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MONEY MARKET IN MAY

During the past month, the Treasury continued the partial retirement of maturing bill issues which it began with the issue expiring on April 17. There were retirements of 200 million dollars a week during the last two weeks of April and the first two weeks of May and 100 million a week for the issues of May 15 and 22. Thus, a total of 1 billion dollars of Treasury bills was retired between April 17 and May 22. No reduction was made in the bill offering of May 29 and none was announced for June 5, but the Treasury announced that it would redeem 1 billion out of a 2¾ billion dollar issue of certificates of indebtedness maturing on June 1.

Since the bulk of the maturing bills were held by the Federal Reserve Banks and were redeemed principally with funds withdrawn from Treasury War Loan deposit accounts with commercial banks, the redemption of Treasury bills involved a considerable drain on bank reserves. The extent of this drain was evident in the fact that although most of the 700 million dollars of maturing bills retired in the four weeks ended May 21 came out of the portfolios of the Reserve Banks, actual bill holdings of the Reserve System fell only 280 million dollars while certificates rose 145 million dollars. The recourse to Federal Reserve credit during this period, by banks in need of reserves, was sufficient not only to offset current losses of funds, but also to correct an initial reserve deficiency at the New York City banks. Consequently, there was a net increase of about 100 million dollars in excess reserves of all member banks.

In addition to the Treasury withdrawals from War Loan accounts to cover the redemption of Treasury bills, further withdrawals were made to meet payments called for under foreign credit agreements and for other disbursements. On the surface, it appeared that the Treasury's net cash receipts (including War Loan withdrawals) exceeded disbursements by a narrow margin, since Treasury balances with the Reserve Banks rose only 57 million dollars between April 23 and May 21. But because a very large part of the Treasury's

expenditures were not returned directly to the commercial banks (most of the funds used to redeem Treasury bills went to the Federal Reserve Banks, and Britain drew another 200 million dollars on its credit) the margin of Treasury cash receipts over disbursements to the market was actually quite large. However, substantial payments out of foreign accounts with the Federal Reserve Banks in this period provided a partial offset to the large volume of funds drawn from the market by the Treasury.

Pressure on the reserves of member banks was particularly pronounced in New York City, except during the third week of May when the New York money market situation was fairly easy. Although payments out of foreign deposit accounts with the Reserve Bank were large, the City institutions experienced the combined drains of persistent Treasury net cash receipts and substantial transfers of business and financial funds to other parts of the country. To meet these demands, the New York banks sold substantial amounts of short term Treasury securities directly to the Reserve Bank and in the open market.

There was renewed pressure on bank reserves both in New York City and elsewhere during the week ended May 28, as the Treasury made further withdrawals from depository banks, partly to redeem another 100 million dollars of bills early in the week (May 22). In addition, there were indications that the banks were beginning their preparations for meeting the Treasury's call for repayment on June 2 of 1.3 billion dollars of the remaining War Loan account balances, in connection with the redemption of the 1 billion of certificates previously mentioned.

MEMBER BANK DEPOSITS

The redemption of 1 billion dollars of certificates on June 1 will not ease the money market, since this transaction will be effected with funds withdrawn from War Loan accounts in the commercial banks. In fact, it will undoubtedly

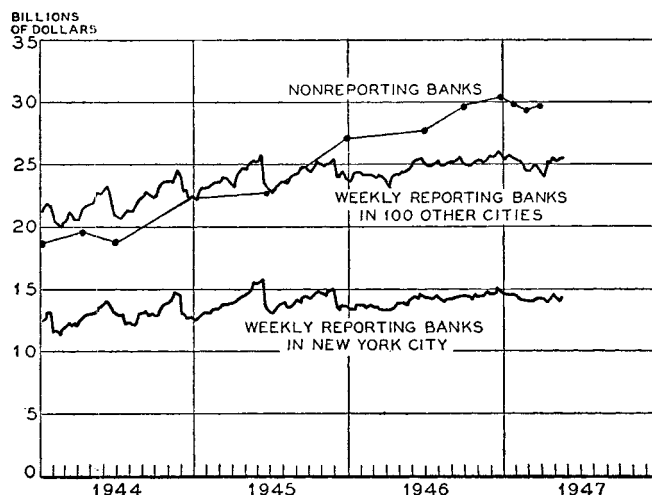
require substantial adjustments in the reserve positions of many banks, because of the size of the War Loan withdrawal, the fact that some of the certificates to be redeemed are held by the Reserve System, and the increase in the banks' reserve requirements which will result. It will tend to increase the volume of private deposits to the extent that certificates held by nonbank investors are redeemed. Thus, this operation, like the debt retirement transactions of 1946, which were also effected with funds previously accumulated in War Loan accounts, will to some extent have the effect of increasing deposits of private investors, thus making funds available for reinvestment or other uses.

In contrast, the debt retirement transactions of the first quarter of 1947 and early April, coming chiefly from an excess of Treasury cash receipts from taxes over current expenses, were accompanied by a decline in private deposits to the extent that bank-held debt was reduced, as illustrated in the accompanying chart. Cash retirement of nonbank-held securities with surplus tax receipts merely resulted in a shift of private deposits from taxpayers to nonbank investors. (The sharp decline in demand deposits adjusted of the weekly reporting member banks in 100 centers outside New York City and subsequent recovery early in April resulted from temporary purchases of Government securities from the Chicago banks by their customers in order to avoid the April 1, personal property tax in Cook County, Illinois.) Since the first quarter, private demand deposits have shown irregular fluctuations and, on the whole, some increase, as net Government and foreign expenditures have been only partly offset by repayments of business loans.

As indicated in the accompanying chart, there has been considerable divergence, during the postwar period, in the trends of private demand deposits of the larger member banks from which reports are collected weekly and the same kind of deposits in the smaller, nonreporting member banks. Demand deposits adjusted have shown practically no net growth at weekly reporting banks outside New York City since the wartime peak in early June 1945, and private demand balances in the New York banks have actually declined since then. At the nonreporting banks, however, vigorous deposit growth has continued, although the postwar expansion has not been as rapid as the expansion in war years.

