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MONEY MARKET IN JULY

The outstanding development in the money market during the past month was the "unpegging" of the Treasury bill rate. This action, representing a further step in the direction of eliminating special measures adopted during the war to facilitate war financing, was taken by the Federal Open Market Committee, which announced on July 3 that it had directed the Federal Reserve Banks to terminate the policy of buying all Treasury bills offered to them at a fixed rate of $\frac{3}{8}$ per cent per annum and to terminate the option given the sellers to repurchase bills of the same issues at the same rate. The new policy was made applicable to new bills issued on or after July 10, but not to bills issued prior to that date.

As the announcement pointed out, the fixed rate on Treasury bills was a wartime measure adopted in 1942 to facilitate war financing and to stabilize the market for Government securities. Under current peacetime conditions, these arrangements no longer serve their original purpose, as the greater part of the outstanding bills have been acquired by the Federal Reserve Banks and bills have gradually ceased to be a market instrument. The elimination of the fixed rate on Treasury bills is expected to serve a useful purpose in restoring the bill as a market instrument and giving added flexibility to the Treasury's debt management program. The announcement stated, however, that the Federal Reserve System would continue to purchase and hold Treasury bills as well as other Government securities in amounts deemed necessary to the maintenance of an orderly Government security market and the discharge of the System's responsibility with regard to the general credit situation of the country.

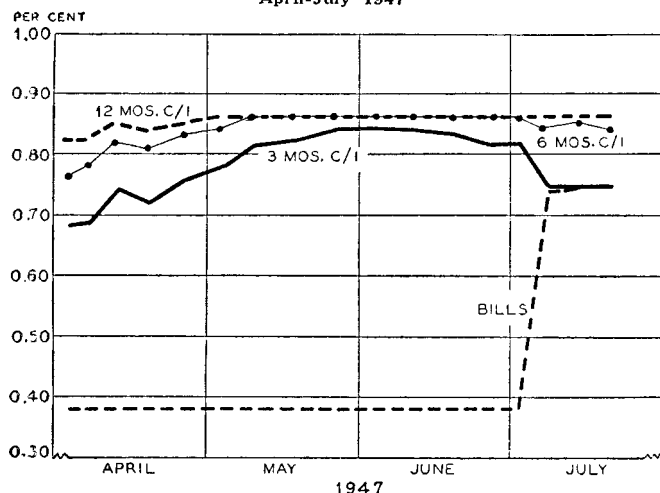
In response to the new policy, the average interest rate on the next two weekly issues of Treasury bills rose rapidly. The issue dated July 10 was sold at an average discount of 0.59 per cent, with the range of accepted tenders running from 0.39 to 0.75 per cent. This issue was soon quoted in the market at close to $\frac{3}{4}$ of 1 per cent, and subsequent new issues were sold at an average discount of about the same figure. Interest in the new bills on the part of investors broadened with each new offering and resulted in an increasing number of bids from banks and business organizations. For the most part, however,

the larger banks that had been holding Treasury bills previously indicated a preference for retaining the older issues, which could still be sold to the Federal Reserve Banks at any time to obtain additional reserves and which retained the repurchase option.

The unpegging of the Treasury bill rate had the effect of stimulating uncertainty as to the outlook for short term interest rates, an uncertainty which was heightened by the announcement later in the month that an issue of 11-month Treasury certificates bearing interest at $\frac{7}{8}$ of 1 per cent per annum (the same rate as had previously been offered on 12-month certificates) would be offered in exchange for the certificates maturing August 1. This slight shortening of the term of the certificate to be issued on August 1 represents a move in the direction of reducing the number of maturity dates for outstanding Treasury securities; it also gave rise to questions in the market as to whether it might not have greater significance in indicating the possibility that future certificates of longer maturity might be offered at a higher rate.

As a result, there developed a rather common tendency on the part of banks, security dealers, and other investors to undertake to place themselves in the most favorable position in which to take advantage of any higher rates that might be offered in subsequent financing. This took the form of selling on a substantial scale of the longer term Treasury certificates and investing the proceeds largely in shorter term issues. Furthermore, banks in need of additional reserves tended to sell the longer-dated certificates, while banks with funds available for investment tended to purchase the nearby maturities. A reduction in the Government security dealers' portfolios (presumably of securities which might be vulnerable to any further change in short term interest rates) was indicated by a decline of about 225 million dollars in their borrowings from New York City banks in the two weeks ended July 16. As a result of these shifts in holdings, the Federal Reserve System made substantial market purchases of the longer term certificates, but sold shorter term issues during most of the month as an aid to the maintenance of orderly conditions in the Government security market.

Yields on Treasury Bills and Certificates of Indebtedness,
April-July 1947*



* Bill yields are discounts on three months' maturities based on dealers' bid prices as quoted in the open market. Certificate yields are based on composite market bid quotations. Wednesday dates; latest figures are for July 23, 1947.

As the accompanying chart indicates, yields on the longer term certificates remained close to the $\frac{7}{8}$ per cent coupon rate, while the demand for the shorter maturities caused a decline in the yield on certificates maturing in about 3 months to approximately $\frac{3}{4}$ of 1 per cent, at which point the yield on these securities was practically the same as for the new Treasury bills of similar maturity.

The uncertainty as to the outlook for short term interest rates also had some repercussions on the operations of commercial banks in Government bonds. During the four weeks ended July 23, the major "money market" banks in New York City invested chiefly in bonds due or callable in less than 1 year (which would enable them to reinvest their funds to advantage if short term securities offering higher interest rates should become available), and in longer term bonds (which offer higher current yields). The maturity distribution of the bond holdings of other weekly reporting member banks is not currently available except in the case of the Chicago banks, which showed little change during July.

MEMBER BANK RESERVES

Money market conditions were easy during most of July, although some strain on reserve positions was evident in the first and last few days of the month. Sizable preholiday demand for currency, a substantial increase in member bank reserve requirements on the first of July following the elimination of the exemption of Government War Loan deposits from legal reserve requirements, and some absorption of funds through Treasury transactions were only partly offset by continued heavy payments from foreign deposit accounts with the Reserve Banks. Relaxation of the strain on reserve positions came with the heavy post-holiday return flow of currency

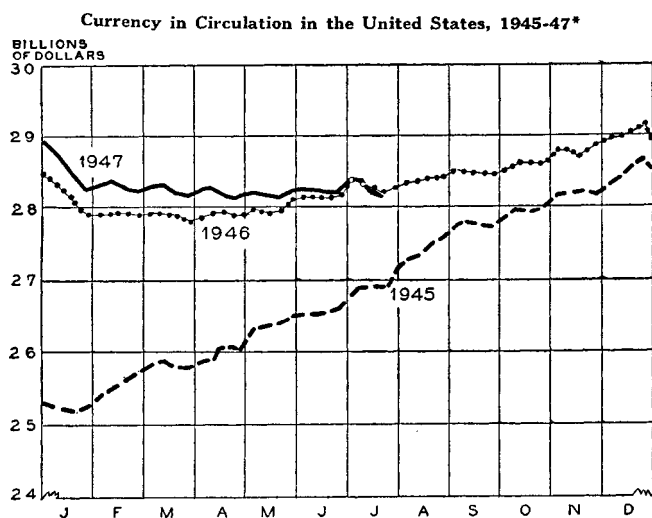
from circulation and further large disbursements from foreign accounts. Treasury net expenditures added moderate amounts of funds to bank reserves for a short time after the holiday and again toward the close of the month, but during the intervening two-week period (ended July 23), Treasury receipts far exceeded disbursements, partly offsetting the effects of the other transactions. Some tightening of the money market in the last week of the month was related to the payment of 250 million dollars by investors for World Bank bonds.

Changes in Federal Reserve credit consequently were moderate during most of the month. Substantial purchases of the longer maturities of certificates were made, especially in the first half of the month, but these purchases were partly offset by sales of Treasury bills and short term certificates. Toward the close of July the Reserve Banks absorbed substantial offerings from banks of the older issues of bills, partly as a result of losses of reserves caused by payments for World Bank bonds. Excess reserves fluctuated widely from week to week, reflecting in part rather wide swings in the reserve position of New York City banks.

