MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

Vol. 28 NOVEMBER 1946 No. 11

MONEY MARKET IN OCTOBER

Reserve positions of the member banks were easier in October as the Treasury returned more funds to the money market than it withdrew from it, sizable net payments were made out of foreign and other deposit accounts with the Reserve Banks, and the monetary gold stock increased. The net effect of these transactions was to provide member banks with additional reserve funds despite offsetting factors, including a further expansion of money in circulation and a rise in reserve requirements. As a result of the net gain of funds from these sources and of extensive Government security operations by the banks, a substantial reduction in Federal Reserve Bank credit other than "float" took place in the four weeks ended October 23. The impact of the gains and losses of funds was very uneven, however, so that some banks experienced net losses of funds and consequently increased their borrowing or sold short term Treasury securities directly and indirectly to the Reserve Banks, while others had net gains of reserves and reduced their indebtedness or purchased Government obligations from the Reserve Banks directly and through the open market.

A considerable part of the retirement of Federal Reserve credit was effected in the last week of the period under review when the banks drew upon their reserves to make substantial purchases of bills from the Federal Reserve Banks. Excess reserves of all member banks fell to 540 million dollars on October 23, but this low figure was of no special significance since it was largely the result of a temporary reserve deficiency of the New York City banks following a surplus of reserves earlier in the week. Thus, some part of the decrease in Federal Reserve System holdings of Government securities was likewise temporary and was reversed during the following week when the banks made good on their reserve deficiency.

Treasury cash disbursements exceeded receipts over the four-week period as a whole. The partial redemption of 2 billion of a 3.4 billion dollar issue of certificates maturing on October 1 was effected with comparatively minor disturbance to the money market, since the securities were retired partly with funds previously accumulated by the Treasury in the Reserve Banks. Disbursements of these funds exceeded Federal Reserve System holdings of redeemed certificates, providing the banks with additional reserves. In addition, funds equal in amount to the entire War Loan withdrawal of 1.4 billion dollars which was made in connection with the retirement of the certificates were returned to the banks and their depositors. In the following two weeks Treasury receipts exceeded expenditures, but this excess of receipts was more than canceled by large net disbursements in the week ended October 23.

Because of the substantial holdings of redeemed certificates in New York City, the metropolitan banks experienced considerable net gains of reserves through Treasury operations in the week ended October 2. The gain from this source, as well as from net payments out of foreign and other deposit accounts with the Reserve Banks, however, was more than offset by a heavy transfer of funds to other parts of the country where the banks were in need of reserves to meet War Loan deposit withdrawals. The distribution of reserve funds among the New York City banks, like that of banks in other parts of the country, was uneven, and as a result, some New York institutions purchased Treasury bills from the Reserve Banks while others sold Treasury certificates and notes, most of which were absorbed by the Reserve Banks.

In the following two weeks, Treasury receipts in New York exceeded disbursements by about 490 million dollars, in part reflecting tax collections and in part substantial purchases of new Treasury bills by the New York banks direct from the Treasury. They did not obtain enough funds from other sources to enable them to hold all the additional bills, however, and found it necessary to sell bills to the Reserve Bank in substantial amounts. They also sold Treasury notes and bonds, which apparently were absorbed chiefly by nonreporting banks and nonbank investors, and made net purchases of certificates, in part from the Reserve System, but chiefly from out-of-town banks seeking to adjust their reserve positions.

In the week ended October 23, the New York banks again lost reserves through Treasury transactions, but the loss was more than offset by an inflow of funds from other parts of the country and further disbursements from foreign accounts with the Reserve Banks. As a result they were able this time to retain the bills purchased directly from the Treasury. In addition, they made large repurchases of Treasury bills from the Federal Reserve option account and permitted their reserves to drop temporarily to a level 230 million dollars below their requirements at the end of the week. This deficiency was compensated by heavy excess reserves held earlier in the week, and developed in the process of averaging reserves to the required levels over a week's period. It was quickly corrected by heavy sales of Treasury bills to the Reserve Bank at the beginning of the next reserve period.

Business Loans and Inventories

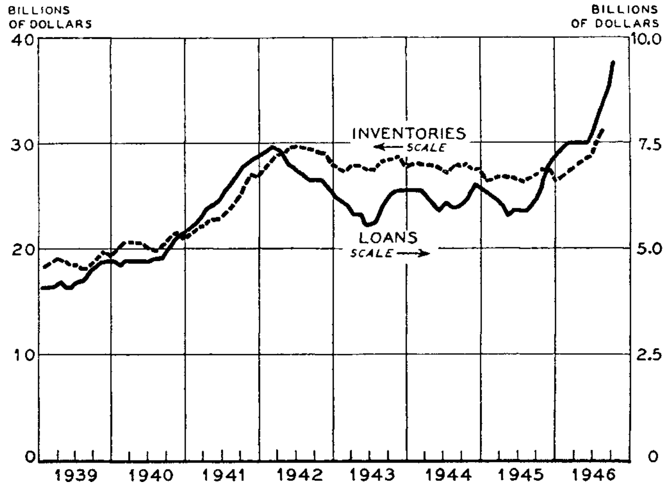
Commercial, industrial, and agricultural loans of the weekly reporting member banks in 101 cities expanded for the nineteenth consecutive week in the week ended October 16. The total of 9½ billion dollars on that date showed an increase of 600 million dollars for the preceding four weeks, 2.3 billion since the beginning of the year, and 3.3 billion dollars over the total a year ago. Recent gains in bank loans to business have been at an accelerated rate, apparently reflecting the sharp upswing in prices since the middle of the year, a substantial accumulation of business inventories, and the replenishment of working capital by some concerns.

Although the carrying of stocks of materials and partly manufactured and finished goods is not the only purpose of business borrowing, commercial loans of the banks have tended to vary in a general way with the changes in business inventories, as illustrated in the accompanying chart. Inventories of manufacturing, wholesale, and retail establishments increased about two thirds between the low point of 1939 and the wartime peak in 1942, as business activity expanded rapidly, the general level of prices rose, and business enterprises built up large stocks of civilian products in anticipation of a long period of "drought" in the output of such goods. Commercial, industrial, and agricultural loans of the weekly reporting banks increased about 80 per cent in this period.

Inventories declined gradually by about 10 per cent from the 1942 peak to the end of war in August 1945, despite a sharp increase in the volume of industrial activity. Liquidation of stocks of peacetime goods more than offset the building up of "war" inventories by private enterprise, since a large part of the accumulation of stocks of essential raw materials and military items was effected by the Government through stockpiling and other programs. In order to maintain a well balanced output of war materiel and essential civilian goods, it was essential to prevent unnecessary accumulation of inventories. Cutbacks in military production programs early in 1945 tended to bring about some reduction in war inventories toward the close of the conflict. Since prices were fairly well stabilized in this period, changes in the dollar value of inventories presumably were more or less indicative of changes in physical volume.