To a large extent, the divergence in the deposit trends between the weekly reporting and nonreporting member banks can be attributed largely to differences in the composition of their private deposit accounts. As shown by the Federal Reserve System surveys of the ownership of private demand deposits, a very substantial part of the deposits of the larger banks, such as the weekly reporting member banks, consists of accounts of manufacturing and mining and trans-

Adjusted Demand Deposits of Member Banks*



* For the weekly reporting member banks the figures are for Wednesday dates, the latest being May 21; for nonreporting banks the figures are for call dates through 1946, and for month ends in 1947.

portation companies. During the postwar period, these enterprises used their own cash resources and funds borrowed from the banks and others to make large expenditures for reconversion purposes and for expansion of plant, equipment, inventories, and receivables, so that their bank deposits have been reduced. On the other hand, there has been continued growth in personal accounts (including those of farmers) and, in the early postwar period, in the accounts of wholesale and retail trade concerns which together comprise the bulk of deposits in the smaller, nonreporting member banks.

In addition, there were two other influences which tended, particularly in 1946, to limit the growth of private deposits at the weekly reporting banks but were largely inoperative at the nonreporting banks. The first was the heavy liquidation of loans on Government securities, which were incurred during the Victory Loan and which were concentrated chiefly in the larger banks. The second was the large-scale purchase of short term Government securities from the larger banks by institutional and other nonbank investors seeking to reinvest the proceeds of their redeemed securities.

SECURITY MARKETS

Fresh liquidation appeared in the stock market during the past month, carrying average prices to new low levels since April 1945. A moderate recovery toward the end of May canceled most of the losses of the first part of the month, but only a small part of the decline since May 1946 was retraced. Railroad issues were particularly weak. The decline came in the face of especially favorable corporate earnings reports and substantial increases in dividend payments by

many companies, and evidently reflected the prevalent uncertainty concerning business prospects over the coming year. Prices of medium and lower grade corporate bonds also sagged to lower levels than in a number of months, paced by the railroad issues. Treasury and high grade corporate bonds remained firm at levels not far from the peaks of April 1946. Municipal bonds recovered slightly during April and May from the substantial slump of the preceding 11 months, but remained considerably below the April 1946 peak. The volume of new corporate security offerings during the first five months of 1947 was off sharply from the high levels of the last half of 1946, but new State and municipal financing so far this year has almost equaled the amount offered in the whole of 1946, chiefly because of large issues of State bonds to finance bonus payments to veterans.

The stock market decline carried Standard and Poor's index of 402 stock prices to new low levels for the past two years around the middle of May, approximately 4 per cent below the previous postwar low point in October 1946 and 29 per cent below the postwar peak. All major groups—industrials, rails, and utilities—reached new postwar lows, with railroad share values 11 per cent below the October 1946 level. Shares of distilleries, textiles (including apparel), and retail trade concerns were below their October 1946 low points, while automobile, chemical, copper, and oil shares remained above the October lows. The industrial group of the Dow-Jones stock price averages, however, failed to pierce its previous low point, indicating that the comparatively few stocks included in that average, largely "blue chips," fared somewhat better than the rank and file of industrial securities.

Prices of lower grade railroad and other junior bonds also declined during May, in sympathy with the decline in stock prices, but high grade issues, including municipal and corporate bonds as well as Government bonds, remained firm. The decline in lower grade bond prices had been in progress since March 1946. Higher grade issues, on the other hand, have risen in price this year following their decline in 1946. The average yield on long term taxable Treasury bonds rose from 2.08 per cent in April 1946 to 2.28 in September, while Moody's Aaa corporate bond yield rose from 2.46 per cent in April 1946 to 2.61 in December. By the third week of May 1947, the Government bond yield had fallen to 2.19 per cent and the high grade corporate bond yield to 2.53. The "municipals" have been an exception among the better grades of bonds; Standard and Poor's average yield on municipals advanced from a low point of 1.45 per cent in April 1946 to a high of 2.02 in March of this year and has declined only slightly since then. The elimination of the excess profits tax and actual and potential decreases in surtax rates on individual incomes, and consequent reduction in the value of

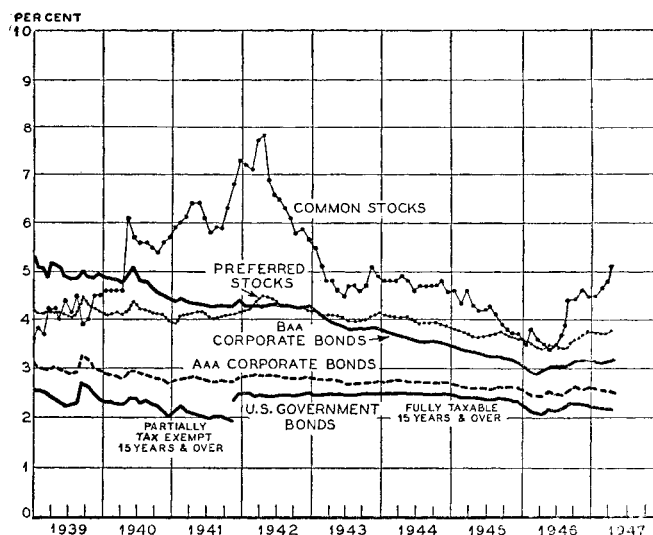
the tax exemption feature of municipal bonds, have been major factors in this decline in the prices of such bonds, although the prospect of a substantial increase in the volume of new issues, especially State bonus issues, has also been a factor of some importance. Recent firmness in "gilt-edge" bond prices apparently reflects the failure of the new supply of such securities to equal demand.

As the accompanying chart shows, the spread between yields of the various classes of securities has widened considerably during the past year. The differential between yields of the highest grade bonds and yields of medium grade bonds and high grade preferred stocks has increased only moderately. But the spread between yields of high grade bonds and yields of common stocks has widened substantially, partly because of the fall in stock prices and partly because of the increase in dividend payments. It is now the greatest since early in 1943, and, except for war and depression periods, has never been so wide during the past thirty years at least.

NEW SECURITY ISSUES

In the first five months of 1947, new corporate security issues totaled not quite 2 billion dollars, representing an average monthly volume approximately 35 per cent below that which prevailed during the latter half of 1946. This decline apparently is not more than partially connected with the recent unsettlement in the securities markets, since the markets were anything but settled during most of the second half of last year. The principal decrease came in the volume of

Yields on Long Term Bonds and Stocks



Source: U. S. Government bonds, Treasury Department; 15 high grade noncallable preferred stocks, Standard & Poor's Corporation; 20 Aaa corporate bonds, 30 Baa corporate bonds, and 200 common stocks, Moody's Investors Service.

new offerings for capital expansion, but new money issues in 1947, nevertheless, have been more than twice the volume of the corresponding months of 1946. Refundings continued at the low levels obtaining in the later months of last year. Public utility issues accounted for a growing proportion of total new financing this year, and it is in this sector that large-scale offerings of new money issues are anticipated, in view of announced plans for further extensive capital expenditures by electric utility and communications companies.

