 162 per cent of the 1935-39 average, after a large decline in July due chiefly to vacations in the textile, leather, paper, and tobacco products industries. Output of paper board rose in August to a level slightly above the previous peak and continued at about this rate during the first three weeks of September. Federally inspected meat production in August, after allowance for seasonal changes, was 16 per cent below the high July rate, and a sharp further curtailment occurred in September. Output of flour and bakery products showed further large gains in August, reflecting improved wheat supplies. Production of most other nondurable goods increased slightly from July to August.

Minerals production declined two per cent in August, reflecting slight decreases in output of coal and crude petroleum. Output of metals showed little change.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined somewhat further in August, reflecting a drop of one fourth in nonresidential building awards. Residential building awards increased slightly in August following large decreases in June and July. Value of new construction activity continued to rise in August but preliminary figures indicate that activity showed little change in September.

Employment

Nonagricultural employment increased by about 550,000 from July to August to a level more than 1½ million above August 1945. Over 300,000 workers were added in manufacturing, and employment in most other industries continued to increase. The number of persons unemployed declined by 230,000 in August.

Distribution

Department store sales in August reached a new high of 289 per cent of the 1935-39 average as compared with 273 in July and an average level of 254 in the first half of the year, according to the Board's seasonally adjusted index. Sales during the first three weeks of September continued at a high level. Value of department store inventories, after allowing for seasonal changes, increased from 222 per cent of the 1935-39 average at the end of July to 225 at the end of August.

Freight carloadings continued to rise in August and, after allowing for seasonal changes, were at the highest level since the early part of 1945. Increased shipments of coal, coke, forest products, and miscellaneous freight more than offset declines in other classes.

Commodity Prices

Prices of livestock and meats were reduced sharply at the beginning of September by the reestablishment of Federal price ceilings over these commodities. Reflecting mainly that action, the general index of wholesale prices declined 4 per cent from the middle of August to the latter part of September, following an advance of 13 per cent in the preceding 6 weeks after the lapse of Federal price control. Prices of dairy products and some other agricultural and industrial commodities have advanced further in recent weeks.

Agriculture

Crop production this year is expected to be slightly larger than the previous record reached in 1942 despite the small cotton crop and reduced output of oil-bearing crops. This is the second season of a small cotton crop and stocks have been reduced considerably from the high levels existing from 1938 to 1945 but the carryover on August 1 was still substantially larger than the average levels prevailing in earlier years. The feed supply situation is expected to be improved this season because of the larger feed crops as well as the reduced number of livestock on farms. Total output of fruits and vegetables is indicated to be substantially greater than last season and larger than in any previous year.

Bank Credit

Treasury withdrawals from its deposits at banks to retire public debt, together with an increase in currency in circulation, in August and early September resulted in moderate pressure on member bank reserves, and banks sold short term Government securities to the Reserve Banks. In the first half of September deposits of businesses and individuals increased considerably, and required reserves rose by about 200 million dollars. There was some decline in the following week, largely the result of income tax payments.

Commercial and industrial loans at member banks in 101 leading cities showed a further sharp increase during August and the first three weeks of September, and have risen by about 1.5 billion dollars since June. Real estate and consumer loans also continued to increase. Loans for purchasing and carrying securities declined by over 500 million. Holdings of Treasury certificates declined by about 2 billion, reflecting primarily Treasury debt retirement operations, while holdings of Government bonds increased slightly further.

Security Prices

Prices of common stocks declined sharply during the first three weeks of September. Bond yields rose somewhat in August and September, while short term interest rates showed little change.

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