Banks loans to business also declined gradually and by the

Business Loans and Inventories*



* Commercial, industrial, and agricultural loans of the weekly reporting member banks in 101 cities; monthly averages of weekly data, latest figure is average for first three weeks of October 1946. Inventories include manufacturing, wholesale, and retail; end-of-month data, August 1946 preliminary.

Source: Board of Governors of the Federal Reserve System and Department of Commerce.

end of the war were 20 per cent below the peak in 1942. Not only did the liquidation of nonwar loans exceed the extension of Government guaranteed and other war production loans, but a substantial portion of the working capital needs of war producers was met by the Government through advance and progress payments on war contracts. The low point for business loans was reached in the middle of 1943, however, the subsequent advance reflecting first a further growth in loans to war contractors, and then the growing tendency of larger enterprises to borrow through the mechanism of the term loan in anticipation of postwar needs.

The postwar period has been one of turning back war inventories to the Government as part of the war contract settlement process and of filling the peacetime "pipelines." Building up adequate inventories has been retarded by heavy public demands for goods. A record-breaking Christmas shopping season last year caused a sharp drop in inventories during December, particularly at retail levels, but substantial progress has been made since the end of 1945. In the first full year of peace, total business inventories rose 17 per cent to a new peak of 31.2 billion dollars (preliminary) on August 31, 1946. Part of the growth in inventories reflects the increase in prices which has gathered momentum in recent months. To some extent, the volume of manufacturers' inventories is higher than it might otherwise be as a result of considerable accumulation of semifinished products owing to scarcities of a few components. Retail inventories have increased at a rate roughly parallel to the growth in sales, but are in an unbalanced condition, some types of goods being in ample supply while a number of others are still short.

The growth in loans to business by the weekly reporting member banks has been proportionately much greater than the growth in business inventories since the summer of 1945. This is attributable to business borrowing for other purposes, including loans to retire outstanding securities (especially in the fall of 1945) and loans to finance plant expansion and improvements pending the sale of new securities.

THE STOCK MARKET AND THE SMALL INVESTOR

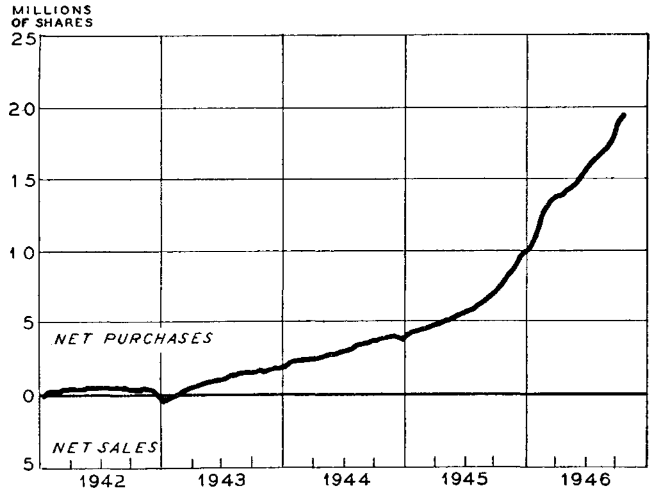
One of the interesting aspects of the trading in stocks on the New York Stock Exchange during the war and postwar periods has been the substantial accumulation of equity securities by small investors. As illustrated in the accompanying chart, based on data of the Securities and Exchange Commission, odd-lot transactions of the public (generally transactions of less than a round lot of 100 shares) resulted in net purchases of about 20 million shares of stock between the beginning of 1943 and October 19, 1946. It is noteworthy that these small security holders stepped up their purchases of stocks during the sharp decline of prices in September of this year, while larger traders accelerated their selling.

The data on odd-lot transactions reveal an increasing public participation in security trading and a growing rate of accumulation of equity securities by small investors, especially toward the end of the war and in the postwar period. Net purchases of stocks for the account of odd-lot customers amounted to 2 million shares each in 1943 and 1944, 6 million in 1945, and close to 10 million in the first 10 months of 1946. A sizable portion of this accumulation took place at low levels in the early phases of the bull market, but most of the increase in small investors' holdings has been at the higher price levels prevailing in 1945 and 1946, although a considerable part occurred when prices were falling.

The net purchase of 20 million shares through odd-lot transactions is but a small fraction of the 1¾ billion shares listed on the Exchange on September 30, 1946, and amounts to only 7 per cent of the 279 million share increase between the end of 1942 and September 30, 1946 in the total number of stocks listed, but it should be borne in mind that only a small portion of all listed shares are traded in each year. Consequently it appears that such purchases have had a consistent influence toward higher prices, or toward limiting recessions, for nearly four years.

Demand for equity securities by small investors was met in the main through net sales by members of the Exchange on orders placed off the trading floor and to some extent through net sales by the larger investors and traders. Although the selling orders of members persistently exceeded their purchases, the excess of sales was not large until the summer of 1945. Data on round-lot transactions of the public through the Stock Exchange, however, indicate frequent changes in the position of the larger investors. This group made small net purchases in 1942, sold small amounts between early 1943 and February 1944, again effected moderate net purchases through the middle of 1945, and sold stocks in larger amounts from July 1945 through October 19, 1946, especially in February, March, and September 1946. The result over the entire period was some net excess of selling.

Cumulated Odd-Lot Net Purchases or Sales of Stocks on the New York Stock Exchange*



* Cumulated weekly from the end of 1941.
Source: Securities and Exchange Commission.

Transactions of nationals of foreign countries apparently have been a factor of some importance. Foreign owners of domestic stocks (including stocks not listed on the New York Stock Exchange) made net purchases of 21 million dollars of equity securities in 1942, and then sold 43 and 35 million dollars in 1943 and 1944, respectively, stepping up their sales to 100 million dollars in 1945. No further increase in the rate of foreign selling occurred in the first eight months of 1946, however.

The middle of 1945 seems to be the point when all groups of larger traders began or increased their selling through the Exchange at the same time—American and foreign investors, as well as members of the Exchange, mostly in off-the-floor trading. In addition, specialists (members specializing in one or a few stocks) also began to make relatively small net sales at an increasing rate. Selling by the larger traders was accelerated in the early months of 1946, and especially in September. Thus, it would appear that the major immediate factor in the recent stock price decline was the selling of professional and other large traders and that whatever there was in the way of "emotional" or "panicky" liquidation of stocks did not come from the "general public," as represented by odd-lot traders.

The source of the securities so persistently sold by members of the Exchange in off-the-floor transactions is not so clear, since these (net) sales appear to have considerably exceeded the normal portfolios of Stock Exchange firms and their partners. A substantial part of the securities sold by members through the Exchange, therefore, must have been obtained from other sources. Presumably they may have included portions of large blocks of listed securities acquired over the counter by member firms, acting as participants in underwriting or selling syndicates, either from large stockholders (secondary offerings), or from corporations raising additional capital (new issues).