The Treasury's cash receipts from taxes and other revenues and from the sale of securities to the public during July were not large enough to equal its disbursements, which were augmented by payments of 700 million dollars to Great Britain under the loan agreement with that country. The Treasury, therefore, withdrew about 580 million dollars from its War Loan accounts with depositary banks to make up the difference. The initial call payable on the first of the month amounted to more than 300 million dollars and was used largely to pay off the unexchanged portion of an issue of certificates of indebtedness maturing July 1, and to advance 150 million dollars to Great Britain. Additional advances of 100 and 150 million dollars on the British credit, made on July 10 and 14, respectively, were the occasion for further War Loan withdrawals of about 120 and 155 million dollars on the same dates. Treasury receipts from all sources exceeded disbursements in that statement week (ended July 16) and in the next one, however, so that Treasury balances with the Reserve Banks rose almost 375 million dollars to about 940 million on July 23. Thus, in making a further payment of 300 million dollars to the British in the following week, the Treasury was able to draw on its balances in the Reserve Banks and to avoid further pressure on bank reserve positions.

CURRENCY OUTSTANDING

Public demand for currency prior to the Fourth of July holiday was smaller this year than last. But the subsequent return flow of money from circulation was larger in 1947 and brought the volume of currency outstanding slightly below the 1946 level, as illustrated in the accompanying chart. This



* Wednesday dates; latest figure is for July 23, 1947.

was the first instance since the start of the war in which there was a year-to-year decrease in outstanding currency.

While minor in amount, the decrease in circulation is the more significant since it has occurred in the face of a sharply higher price level, increased wages and national income, and a higher dollar volume of retail trade. The decline in circulation, furthermore, has been in the lower denominations—20 dollars and less—which are more commonly used in current trade, while the demand for the larger denominations has continued to grow, although at a much slower pace than in previous years.

The falling off in the use of currency probably indicates the return of more normal, peacetime practices in regard to making payments. The following developments may have had some effect upon the use of currency and the volume outstanding: (1) some reduction in the proportion of cash sales and increase in the proportion of credit sales in retail trade; (2) greater use of check payments resulting from the successful promotion by the banks of special checking accounts for persons of moderate income and from the peacetime decline of the transient population; (3) the spending of wartime savings in the form of currency; and (4) the decline in new savings in that form as consumer spending has assumed a more normal relationship to income with the greater availability of goods.

RESULTS OF TREASURY FINANCING, FISCAL 1947

For the first time in seventeen years, the Federal Government at the end of the 1946-47 fiscal year showed a reduction in the public debt for the year as a whole. Nearly 11.5 billion dollars net of Government securities were retired, leaving 258.4 billion outstanding on June 30. Cash retirement of debt held by the public¹ amounting to 20 billion dollars was partly offset by the issuance of certain nonmarketable securi-

ties. The latter were mainly sold to trust funds, but some (1.8 billion net) were issued to veterans in payment for terminal leave and some (2.1 billion net of noninterest-bearing demand notes) to the International Monetary Fund and International Bank in payment of part of the United States subscriptions to these organizations. The Government's ability to retire such a substantial volume of publicly-held securities was due to the use of about 8.4 billion dollars net² of funds withdrawn from the public in taxes and other receipts during the fiscal year and 11.7 billion of funds already on hand, accumulated mainly during the Victory Loan drive.

About 6 billion dollars of the debt redeemed for cash was held by the nonbanking public³ (that is, investors other than commercial banks and Federal Reserve Banks, and Government agencies) and to this extent the funds withdrawn by the Government in taxes and other receipts were, in effect, returned to the public. Over the course of the fiscal year, the net flow of funds between the public and the Treasury was reversed several times. From July to September 1946 the nonbanking public received 100 million more from Treasury debt retirement and cash expenditures than it paid to the Treasury and in the next quarter it received nearly 1.5 billion dollars more. In the three months, January-March 1947, however, it lost through net payments to the Government almost 4.9 billion dollars. In the last three months of the fiscal year (April-June) the public received over 900 million net from the Treasury. Thus, while only about 2.5 billion dollars net was withdrawn by the Government from the nonbanking public in the fiscal year as a whole, withdrawals were concentrated in the first quarter of this calendar year. In the other three quarters, on balance, the public received funds from the Government—through debt retirement operations, if not through other expenditures.

In addition to the retirement of debt held by the nonbanking public, almost 14.1 billion dollars of the commercial banks' and Federal Reserve Banks' portfolios were paid off. The money for these repayments came principally from the General Fund, a large part of which was on deposit in War Loan accounts at commercial banks. By the end of June, the General Fund had dropped to 3.3 billion, from 14.2 billion at the beginning of July 1946. The additional funds were provided by the net 2.4 billion withdrawal from the nonbanking public and by

¹ Includes chiefly Treasury bills, certificates, notes, and bonds, but also relatively small amounts of Savings stamps, notes, and bonds, Postal Savings notes and special issues to Postal Savings, depository bonds, National and Federal Reserve Bank notes, marketable guaranteed Government corporation debt held outside the Treasury, and demand notes redeemed by the International Monetary Fund.

² Based on cash expenditures exclusive of the billion dollar payment to the International Monetary Fund which was made with funds obtained from the Stabilization Fund.

³ Includes nonbank holdings of retired Treasury certificates, notes, and bonds; net changes in Savings stamps, notes, and bonds; and redemptions of demand notes held by the International Monetary Fund, less market sales by Postal Savings.

over 800 million from the Stabilization Fund. Retirement of the debt held by the Reserve Banks tended to restrain further credit expansion, as it deprived commercial banks of part of their reserves and forced them to take action to restore their reserves to the required amounts.

The preceding discussion centers around debt retirement and the cash surplus. The difference between the cash surplus and the budgetary surplus is largely a matter of accounting. In keeping a record of its operations the Treasury groups them under three main headings: first, "budgetary" receipts and expenditures, which are covered by Congressional appropriations; second, operations of trust accounts, which are semi-autonomous, partly self-supporting agencies; and third, changes in the public debt, which generally reflect deficiencies or surpluses in the two preceding accounts combined.

"Budgetary" figures for recent years have included a small amount of noncash receipts and larger amounts of noncash expenditures. The latter items requiring no immediate cash payments from or to the public cover transactions such as accrued interest on Savings bonds, Treasury payments to the trust accounts, and issuance of terminal leave bonds. The trust accounts, on the other hand, in addition to noncash receipts from the Treasury, receive deposits from State unemployment trust funds and the Railroad Retirement Board, and also cash premiums from veterans. They invest some of these funds in Government securities, but also disburse cash benefits, make refunds, and meet cash withdrawals by State trust accounts.⁴

In order to estimate the impact of current Treasury operations on the private economy, it is necessary to adjust the figures (including "budgetary" and trust account transactions) to a cash basis. In such an analysis, transactions in both accounts are combined and the noncash expenditures, which are, in effect, accruals to be paid to the public in cash at a later date, are eliminated. Also removed is a small amount of receipts from Government agencies which are offset by equivalent expenditures.

The contrast between the cash flow through the Treasury and the budget figures was especially marked during the past year. When the Treasury closed its budget accounts, surplus receipts amounted to 754 million. On a cash basis, however, the "budgetary" accounts netted close to 6.7 billion and the trust accounts 1.7 billion, giving a cash surplus of 8.4 billion.

This cash surplus, which was in marked contrast to a cash deficit of nearly 18 billion in fiscal 1946, arose as a result of a continued high level of receipts and a sharp drop in expenditures. Receipts from withholding taxes were almost the same as in 1946. Corporate tax revenue (other than excess profits taxes) and individual income taxes were higher than in fiscal

1946, despite the lower rates on 1946 calendar year income, but they were not high enough to offset a falling off in excess profits tax receipts, which for all practical purposes had been collected by the end of last December. Increases elsewhere, however, more than offset the 1.6 billion decline in income and profits taxes. Employment tax receipts rose, reflecting higher wage payments, while miscellaneous internal revenue increased as manufacturers' payments of excise tax collections were 50 per cent higher owing to larger sales. Miscellaneous receipts jumped as surplus property sales soared, but they included a larger amount of noncash earnings and transfers. As a result, the "budgetary" cash receipts at 42.4 billion dollars were half a billion lower than in fiscal 1946. Trust account receipts were lower for both noncash and cash items, mainly because of the shrinkage in the National Service Life Insurance Fund and in miscellaneous trust funds. Total cash receipts thus amounted to 46.3 billion.