The volume of new municipal securities offered in the capital markets in the first five months of this year amounted to 1.1 billion dollars, an amount less than 100 million dollars short of the total of such issues floated in the entire year 1946. Practically all of the issues sold in 1947 were "new capital" issues, but the concept of new money issues as applied to municipal securities does not always have the same meaning as in the case of new corporate flotations. For example, among the new capital "municipal" securities offered were two large issues of the States of Michigan (200 million dollars) and Illinois (300 million), respectively, the proceeds of which are to be used for the payment of bonuses to veterans. Further substantial State and municipal financing is anticipated in the market, despite the fact that many planned public works projects have been postponed owing to high costs.

BANK LOANS SINCE THE END OF THE WAR

In the last issue of this *Review* it was pointed out that between the end of 1946 and March 26, 1947, total loans of the weekly reporting banks in 101 centers showed a modest increase which was accompanied by a notable shift from low yielding security loans to higher yielding business financing. The inauguration of a new series on the principal assets and liabilities of all member banks as of the last Wednesday of each month makes it possible to compare the loan experience during the first quarter of 1947 of the weekly reporting banks, whose operations are more largely of a money market character, with that of the remaining member banks, whose business is of a more local nature.

TABLE I
Changes in Member Bank Loans in the First Quarter of 1947
Classified by Type of Loan and Bank
(Amounts in millions of dollars)

Type of bank	Loans on securities		Other loans		Total	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Weekly reporting banks	—816	—32.8	+1,043	+7.3	+227	+1.4
Nonreporting banks....	— 97e	—20.1	+ 788e	+8.3	+691	+6.9
Total.....	—913e	—30.7	+1,831e	+7.7	+918	+3.4

e Estimated.

TABLE II

Half-Year Changes in Total Loans of Insured Banks by Type of Bank
June 1945-December 1946
(Amounts in millions of dollars)

Period	Member banks				Nonmember	
	Weekly reporting*		Nonreporting		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
July-December 1945...	+1,679	+11.8	+ 509	+ 8.0	+ 202	+ 7.2
January-June 1946...	— 887	— 5.6	+1,414	+20.5	+ 499	+16.7
July-December 1946...	+1,691	+11.3	+1,703	+20.5	+ 549	+15.7
Total—18 months.	+2,483	+17.5	+3,626	+56.9	+1,250	+44.8

* End-of-month data estimated from Wednesday figures.

As might have been expected, the increase during the first three months of this year in loans of member banks outside the principal cities was larger than the increase in loans of weekly reporting banks, on both a dollar and a percentage basis. The smaller drop in security loans (in both absolute and relative terms) and their lesser importance in the total loans of the former largely accounted for the difference. Furthermore, the increase in all other loans, as is shown in Table I, was proportionately slightly greater at those banks. This was probably because of the greater importance of real estate loans, which apparently were rising at a faster rate than commercial and industrial loans.

Since the end of March (through May 21) total loans of the weekly reporting banks in 101 cities have declined 74 million dollars. While several similar reductions since the end of the war reflected a decrease in security loans, this time the drop in total loans resulted from a contraction of 308 million dollars in loans to business. No data later than the first quarter are yet available for the remaining banks, but apparently the rising tide of business loans has slackened to a point where normal seasonal influences may cause at least a temporary decline.

Differences in the changes in loans of banks in leading cities and of other member banks similar to those observed in the first quarter of 1947 have in fact prevailed during most of the period since the end of the war. In the 18 months from June 30, 1945—a point about midway between V-E Day and V-J Day—to the end of 1946, total loans of weekly reporting member banks expanded by 2,483 million dollars or 17.5 per cent, while loans of the other member banks rose 3,626 million or 56.9 per cent. Loans in a third group of banks—nonmember insured banks—increased by 1¼ billion dollars, or 44.8 per cent, almost as high a rate as at the nonreporting member banks.

The similarities and differences in the behavior of loans of these three groups of banks are brought out in Table II. In the last half of 1945, total loans of weekly reporting banks rose faster than those of the other two groups. During the following half year loans of reporting banks declined while loans of the other two groups expanded at a sharply accelerated pace. Reporting banks' loans resumed their expansion in the last half of 1946, but the percentage rate of increase fell short of that for the other two classes of banks.

Some, but not all, of the disparity in growth of loans of the three groups of banks can be attributed to differences between the groups in the relative volume of loans for purchasing or carrying securities. Such loans did not show much net change in the last six months of 1945 because both June and December totals were affected by War Loan drives and Government security loans were at their peak. The differences in total loan expansion during the last half of 1945 must, therefore, be accounted for by movements in other kinds of bank credit. In the first half of 1946, however, Government security loans dropped sharply, and, since such loans were concentrated to a considerable degree at the weekly reporting banks in the principal cities, total loans of this group showed a decline. The reporting banks' loans on securities were reduced by about the same amount in the ensuing six months, but in this latter period their other loans increased fast enough to produce an increase in total loans.

As indicated in Table III, loans to business and agriculture expanded at widely varying rates in these 18 months and most of the divergencies between the groups of banks, in so far as they are not attributable to security loans, may be accounted for by these differences. In the last half of 1945, business loans rose considerably at all three groups of banks as industry rapidly shifted from a wartime to a peacetime basis. Inventories in the aggregate declined somewhat, but their character drastically changed from war goods, carried in large part by advance and progress payments from the Government, to peacetime goods which had to be financed by other means. Agricultural loans in the meantime declined noticeably and, since such loans are largely concentrated in the nonreporting member banks and nonmember banks, the rate of increase in the two types of loans combined was notably less in those two groups of banks than in the reporting banks.

In the first half of 1946, business loans continued to expand rapidly at nonreporting member banks and nonmember banks, while agricultural loans at the same banks increased seasonally. At the reporting banks in the 101 cities, both business and agricultural loans rose only modestly, apparently because the increase in civilian manufacturing inventories was financed through sales and redemptions of Government securities.