Substantial shifts in the ownership of American corporations seem to have occurred in the war and early postwar periods from foreign to American stockholders and from large to small investors. Since turnover on the New York Stock Exchange represents the bulk of the trading on all organized exchanges as well as over the counter, the accumulation of such a large volume of securities by the odd-lot customers of New York Stock Exchange brokers indicates that for the country as a whole a substantial growth in the total number of small stockholders and of small stock holdings has occurred during and after the war. This does not necessarily mean that the share of small holders in the total of securities outstanding has increased, however, since it is possible that security holders with greater financial resources acquired a larger volume of new stock issues offered over the counter by underwriters and distributors.

TREASURY FINANCE IN THE FISCAL YEAR 1947

For the first time since the latter part of 1937, the Federal Government is now spending on an annual rate basis less cash than it takes in. In the first quarter (July-September) of the current fiscal year, cash income to the Treasury exceeded cash outgo by 1.6 billion dollars. While an excess of cash income had occurred also in the January-March quarter of the previous fiscal year, this was only because of the usual concentration of income taxes in that quarter. The cash surplus in the July-September quarter was not due either to temporarily high receipts or to temporarily low expenditures, although it may have been accentuated by temporary factors affecting expenditures. Even on an accounting (accrual) basis the budget was balanced in the first quarter, but the outlook for maintaining this balance for the fiscal year as a whole is less certain because of larger noncash expenditures during the remainder of the year. These accrued expenditures, such as the issuance of 2.1 billion dollars of veterans' terminal leave bonds and of nearly 1.0 billion dollars in non-interest-bearing demand notes to the International Monetary Fund will not involve any cash outlays until the securities so issued are redeemed. Inflationary or deflationary effects of Government finance upon the economy are determined largely by transactions on the cash rather than on the accounting basis. However, some individuals may spend more of their current incomes if they have claims against the Government for payment in cash at some future date.

The marked change from a cash deficit to a surplus has come about primarily as a result of the reduction in defense expenditures towards a peacetime level. A year ago, in the July-September 1945 quarter, cash outgo exceeded cash income by 10.2 billion dollars. War expenditures, at 19.1 billion dollars for the quarter, had already declined somewhat from their peak of 23.1 billion dollars in the preceding quarter as a result of cutbacks in war production following V-E Day. Sharp curtailment of war production and discharge of personnel from the Armed Forces following V-J Day accelerated the decline to a level of only 3.8 billion dollars in the July-September 1946 quarter. The latter total would probably have been nearer 4.5 billion dollars if certain transfers[1] had not taken place between regular accounts and trust accounts of the War Department (which increased trust account expenditures and reduced war expenditures) and if special efforts had not been made to include all expenditures prior to June 30 in the totals for the preceding fiscal year. Through the use of wired reports, the June total was increased by expenditures which would not normally have cleared through the Treasury until the first week in July.

This sharp reduction in war expenditures has been offset slightly by a rise in other accounts, primarily for aid to veterans, international finance, public works, and general government. Expenditures for veterans have risen from a quarterly total of 0.3 billion dollars in July-September 1945 to 1.5 billion dollars a year later. Unemployment and education benefits to World War II veterans, together with the granting of monthly pensions to substantial numbers of disabled veterans, have caused this large increase. A new item, cash outlays for international finance, other than by Government corporations, amounted in July-September 1946 to 0.4 billion dollars (all of which represented drafts on the credit to Great Britain). In addition the Export-Import Bank made net outlays of 0.2 billion dollars, as against virtually nothing a year earlier.

Cash interest on the debt, on the other hand, has changed little except for the usual fluctuation resulting from the fact that greater interest payments are due in June and December than in March and September. Refunds of taxes also fluctuated during the fiscal year, as most refunds were made in the months following the March income tax date. Refunds in July-September 1946 were somewhat lower than a year ago, probably because of the quicker processing this year, which concentrated refunds more in the April-June 1946 quarter.

Other expenditures were somewhat higher than a year ago, largely because of the increase in public works and regular departmental expenditures. Because of a change in the procedure for recording expenditures in the *Daily Statement of the United States Treasury,* however, the effect of changes in the individual expenditure classifications discussed above on the Treasury cash balance starting in the July-September 1946 quarter is slightly overstated. Expenditures, except those of the War, Navy, and Post Office departments and certain Government corporations, are now recorded at the time the checks are issued rather than when paid and cleared through the Treasurer's accounts. Since the Treasury's cash balance is not reduced until the checks are paid and cleared, an offsetting

[1] These transfers represent reclassification of expenditures which were formerly charged to war expenditures but which were later determined to be expenditures for military trust accounts.

adjustment is made on the *Daily Statement* for outstanding checks. In the July-September 1946 quarter, checks cleared through the Treasurer's accounts were 0.3 billion dollars below the amount indicated by the individual classifications of expenditures in the *Daily Statement.*

The reduction in total cash expenditures from,a quarterly rate of 22.5 billion dollars in July-September 1945 to 8.8 billion a year later was accompanied by only a moderate decline in cash income. Income and profits taxes amounted in July-September 1946 to 6.6 billion dollars—a level 1.0 billion dollars lower than in the similar quarter of 1945, largely because of the reduction in corporation income and excess profits taxes. Withheld individual income taxes were also slightly below a year ago because of a cut in tax rates. Other individual income taxes, however, were virtually unchanged in spite of rate reductions. Other budgetary income was lower, largely because the drop in receipts from renegotiation of contracts was only partially offset by higher receipts from sales of surplus property in July-September 1946. Elimination of the capital stock and auto use taxes, which were formerly paid in the July-September quarter, also contributed to the drop in "other receipts."

U. S. Treasury Cash Income and Outgo, Fiscal Years 1946-47
(In billions of dollars)

	Fiscal year 1946				Fiscal year 1947	
	July-Sept. 1945	Oct-Dec. 1945	Jan.-Mar. 1946	Apr.-June 1946	July-Sept. 1946	Budget estimate, total year
Cash income						
Budgetary						
Withheld taxes	2.6	2.4	2.3	2.1	2.3	}17.7
Other individual income taxes	1.6	0.9	4.6	1.7	1.6	
Corporation income and profits taxes	3.4	3.2	3.5	2.5	2.6	9.8
Total income and profits taxes	7.6	6.5	10.4	6.4	6.6	27.4
Other receipts★	3.6	2.8	3.1	3.8	3.2	13.2
Trust funds★	1.1	1.1	0.8	1.0	0.7	2.0
Total cash income	12.3	10.4	14.2	11.2	10.4	42.7
Cash outgo						
Budgetary						
Other than Government corporations						
War and defense	19.1	13.6	8.7	7.2	3.8	16.9
Interest on debt	0.8	1.0	0.9	1.1	0.8	3.8
Refunds of taxes	0.8	0.2	0.4	1.5	0.6	1.9
Veterans	0.3	0.4	0.8	1.3	1.5	5.8#
International finance	—	*	—	0.2	0.4	1.8
Other	0.6	0.6	0.6	0.9	1.0	4.4#
Wholly-owned Government corporations (net)						
War and defense						— 0.5
International finance						1.4
Other						0.6
Total Government corporations△	0.2	— 0.6	— 0.3	0.4	0.2	1.5
Trust funds▲	0.7	1.0	1.7	0.9	0.4	2.6
Redemption of excess profits refund bonds⊕	—	—	1.0	0.1	*	
Total cash outgo⊕	22.5	16.1	13.7	13.6	8.8	38.8‡
Net cash income	—10.2	— 5.7	0.5	— 2.4	1.6	3.9‡
Net cash borrowing						
Savings bonds	1.0	1.4	0.4	0.2	0.4	
Treasury Savings notes	— 1.1	— 0.8	— 0.9	— 0.7	— 0.6	
Other nonmarketable securities	0.2	— 0.2	0.1	0.1	*	
Marketable securities (including Government corporations)	1.5	15.2	— 1.7	— 7.3	— 5.4	
Total net cash borrowing⊕	1.6	15.6	— 2.2	— 7.7	— 5.7	—14.8
Change in Treasury cash balance	— 8.6	+ 9.9	— 1.6	—10.1	— 4.1	—10.9