The 23 billion decline in total Treasury expenditures reflects the drastic reduction in military costs. Partly offsetting the drop were increased spendings for veterans, including terminal leave payments, larger drawings against the British credit, part of the large noncash subscriptions to the Bretton Woods international organizations, and higher payments for such peacetime activities as social security, public works, and aid to agriculture. Cash expenditures alone, including the one billion paid out of the Stabilization Fund to the International Monetary Fund, amounted to 38.9 billion dollars, compared with budgetary expenditures of 42.5 billion.

Maintenance of the high volume of Federal cash receipts depends on a continuation of a high level of business activity and on the maintenance of tax rates at about the current levels. With the General Fund amounting to only 3.3 billion on June 30, further reduction of the debt held by the public will be possible only to the extent that cash income of the Government continues to exceed cash expenditures. Total debt, however, will be reduced by a smaller amount, as investments by trust funds in special issues will continue.

TRANSFERABILITY OF STERLING

On July 15, 1947, in keeping with commitments undertaken by the British Government under the terms of the Anglo-American Financial Agreement which had become effective a year earlier, sterling accruing to foreign countries as a result of current transactions formally became freely transferable for purposes of current expenditures in any monetary area of the world.¹ On that date, moreover, the British Government

⁴ For a more detailed analysis of trust account activities, see "Financial Operations of Federal Trust Funds," *Monthly Review*, August 1946.

¹ The term "current", for purposes of this commitment, refers to all payments in connection with trade and service transactions, interest and dividend payments, moderate payments for amortization of loans and for depreciation of direct investments, and moderate remittances for family living expenses.

became obligated to permit free transferability thereafter of any previously accumulated foreign-owned sterling balances that might be released for use by the owners. The assumption of these obligations has the effect of removing certain restrictive and discriminatory features of Britain's wartime financial arrangements, and, given that country's strategic position in world trade and finance, should significantly contribute to the restoration of a multilateral world trading system. Misgivings have been expressed in some quarters, however, to the effect that these commitments will impose serious burdens upon Britain's already weakened balance-of-payments position.

Although multilateral transferability (or convertibility) of current sterling did not have to come into full effect until July 15, 1947, it had for some time already been an established fact over a relatively wide area. As far back as July 1945, for example, the British had set up a system of so-called American accounts in British banks on behalf of residents of the United States and its dependencies, and of the Philippine Islands, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, and Venezuela. Sterling could be credited to any of these accounts as a result of current transactions by the countries concerned with the sterling area; and such sterling could be freely transferred to any other American account in the group and to accounts of residents in the sterling area, or could be freely converted into dollars. On July 15, 1947 Bolivia, Chile, and Peru were added to the list of countries for which American accounts are operated.

For many years before July 15, 1947, moreover, sterling area countries were able to utilize their sterling acquisitions freely for expenditures anywhere within that area or for current transactions in countries with which Britain had bilateral special account arrangements, i.e., in countries which had agreed to accumulate sterling balances. Theoretically, sterling area countries were also free to convert their sterling into dollars or other hard currencies to meet any net current requirements in such currencies, but in actual practice these countries cooperated to keep their net demands for hard currencies to a minimum by restrictive import licensing; they also sold to the British authorities any hard currency surpluses which they might have acquired.

In anticipation of the July 15 deadline on which sterling was to become *generally* convertible, the British Government as early as October 1946 began to make the necessary arrangements with countries for which no transferability privileges as yet existed. These arrangements have taken the form of the establishment on behalf of the monetary authorities of these countries of so-called transferable accounts. By July 15 such accounts had been set up in the case of Argentina, Canada and Newfoundland, the Belgian, Dutch and Portuguese monetary areas, Italy and the Vatican City, Brazil, Norway, Spain,

Czechoslovakia, Finland, Egypt and Anglo-Egyptian Sudan², Ethiopia, Iran, Uruguay, and Sweden. Sterling arising out of current transactions between the countries concerned and the sterling area can be credited to these accounts, and sterling in these accounts can be transferred freely to any other transferable account, to American accounts, to accounts of residents in the sterling area, and under special conditions to accounts held by residents of territories which have no transferable accounts. Transfers can also be made in the reverse direction.

An essential feature of this new exchange machinery is that the countries holding transferable accounts agree to accept sterling in payment from other countries; the sterling can always be ultimately converted, in effect, into dollars by transfer to an American account. Under these arrangements, then, sterling acquired by foreign countries as a result of current transactions can, in keeping with the commitment of the Anglo-American Financial Agreement, be freely transferred for current expenditures in any currency area of the world. These arrangements, it might be noted, should tend to strengthen the position of sterling as an international currency by widening its use in multilateral settlements, and should thereby increase the willingness of foreign countries to hold working balances in London. In the agreements providing for transferable accounts the monetary authorities of the countries concerned agreed to supervise their respective accounts so as to insure that transfers would be made only in respect of current, and not capital, transactions.

Although by July 15, 1947 sterling transferability had, in general, become an established fact, it had proved impossible by that date, because of a variety of technical reasons, to conclude formal arrangements providing for transferability in the case of fourteen specific countries. With the consent of the United States, the July 15 deadline was extended in these cases until September 15, 1947. The countries concerned are: Austria, Bulgaria, China, Denmark, France, Greece, Hungary, Paraguay, Poland, Rumania, Siam, Soviet Union, Turkey, and Yugoslavia. The postponement of the deadline does not, however, relieve Britain of the obligation freely to permit transfer, once the arrangements are concluded, of any sterling currently acquired by these countries between July 15 and September 15. It might also be noted that Switzerland has, by its own choice, remained outside the scope of these arrangements. According to an agreement in March 1946, however, the Swiss had consented to accumulate sterling up to £15 million, beyond which payment was to be made in gold.

It was noted above that on July 15, 1947, the United Kingdom became obligated to permit free transferability thereafter with regard to any previously accumulated foreign sterling balances that might be released. These accumulated balances, in view

² Effective July 14, 1947, these two countries had left the sterling area.

of their sheer magnitude (amounting to about £3.5 billion), obviously cannot be made fully transferable at once, and the Anglo-American Financial Agreement merely commits the British Government to make agreements with the countries concerned for an "early" settlement covering these balances. In the main, to the extent that the balances are not scaled down, they will undoubtedly have to be paid off in instalments over a period of years. In view of the opposition of many of the leading creditors, notably India and Egypt, to the suggestion of a scaling down of their balances³, the negotiation of definitive settlements is likely to prove difficult and protracted. Any sterling released under the terms of these settlements, whether in the near future or at a later date, however, must be freely transferable for current expenditures in any currency area.

Although no deadline was specified for the conclusion of settlements regarding accumulated sterling balances, it was nevertheless necessary for the British authorities, pending the negotiation of final settlements, to draw a sharp line of demarcation by July 15, 1947 between accumulated balances and those which foreigners might currently acquire thereafter. For if the former continued to be freely available for expenditure within the sterling area, there was the danger that the various foreign creditors would utilize them to finance their gross expenditures in Britain and would demand transferability privileges for their gross current sterling receipts. This would have greatly increased Britain's potential dollar drain as a result of the transferability commitments. From Britain's point of view it was essential that only the *net* surpluses of sterling acquired by foreign countries from current transactions should be freely transferable.

