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MONEY MARKET IN AUGUST

The process of restoring greater flexibility to the interest rate structure was carried forward during the past month with the announcement on August 18 of the terms of the Treasury's refinancing of certificates and notes maturing on September 1 and 15, respectively. At the same time, and supplementing action with respect to short term rates, the Treasury announced that it would offer a 2½ per cent nonmarketable bond late in September to institutional investors and commercial banks holding savings deposits, in accordance with its policy of meeting the investment requirements of various types of investors. The terms and subscription limits of this issue have not yet been announced.

In exchange for the certificates which will mature on September 1, amounting to 2,341 million dollars, the Treasury offered a like amount of certificates maturing in ten months and bearing a ⅞ per cent coupon. This exchange, like the 11-month certificate issue on the first of August, had the effect of reducing the number of certificate maturities; and, more important, it marked a change from the wartime pattern of interest rates. Holders of the maturing 1¼ and 1½ per cent notes outstanding in the amounts of 1,687 and 2,707 million dollars, respectively, are to be offered early in September a new issue of 12½-month, 1 per cent notes. This offering also has the effect of concentrating maturities on a date following a quarterly period of heavy tax collections.

Another indication of the tendency toward a gradual firming of short term interest rates appeared early in the month when several large New York City banks raised their rate on loans to brokers and dealers secured by short term Treasury obligations from ⅞ to 1 per cent. One bank also lifted its rates on dealer loans backed by long term Government securities from 1 to 1¼ per cent and on loans secured by other long term issues from 1¼ to 1½ per cent. In the latter part of August, furthermore, several metropolitan banks also raised rates on bankers acceptances by ⅛ to ¼ per cent for short and long term bills.

Despite the somewhat higher rates (relative to maturities) offered by the Treasury in its September refunding program, there were indications of disappointment on the part of some banks and other holders of maturing notes who had hoped for a refunding issue of longer maturity and bearing a coupon rate more nearly approaching the 1¼ and 1½ per cent coupons on the maturing notes. After the announcement, yields on the maturing issues, which had fallen as low as 0.25 per cent, rose to about 0.60 per cent. Demand for these issues slackened considerably, and offerings increased as some banks undertook to replace their holdings by market purchases of the intermediate and longest maturities of Treasury bonds in order to prevent a fall in their earnings. As a result, prices of unrestricted bonds rose—a few issues to new high levels since the late summer of 1946.

Market interest in both unrestricted and restricted bonds had previously been stimulated as a result of the announcement around the middle of August that sales of Treasury bonds for Government investment accounts during July had reached the substantial total of 609 million dollars. The fact that the market had been able to absorb such a large volume of selling with little or no price changes (or even some price firmness) was interpreted as an indication of the underlying strength of the demand for the longer term Government bonds. In the three weeks ended August 21, prices of intermediate and long term taxable issues eligible for bank investment rose by about ¼ to nearly ¾ of a point for various maturities. Advances in quotations of the restricted issues were also fairly sizable and amounted to about ⅜ of a point for the Victory Loan 2½'s. During the remainder of the month prices of both groups of bonds leveled off. While the scheduled offering of a nonmarketable 2½ per cent bond apparently had little immediate effect on the demand for long term marketable issues, it is quite likely to moderate the demand for such bonds and to ease the upward pressure on their prices, since it will provide a suitable outlet for funds available for long term investment at a satisfactory yield.

In the market for Treasury certificates, the shorter maturities continued to be in relatively better demand than the longer maturities. Purchases of short term certificates by commercial banks, however, were not so extensive as in the preceding month and were confined chiefly to the early part of August. Sales of the longer term certificate maturities again were fairly large, reflecting bank needs for reserves as well as portfolio adjustments. Some banks and other investors sold their "rights" to the new 10-month certificate and switched into the November and December 1 maturities, apparently in the hope that higher rates might be offered on future refunding issues. As a result of these shifts, the Federal Reserve System sold moderate amounts of the shorter maturities early in August and made fairly substantial purchases of long-dated certificates throughout the month.