★ The net appropriation to the Old-Age trust fund is included under "Other receipts" rather than under "Trust funds" as in the Budget table on *Payments to and Receipts from the Public.*
△ Breakdown of Government corporation expenditures is not published by the Treasury on the same basis as in the Budget table.
▲ Includes clearing account for outstanding checks and redemptions of adjusted service bonds.
⊕ Redemptions of excess profits refund bonds are included under net cash borrowing in the Budget table.
* Less than 50 million dollars.
\# Expenditures for construction of veterans hospitals are carried under public works in the Budget estimates, rather than under Veterans' Administration as in the Treasury figures.
‡ Excluding about 1.1 billion dollars cash payment to the International Monetary Fund from the Exchange Stabilization Fund. Since the Stabilization Fund balance is not part of the Treasury cash balance, this expenditure will not reduce the Treasury balance.

NOTE: Because of rounding, items do not necessarily add to totals.
SOURCE: Actual figures based on the *Daily Statement of the United States Treasury* and the table on Treasury cash income and outgo published in the monthly *Treasury Bulletin.* Budget estimates for fiscal 1947 based on August budget revision.

It appears that in the fiscal year 1947 as a whole net cash income to the Treasury may surpass the 3.9 billion dollars estimated in the August revision of the President's budget. As indicated in the accompanying table, total cash expenditures, at 8.8 billion dollars for the first quarter, are running at a rate below the estimated total of 38.8 billion dollars for the fiscal year. Only in the case of interest payments were these expenditures low in relation to the quarterly average for the fiscal year because of seasonal factors. Certain expenditure items, such as international finance and terminal leave cash payments may be at a higher average level during the remainder of the fiscal year, but will be offset at least in part by a reduction in such items as UNRRA payments, pay and subsistence of the Armed Forces, and subsidy payments. One important reduction in budget estimated expenditures has already occurred through elimination of meat subsidies at a saving of nearly 0.4 billion dollars for the fiscal year. The rate of expenditures in the first quarter indicates that cash outlays for defense and international finance may also be somewhat lower than originally anticipated. Cash expenditures for defense should reflect the continued decline in the size of the Armed Forces over the remainder of the fiscal year. Terminal leave cash payments, estimated at 0.3 billion dollars in the budget, will enter the war expenditure total in remaining quarters, but will be offset by reduction of UNRRA payments. International finance expenditures may be lower than the estimated fiscal year total unless the rate of disbursements under Export-Import Bank loans is stepped up considerably. To meet the budget estimate for the fiscal year, the average rate of such disbursements for the remaining three quarters of the fiscal year would have to be about double that of the first quarter. These possible savings on defense and international finance expenditures may be offset in part, however, by an upward revision of estimates for public works expenditures and possibly for tax refunds, although the latter can not be determined accurately at this time.

Total receipts in the first quarter indicate that the budget estimates will be reached or exceeded unless the trend of income payments to individuals should be reversed. Income payments increased sharply to a seasonally adjusted annual rate of about 170 billion dollars in the July-September 1946 quarter. Individual income taxes received in the quarter were at an annual rate already slightly in excess of the fiscal year budget estimate. Corporate taxes, on the other hand, may fall somewhat short of budget estimates, since payments in the last half of the fiscal year will be largely on calendar year 1946 tax liabilities, which will have been reduced by the elimination of the excess profits tax.

The current excess of cash income over outgo is being used along with reduction of the Treasury cash balance to retire debt. During the July-September 1946 quarter, the 1.6 billion dollars net cash income together with a 4.1 billion reduction in the Treasury balance was used to retire a net cash amount of 5.6 billion dollars of public debt and a small amount of Government corporation debt held by the public. The bulk of this debt retirement represented the cash redemption of 2.0 billion dollars of Treasury notes on July 1, more than 1.2 billion of certificates on August 1, and 2.0 billion of certificates on September 1. Treasury savings notes were again redeemed in larger amounts than current sales, resulting in a net cash outlay of 0.6 billion dollars for the quarter. Savings bonds, however, continued to provide funds as 0.6 billion dollars of net cash receipts from sales of Series F and G bonds more than offset 0.2 billion dollars of net cash redemptions of Series E bonds and the retirement of slightly less than 0.1 billion dollars of the old Series A-D bonds.

Further cash retirement of debt will be possible during the remainder of the year from the indicated excess of cash revenues over expenditures and from further reduction of the 10.2 billion dollar cash balance held by the Treasury on September 30. A net cash retirement of 14.7 billion dollars of public debt and 0.1 billion of Government corporation debt was planned in the August budget estimates on the basis of the anticipated 3.9 billion dollars net cash income to the Treasury and an assumed reduction of nearly 10.9 billion dollars in the Treasury cash balance. The bulk of this cash debt retirement can probably be made in marketable Treasury issues, since cash receipts from sales of Series F and G bonds are nearly sufficient to cover net cash redemptions of Savings notes and Series A-E bonds. It is likely, therefore, that fiscal policy can continue to act as a deterrent to inflationary pressures through withdrawal of more cash from the income stream than is paid back (owing to the existence of a cash budgetary surplus).

PROGRESS OF THE WORLD FUND AND BANK

In the eight months since the inaugural meeting of the Boards of Governors of the International Monetary Fund and the Bank for Reconstruction and Development at Savannah, gradual progress has been made toward the establishment of the two organizations as going concerns. The major developments include: calling up of part of the Bank's capital subscriptions; setting into action of the procedure for the establishment of initial exchange rates as laid down in the Fund Agreement; holding of the first annual meeting of the Boards of Governors at which, among other things, four new countries were accepted for membership and the quotas and subscriptions of two other members were revised; and staffing and completion of organizational arrangements of the two institutions.