In order to insure this result, it would have been necessary to make arrangements whereby accumulated sterling balances, except for such amounts as might periodically be released (and made freely transferable), would be completely blocked after July 15. In a few cases, notably Egypt, formal arrangements providing for the maintenance of minimum balances and partial releases were actually made before that date, but the Egyptian arrangement was only of a provisional character pending the negotiation of a definitive settlement. In the case of India, by far the largest holder of sterling balances, no such arrangement, even of an interim character, has as yet been negotiated. Where the accumulated balances were small, the British Government took no steps to freeze them by July 15, and in some of these cases the balances were, at least in part, made freely available for transfer anywhere. In other cases, notably with regard to the British Dominions and colonies, which hold a substantial fraction of the balances, no blocking arrangements, formal or otherwise, appear to have

³ Two of the creditors, however, namely Australia and New Zealand, have voluntarily "scaled down" their balances by gifts of £20 million and £10 million, respectively.

been made, presumably because it is understood that these countries will continue to exercise the same restraint they have shown in the past with regard to the utilization of their accumulated balances.

While the establishment of multilateral transferability of current sterling constitutes an important factor in the eventual restoration of nondiscriminatory world trade, some fears have been expressed that the action may have been premature and that a substantial addition to the present rapid rate of drain on Britain's gold and dollar reserves would thereby result at a time when it could hardly be countenanced. Although it is obviously impossible, among other things because of inability to project Britain's over-all balance-of-payments pattern and its geographical distribution, to estimate what the prospective dollar costs of transferability will be, it is generally believed that the *additional* drain in the crucial months immediately ahead will not be very great. For one thing, Britain's major individual balance-of-payments deficits are being currently incurred with hard-currency countries, notably the United States and Canada, and these deficits are already being paid for largely out of the proceeds of American and Canadian credits. The new transferability arrangements should not add, therefore, to the dollar drain resulting from the deficits with these countries.⁴ Other individual net deficits are now being incurred with only a relatively few countries, notably Australia, New Zealand, and the British colonies, and on a relatively small scale; these countries, as a gesture of help to Britain, will probably be willing, for a while at least, to keep to a minimum their requests for transfer of their current sterling acquisitions. The fact that sterling, under the present exchange machinery, is now being used over a wide area for multilateral settlements, moreover, should tend to strengthen the demand for sterling and may thereby to some extent enable Britain to pay in sterling for supplies which had previously cost her dollars. Even in the absence of any transferability commitment under the Anglo-American Financial Agreement, it may be questioned how long Britain would in any case have been able to postpone the multilateral transferability of currently earned sterling in view of the growing reluctance of many countries to sell goods to Britain for untransferable currency.

⁴ The drain on the American relative to the Canadian credit will tend, however, to be increased to the extent that Canada acquires transferable account sterling and converts it into American dollars.

WORLD DISTRIBUTION OF GOLD AND DOLLAR ASSETS

There has been much discussion as to the existence or threat of a world shortage of dollars, or of assets easily convertible into dollars, which could be used for the payment of the enormous volume of goods and services which foreign countries are buying in the United States. This question is intimately linked with that of the volume of foreign lending which the

United States Government, as well as private investors, may be called upon to do in the near future. Of basic importance, however, are the size and distribution of the gold and dollar assets of foreign countries and the extent to which foreign countries, by using such assets, may be able to meet their needs for the goods and services which this country can supply. This article presents and analyzes the known facts concerning the world distribution of gold and short term dollar assets and the changes which have taken place in this respect since 1939.

The gold and short term dollar assets now available to foreign countries as a whole (excluding the U.S.S.R.)¹ amount to some 18 billion dollars. About two thirds of this consists of gold held by governments and central banks. The rest is made up of balances held in foreign official and private accounts with American banks, and of foreigners' holdings of short term dollar securities. The present total of 18 billion dollars compares with 14 billion at the outbreak of the war and 20 billion at the end of hostilities in August 1945. In the first postwar year foreign countries' drafts on their gold and dollar assets were approximately offset, in the aggregate, by new acquisitions of gold from their own current production; in August 1946, a year after V-J Day, foreign gold reserves were if anything somewhat higher than at the close of the war, and dollar balances and short term securities had declined by only 200 million dollars. In contrast, during the seven months of the second postwar year for which statistics are available, foreign countries not only utilized their current gold output, estimated at 700 million dollars a year, but also drew on their monetary gold stock to the probable extent of 800 million dollars (apart from transfers of gold to the International Monetary Fund). In addition, they spent 1 billion dollars of their short term dollar holdings.

The picture can be seen more clearly, however, if, instead of looking merely at the aggregate size of the foreign gold and dollar holdings, one considers the distribution of such holdings by areas. The liberated countries of Western Europe, which held 5.4 billion dollars of gold and dollar balances just before the war, and some 3.7 billion dollars in August 1945, had 3.2 billion left in August 1946 and only 2.5 billion in March 1947. In this Western European area, the official French gold and "hard" currency holdings were reduced from the equivalent of 2.6 billion dollars at the liberation to about 1 billion at the end of 1946. Dutch gold and dollars declined by one third, amounting last March to 400 million dollars. Belgium is the only country in the area whose reported gold and dollars were higher at the end of 1946 than at the time of liberation; they increased by 40 million to some 900 million dollars, largely because of the goods and services furnished to American troops in the final phase of the European war.

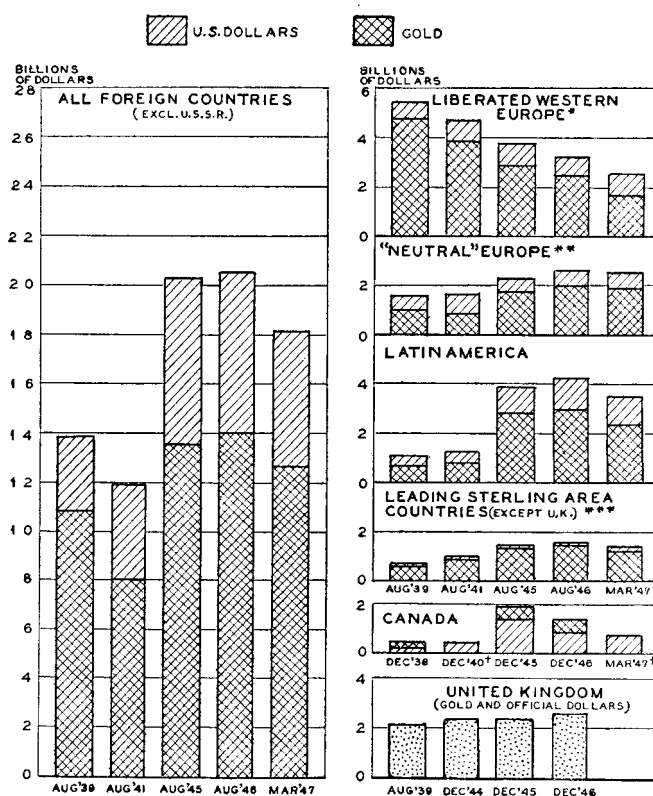
In the "neutral" countries of Europe, gold and dollar holdings

now amount to 2.5 billion dollars and are about 1 billion higher than before the war. This increase is largely due to the accumulation of gold by Switzerland and to a small extent by Portugal and Spain. Sweden, the remaining European "neutral," which in August 1945 possessed almost 700 million dollars of gold and dollar balances and maintained this reserve practically unchanged until after the revaluation of the Swedish krona in July 1946, lost some 250 million dollars of its reserves between August 1946 and March 1947.

No British figures are available later than December 1946, at which time official gold and dollar balances amounted to 2.6 billion dollars. In August 1939, they had amounted to 2.1 billion dollars. However, British private dollar holdings are believed to be lower now than before the war.

Latin America, which during the war increased its gold and dollars from 1.1 billion to 3.9 billion dollars, further expanded its holdings by some 300 million dollars in the first year after V-J Day, but used up 700 million dollars in the first seven months of the second postwar year. Thus, on the whole,

Foreign Gold and Short Term Dollar Assets



* Belgium, Denmark, France, Netherlands, Norway.

** Portugal, Spain, Sweden, Switzerland.

*** Australia, British Malaya, Egypt, India, New Zealand, Union of South Africa.

† Canadian gold data not available.