Member Bank Reserve Positions

Member bank reserve positions were relatively easy in the early part of August and again toward the close, but were subject to substantial drains in the intervening period. Treasury receipts and expenditures were approximately in balance in the week ended August 6, and needs for reserve funds arising from a moderate increase in currency in circulation and in required reserves were just about balanced by gains from payments out of foreign accounts with the Federal Reserve System and a small rise in Federal Reserve float. Bill holdings of the Reserve Banks declined sharply as New York City and other banks increased their holdings, either through repurchases of "old" bills from the Reserve Banks, or through purchases of the new issue directly from the Treasury, but certificate holdings were increased by net purchases in the market; on balance, total Government securities held by the Reserve System declined 143 million dollars during the week.

Money market conditions tightened considerably in the next two weeks (ended August 20). Treasury receipts were augmented by heavy quarterly collections of social security taxes and of withheld income taxes. Although Great Britain withdrew another 150 million dollars from its credit in this period, disbursements were far below revenues, and Government deposits with the Federal Reserve Banks consequently rose 537 million dollars to 1,265 million dollars on August 20. Gains of funds from other transactions failed by a wide margin to make good the drain on bank reserves from Treasury operations, so that the banks were compelled to make substantial sales of short term Treasury securities directly and indirectly to the Reserve System and to increase their borrowings.

During the week ended August 27, the Treasury drew down its balances with the Reserve Banks by 350 million dollars, as receipts declined and disbursements rose, chiefly as a result of transfers to British account of 300 million dollars. Thus, a substantial part of the net excess of Treasury expenditures reached the market indirectly in the form of payments from foreign deposits in the Federal Reserve Banks. Although other transactions absorbed a moderate amount of reserve funds, the money market turned slightly easier. Member banks utilized part of their added reserve funds to reduce their indebtedness to the Reserve Banks.

Reserve positions of the banks in New York City during most of the month were subject not only to a drain caused by net Treasury receipts, but also to pressure resulting from substantial transfers of business funds to other parts of the country and from net currency payments to the public. The pressure was much lighter in the two weeks ended August 27 than in the preceding weeks, because of a smaller excess of Treasury receipts and a smaller outflow of funds to other areas. In order to meet the drain on their reserve funds, the metropolitan banks borrowed from the Federal Reserve Bank from time to time and sold short term Treasury securities in the open market, part of which were absorbed by the Federal Reserve System.

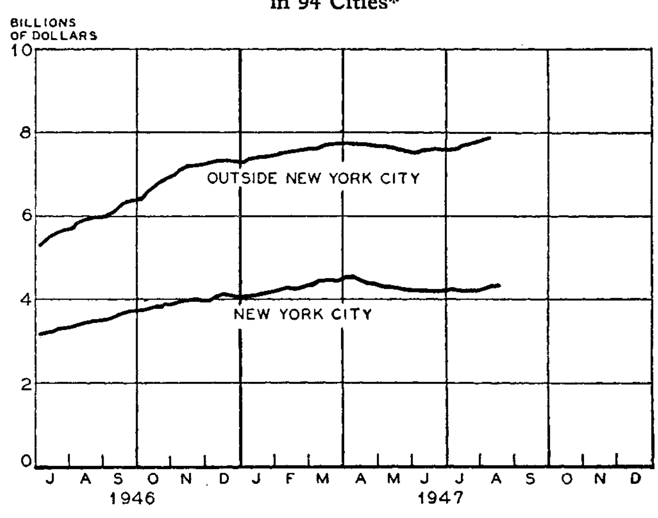
Member Bank Credit

Most of the change in total earning assets of the weekly reporting member banks in August occurred among banks outside New York, where both loans and investments rose somewhat. In New York City an expansion of bank loans was more than offset by a decline in Government security holdings, so that total loans and investments declined moderately.