TABLE III
Half-Year Changes in Commercial, Industrial, and Agricultural
Loans of Insured Banks by Type of Bank
June 1945-December 1946
(Amounts in millions of dollars)

Period	Member banks				Nonmember	
	Weekly reporting*		Nonreporting		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
July-December 1945. . .	+1,315	+22.2	+ 269	+11.8	+ 59	+ 6.5
January-June 1946. . . .	+ 321	+ 4.4	+ 437	+17.1	+166	+17.1
July-December 1946. . .	+2,681	+35.4	+ 795	+26.6	+199	+17.5
Total—18 months. . .	+4,317	+72.8	+1,501	+65.7	+424	+46.5

* End-of-month data estimated from Wednesday figures.

Inventories on all levels advanced sharply in the final half of 1946 as prices rose substantially. Business credit at all classes of banks increased by a third or more, but, because agricultural loans declined, combined business and agricultural loan expansion in the nonreporting member and nonmember banks was less rapid than in the reporting banks.

Real estate loan expansion, after a slow start in the last half of 1945, moved up rapidly in the following half year and maintained the rate of increase in the six months thereafter. Loans of this type at all groups of banks showed similar increases, although the greatest growth was at nonreporting member banks. Lifting of controls on nonresidential building, and then the housing program, contributed to the outpouring of credit in this field. Reimposition of controls over nonresidential construction after the first four months of 1946 had little effect because construction was largely limited by materials rather than demand.

After rising moderately in the last six months of 1945, all other bank loans—mainly consumer credit—increased at a much accelerated pace in 1946, as a large volume of durable goods became available. Nonreporting and nonmember banks showed the greatest percentage gains in both halves of the year, perhaps because more and more banks outside the large centers have been entering the consumer credit field.

The over-all growth of loans in the 18-month period, coupled with the Treasury's debt retirement program, has markedly increased the ratios of loans to total assets in the various groups. Because of the relatively greater reduction in their holdings of Government securities through redemptions and sales, the weekly reporting banks showed a greater increase in this ratio than did the other two groups. Thus, for the weekly reporting member banks the proportion was raised from a little over one sixth in June 1945 to somewhat less than a fourth by December 1946, only a little lower than

the ratio that prevailed in June 1939. Although the ratio was also raised for the other two groups of banks, in neither case did it approach the prewar proportion. Nonreporting member banks raised their loan ratio from about one seventh to about one fifth, which is still significantly lower than the prewar fraction of approximately one third. Nonmember insured banks, which had the highest prewar proportion (nearly 40 per cent), showed an increase from almost one sixth in June 1945 to one fifth in December 1946. The continued rise in loans and the further retirement of Federal debt in the first quarter of 1947 have undoubtedly resulted in a further increase in the ratios of loans to total assets. The restoration of the prewar importance of loans in the banks' assets will depend on the effects on bank holdings of Treasury securities of the future tax, expenditure, and public debt policies of the Government, as well as on the public's demands for bank credit.

CONSUMER LENDING BY SECOND DISTRICT MEMBER BANKS

The large-scale growth in consumer lending since the end of the war has carried the total of such credit to record levels, and has prompted the following analysis of the extent to which the member banks in this District, both in number and in dollar amount, are now participating in this field of credit. In general, the analysis indicates that almost all of the District's member banks had consumer loans of some sort at the close of 1946, although the average volume was small in most banks, the bulk of the District's volume being held by the larger banks. The analysis also indicates, however, that consumer loans, relative to total loans, were much more important for the up-State banks than for the central reserve New York City banks.

Consumer loans in the Second District member banks totaled 757 million dollars on December 31, 1946, compared with 422 million on June 30, 1945, just prior to the end of the war, and made up slightly less than one quarter of the volume of such loans by all member banks in the United States. As may readily be seen in Table I, the 37 central reserve New York City banks and the 74 largest banks outside New York City, which together constitute only about one seventh of the member banks in the District, held 80 per cent of the total dollar volume of loans to individuals in the District on December 31, 1946. Among the various classes of consumer loans, they held about 60 per cent of both retail automobile loans and repair and modernization loans, 89 per cent of retail loans other than automobile, 86 per cent of single-payment loans, and 72 per cent of instalment cash loans.

The total volume of consumer loans made by individual banks is important primarily in relation to the volume of their total loans. Table II shows, by size of bank, the average dollar volume of the various types of consumer loans, and also the percentage of each type of consumer loan to the average volume of total loans. Among the large central reserve New York City banks, which carry the bulk of the District volume, consumer loans account for only 8 per cent of total loans, in contrast to a range of 14.4 per cent to 20.3 per cent in the four size-groups in the remainder of the District. Commercial and industrial loans and loans for purchasing and carrying securities represent such a large part of the aggregate loan portfolios of the New York City banks (87 per cent on December 31, 1946) that they tend to relegate the substantial volume of consumer loans to a comparatively minor position. In the up-State banks, on the other hand, the large proportionate volume of consumer loans, coupled with the fact that such loans carry relatively high interest rates, emphasizes the impor-

TABLE I
Distribution of Loans to Individuals among the Different Sized Member Banks in the
Second Federal Reserve District as of December 31, 1946
(Dollar volume in millions)

Size of bank as measured by total deposits	Retail auto instalment paper		Other retail instalment paper		Repair and modernization instalment loans		Personal instalment cash loans		Single- payment loans		Total loans to individuals	
	Dollar volume	Per cent	Dollar volume	Per cent	Dollar volume	Per cent	Dollar volume	Per cent	Dollar volume	Per cent	Dollar volume	Per cent
Outside central reserve New York City												
Under \$2 million.....	0.9	2.7	0.3	0.5	0.4	0.7	1.3	1.0	2.2	0.5	5.1	0.7
(150 banks)												
\$2 to \$5 million.....	3.0	8.9	0.9	1.6	3.4	5.6	8.0	6.1	12.3	2.6	27.6	3.6
(264 banks)												
\$5 to \$20 million.....	10.1	29.9	5.1	9.0	20.8	34.1	27.3	21.0	51.0	10.7	114.3	15.1
(276 banks)												
\$20 million and over.....	13.5	39.9	12.6	22.2	16.3	26.7	26.7	20.5	85.6	18.0	154.7	20.4
(74 banks)												
Central reserve New York City banks.....	6.3	18.6	37.8	66.7	20.1	32.9	67.0	51.4	324.0	68.2	455.2	60.2
(37 banks)												
Total Second District.....	33.8	100.0	56.7	100.0	61.0	100.0	130.3	100.0	475.1	100.0	756.9	100.0
(801 banks)												