Source: Gold holdings are those of foreign governments and central banks, as computed by the Federal Reserve Bank of New York. Data for all foreign countries (excl. U. S. S. R.) are tentative. Dollar assets consist of short term official and private balances as published in the Federal Reserve Bulletin. Data for United Kingdom for Dec. 1944, 1945, and 1946 are from the white paper on national income.

¹ Because of the absence of official Russian statistics in this field, it is not practicable to include the U.S.S.R. in the survey.

Latin American gold and dollar resources are still very large in comparison with the prewar years, but the shrinkage has been considerable in a number of countries in the area. Argentina's gold and dollar reserves declined from 1,411 million dollars at the end of September 1946 to less than 900 million dollars in June 1947; Brazil's holdings from 613 million dollars in August 1946 to around 500 million dollars in February 1947; and Mexico's gold and dollar assets from 350 million dollars on V-J Day to about 200 million dollars at present.

Canadian gold and dollar resources, official and private, which amounted to only 400 million dollars in December 1938, increased to 1,883 million dollars at the end of 1945, but they declined last year to 1,475 million dollars at the year end and subsequently are reported to have been reduced further, although more recent figures of gold holdings have not yet been made public. The resources of the leading sterling-area countries (excluding the United Kingdom) increased from some 600 million dollars in August 1939 to 1.4 billion in March 1947, owing primarily to the accumulation of gold by the South African Union.

To sum up: foreign gold and dollar balances in the aggregate are still considerably higher than they were in 1939, but the over-all increase covers widely divergent changes in the distribution by areas. Liberated Western Europe, which had 5.4 billion dollars in August 1939, had only 2.5 billion dollars left in March 1947. On the other hand, the gold and dollar holdings of "neutral" Europe, which amounted to 1.5 billion dollars in August 1939, are at present 1 billion dollars higher. The United Kingdom's gold and official dollar holdings, which were about 2.1 billion dollars in August 1939 had risen to 2.6 billion dollars at the end of 1946, but this increase in official holdings may have been partly offset by some decline in British private dollar holdings. The gold and dollar assets of Latin America were at 3.5 billion dollars in March 1947, compared to 1.1 billion dollars in August 1939, but some countries were rapidly depleting their holdings; and those of the principal sterling area countries (excluding the United Kingdom), which were at 0.6 billion dollars at the outbreak of the war, had risen to 1.4 billion dollars in March 1947. Canada, which had only some 400 million dollars in December 1938, had nearly 1.5 billion dollars in December 1946, but undoubtedly has considerably less than that amount now.

In judging the significance of the wartime and postwar changes in foreign gold and dollar holdings, several facts must be kept in mind. First, it must be noted that these are only the changes in the official gold monetary stocks and official and private dollar balances; they take no account of the quantities of gold which have been hoarded by the public in many countries. While it is impossible to give an accurate figure for gold hoarded abroad before the war and now, it is known that a very substantial increase in hoarding has occurred since 1939. There is reason to believe that gold

privately hoarded outside the United States may amount to several billion dollars, but nothing can be said as to its distribution by countries. Moreover, gold held in this way is of no present use to the monetary authorities of the countries where it is held. Hoarders who have already declined to turn in their gold to the authorities are unlikely to do so until monetary and economic stability is restored in their respective countries or until clear-cut and comprehensive plans for the restoration of such stability are being effectively carried out.

It is necessary also to keep in mind that only a portion of the reported holdings of gold and dollars is actually available for meeting balance of payment deficits. A large part represents legal currency reserves which foreign central banks are required to maintain under existing monetary legislation or customary practice. While the legal reserve requirements (where they have not already been suspended or substantially reduced) could of course be altered, it may be doubted whether in the present circumstances such a procedure would be conducive to restoration of confidence and to orderly reconstruction. Secondly, more than half of the 5 billion dollars of American balances and short term securities held by foreigners are owned privately, and their utilization therefore depends on the willingness of the foreign owners to repatriate these funds or on the ability of foreign governments to requisition them under their exchange control powers. In any event, a sizable part of the dollar funds of the foreign countries are working balances that have to be kept above a certain minimum in order to insure an uninterrupted flow of international trade. Owing to the rise in the American price level, these minimum working balances tend to be higher than before the war.

There are various reasons for the rapid exhaustion of some foreign countries' gold and dollars. In Latin America the flow of imports suddenly increased in 1946, partly because of a large backlog of demand for American consumption goods, partly as a result of high levels of employment and income, and partly because of loose handling of exchange controls. In Argentina the depletion of the gold and dollar reserves was largely due to the repatriation of the Argentine debt from the United States. There has been no over-all decline in Latin American exports.

The rapid rate of utilization of gold and dollar resources held by liberated Europe is the result of three factors: the post-war rise in American prices, a succession of natural disasters since the war, and the slowness of European recovery. The impact of the substantial rise in American prices has been particularly detrimental to Europe because the latter currently depends on imports of food and other essential products from America. Last year's crop failures in many Continental countries and the exceptionally severe winter, which not only delayed spring planting and adversely affected this year's agricultural output but also interrupted the regular supply of coal and retarded industrial production, aggravated Europe's balance

of payments position by increasing the import requirements and by retarding exports. But the crucial problem is the slowness with which Europe is achieving the degree of recovery which would enable it to increase the domestic production of goods that now have to be imported, as well as of export goods the sale of which would contribute to the payment of essential imports.

GROSS NATIONAL PRODUCT REACHES NEW PEAK

In his Midyear Economic Report transmitted to the Congress on July 21, the President estimated that during the first half of the current year the value of this country's output of goods and services had exceeded the wartime peak reached two years earlier. It appears that the expansion of the physical volume of production, which began after the reconversion decline had reached its lowest point during the first quarter of 1946, has about reached the limits of available manpower and of other resources. In general, the small gains in value of total output registered during the last six months or so reflect price increases more than gains in physical volume. With unemployment at a level close to its irreducible minimum, any further increase in physical output would have to come mainly from increased productivity.

The discussion which follows is based on the revised estimates of national product and income of the Department of Commerce which have just been released. The new estimates of gross national product (the market value of all goods and services produced) include the imputed rental value of owner-occupied dwellings. This and other, less important, changes have resulted in an increase in the estimates of personal consumption expenditures, compared with the old estimates. The valuation of the government contribution to the gross national product (GNP) has undergone more radical changes, which have resulted in a considerable increase in the valuation of war expenditures, partly offset by a reduction in nonwar expenditures. The value placed on the services of members of the armed forces has been increased to include, in addition to pay, the value of food and clothing furnished and also payments to dependents. On the other hand, interest payments on the public debt, previously included with nonwar expenditures, are now considered to be transfer payments and not part of GNP. The net result of these and of other less sweeping changes in concepts and of numerous statistical revisions was to increase GNP particularly during the war years (by nearly 7 per cent in 1944 and 1945).

The current revisions considerably increase the usefulness of the official national product and income statistics, which have become an indispensable tool in much business planning. Moreover, the new concepts adopted will make these estimates more easily comparable with those of other countries, in particular Great Britain and Canada.

A large part of the 167 per cent by which the value of gross national product during the first half of 1947 exceeds the 1935-39 average represents price increases. Indexes of physical production, however, show considerable increases over the same base period. During the first half of this year industrial production fluctuated around a level 87 per cent above the 1935-39 average, whereas farm marketings were nearly 60 per cent larger.

While during the first half of 1947 gross national product, estimated at a seasonally adjusted annual rate of 225 billion dollars, exceeded the wartime peak reached in the first quarter of 1945, its composition has changed in a way which indicates the full extent of the reconversion of our economy from total war effort to high levels of peacetime output. Whereas during the first quarter of 1945 goods and services available to consumers amounted to only little more than half of the total gross national product, during the first half of 1947 they amounted to over two thirds. Conversely, Federal Government expenditures for goods and services declined during the same period to less than one fifth of their peak volume. During the first half of this year the total government (including State and local) share declined to an annual rate of 27.5 billion compared with a peak rate of 100 billion dollars (first quarter of 1945). Most of this decline was achieved in the short period of a year.