In the loan category, the largest expansion came in commercial, industrial, and agricultural loans, in accordance with the usual seasonal pattern. But, as illustrated in the chart, the volume of business borrowing, after reaching a peak early last April and receding during the spring, has shown only a moderate increase in recent weeks. The growth in "commercial" loans early this year was considerably greater than in the corresponding period in 1946, but subsequently has been considerably less rapid than last year, both at New York City and out-of-town banks. The change may be related to the slower rate of inventory accumulation in recent months. Loans extended by reporting institutions in other parts of the country have continued to increase more rapidly than at New York, however, reaching a new high level in August, while business credits extended by the metropolitan banks have yet to reach their April 1947 peak.

Compared with a year ago, there has been a substantial decline in total member bank credit. Total loans and invest-

Commercial Loans of Weekly Reporting Member Banks in 94 Cities*



* Latest figure for New York City is for August 20; for outside New York City, August 13.

ments of reporting banks in 94 leading centers declined 4.8 billion dollars between August 21, 1946 and August 20, 1947, or 7 per cent; the decrease in New York City came to 9 per cent, against 6 per cent for the out-of-town institutions. The reduction in earning assets has been entirely in Government security portfolios, which declined in approximately equal proportion in both groups of banks. The major difference between New York and other banks was the much more substantial increase in loans at the out-of-town banks than at the New York City banks—3,072 million dollars, compared with 390 million. Not only did commercial loans of the out-of-town banks expand more rapidly, but their real estate loans, loans to banks, and all other loans (chiefly consumer credit), in the aggregate showed much larger increases. Security loans, mainly those collateraled by Government obligations, fell sharply and in approximately the same proportion at both groups of institutions, although in dollar amount the decline was larger among the New York City institutions.

By and large the loss of earning assets has been limited almost entirely to loans and investments bearing the lowest yield—security loans and short term Treasury securities. The expansion in other loans, in Treasury bond holdings, and in other securities, all of which offer higher average yields, has helped materially in sustaining the current gross earnings of many banks, even though it may not have prevented a shrinkage in their total assets.

FOREIGN SPENDING AND THE NEW YORK MONEY MARKET

The New York money market has for many years played a preeminent part in financial settlements of the trade and other transactions of the United States with foreign countries. A large proportion of the nation's foreign trade is cleared through the port of New York, and the City is by far the leading international banking and financial center of the country. Most payments arising from international transactions of this country are made through New York's banks, which play an important role in financing American foreign trade. Many foreign governments and central banks maintain accounts with the Federal Reserve Bank of New York and in many cases with New York commercial banking institutions (including agencies and branch offices of foreign banks) as well.

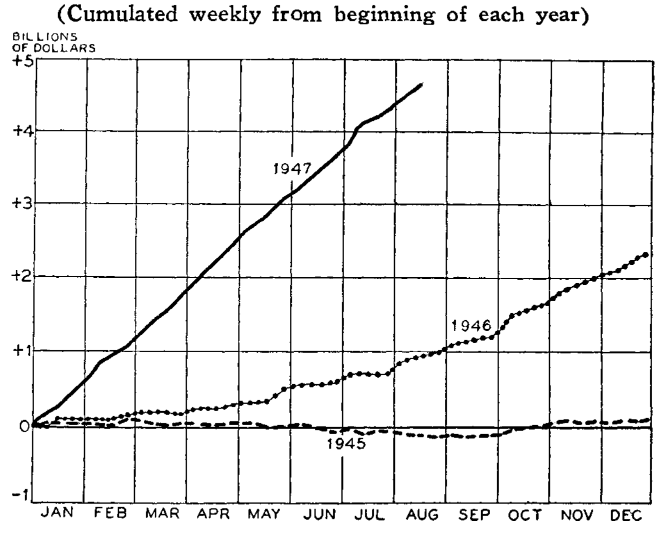
Reserve positions of the large City banks are therefore more immediately affected by changes in the country's balance of payments than are those of banks elsewhere in the United States, since they bear the initial impact of a net excess of exports of goods and services over imports (or of imports over exports). This concentration of payments of international transactions through the New York money market was increased beginning in the thirties, when the imposition of foreign exchange restrictions in more and more countries resulted, in effect, in the settling of a large part of the international balance of payments of the United States through the accounts of foreign governments and central banks with the Federal Reserve Bank of New York.