TABLE II
Average Volume* of Loans to Individuals in Different Sized Member Banks in the Second Federal Reserve District and
the Proportion of Each Type to Average Total Loans as of December 31, 1946
 (Dollar volume in thousands)

Size of bank as measured by total deposits	Retail auto instalment paper		Other retail instalment paper		Repair and modernization instalment loans		Personal instalment cash loans		Single-payment loans		Total loans to individuals	
	Average dollar volume	Per cent of average total loans	Average dollar volume	Per cent of average total loans	Average dollar volume	Per cent of average total loans	Average dollar volume	Per cent of average total loans	Average dollar volume	Per cent of average total loans	Average dollar volume	Per cent of average total loans
Outside central reserve New York City												
Under \$2 million.....	9	3.4	5	1.9	8	3.0	14	5.3	23	8.7	38	14.4
\$2 to \$5 million.....	15	2.2	7	1.0	22	3.3	35	5.2	59	8.8	107	16.0
\$5 to \$20 million.....	44	2.1	31	1.5	89	4.3	105	5.1	222	10.8	416	20.3
\$20 million and over.....	204	1.6	209	1.6	240	1.8	359	2.8	1,205	9.3	2,088	16.0
Central reserve New York City banks.....	450	0.3	2,522	1.5	1,340	0.8	2,575	1.5	10,452	6.1	13,388	7.8
Total.....	55	0.5	129	1.3	117	1.2	191	1.9	747	7.4	979	9.7

* Only those banks reporting consumer loans were used in computing average dollar volume in each classification.

tance of consumer credit for these banks from an income-producing standpoint. Despite the high proportion of consumer loans to total loans in most Second District banks, the low average volume, especially for the smaller banks, indicates that many of the banks of the District have refrained from aggressive expansion in this field. The policy which they have followed obviates the necessity of setting up specialized consumer loan or personal loan departments, and utilizes existing personnel with no great increase in over-all expense.

Among the different types of consumer loans, single-payment loans amounted to five eighths of all consumer loans carried by Second District member banks at the end of 1946 and, relative to total loans, were the most important consumer credit component in all size-classes of banks. The largest fraction of total loans represented by either retail automobile loans or instalment cash loans was in the smallest sized banks

and the proportion became progressively smaller as the size of the bank increased. Retail loans other than automobile loans varied irregularly among the various sized banks of the District and ranged from 1.0 per cent to 1.9 per cent of total loans. Repair and modernization loans and single-payment loans both were largest relative to total loans in the medium sized up-State banks (those with total deposits of 5 to 20 million dollars).

The proportionate number of member banks, in various sized groups, holding consumer loans of different kinds at the close of 1946 is shown in Table III. The table reveals that 96½ per cent of the District's members were participating to some extent in some segment of the consumer loan field. Participation was not so widespread among all the different types of loans, however. Only 55 per cent of all member banks held retail instalment loans other than automobile loans, and only 65 per cent carried repair and modernization loans; participation in the remaining categories ranged from 76 per cent to not quite 85 per cent of the banks. A relatively small proportion of the central reserve New York City banks held consumer loans other than cash instalment loans and single-payment loans. In fact, the proportion of New York City banks having consumer loans of any type was smaller than among other groups of banks in the District except the smallest banks. Outside New York City, the proportion of banks engaged in consumer lending varied directly with the size of the banks.

The number of member banks making consumer instalment loans is available for December 31, 1940, when outstanding consumer credit was near its prewar peak. A comparison of those figures with the December 31, 1946 data gives a good indication of the extent of member bank entry into the con-

TABLE III
Percentage of the Total Number of Member Banks in Different Sized
Groups in the Second Federal Reserve District Having Consumer
Loans of Various Types on December 31, 1946

Type of loan	Banks outside New York City with deposits				Central reserve New York City banks	All member banks
	Under \$2 million	\$2-\$5 million	\$5-\$20 million	\$20 million and over		
Retail auto instalment.....	66.7	76.9	83.3	89.2	37.8	76.5
Other retail instalment.....	40.0	53.8	59.4	81.1	40.5	55.1
Repair and modernization instalment.....	32.0	59.1	84.8	91.9	40.5	65.0
Personal instalment.....	62.0	86.4	93.8	100.0	70.3	84.9
Single-payment.....	64.0	78.8	83.3	95.9	83.8	79.4
Consumer loans of any or all types.....	87.3	98.1	99.6	100.0	91.9	96.5

sumer loan field as a whole, and of the growth of average instalment loan holdings in particular, during the intervening period. Between the two dates, the number of member banks having no instalment loans declined from 153 to 46 or from more than one fifth of the total number to less than 6 per cent. The number of banks carrying an instalment loan volume of more than \$100,000 increased from 181 to 278.

ECONOMIC REHABILITATION OF GREECE

Official and public discussion of the Greek-Turkish aid bill, which was signed by President Truman on May 22, has thrown much new light upon the current economic and financial position of Greece, and upon the serious delays in the progress of recovery in that unfortunate country.

Greece emerged from the German occupation on October 18, 1944 in a gravely weakened economic condition. A hyperinflation generated by Axis occupation charges had virtually annihilated the value of the old drachma note circulation, which was converted into a new drachma currency on November 10, 1944 at a rate of 50 billion old to one new drachma. Acute shortages of seed, farm equipment, and other agricultural supplies had reduced cultivated acreage by roughly 25 per cent below prewar levels, while harvests had fallen off even more disastrously. Although industrial installations had suffered comparatively little wartime damage, production had gradually ground to a complete standstill as a result of inflationary destruction of business confidence and banking credit, unavailability of fuel and other raw material imports, and nonreplacement of depreciated capital equipment. Railway communications had been thoroughly disrupted by the retreating Germans and roads rendered hardly passable by lack of maintenance. Thousands of peasants had been made homeless by German reprisals against their villages, while widespread starvation in the cities was being averted only through regular relief distributions by the International Red Cross. Public health had been seriously undermined.

The acute economic hardships inflicted by the occupation had fostered a growth of extremist political groups, particularly among the resistance forces of the Left. An attempted Leftist *coup d'état* in December 1944 was only narrowly averted through intervention by the British military forces in Athens. Subsequent maintenance of British troops in Greece, together with British subsidization of the Greek security forces, safeguarded a series of interim governments from renewed extremist attack and permitted restoration of democratic government by elections held in March 1946 in the presence of American, British, and French observers.