Investment and consumers' expenditures have each absorbed about half of the resources set free by the reduction in Federal (mainly war) expenditures since the first quarter of 1945. The gradual but continuous expansion of the outlay of individual consumers for goods and services to a level more than one-third above the first quarter of 1945 has been justly regarded as one of the major factors which made the transition from war to a fully employed peacetime economy unexpectedly smooth and successful. Many reasons have been cited to explain this achievement, including the rapid rate of demobilization, the considerable backlogs of demand for various types of goods, and large purchases by veterans.

The other important factor which has been contributing to the maintenance of a high level of production and employment has been the rapid expansion of both domestic and foreign investment. During the first quarter of 1945 we were still, on balance, drawing on our inventories and receiving more goods and services from abroad than we were able to supply to the rest of the world on a commercial basis (i.e., excluding lend-lease). New private construction was still close to the lowest level reached during the preceding two years. Expenditures for producers' equipment were the only form of private investment that had been growing, after having reached a low point at the beginning of 1943. Total investment (domestic and foreign) during the first quarter of 1945 still amounted to less than two per cent of total gross national output. During the first half of 1947, however, close

Main Components of Gross National Product
(Seasonally adjusted annual rates, in billions of dollars)

	First quarter		First half
	1945	1946	1947
Personal consumption expenditures.....	118.2	134.3	158.0
Gross private domestic investment.....	5.5	18.6	29.5
<i>New construction.....</i>	<i>2.4</i>	<i>7.2</i>	<i>9.8</i>
<i>Producers' durable equipment.....</i>	<i>5.9</i>	<i>9.1</i>	<i>17.0</i>
<i>Changes in business inventories.....</i>	<i>- 2.8</i>	<i>2.3</i>	<i>2.7</i>
Net foreign investment.....	- 2.0	3.3	10.0
Government purchases of goods and services.....	100.0	35.4	27.5
Gross national product.....	221.8	191.7	225.0

Details do not necessarily add to totals because of rounding. Disinvestment is indicated by negative signs.

Source: U. S. Department of Commerce for 1945 and 1946; *Midyear Economic Report of the President* for 1947 (preliminary).

to one fifth of our resources were directed toward various forms of investment, including net exports of goods and services.

The various types of investment expenditures are the critical factors responsible for the present high level of economic activity, since they support activities that produce goods and services which are not consumed immediately (at least not in this country). Income payments to all individuals engaged in the production of such goods are available for expenditure in other segments of the national economy and thus increase the demand for consumers' goods and services. Businessmen, economic analysts, and Government officials have come to pay particular attention to relative changes in these sustaining factors, since it is generally believed that a decline in aggregate expenditures for these categories would be followed by an even sharper drop in total gross national product because of the accompanying effect on consumer incomes and the demand for consumers' goods and services.

Changes in the individual components of investment (seasonally adjusted annual rates) between the first quarter of 1945 and the first half of this year are summarized in the table above. The table also includes the first quarter of 1946, in which quarter GNP reached its reconversion low point. From the first quarter of 1945 to the first half of 1947 total capital formation (domestic and foreign) increased from 3.5 to 39.5 billion dollars. Increases in investment in producers' durable equipment and in net exports of goods and services account for more than 10 billion dollars each; construction, including residential construction, and increases in business inventories also accounted for sizable amounts. The expansion in these last two categories, however, took place mainly during the first year and a half following V-E Day. The share of construction and of additions to inventories in total investment has been decreasing since the fourth quarter of 1946. Net foreign investment, accruing as the balance from "current account" transactions with foreign countries, has increased rapidly since the third quarter of 1945, as unilateral Government transfers (such as lend-lease and UNRRA) were replaced by commercial exports. During the first half

of 1947 our net foreign investment ran at the annual rate of 10 billion dollars, nearly double the rate achieved in the preceding quarter, while the rate of gross private domestic investment showed a small decline. This drop was due entirely to a considerable slackening in the rate of inventory accumulation. All other major components of domestic investment continued to expand during the first half of this year.

The question is frequently asked whether the present high level of private investment can be maintained in the immediate future. In a dynamic economy it is not likely that the current *pattern* of investment will be maintained for any length of time. Some of its components are likely to decline, others to increase. The crucial point is whether total investment, domestic and foreign, will add up to a total sufficiently large to support the present high level of consumers' expenditures and of total gross national product.

Among the components of private capital formation, inventory accumulation may soon cease altogether to absorb additional resources; but it has played only a relatively minor role in the last few months. According to Department of Commerce estimates, inventories remained practically unchanged during May (the latest month for which data are available), thus halting the expansion which had started after V-J Day. There are few signs to indicate that producers' expenditures for business equipment are likely to decline materially from present high levels in the near future, although a shift in their distribution among the various industries may be expected. The joint estimates of the Department of Commerce and of the S.E.C. place anticipated expenditures for new plant and equipment by all industrial groups for the third quarter of the current year at 3.8 billion dollars, an amount greater than the anticipated expenditures for the second quarter and 0.6 billion more than was actually spent during the first quarter.

The greatest potential expansion in private investment is in the field of residential and commercial construction. Because of high costs construction activity has leveled off, although demand for all types of building has never been more pressing. As the physical limitations which have interfered with efficient building operations during the first post-war years are now for the most part overcome, any considerable increase in construction activity hinges on a downward adjustment of costs. Building materials are increasingly becoming available to start the long delayed school, hospital, and public road construction programs and to reduce the considerable backlog of deferred maintenance, and any decline in private construction may be at least partly offset by an increase in Government construction. The large volume of State and municipal issues which was earmarked during the first half of 1947 for housing, highway, and irrigation projects points in this direction.

The greatest uncertainty which exists with respect to the

trend of investment lies in the size of our net export surplus, which normally represents only a minor component of total investment. In view of the desperate need for food and industrial goods in many parts of the world, a drastic drop in our net export balance would have serious implications concerning economic and political conditions in many countries. The critical problem is how continued net exports close to their present size can be financed. Nevertheless, it is likely that in the immediate future net exports at high levels will be supported by a combination of several sources of financing.

DEPARTMENT STORE TRADE

The dollar volume of department store sales in the Second Federal Reserve District during July is estimated to have been 10 per cent larger than during the same month of last year, causing the seasonally adjusted index of sales to rise for the fifth consecutive month. Again clearances of seasonal merchandise were an important factor causing sales to rise. In addition merchants have resumed the prewar practice of promoting furniture sales in midsummer.

The pressure of the high cost of living has caused consumers increasingly to patronize basement stores. The charts shown below present a comparison of basement store sales with those in comparable main store departments for the period 1940 to date.¹ During the first year of the war, basement store sales as a whole increased more rapidly than main store sales, but in 1943 they declined while main store sales continued to increase. Basement stores were particularly affected in 1943

¹ Indexes of department store sales and stocks for departmental groups in the basement, monthly from 1940 to date, together with supplemental tabulations of: (1) annual rate of stock turnover; (2) annual receipts of merchandise; (3) distribution by departmental groups of sales and stocks; and (4) estimated dollar volume of sales and stocks in the base period may be obtained upon request from the Research Department, Federal Reserve Bank of New York.