Thus, to a very large extent the international payments and receipts of the United States are reflected in the flow of funds through such accounts. This flow of funds has increased greatly since the end of the war, for two reasons. The first was the termination of lend-lease shipments and the substitution of cash settlements for most of this country's net export balance. The second has been the very marked expansion of exports reflecting accelerated demand for American food, raw materials, and manufactures, the slowness of economic recovery in the war-ravaged areas of Europe and the Far East, and the sharp increase in the United States price level since June 1946.

The accelerated rate of foreign purchasing in the United States has been accompanied by a sharp increase this year in payments of funds out of the foreign official accounts with the Federal Reserve Bank of New York. Such disbursements approached 5 billion dollars in the first eight months of 1947, compared with less than 2½ billion dollars in the whole of 1946 and a net amount of only 100 million dollars in 1945, as illustrated in the accompanying chart. Since the disbursements thus made for the acquisition of goods and services in this country have taken the form of transfers to business or banking accounts held by New York commercial banks, they have in the first instance been a substantial—in fact the largest and most continuous—source of reserve funds for the New York banks as a group during the last 17 or 18 months. However, since the goods shipped abroad originate in all parts of the United States, a large part of these funds tend to flow out of New York and are thus redistributed throughout the country.

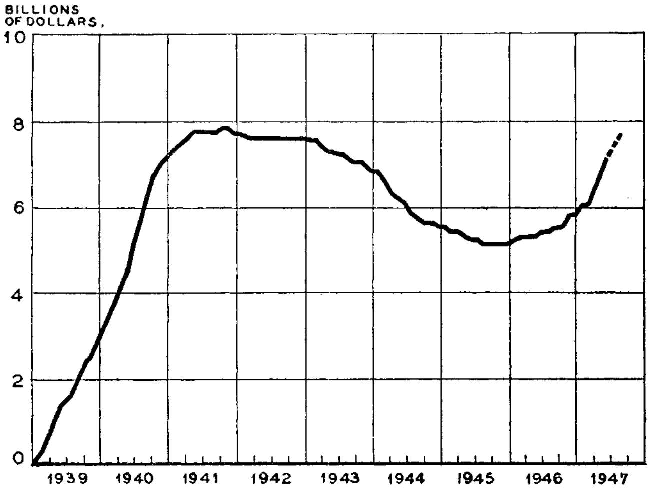
A major portion of the funds disbursed so far this year out of foreign accounts in the Reserve Bank has been obtained from the United States Treasury, directly or indirectly, in the form of loans to Great Britain, France, and other countries

Net Disbursements from Foreign Deposit Accounts with the Federal Reserve Bank of New York, 1945-47*
(Cumulated weekly from beginning of each year)



* Excess of disbursements to the New York money market over receipts from the market. Disbursements of funds by foreign central banks and governments include funds borrowed from the U. S. Government and the World Bank and Fund as well as their own dollar resources and the proceeds of sales of gold.

Cumulated Net Gold Imports and Net Releases from Earmarked Stocks, 1939-47*
(Cumulated monthly from January 1, 1939)



* Decline denotes net export or increase in earmarked gold. July and August 1947 estimated.

(including loans of the Export-Import Bank).[1] Drawings on the British credit alone amounted to 2¾ billion dollars during the first 8 months of 1947, while funds actually made available to foreign countries by the Export-Import Bank this year amounted to more than 600 million dollars up to July 15. In addition, the World Bank and Fund have made smaller advances to foreign countries. The spending of these borrowed funds, however, does not tend to increase the reserves of the banking system as a whole, since it involves essentially a transfer of funds from taxpayers and investors to producers and distributors.

Foreign central banks and governments have also met their purchase commitments in the United States to a substantial extent by drawing upon their own reserves of gold and dollar assets. From the beginning of 1947 through the third week of August, they sold gold shipped from abroad or released from their gold stocks held under earmark in this bank in the amount of about 1.7 billion dollars,[2] and reduced their dollar balances with the Reserve Bank slightly. The net gain of gold by the United States from these sources compares with a gain of less than 800 million dollars in the whole of 1946. As the accompanying chart shows, the postwar additions (up to August 20 of this year) to the United States monetary gold stock from net gold imports and releases from earmark fell only 200 million dollars short of the reduction in the gold stock caused during the war by net exports and transfers to earmark.