On June 20, the executive directors of the Bank for Reconstruction and Development advised the Bank's member governments that June 25, 1946 had been fixed as the date upon which the Bank would formally begin operations, and that the balance[1] of the first 2 per cent of the members' capital subscriptions (which percentage, under the Articles of Agreement, is payable in gold or United States dollars within 60 days of the date on which the Bank begins operations) would fall due on August 24. The members were also called upon for a further payment of 3 per cent of their capital subscriptions, to be made in their local currencies on or before November 25, 1946. On September 25, the Bank made another call for a further 5 per cent of subscriptions, also payable in local currencies by November 25, and simultaneously announced its intention to make two more calls, each for an additional 5 per cent of the subscriptions, payable in the members' local currencies by February 25, 1947 and May 26, 1947, respectively.

In response to the call for the balance of the first 2 per cent of capital subscriptions, the Bank had received up to September 27 a sum of 145.8 million dollars, out of a total due of 153.4 million. The difference is attributable to the total or partial postponement of payments, in accordance with provisions in the Articles of Agreement, by a number of ex-enemy-occupied countries. In addition, the Bank had already received 98.2 million dollars in local currencies as a result of payments made by the United States on the call for 3 per cent of its subscriptions, and by Chile and Costa Rica on the calls for 3 per cent and 5 per cent of their subscriptions. The total amount of subscriptions thus received by September 27 aggregated the equivalent of $243,986,500.

Mr. Eugene Meyer, who was appointed President of the Bank on June 4, soon thereafter declared the institution ready to consider formal applications for loans. According to newspaper reports such applications have already been submitted by Chile, Denmark, and France, for amounts of 40 million dollars, 50 million, and 500 million, respectively. In addition, informal requests have been filed by Czechoslovakia and Poland, for loans of 350 million dollars and 600 million dollars.

On September 12, Mr. Camille Gutt, who had been elected Managing Director of the International Monetary Fund on May 6, issued a call to the member governments of the Fund to communicate within 30 days the par values of their currencies, based on the rates of exchange prevailing on October 28, 1945. Under the Articles of Agreement, both the individual member governments and the Fund are allowed 90 days from the date of call in which to register possible objections

[1] Payment of 1/100 of 1 per cent of the subscription of each member had already been made at the time of the member's acceptance of the Articles of Agreement.

to the communicated par values. (In the case of ex-enemy-occupied countries this period of time may be extended.) If objections are registered, the Fund and the member shall agree upon a suitable par value within a period to be determined by the Fund. On September 18 the United States Government notified the Fund that the par value of the American dollar was 35 dollars per fine ounce of gold, and that no "special arrangements for the discussion of the par value of the dollar with the Fund" were believed necessary. Moreover, the British authorities have advised the Fund of their intention to maintain the existing sterling-dollar rate. The Fund can begin exchange transactions only after the initial par values of the currencies of members having 65 per cent of the aggregate quotas set at Bretton Woods have been definitively set. On September 12, Mr. Gutt indicated that the Monetary Fund would begin operations "probably early in 1947."

On September 27 the first annual meeting of the Boards of Governors of the Fund and Bank opened in Washington. In the course of the meeting, Italy, Turkey, Syria, and Lebanon were admitted to membership in both organizations, and their quotas in the Fund and subscriptions in the Bank were fixed at 180 million dollars, 43 million, 6.5 million, and 4.5 million, respectively. The Fund quota and Bank subscription of France were each increased from 450 million dollars to 525 million. It was agreed that the Fund quota of Paraguay would be increased from 2 million to 3.5 million on the condition that it apply for a proportionate increase in its subscription in the Bank, but since no information is as yet available concerning such application, the increase in Paraguay's Fund quota cannot yet be regarded as definitive. As a result of the admission of new members and the upward revision in the case of France, the aggregate quotas of the Fund have been increased from 7,397.5 million to 7,706.5 million dollars, while the aggregate subscriptions of the Bank have been increased from 7,670 million to 7,979 million dollars.

At this meeting the executive directors of the Fund and Bank submitted to their respective Boards of Governors their interpretations of several provisions in the Articles of Agreements which had been requested by the United Kingdom and the United States. The British Governor of the Fund had requested an interpretation as to whether "steps necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, shall be measures necessary to correct a fundamental disequilibrium." The executive directors of the Fund answered this question in the affirmative, but with the qualification that in each instance in which a member proposes a change in the par value of its currency to correct a fundamental disequilibrium the Fund will decide whether the proposed change is necessary to correct the fundamental disequilibrium.

In response to requests from the Fund and Bank governors of the United States for interpretations defining the character of the financial aid that the Fund and Bank could legitimately extend[2], the following interpretations were made: (1) the executive directors of the Fund held that "authority to use the resources of the Fund is limited to use in accordance with its purposes to give temporary assistance in financing balance of payments deficits on current account for monetary stabilization operations;" and (2) the executive directors of the Bank ruled that the Bank has authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long term stabilization loans.

A resolution by Mexico requesting a study of the monetary use of silver was approved by the Governors of the Monetary Fund at the annual meeting and a special committee was appointed to collect data preliminary to the calling of a possible conference of silver countries.

Mr. Hugh Dalton, Britain's Chancellor of the Exchequer, was elected to the post of Chairman of both Boards of Governors. Governors for the United States, France, China, and India were designated to hold vice chairmanships. It was decided that the next meeting of the Boards of Governors, scheduled for September 1947, is to take place in London.

[2] Under the American enabling legislation (the Bretton Woods Agreements Act of July 31, 1945), the American representatives on the Fund and Bank had been specifically directed to request such interpretations.

CHANGES IN EARNINGS OF NONAGRICULTURAL WORKERS SINCE 1938

In the numerous discussions of wage rates, earnings, and purchasing power in recent years, attention has been focused primarily on earnings of specific groups, such as manufacturing production workers, but no suitable means of measuring over-all movements of both weekly and hourly earnings have been regularly available. In an attempt to help fill this gap, the Federal Reserve Bank of New York has compiled a new set of index numbers of earnings of nonagricultural workers in the United States. These indexes, which will supplant the composite index of wages published by this bank since 1938, mark the latest in a series of efforts extending over the past twenty years to develop a comprehensive measure of fluctuations in wages.

The original data for the new set of indexes were obtained from various Government and private sources, but mainly from the United States Bureau of Labor Statistics. These data have been adjusted for seasonal variation wherever necessary, and are shown as index numbers with the average for 1939 used as a base.