British subsidization of the Greek security forces also contributed strongly to economic recovery by relieving the Greek

Government of heavy fiscal burdens. Prewar expenditure of the Greek Government on behalf of its military and security forces had accounted for roughly 33 per cent of total budgetary outlay. Of much greater significance on the economic side, however, have been huge foreign grants and credits for relief and reconstruction, primarily supplied (directly or indirectly) by the United States. UNRRA shipments have exceeded 400 million dollars,¹ of which the United States contributed roughly 72 per cent, while other official American grants and credits have amounted to a further 196 million dollars. Great Britain waived repayment of its 1940 loan to Greece, of which a balance of approximately 20 million pounds remained as of January 1946. Private relief shipments to Greece from various sources have probably exceeded 15 million dollars. Reparations of 150 million dollars from Italy and Bulgaria, although of uncertain ultimate value, were granted to Greece by the Paris Peace Conference. Charitable remittances, a normal credit item in the prewar balance of payments, probably approached 50 million dollars during 1945-46, while service of the externally held public debt, a normal debit item, has been entirely suspended. The magnitude of the foreign economic and military assistance supplied to date attains greater significance if compared with a prewar national income of Greece approximating 500 million dollars and an import level of 130 million dollars in 1938.

Provision of foreign assistance on such a scale has in fact resulted in extensive recovery of certain sectors of the Greek economy. Aided by huge UNRRA imports of agricultural supplies and equipment and by favorable weather, agricultural food production recovered in 1946 almost to prewar levels.² Wheat output, for example, approximated 98 per cent of the 1935-38 average. Industrial production of certain major consumers' goods has also shown considerable recovery; thus, output of cotton and wool textiles rose to roughly 70 per cent of prewar levels during the closing months of 1946. In other major sectors of the economy, however, the rate of progress has been most discouraging and, according to the American Economic Mission recently returned from Greece, has not been "commensurate with the foreign aid given."

Particularly unfortunate has been the absence of any mobilization of internal Greek resources for the reconstruction of communications and rural housing. Drachma appropriations for nonmilitary reconstruction in the 1946-47 budget amounted to less than 4 per cent of total anticipated government outlay. Although the importation of nearly 7,000 trucks by UNRRA considerably relieved the initial transport deficiency, the normal interregional exchange of goods remains severely handicapped, with a consequent drag upon the recovery of real income.

¹ Including freight and related charges.

² The lack of rainfall in recent months may, however, result in serious reductions of 1947 crop yields below 1946 levels.

Even more unfortunate has been the severe delay which has occurred in the recovery of the export crops upon which the Greek economy so strongly depends for payment of its normal imports. Tobacco and currant harvests, together providing roughly 60 per cent of prewar foreign exchange receipts, recovered in 1946 to no more than 51 and 28 per cent, respectively, of their 1935-38 averages. The slowness with which tobacco output is recovering is attributable in part to pessimistic expectations created by wartime destruction of the German market, which absorbed no less than 50 per cent of the total tobacco export volume in 1938. Wartime destruction of currant vines has retarded the revival of harvest yields. Perhaps most important of all, the acute difficulties encountered by growers in disposing of even existing stocks of tobacco and other export products at official exchange levels has seriously discouraged new plantings, thereby unnecessarily lengthening the period of dependence upon foreign aid.

On the fiscal and monetary side, the record of the past two years is hardly better. Conversion of the virtually worthless old drachma circulation into a new drachma issue in November 1944, together with the prospective arrival of heavy relief shipments, secured a striking revival of confidence which survived even the shock of the December revolution. Over succeeding months, however, continuing inflationary financing of huge governmental deficits by note issue expansion rapidly undermined faith in the new drachma; a renewed burst of hyperinflation in the closing months of 1945 reduced the new currency unit to less than 4 per cent of its initial value. A second major stabilization operation undertaken in January 1946 halted the inflation by authorizing unlimited sales of gold by the Bank of Greece at the market price and by revoking virtually all restrictions on private commodity imports. Over the remainder of the year, heavy net sales of gold and foreign exchange, coupled with large net receipts from the sale of UNRRA supplies, effectively offset the inflationary pressures generated by continuing budgetary deficits, credit expansion, and speculation. At the cost of virtually exhausting the available gold and exchange reserves of the Bank of Greece, average retail price increases during 1946 were limited to hardly more than 6 per cent. Unfortunately the breathing space thus purchased at such heavy cost could not be, or at any rate was not, put to effective use, with the result that, since early 1947, the prospect of further substantial foreign assistance has constituted the only barrier to renewed inflation.

The American Mission which recently returned from Greece estimated that over the current year ending on March 31, 1948, Greece would have available roughly 55-60 million dollars from unused Surplus Property credits, the residual of an Export-Import Bank loan granted in January 1942, and undis-

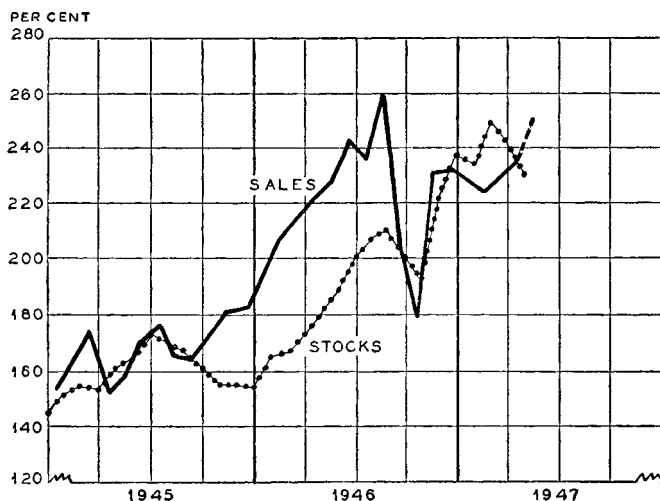
tributed UNRRA supplies, to set against a prospective foreign exchange deficit of approximately 300 million dollars. To close the remaining gap of approximately 240 million dollars, the Mission has recommended allocation of 190 million dollars from the Greek-Turkish aid bill together with 50 million dollars from the post-UNRRA relief bill.