[1] Not all the funds made available to foreign central banks and governments, however, are disbursed directly in New York; some portion, such as dollars used to maintain sterling convertibility, reaches the New York money market indirectly through accounts of third countries. Some funds are deposited directly with New York commercial banks, by-passing the Federal Reserve Bank.

[2] The United States gold stock does not show a corresponding increase because of the reduction resulting from the 688 million dollar gold payment against this country's quota in the International Monetary Fund.

Foreigners' sales of gold to the Treasury and the use of previously accumulated dollar balances to meet payments due in this country have had the effect of increasing reserves of member banks. Although the initial impact has been on the reserves of the New York banks, the funds have been distributed rapidly throughout the country. These payments have considerably eased the pressure on bank reserves by offsetting in large measure the recurrent losses of funds caused by Treasury net cash receipts and by redemptions of Government securities held by the Federal Reserve System. Had it not been for the retirement of Federal Reserve credit (in the form of decreased Reserve Bank security holdings), the additions to bank reserves resulting from these disbursements of foreign funds would have provided the base for a considerable further expansion of member bank credit, and would have tended to exert downward pressure on interest rates.

EARNINGS AND EXPENSES OF SECOND DISTRICT MEMBER BANKS

Net profits of the 37 central reserve New York City banks were about one-quarter less during the first six months of 1947 than during the similar 1946 period, and only slightly more than half the peak semiannual profits attained during the final half of 1945. Data for a number of the larger member banks in other principal cities and for a sample of the small banks in the Second District, shown in the accompanying table, indicate a decline in net profits of two fifths from a year ago for the large banks and one fifth for the small banks.

It does not necessarily follow, of course, that the results of member bank operations in the first half of the year are indicative of a continuing trend. In fact, there are reasons for believing that bank profits in the latter half of the year may compare more favorably with the corresponding period last year than did profits for the first half of 1947. Net profits of many banks were substantially lower in the second half of 1946 than in the first half, reflecting the combined effects of the retirement by the Treasury of a substantial volume of securities held by the banks, reduced opportunities for profit-taking on securities owing to less favorable market conditions, and rising costs of operation. The shrinkage in profits did not continue at the same rate in the first half of 1947, and seasonal expansion of loans in the latter half of the year should help to offset any further reduction in income from investments and higher operating costs. It is quite possible, therefore, that final results for the year will show smaller percentage reductions in bank profits, compared with 1946, than did the figures for the first half. Nevertheless, it seems clear that the peak of profits was reached in 1945 for New York City banks, and it is likely that the peak for other banks in this District will prove to have been reached in 1946.

In the case of the New York City banks, the decline in net profits in the first half of 1947 compared with last year arose partly from a reduction in net current operating income (a reflection of lower operating income and higher operating expense) and partly from smaller additions to operating income through profits on securities sold and net recoveries. A reduction in income tax liabilities approximated the drop in aggregate net recoveries and profits on securities sold. Consequently, net profits before dividends were down about 22 million dollars (25 per cent), or roughly the same amount as net current operating income before taxes. The heavier decline in net profits of the large banks outside New York City is explained by the exceptionally high level of profits at such banks in the first six months of 1946, and reflects mainly a sharper drop in aggregate profits on securities sold than in either the smaller banks or the large New York City banks. In all groups, rising salary and other costs of operation were a factor of some importance in the shrinkage in profits.