For sixteen industries or groups of industries included in the indexes for "wage earners," both weekly and hourly earnings data were available. Component indexes were also computed for "manufacturing," "mining," "public utilities," "construction," and "trade and service." In clerical and professional occupations, however, it was not feasible to construct an index

Indexes of Hourly and Weekly Earnings in Nonagricultural Industries
(Adjusted for seasonal variation, 1939 average=100 per cent)

	Weight	Annual averages								Monthly indexes, 1946							
		1938	1939	1940	1941	1942	1943	1944	1945	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug. *p*
Average hourly earnings																	
Wage earners	69.1	99	100	103	110	124	136	146	150	153	154	156	159	162	165	166	167
Manufacturing	*27.2*	99	100	104	115	135	152	161	162	159	158	164	167	169	171	173	176
Mining	*2.8*	98	100	101	110	119	129	135	141	145	147	149	148	153	164	163	164
Public utilities	*10.7*	99	100	101	103	113	118	127	131	133	136	134	142	147	152	153	153
Construction	*3.8*	97	100	103	108	124	134	141	148	148	150	150	153	153	156	160	160
Trade and service	*24.6*	100	100	102	107	117	128	139	147	156	158	159	161	162	164	166	166
Average weekly earnings																	
Wage earners	69.1	96	100	103	114	133	151	163	164	161	161	164	166	165	171	173	175
Manufacturing	*27.2*	93	100	106	124	154	181	193	186	173	170	176	181	178	181	186	189
Mining	*2.8*	93	100	102	116	135	159	184	187	187	191	199	155	162	214	195	207
Public utilities	*10.7*	98	100	102	106	119	130	142	147	144	146	144	153	154	160	165	165
Construction	*3.8*	96	100	104	116	139	159	172	178	179	183	180	182	174	180	184	185
Trade and service	*24.6*	99	100	101	105	114	124	134	142	149	151	153	155	155	157	158	160
Clerical and professional	30.9	99	100	101	105	112	125	133	138	140	140	141	143	144	143	145	145
Average weekly earnings, all groups	100.0	97	100	103	111	126	143	153	156	154	155	157	159	159	162	164	166
Composite index of wages and salaries*	100.0	99	100	102	109	120	133	142	146	149	150	151	154	156	158	159	160

* Weighted average of index of hourly earnings of wage earners and index of weekly earnings of clerical and professional workers.
p Preliminary.

of hourly earnings, since employees in such occupations are customarily paid by the week or by the month, rather than by the hour; consequently, only a weekly earnings index was computed for this group. However, because of the relatively stable working hours of clerical workers, the general pattern of hourly earnings in this field in normal times would probably follow very closely that of weekly earnings. Therefore, in order to present the best measurement it is now possible to construct of the average return to labor (or cost to the employer) of a time-unit of labor, the index of weekly earnings for clerical workers was combined with the index of hourly earnings for wage earners into a "composite index of wages and salaries."

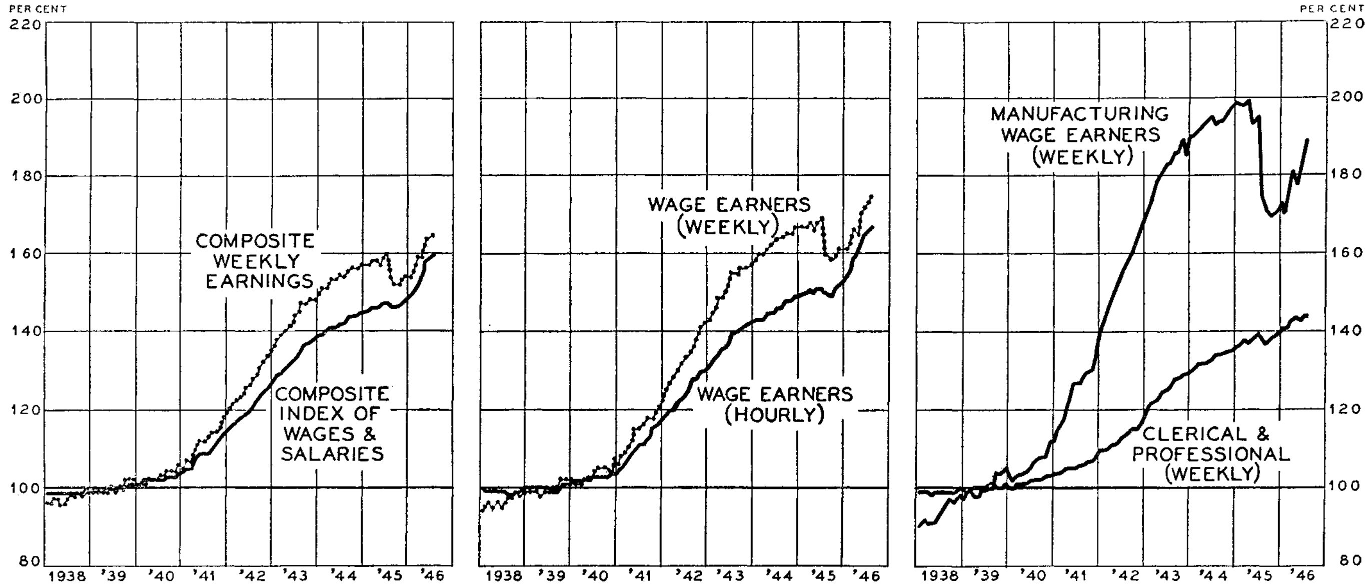
As several series of data used in the construction of the indexes are available in their present form only since January 1938, it was not feasible to carry the monthly indexes back beyond that date. The weights for the new indexes are derived from the peacetime (1939) distribution of wage and salary payments and therefore do not reflect changes in average earnings which resulted from wartime shifts in the distribution of the labor force among the various major industry groups. Annual averages of the composite indexes and their subgroups are shown in the accompanying table, together with monthly data for the first eight months of 1946.[1] Current indexes will be published each month in this *Review*.

As shown in the accompanying chart, average weekly earnings as a whole rose faster during the war than hourly earnings, reflecting an increase in the number of working hours. The return to a normal peacetime work week after the end of the war caused weekly earnings to drop off sharply and it was not until June 1946 that the index of all groups combined passed its wartime peak, while the composite index of wages and salaries (reflecting principally movements of hourly earnings) receded only slightly after V-J Day and by December 1945 was at a new record level. From the end of 1939 to the end of the war, hourly earnings of wage earners rose steadily to a point 50 per cent above the 1939 level, while their weekly earnings advanced nearly 70 per cent in the same period. Since the end of the war, wage earners' hourly earnings have risen 12 per cent further while weekly earnings in August 1946 were 9 per cent higher than a year earlier, though only 4 per cent above the wartime peak. Average weekly salaries of clerical and professional workers rose a little over one third during the war, and in August 1946 were about 4 per cent above the level prevailing at the end of the war.

During the period of expanding war production, 1940 through 1943, *average weekly earnings* in the manufacturing group increased at a rate 2½ times as great as in the other groups combined, and by the early part of 1945 earnings in the manufacturing group were nearly double the 1939 level. After V-J Day, loss of overtime work at premium rates and shifts from jobs at high wages in war plants to work at more moderate rates in civilian industry caused the index for this group to drop 13 per cent in three months. These factors have continued to offset to some extent the increase in wage rates, so that in August 1946 the average weekly earnings in manufacturing were still 5 per cent below the wartime peak, although the other groups in the index, except construction, had all reached new record levels. The weekly earnings series for mining during this period exhibits sharp drops caused by coal strikes and peaks occasioned by overtime work in anticipation of strikes and in making up lost production after strikes. Weekly earnings in most industries in the public utilities group were already comparatively high in 1939; their average increase during the war was 50 per cent, and following a slight recession in the reconversion period, the index is once more moving upward. In trade and service industries, wartime gains were moderate since overtime payments were not an important factor, but after V-J Day weekly earnings rose steadily to an August 1946 level 13 per cent higher than a

[1] Tabulations of the monthly indexes, 1938 to date, and information on component series, sources, and weights are available on request from the Research Department, Federal Reserve Bank of New York.