Department Store Sales and Stocks for Departmental Groups in Main Store and in Basement, Second Federal Reserve District*

Departmental group†	Percentage distribution of 1946 sales#		Percentage change, 1946-47		Ratio of June stocks to sales‡		
	Main store	Basement	June sales	June 30 stocks	1941	1946	1947
Total	100.0	100.0	+ 2	+ 7	3.0	2.5	2.5
Main store.....			+16	- 6	2.1	2.2	1.8
Basement.....							
Women's coats and suits	6.1	9.4	+ 5	-32	4.8	4.2	2.7
Main store.....			+11	-40	2.7	2.9	1.6
Basement.....							
Women's dresses	5.6	9.1	- 6	- 7	0.9	1.0	1.0
Main store.....			+10	+ 1	0.6	0.8	0.8
Basement.....							
Other women's wear	9.5	17.8	- 2	-25	1.7	2.4	1.8
Main store.....			+ 1	-16	1.5	2.4	2.0
Basement.....							
Women's accessories	13.6	17.6	- 1	-12	2.3	2.0	1.9
Main store.....			+ 6	-12	1.6	1.8	1.5
Basement.....							
Men's wear	9.0	14.5	+10	+34	3.2	1.9	2.3
Main store.....			+47	- 3	2.2	2.3	1.5
Basement.....							
Men's and women's shoes	3.6	7.2	+ 2	+38	3.7	2.1	2.9
Main store.....			+25	+15	2.4	2.7	2.5
Basement.....							
Blankets, linens, sheets, towels	5.2	7.0	+ 7	+32	3.8	2.3	2.9
Main store.....			+25	+15	2.8	2.6	2.4
Basement.....							
Home furnishings	25.2	13.2	+ 5	+24	3.9	2.9	3.4
Main store.....			+ 8	+ 1	2.8	2.7	2.6
Basement.....							

* June 1947 preliminary.

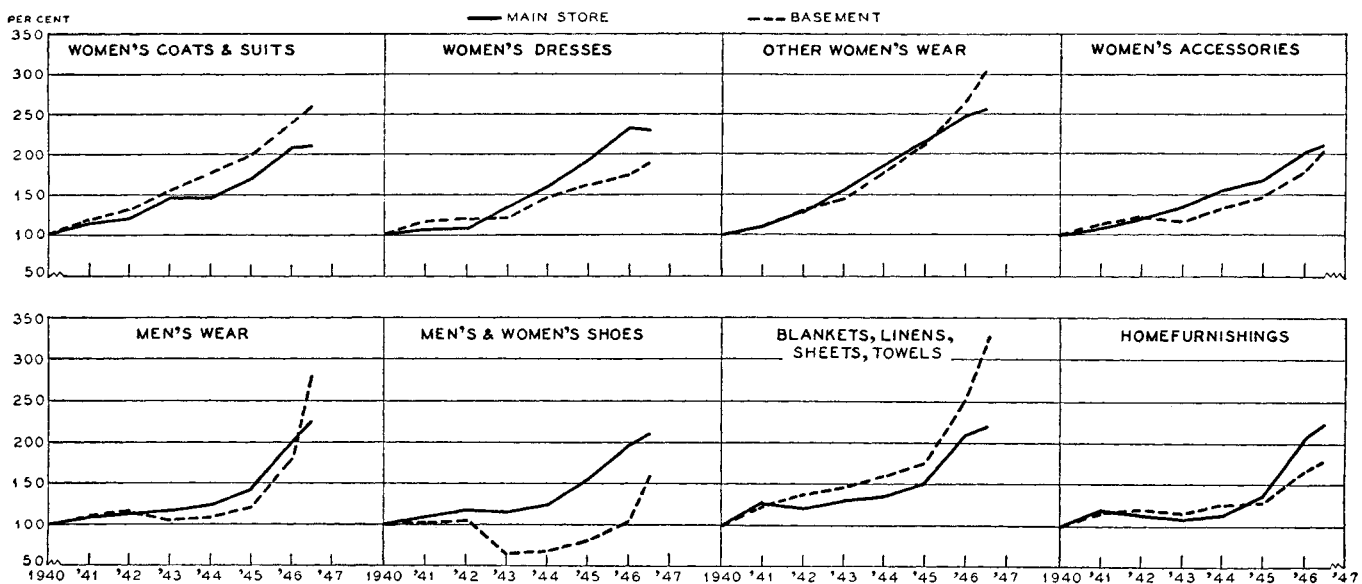
† Data for women's apparel include misses' and juniors'; men's wear includes boys'.

Fiscal year ended January 31, 1947. Total main store and basement figures include departments not shown separately.

‡ Number of months' supply at the June rate of sales.

by rationing and the growth of the armed forces, since a larger proportion of their total receipts than in the case of main stores is derived from the sale of shoes and men's clothing. Moreover, main store sales were less affected by these factors because good quality shoes were in greater demand than cheaper lines and because the decline in sales of civilian clothing in the main store was somewhat offset by sales of service uniforms and accessories.

Indexes of Department Store Sales for Departmental Groups in Main Store and in Basement, Second Federal Reserve District* (1940 averages=100 per cent)



* Figures for 1940-46 are fiscal years ending January 31 of the following year; for 1947, five months ended June 30. Data for women's apparel include misses' and juniors'; men's wear includes boys'.

The imposition of higher luxury taxes on April 1, 1944 stimulated main store sales of accessories and fur coats in the latter part of 1943, as customers bought ahead to "beat the tax". Consequently, in 1944 fur coat sales declined, offsetting a rise in sales of cloth coats and suits, whereas basement sales of coats and suits were little affected by the tax, and showed a sharp gain.

In 1944 and the first half of 1945, basement store sales as a whole increased at a slightly faster rate than main store sales, but thereafter, through the first half of 1946, the rate of increase of basement store sales again trailed the gains made by the main store. Price controls had increasingly caused materials and labor to be diverted into the production of higher priced goods with the result that many kinds of low cost, staple merchandise formerly sold in basement stores virtually disappeared from the market. The acute shortage of cotton textiles affected the basement store more than the upstairs store. Clothing, blankets, linens, sheets, and towels contribute more to total sales in the basement store, and more of the merchandise in these departments is made of cotton than in the upstairs store. Basement store departments of such cotton products as men's work clothes, housedresses, and uniforms are often not fully duplicated in the upstairs store.

By the fall of 1946 the period of most acute shortages was over. The dollar volume of merchandise receipts by the basement stores increased about 40 per cent during the last 6 months of 1946 compared with the corresponding 1945 period, although after allowance for price increases the gain

would be somewhat less. Also, most of the Government surplus goods sold by department stores was handled in the downstairs departments. After July 1, 1946, increased purchases of consumer durables and rising food prices left a smaller proportion of the consumers' incomes available for the purchase of clothing and shoes, and encouraged shopping for bargains. Consequently, in the second half of 1946 basement store sales began to rise more rapidly than main store sales, the margin of difference widening in 1947. In department stores that operate basement stores the proportion of basement store sales was 18 per cent of total sales for the first half of this year, compared with 16 per cent in the same period of 1946.

The seasonally adjusted index of department store stocks at the end of June was the lowest since October 1946 and the dollar value of stocks was only 8 per cent greater than a year earlier. Since department store prices have risen considerably more than 8 per cent in the past year, it is evident that either substantial mark-downs have been taken, or there have been shifts to lower priced lines, or the physical volume of stocks is below year-ago levels. Actually reductions in both price and volume have occurred in differing degrees in many individual departments, while in some other departments (e.g., major appliances), both price and quantity of stock on hand have increased. The June ratio of stocks to sales, at 2.4, was about the same as in 1946 and in 1941.

Outstanding orders of Second District stores rose about 30 per cent from May 31 to June 30. The major part of this increase was seasonal, but trade sources indicate that many orders normally placed in May had been held over until June in the hope of obtaining better values from suppliers.