Gross operating income declined 3.0 per cent in the New York City banks, owing entirely to a reduction in income from Government securities, the effect of which was not fully offset by increased income from other sources, principally loans. The lower income from Government securities accompanied a somewhat greater percentage reduction in these banks' average holdings of such securities, as the reduction in holdings occurred in short term, low-yielding issues, reflecting largely the effects of the Treasury debt redemption program. Outside New York City both large and small banks continued to show moderate gains in gross income over the first half of 1946. In these banks, the drop in Government security income was less severe than in the case of the New York City banks and the rise in loan income was more pronounced, reflecting a much more substantial rise in commercial, industrial, and agricultural loans, in real estate loans, and in consumer loans. Furthermore, the rise in income from loans at the New York City banks was limited by substantial reductions in loans for purchasing and carrying securities. Among the other items of income, service charges on deposit accounts continued their upward trend in all groups of banks, the New York City banks showing the sharpest rise. Miscellaneous income was 20 per cent higher in the New York City banks, but the gains were concentrated in a few institutions and were occasioned mainly by larger foreign department and foreign branch income.

Total current operating expenses showed approximately the same percentage rise in all groups of banks and reflected primarily higher salary and wage payments and substantial increases in other current operating expenses. The higher payroll expenses resulted from a further rise both in the number of people employed and in rates of pay, while other expenses reflected rising costs entering into the physical operation of banking, such as increased payments for light, heat, and office supplies and equipment. Interest paid on time and savings deposits in the New York City banks showed a greater rise than the average volume of such deposits. This may be ascribed in part to a greater than average rise in small accounts which carry a higher interest rate, and in part to a firming in rates paid. Outside New York City the volume of such deposits and interest payments increased about equally.

Profits on securities sold were sharply lower than a year ago in all groups of Second District banks as the lower level of Government security prices and previous profit-taking limited the amount of potential profits that could be realized. Recoveries of previously charged-off assets also were generally lower and the New York City banks, in which a drop in real estate recoveries was especially heavy, recorded the largest decline. Losses and charge-offs declined to very low levels in all groups of banks, and taxes on net income also were generally lower. Reflecting the heavier drop in net profits before taxes, income tax liabilities were reduced most in the large banks outside New York City. Despite the reduction in profits, dividend payments continued the upward trend which began in 1944. However, all groups of banks retained substantial percentages of their net profits to strengthen their capital structure and thus to provide added protection to their depositors.

Earnings and Expenses of Second District Member Banks
First Six Months of 1947 Compared with First Six Months of 1946
(Dollar amounts in thousands)

Item	New York City banks			Banks located outside New York City					
	37 central reserve			21 large banks			30 small banks		
	1946	1947	Per cent change	1946	1947	Per cent change	1946	1947	Per cent change
Interest and dividends on securities	121,944	101,570	−16.7	14,263	12,518	−12.2	1,450	1,338	− 7.7
Earnings on loans	59,760	68,352	+14.4	6,447	9,308	+44.4	828	1,088	+31.4
Service charges on deposit accounts	4,164	5,029	+20.8	929	1,102	+18.6	173	197	+13.9
Trust department income	22,598	22,672	+ 0.3	1,352	1,308	− 3.3	25	26	+ 4.0
Other current income	20,260	24,270	+19.8	2,561	2,521	− 1.6	130	128	− 1.5
Total current operating earnings	228,726	221,893	− 3.0	25,552	26,757	+ 4.7	2,606	2,777	+ 6.6
Salaries and wages—officers and employees	66,550	76,830	+15.4	7,583	8,643	+14.0	668	753	+12.7
Interest on time and savings deposits	3,293	3,917	+18.9	2,782	3,022	+ 8.6	416	462	+11.1
All other current expenses	50,123	54,553	+ 8.8	7,175	7,933	+10.6	579	658	+13.6
Total current operating expenses	119,966	135,300	+12.8	17,540	19,598	+11.7	1,663	1,873	+12.6
Net current operating income, before income taxes	108,760	86,593	−20.4	8,012	7,159	−10.6	943	904	− 4.1
Profits on securities sold	26,665	12,648	−52.6	9,467	1,066	−88.7	429	145	−66.2
Recoveries	14,063	8,215	−41.6	3,628	2,463	−32.1	279	236	−15.4
Losses and charge-offs	15,975	12,003	−24.9	6,126	2,573	−58.0	274	193	−29.6
Taxes on net income	44,114	28,259	−36.0	4,540	2,196	−51.6	332	252	−24.1
Net profits	89,399	67,194	−24.8	10,441	5,919	−43.3	1,045	840	−19.6
Dividends paid	35,382	39,268	+11.0	2,413	2,491	+ 3.2	134	144	+ 7.5
Retained earnings	54,017	27,926	−48.3	8,028	3,428	−57.3	911	696	−23.6

But the amount of additions to undistributed profits was smaller than in the first half of 1946 by nearly one fourth in the small banks covered by the study, and by about one half or more in the New York City banks and other large banks of the District.