While the required distribution of American assistance among various uses cannot be precisely anticipated at the moment, it is of the utmost importance that American financial aid should be employed, so far as possible, to restore productive and export capacity rather than to finance current consumption in excess of basic requirements. Effective implementation of such a policy will probably demand, on a temporary basis, efficient exchange and import controls designed to prevent wastage of exchange on luxury imports as well as on capital flight. Drastic fiscal reforms must also be undertaken before imports of essential consumption items can be reduced to basic requirement levels, thereby releasing exchange for capital goods imports. According to budgetary estimates reported by the American Mission to Greece, nearly 50 per cent of total anticipated budgetary expenditure in drachmas during the current fiscal year must be financed through governmental sale of consumption imports provided free of charge by the United States. The volume of free consumption imports required for this fiscal purpose will exceed, perhaps substantially, the volume of relief supplies required to close the gap between basic import requirements and exchange availabilities from exports, remittances, etc. Immediate and drastic fiscal reforms designed to expand drachma revenues and curtail all unnecessary drachma outlay would thus appear to be a major prerequisite of maximum allocation of American financial aid to capital goods imports. Numerous reports from Greece suggest that the scope for such fiscal reforms is considerable.

DEPARTMENT STORE TRADE

The dollar volume of department store sales in the Second Federal Reserve District during May is estimated at about 10 per cent above the level of May 1946. The seasonally adjusted index of sales for May 1947 is about 7 per cent higher than for April and only about 3 per cent below the all-time high reached in August 1946; it has been rising in each month since February. However, when price increases are taken into account, it is probable that the physical volume of sales is below the level of a year ago. The Bureau of Labor Statistics estimates that clothing and housefurnishings prices in New York City during the first four months of 1947 averaged 20 per cent higher than a year ago. Moreover, the rise of about 30 per cent in retail food prices which occurred during the same interval has left a smaller proportion of consumers' incomes available for the purchase of department store type

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



* May 1947 sales estimated.

merchandise. It is significant that basement store sales for the first four months of 1947 were 22 per cent greater in dollar volume than last year, whereas main store sales for the same period increased in dollar volume by only 6 per cent.

By the end of April department store stocks in this District

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

Locality	Net sales		Stocks on hand April 30, 1947
	April 1947	Jan. through April 1947	
Department stores, Second District....	+ 2	+10	+28
New York City.....	- 1	+ 9	+25
Northern New Jersey.....	+ 3	+ 8	+17
Newark.....	+ 0	+ 6	+14
Westchester and Fairfield Counties..	+ 1	+10	+37
Bridgeport.....	+ 1	+ 8	+34
Lower Hudson River Valley.....	+11	+12	+51
Poughkeepsie.....	+ 2	+ 6	+42
Upper Hudson River Valley.....	+ 6	+10	+34
Albany.....	+10	+10	+37
Schenectady.....	- 2	+ 9	+29
Central New York State.....	+ 8	+13	+38
Mohawk River Valley.....	+ 6	+ 8	+26
Utica.....	+ 2	+ 7	+21
Syracuse.....	+ 9	+15	+45
Northern New York State.....	+24	+15	—
Southern New York State.....	+13	+15	+48
Binghamton.....	+ 9	+11	+48
Elmira.....	+11	+12	+42
Western New York State.....	+ 9	+ 9	+41
Buffalo.....	+ 9	+ 8	+41
Niagara Falls.....	+ 3	+11	+34
Rochester.....	+ 8	+12	+42
Apparel stores (chiefly New York City)...	-14	- 4	+36

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

Item	1946	1947		
	April	February	March	April
Sales (average daily), unadjusted.....	219	188	229	223
Sales (average daily), seasonally adjusted..	221	224	229	235
Stocks, unadjusted.....	182	231	241	233
Stocks, seasonally adjusted.....	180	249	242	230

were beginning to be affected by the reduction which has been taking place for the past eight months in the volume of the stores' outstanding orders. Although the retail value of stocks at the end of April was 28 per cent greater than at the same date a year ago, the seasonally adjusted index of stocks declined for the second consecutive month, and on April 30 was about 8 per cent below the peak reached at the end of February of this year. Receipts of merchandise by the stores for March and April combined were about 7 per cent below the same two months of 1946, and this probably accounted for most of the decline in the index of stocks. It is true that larger than usual markdowns have been taken in some lines, particularly women's apparel and off-brand appliances, but these have been offset to some degree by rising prices in other types of merchandise, so that the net effect of price changes upon the total value of store stocks is uncertain.

Following their continued decline during April, outstanding orders at the end of the month were 60 per cent lower than a year previous. Stores have been reverting to the prewar practice of placing initial orders for only a part of the expected season's requirements, planning to reorder if the goods sell well. They are insisting upon much shorter deliveries than prevailed during the war and immediate postwar period. Selective cancellations of overdue orders have also been made.

Indexes of Business

Index	1946	1947		
	April	February	March	April
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	165	189	190	187p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	191	224	227	224p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	145	202	213p	203p
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	236	281	278p	
Factory employment				
United States, 1939 = 100†.....	139	154	154	153p
(Bureau of Labor Statistics)				
New York State, 1935-39 = 100..... (New York State Dept. of Labor)	124	133	133	130p
Factory payrolls				
United States, 1939 = 100†.....	255	311	314p	
(Bureau of Labor Statistics)				
New York State, 1935-39 = 100..... (New York State Dept. of Labor)	245	283	286	271p
Income payments*, 1935-39 = 100..... (Department of Commerce)	236	264	263p	
Composite index of wages and salaries*# 1939 = 100.....	155	169	170p	
(Federal Reserve Bank of New York)				
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	131	153	156	156p
Velocity of demand deposits*, 1935-39 = 100..... (Federal Reserve Bank of New York)				
New York City.....	100	86	85	82
Outside New York City.....	80	90	93	88

* Adjusted for seasonal variation.

† Series revised beginning January 1945.

A special monthly release tabulating the complete set of 15 indexes of hourly and weekly earnings computed by this bank will be sent upon request. A general discussion of the new indexes appeared in the November 1946 issue of this Review. Tabulations of the monthly indexes, 1938 to date, and description of component series, sources, and weights may be procured from the Research Department, Federal Reserve Bank of New York. A mimeographed article discussing some of the technical problems involved is also available on request.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System May 28, 1947)

INDUSTRIAL output and employment declined slightly in April. Value of department store sales continued to show usual seasonal changes in April, but increased somewhat in May. The general level of wholesale commodity prices declined somewhat in April and showed little change in the first three weeks of May.