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

Locality	Net sales		Stocks on hand June 30, 1947
	June 1947	Jan. through June 1947	
Department stores, Second District....	+ 5	+ 9	+ 8
New York City.....	+ 4	+ 8	+ 6
Northern New Jersey.....	- 1	+ 6	- 2
Newark.....	- 4	+ 4	- 2
Westchester County.....	+12	+11	+11
Fairfield County.....	+ 3	+10	+ 9
Bridgeport.....	+ 2	+10	+ 7
Lower Hudson River Valley.....	+12	+15	+15
Poughkeepsie.....	+11	+10	+13
Upper Hudson River Valley.....	+ 9	+11	+14
Albany.....	+ 6	+11	+15
Schenectady.....	+ 6	+ 9	+13
Central New York State.....	+ 9	+13	+14
Mohawk River Valley.....	+12	+10	+14
Utica.....	+14	+10	+ 6
Syracuse.....	+ 8	+15	+14
Northern New York State.....	+30	+21	—
Southern New York State.....	+ 3	+14	+28
Binghamton.....	+ 1	+ 9	+24
Elmira.....	+ 1	+14	+24
Western New York State.....	+10	+11	+20
Buffalo.....	+13	+10	+18
Niagara Falls.....	+ 3	+11	+ 9
Rochester.....	+ 5	+12	+24
Apparel stores (chiefly New York City).....	- 9	- 4	+ 3

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

Item	1946	1947		
	June	April	May	June
Sales (average daily), unadjusted.....	221	223	237	231
Sales (average daily), seasonally adjusted..	243	235	253	254
Stocks, unadjusted.....	192	233	224	206
Stocks, seasonally adjusted.....	199	230	221	215

Indexes of Business

Index	1946	1947		
	June	April	May	June
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	170	187 ^r	185	183 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	195 ^r	224	224	222 ^p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	195	197	201 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	239	274	274 ^p	
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	142	153	151	151 ^p
New York State, 1935-39 = 100..... (New York State Department of Labor)	125	130	127	125 ^p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	263	311 ^r	312 ^p	
New York State, 1935-39 = 100..... (New York State Department of Labor)	249	271	269	270 ^p
Income payments*, 1935-39 = 100..... (Department of Commerce)	241	263	265 ^p	
Composite index of wages and salaries*# 1939 = 100..... (Federal Reserve Bank of New York)	160	171	173 ^p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	133	156	156	157 ^p
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	86	82	80	88
Outside New York City.....	75	88	88	88

* Adjusted for seasonal variation.

^p Preliminary.

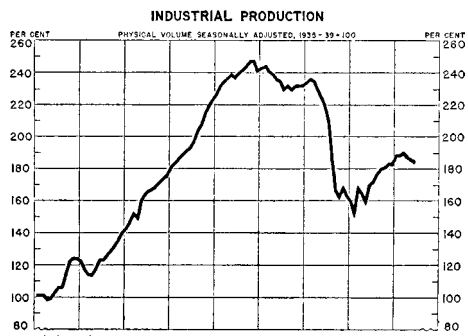
^r Revised.

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.

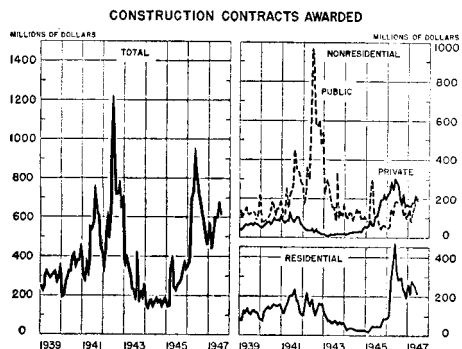
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, AUGUST 1947

National Summary of Business Conditions

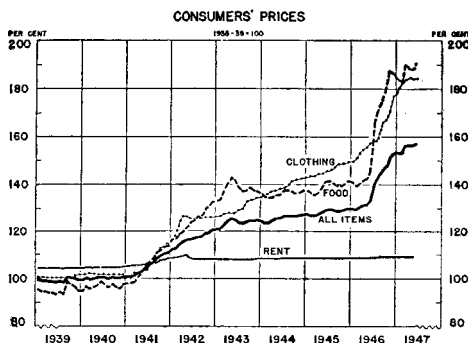
(Summarized by the Board of Governors of the Federal Reserve System, July 30, 1947)



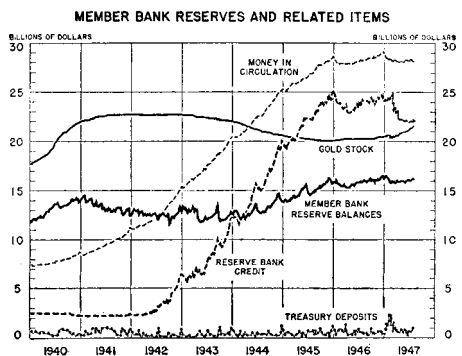
Federal Reserve index. Monthly figures; latest figure shown is for June.



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 June.



Bureau of Labor Statistics' indexes. "All items" includes housefurnishings, fuel, and miscellaneous groups not shown separately. Midmonth figures; latest shown are for June.



Wednesday figures; latest shown are for July 23.

INDUSTRIAL production declined somewhat further in June and the early part of July. Value of retail trade continued to show little change, after allowance for seasonal changes. Prices of commodities traded in the organized markets generally advanced and prices of coal and iron and steel were increased.

INDUSTRIAL PRODUCTION

Total output of manufactures and minerals, as measured by the Board's seasonally adjusted index, which reached a postwar peak of 190 per cent of the 1935-39 average in March, had declined to 183 by June and a further reduction is indicated in July.

Durable goods production continued to decline slightly in June, reflecting mainly further small reductions in demand for various metals and metal products and building materials. Automobile passenger car production, however, which has been limited by the available supply of steel sheets, increased in June. In July the rate of automobile production was reduced again, reflecting partly a temporary curtailment in supplies of steel. Production of steel was curtailed in the early part of July as a result partly of uncertainties surrounding the signing of a new wage contract in the bituminous coal industry, but at the end of July steel operations again were scheduled at a rate of 94 per cent of capacity.

Contraction in nondurable goods production continued in June, reflecting chiefly earlier declines in domestic demands for these goods as well as some slackening in export demands. Further reductions in output in the textile industry accounted for most of the decline in June, but there were also decreases in activity in most other nondurable goods lines except meat-packing, petroleum refining, and newsprint consumption.

Production of minerals decreased somewhat in June as a decline in production of bituminous coal more than offset gains in output of anthracite and crude petroleum.

EMPLOYMENT

Employment in most types of nonagricultural establishments continued to show little change in June, after allowance for seasonal changes. Further reductions in employment in the textile and rubber industries were offset by increased employment in automobile plants and in some nonmanufacturing lines.

CONSTRUCTION

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined 10 per cent from May to June, reflecting chiefly a further decrease in awards for most types of private construction. Awards for public construction, following increases in earlier months of the year, showed little change. New dwelling units started, according to preliminary estimates of the Bureau of Labor Statistics, continued to increase in June and amounted to 75,000 units as compared with 65,000 in June 1946.

DISTRIBUTION

Department store sales in June and the first three weeks of July showed about the usual seasonal decline and were 6 per cent greater than in the same period last year. The Board's seasonally adjusted index of sales was about 290 per cent of the 1935-39 average in May and June as compared with 270 during the first four months of the year. Value of sales at most other retail stores, after allowance for seasonal changes, has been slightly lower in recent months than during the first quarter of the year.

Despite a marked expansion in grain shipments in June and the early part of July, total loadings of railroad revenue freight declined considerably, reflecting the temporary curtailment in coal shipments in this period and a further decline in shipments of manufactured goods.

COMMODITY PRICES

Prices of commodities traded in the organized markets generally advanced somewhat in June and the early part of July. Prices of coal, pig iron, and various steel products were also increased in this period. Wholesale prices of chemicals and some other products were reduced. Toward the end of the month prices of wheat and cotton declined considerably.

Retail prices of foods increased somewhat in June and the consumers' price index of the Bureau of Labor Statistics, at 157 per cent of the 1935-39 average, was slightly above the March peak.

TREASURY FINANCE AND BANK CREDIT

On July 2, the Federal Open Market Committee of the Federal Reserve System directed the Federal Reserve Banks to terminate the policy of buying all bills offered at the fixed rate of $\frac{3}{8}$ per cent and to terminate the repurchase option privilege on Treasury bills; the new policy applied to bills issued on or after July 10. The average rates bid on the weekly bill offerings rose to .74 per cent for the issue of July 24.

Additions to monetary gold stock during June and the first three weeks of July, together with a return flow of currency from circulation during July following a seasonal increase prior to July 4, resulted in a growth in member bank reserve balances. Required reserves increased, reflecting a further growth in deposits at member banks.

Commercial and industrial loans at banks in leading cities outside New York increased somewhat between early June and mid-July, following a decline which had been in progress since early April. Real estate and consumer loans continued to increase. Government security holdings at banks in leading cities increased by over 600 million dollars between June 4 and July 16 with most of the additions at New York City banks.