THE WORLD SUPPLY OF DOLLARS

In addition to the current extensive utilization of their gold and short term dollar assets, as discussed in the August *Monthly Review*,[1] many foreign countries are drawing on American official and private credit lines, as well as on such additional dollar funds as are being made available by the International Monetary Fund and the International Bank for Reconstruction and Development. In a few instances, foreign countries also are liquidating their holdings of American long term securities. The present article reviews the various sources from which dollars are currently being obtained by foreign countries and the rate at which they are being exhausted, with particular emphasis on aspects not dealt with in the previous survey.

The accompanying table, while not giving a complete picture, traces the most important present sources of dollars for foreign countries. In the first year after the end of the European war (July 1945—June 1946), foreign countries as a whole did not resort to sales of gold to replenish their dollar balances,[2] but in the following year the net gold inflow to the United States, including net releases from foreign earmarkings with the Federal Reserve Bank of New York, reached 2 billion dollars. The acceleration of the inflow in recent months has been very noticeable, foreign net sales of gold having increased from 106 million dollars in the third quarter of 1946 to 361 million in the fourth quarter of that year, 617 million in the first quarter of 1947, and 879 million in the second quarter of 1947. In July 1947, foreign countries lost an additional 246 million of gold to the United States.

Foreign Utilization of Gold, Dollar Assets, and United States Cash Credits*
(In millions of dollars; minus sign indicates a net accumulation of gold and dollar assets)

Quarter ended	Gold#	Reduction in foreign short term dollar balances†	Sales of long term American securities	Drawings on U. S. Government cash credits: Export-Import Bank‡	Drawings on U. S. Government cash credits: British credit	Increase in short term assets abroad reported by U. S. banks
September 1945	— 188	— 371	30	13	—	—105
December 1945	— 24	— 102	20	25	—	123
March 1946	269	46	154	136	—	39
June 1946	— 56	436	30	340	—	79
Total...	1	9	234	514	—	136
September 1946	106	— 19	137	249	400	105
December 1946	361	414	14	266	200	93
March 1947	617	461	50	267	500	90
June 1947	879*p*	248*p*	22*p*	242	950	135*p*
Total...	1,963*p*	1,104*p*	223*p*	1,024	2,050	423*p*
Grand total..	1,964*p*	1,113*p*	457*p*	1,538	2,050	559*p*
Mo. of July 1947	246*p*	n.a.	n.a.	— 1	700	n.a.
Mo. of Aug. 1947	n.a.	n.a.	n.a.	n.a.	600	n.a.

* Excluding war-settlement, lend-lease, and surplus-property arrangements, which have not given rise to dollar balances.
\# Net foreign exports to the U. S. plus decrease in foreign earmarkings at Federal Reserve Bank of New York.
† Official and private balances; balances held by the World Fund and Bank are excluded.
‡ Net disbursements (after repayments). In July 1947, repayments slightly exceeded disbursements.
p Preliminary.
n.a. Not available.
Source: Federal Reserve Bank of New York; Board of Governors of the Federa lReserve System; U. S. Department of Commerce; U. S. Treasury; and the Export-Import Bank.

Foreign official and private balances with the Federal Reserve Banks and with American commercial banks, after remaining practically unchanged on the whole during the first year after the end of the European war, declined by 1.1 billion dollars during the second year. The rate of foreign net drawings on these balances, which was 414 million dollars in the three months ended December 1946, reached 461 million dollars in the first quarter of 1947, but declined to 248 million in the second quarter.