INDUSTRIAL PRODUCTION

Industrial production declined slightly in April according to the Board's seasonally adjusted index, which was at a level of 187 per cent of the 1935-39 average for April as compared with 190 in March. Output of both durable and nondurable manufactures and of minerals was below the March rate.

A slight decrease in activity in the durable goods industries in April reflected mainly work stoppages at plants producing communication equipment and small declines in output of building materials after allowance for usual seasonal changes. Output of nonferrous metals and products declined slightly in April as decreases in some fabricating industries offset further gains in activity at smelters and refineries. Steel production was at 94 per cent of capacity in April, as in March, and scheduled operations at steel mills during May have been maintained at this rate. Automobile output in April continued at an annual rate of about five million cars and trucks; and activity in other transportation equipment industries increased somewhat. A decline in automobile production is indicated for May, largely as a result of shortages of steel sheets.

Production of nondurable manufactures was in somewhat smaller volume in April owing mainly to a decrease in output of textiles. Activity in the rubber products industry was slightly below the exceptionally high first quarter levels when tires for passenger cars, trucks, and busses were being produced at an annual rate of 100 million as compared with about 60 million in 1940. Production of most other nondurable goods in April showed little change from the March rate.

Output of coal declined 20 per cent from March to April, reflecting work stoppages at bituminous coal mines in the early part of the month. Production of crude petroleum and of metals continued to advance. Crude petroleum output rose further in the early part of May to a new record rate.

EMPLOYMENT

Nonagricultural employment decreased by about 450,000 workers in April, according to Bureau of Labor Statistics figures as adjusted for seasonal variation by Federal Reserve. This decline was due chiefly to work stoppages in the telephone, bituminous coal, and electrical machinery industries. Employment in industries manufacturing nondurable goods, chiefly textiles and apparel, also declined. The number of persons unemployed increased slightly in April.

CONSTRUCTION

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed little change from March to April and was about one-fifth smaller than in April 1946. Private residential and nonresidential awards declined, although awards usually show a seasonal increase in April. Awards for publicly-financed construction expanded further, reflecting chiefly a large increase in the volume of contracts for streets and highways.

DISTRIBUTION

Department store sales continued to show little change in April, after allowance for usual seasonal changes. The Board's adjusted index was 275 per cent of the 1935-39 average in April, compared with 277 in March and an average of 271 in the first four months of this year. In May dollar volume of sales showed less than the usual seasonal decline and in the first half of the month was 12 per cent larger than in the corresponding period of 1946.

Freight carloadings declined in April largely because of a sharp drop in coal shipments early in the month. Loadings of coal increased and shipments of most other classes of freight were maintained in large volume in the early part of May.

COMMODITY PRICES

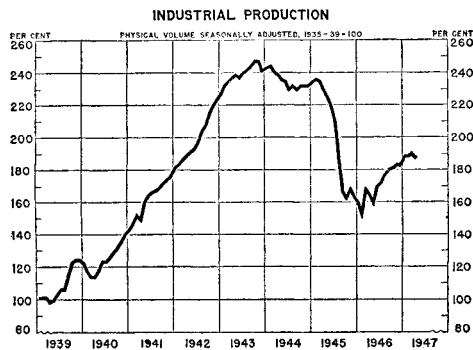
Prices of most basic commodities showed little change in the early part of May, following declines in April. Prices of feed grains and copper advanced, while prices of rubber, wool tops, paint materials, and lumber declined. The general level of wholesale prices, according to the Bureau of Labor Statistics weekly index, has been at 147 per cent of the 1926 average since the middle of April as compared to an average level of 149 per cent in March.

TREASURY FINANCE AND BANK CREDIT

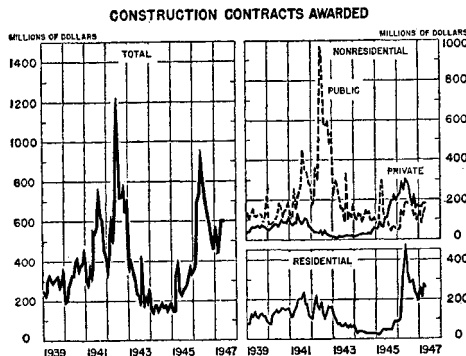
Treasury redemption for cash of part of the weekly maturing bill issues continued into May. Between April 17, when the program began, and May 22 one billion dollars of Treasury bills were retired. Largely as a result of these retirements Treasury War Loan deposits at commercial banks were reduced by about 800 million dollars in the five weeks ended May 21.

Although Federal Reserve Banks held most of the retired securities, their holdings of Treasury bills declined by considerably less than the amount retired, as some commercial banks sold bills to maintain their reserve positions. A further increase in monetary gold stock of 300 million dollars during the five weeks and a small inflow of currency from circulation supplied member banks with reserve funds and thereby reduced the need for additional sales of securities to the Reserve System.

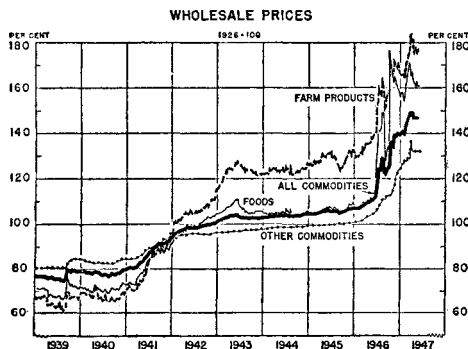
Commercial and industrial loans, which had expanded rapidly from the middle of 1946 until March 1947, declined somewhat during April and the first half of May at banks in leading cities. Real estate and consumer loans continued to increase. Government security holdings declined between the middle of April and the middle of May.



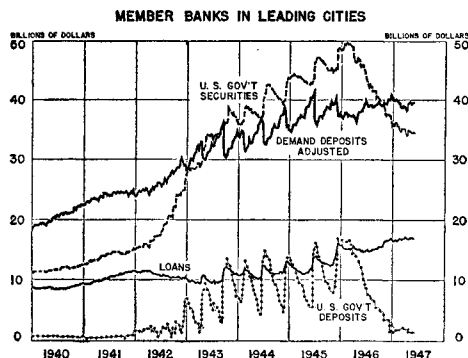
Federal Reserve index. Monthly figures; latest figure shown is for April.



F. W. Dodge Corporation data for 37 Eastern States. Nonresidential includes awards for buildings and public works and utilities. Monthly figures; latest shown are for April.



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended May 17.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures; latest shown are for May 21.