Indexes of Hourly and Weekly Earnings in Nonagricultural Industries, 1938-46*
(1939 average = 100 per cent)



* August 1946 preliminary.

year earlier, the largest gain for this period of any group except mining.

Hourly earnings in manufacturing rose during the war to a point 65 per cent above the 1939 level, but had declined 6 per cent by October 1945, as after V-J Day they were less and less affected by premium rates for overtime and high wage rates in war industries. Following the series of wage increases which took place early in 1946, hourly earnings in this group rose to a new record level in August 1946, 6 per cent above the wartime peak. Hourly earnings of workers in the public utilities, mining, construction, and trade and service groups did not rise as rapidly during the war as did those of factory workers. However, hourly earnings of these groups were not adversely affected by the end of the war, and by August 1946 hourly earnings had advanced above the level of a year earlier by 7 per cent in construction, 14 per cent in trade and service, 16 per cent in public utilities, and 15 per cent in mining.

Since these indexes measure changes in average earnings, they include the effects of overtime payments at premium rates, shift differentials, and changes in the composition of the working force. For this reason the index of hourly earnings cannot be considered as strictly a measure of wage rate changes. Wage rate data reflect changes in the unit price of labor during the normal work week for specific skills and job classifications, whereas hourly earnings measure the over-all average cost of labor to the employer. Similarly, the index of average weekly earnings cannot be taken as a measure of weekly payrolls and income payments, since it does not reflect changes in the number employed.

DEPARTMENT STORE TRADE

During October, department store sales in New York City and Newark continued to be hampered by the strike of delivery workers. Delivery of merchandise purchased has been practically discontinued since the outbreak of the strike, and many customers, not wishing to buy goods that could not be delivered, have remained away from the stores. As delivery entrances have been picketed, deliveries to the stores have been sharply curtailed, with the result that shortages have arisen in many lines of goods. These shortages have been augmented by an embargo beginning September 1, and still in effect on October 31, placed by the Association of American Railroads on all freight except fuel, food, and medicine coming into New York City. Despite these circumstances (which resulted in a 4 per cent decline from October 1945 in sales in New York City and Newark), October sales in the Second District are estimated to have been 1 per cent greater than during October 1945.

Department store sales in the United States showed a 19 per cent increase for the first four weeks of October over the same period last year, in spite of the relatively low sales in the New York area, and in Pittsburgh, where sales were curtailed as a result of the electric power strike in the latter part of September and first part of October. Excluding the Second and Fourth Federal Reserve Districts, the comparable increase for the remaining ten districts was 24 per cent. September sales in the Second District increased 25 per cent over September 1945, while for the same period, sales in all twelve districts were 31 per cent higher than a year ago.

The dollar volume of outstanding orders placed by the stores declined seasonally from the all-time high established in August, but at the end of September was more than 60 per cent greater than last year. The aggregate dollar volume of receipts of merchandise at department stores throughout the Second District was about 20 per cent higher during September 1946 than September 1945. In New York City, however, merchandise receipts during September were about 10 per cent below last year, while reporting stores outside New York City had an average increase in receipts of 45 per cent. Price changes have undoubtedly contributed to the increase in dollar volume of receipts of merchandise in Newark and up-State

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

Locality	Net sales		Stocks on hand Sept. 30, 1946
	Sept. 1946	Jan. through Sept. 1946	
Department stores, Second District	+25	+35	+24
New York City	+20	+36	+18
Northern New Jersey	+30	+39	+35
Newark	+27	+37	+35
Westchester and Fairfield Counties	+39	+38	+41
Bridgeport	+36	+34	+40
Lower Hudson River Valley	+39	+39	+38
Poughkeepsie	+33	+37	+42
Upper Hudson River Valley	+36	+37	+33
Albany	+37	+49	+35
Schenectady	+36	+24	+30
Central New York State	+44	+36	+35
Mohawk River Valley	+32	+29	+30
Utica	+36	+25	+30
Syracuse	+49	+39	+38
Northern New York State	+24	+36	—
Southern New York State	+29	+31	+29
Binghamton	+31	+35	+38
Elmira	+21	+23	+22
Western New York State	+31	+30	+35
Buffalo	+29	+31	+31
Niagara Falls	+ 9	+13	+31
Rochester	+35	+31	+45
Apparel stores (chiefly New York City)	+25	+31	+35

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

Item	1945	1946		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted	171	158	189	214
Sales (average daily), seasonally adjusted	161	236	259	202
Stocks, unadjusted	174	196	218	216
Stocks, seasonally adjusted	161	213	214	200

stores, and conceal to an unknown degree the actual extent of the September decline in receipts at New York stores. The index of New York City clothing prices compiled by the Bureau of Labor Statistics showed an increase of 14 per cent for August 1946 over August of last year, and preliminary reports suggest further increases during September. The BLS index of housefurnishings prices in New York City also increased 14 per cent over August of last year.

The accompanying table gives the percentage changes in receipts of merchandise at New York City department stores by departments for the period February through August compared with the same period in 1945, and changes in receipts during September compared with September of last year. In only two departments—women's coats and suits, and wines and liquors—was the percentage comparison in receipts for September more favorable than that for the seven-month period. Receipts of men's and boys' suits and coats, of women's suits and coats, dresses, and sportswear, and of furniture were substantially above September of last year, while in all other departments receipts were smaller, or only slightly larger. The rise in receipts of clothing, particularly women's clothing, over September 1945 receipts was due in part to the circumstance that clothing could be delivered to the stores by mail or messenger from nearby factories. The rise in men's clothing and furniture receipts as against a year previous reflected the unusually low level of such receipts in September 1945. The September increase in receipts represented about

Estimated Receipts of Selected Types of Merchandise at New York City Department Stores*
(Percentage change from the corresponding periods in 1945)

Type of merchandise	February-August 1946	September 1946
Total, all merchandise	+44	—10
Men's clothing	+85	+22
Men's furnishings	+82	—13
Domestic floor coverings	+79	—36
Housewares	+78	—30
Linens, towels	+76	—65
Furniture	+61	+32
Draperies, upholstery	+56	—77
Yard goods	+43	—51
Hosiery	+43	— 6
Dresses	+39	+26
Women's coats, suits	+38	+40
Women's and children's shoes	+35	— 6
Juniors' and girls' wear	+34	+ 3
Lingerie	+33	—26
Boys' wear	+30	+15
Blouses, sportswear	+29	+18
Jewelry	+26	+ 9
Infants' wear	+18	—29
Toilet articles, drugs	+16	—46
Wines, liquors	—14	+ 4

* The twenty departments selected include those with the largest dollar volume of receipts during the period February-August 1946. The receipts series is derived from sales and changes in stocks, and represents approximately the new merchandise received during the period measured by dollar value, not quantity.

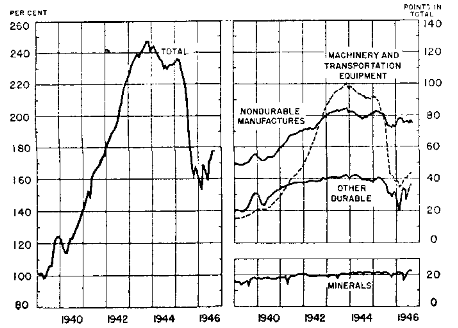
a fourth and a half, respectively, of the percentage increase in receipts of those two departments for February through August 1946 over 1945. Furniture shipped by the Railway Express Agency continued to be delivered during the first part of September, as their embargo on incoming freight was not effective until September 11.

The strike of the United Parcel Service workers halted also the deliveries to customers of most Newark stores, but picketing was light and the trucking strike did not affect Newark stores appreciably; consequently, September receipts were about 40 per cent higher than in the corresponding month of 1945.

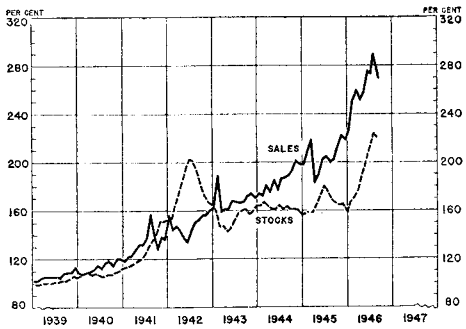
Indexes of Business

Index	1945	1946		
	Sept.	July	August	Sept.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	167r	172	177	177p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	186r	195	202	204p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	197r	191	192p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	195	248	261p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	129	141	145	146p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	117	123	127	129p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	224	261	278p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	215	244	259	265p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	229	251	252p	
Wage rates#, 1926 = 100 (*Federal Reserve Bank of New York*)	167	184p		
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	129	141	144	146p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	82	96	88	91
Outside New York City	71	81	85	85

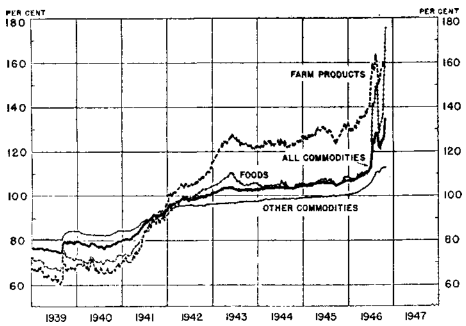
* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
\# This index has been discontinued and will be replaced by a set of new indexes of hourly and weekly earnings of nonagricultural employees. See descriptive article in this issue.



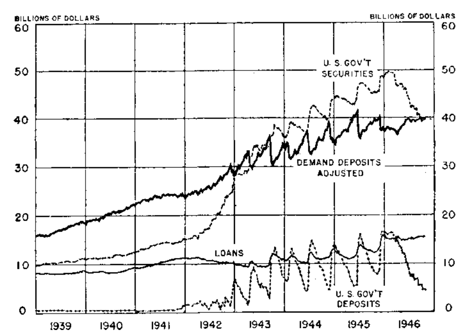
Indexes of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



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



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended October 19)



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 October 16)

National Summary of Business Conditions

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

INDUSTRIAL production continued with little change in September and the early part of October. Department store sales have shown no further rise from the high level reached at the end of August, although there is usually a considerable increase at this season. Wholesale prices of livestock and meats advanced sharply after the removal of price controls in the middle of October, while prices of cotton and grains declined.

Industrial Production

The Board's seasonally adjusted index of industrial production was maintained in September at the August rate, which was 177 per cent of the 1935-39 average. Following the reestablishment of Federal price controls on livestock at the beginning of September, curtailment in marketings resulted in a sharp drop in activity at meatpacking plants; this decline offset, in the total index, further small gains in output of numerous other manufactured products and minerals. After the middle of October, when controls were removed, slaughter operations showed a sharp increase.

Output of durable manufactures rose 2 per cent in September, reflecting chiefly further gains in activity in the machinery and transportation equipment industries. Output of nonferrous metals also continued to rise in September and was at the highest level since the end of the war. Iron and steel production was maintained at about the August rate. In the first four weeks of October activity at steel mills advanced slightly, averaging for this period a scheduled rate of 90.3 per cent of capacity. Production of lumber and other building materials continued to increase in September. Except for the sharp drop in meat production, there was little change in the output of nondurable goods.

Output of minerals rose slightly in September as increased production of coal and of metals more than offset a slight decline in output of crude petroleum.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in September. Nonresidential building awards dropped one fifth to the lowest level since the end of the war, reflecting chiefly a sharp decline in contracts for factory construction. Residential awards were maintained at the high levels prevailing in July and August.

Employment

Employment in nonagricultural establishments advanced somewhat further in September, after allowing for seasonal changes, reflecting continued gains in industries manufacturing durable goods and in trade and service lines. The number of persons unemployed remained at about 2 million.

Distribution

Department store sales, which were in exceptionally large volume in August, increased by less than the usual amount in September and the early part of October. The Board's seasonally adjusted index was 269 in September as compared with 290 in August and an average level of 257 during the first 7 months of the year. Since the middle of September sales have been considerably reduced in two important areas by industrial disputes, but sales in most other districts of the country have also shown a smaller rise than is usual during this season of the year.

Loadings of most classes of railroad revenue freight were maintained at an exceptionally high rate in September and the early part of October. Shortages of freight cars persisted during this period, which is the seasonal high point of the year, limiting to some extent the distribution of commodities.

Commodity Prices

In the middle of October Federal price ceilings were removed from livestock and meats and it was indicated that the controls remaining over most other commodities would be discontinued. During the subsequent week prices of livestock, meats, and some other agricultural commodities showed sharp advances and exceeded the previous peaks reached during the lapse of price control in July. Wholesale prices of various other commodities, including cotton, grains, butter, and eggs, declined but were still above the levels prevailing at the end of June. Wholesale prices of industrial products have generally continued to show relatively moderate advances in recent weeks.

Bank Credit

Member bank reserve balances in September and the first half of October fluctuated somewhat, reflecting Treasury debt retirement operations and quarterly income tax collections. Required reserves increased somewhat in the first half of September and subsequently showed little change. Reserve Bank holdings of Government securities increased late in September and subsequently declined.

Commercial and industrial loans at weekly reporting banks in 101 leading cities continued to expand rapidly during September and early October. Real estate and consumer loans increased further, while loans for purchasing or carrying securities continued to decline. Holdings of Government securities were reduced considerably during the period, reflecting largely Treasury cash retirement of certificates on October 1.