With a view to increasing their dollar balances, some foreign countries are beginning or continuing to liquidate their holdings of American long term securities. Aggregate net sales, however, have so far been rather small, securities worth 234 million dollars (at market prices) having been sold in the first post-V-E Day year, and 223 million in the following year. These sales represent mainly the liquidation of British and Canadian holdings, and in recent months of Dutch and Latin American holdings also. The rate of liquidation may increase, however, since the Netherlands Government is promoting the voluntary liquidation of American securities by Dutch citizens, France has requisitioned American securities held by French citizens, and Sweden has recently taken a census of domestically held foreign securities.

The amount of dollars that foreign countries may be able to obtain by liquidating American long term securities can be estimated on the basis of the United States Treasury census of foreign-owned assets as of June 14, 1941, adjusting the figures for net purchases and sales since June 1941 and for changes in market prices. On June 14, 1941, the market value of foreign holdings of United States securities amounted to 2,700 million dollars, of which 1,843 million were common stock, 306 million preferred stock, 219 million corporate bonds, and the balance mainly United States Government, State, and municipal securities. At the present time the value of such holdings, after the adjustments mentioned above, is estimated at approximately 3,500 million dollars; the increase since 1941 is due entirely to the rise in market prices. Of the aggregate amount, Europe accounts for about 2,100 million and Canada for 600 million dollars, the rest being distributed throughout the world. Among the European countries, the United Kingdom holds more than 600 million dollars and Switzerland somewhat less than 600 million, the Netherlands over 400 million, and France about 250 million. In the face of the current large British, Canadian, French, and Dutch balance of payments deficits, the holdings of American securities are thus of limited importance. Their utilization, moreover, depends on the willingness of the foreign owners to repatriate the securities or the ability of the foreign governments to requisi-

[1] "World Distribution of Gold and Dollar Assets," *Monthly Review*, August 1947.

[2] Some countries found it necessary to sell gold in substantial amounts, but others were able to add further to their holdings in this period.

tion them under their exchange control powers. Part of the British-owned American securities are still pledged as collateral for the Reconstruction Finance Corporation loan granted in July 1941, of which 205 million dollars was outstanding as of March 1947.

Apart from utilizing their own gold and dollar resources, foreign countries have been obtaining dollars by drawing on American cash credits,[3] particularly the Export-Import Bank loans and the special British credit. As is indicated in the table, the dollars procured from United States Government cash credits amounted to only 514 million in the first post-V-E Day year, this total representing net drawings on the Export-Import Bank credits. In the second postwar year, more than 3 billion dollars was obtained by drawing on Government credits. The increase in the rate of utilization of the British 3,750 million dollar credit has been particularly rapid, the total used having increased from 600 million dollars at the end of 1946 to 3,350 million dollars at the end of August 1947. As to the Export-Import Bank loans, some 250 million dollars are currently being disbursed each quarter.[4] The Reconstruction Finance Corporation has made cash advances to the Philippine Government, of which 60 million dollars is outstanding at present.

Apart from the 400 million dollar balance of the British credit that is not to be drawn upon pending further British-American discussions, there were still available to foreign countries at the end of July 1947 some 944 million dollars of undisbursed Export-Import Bank commitments. Of these unutilized commitments, Europe still had 504 million dollars (of which France had 202 million, Italy 105 million, Norway 50 million, Finland 22 million, and the Netherlands 7 million), the rest being mainly assigned to Latin America (241 million) and Asia (179 million).

Besides the British credit and the Export-Import Bank loans, cash credits, mostly short term, have been extended to foreign countries by the Federal Reserve Banks (against gold collateral) and by American commercial banks. The total of such credits outstanding increased by 136 million dollars in the year ended June 1946 and by 423 million dollars in the following year.

"New money" issues of foreign securities marketed commercially in the United States since the war have been negligible, the most outstanding issues being those floated in April and May 1947 by the Norwegian and Dutch Governments, in the amounts of 10 and 20 million dollars, respectively. There have also been some refunding issues, especially on Canadian and Australian accounts.

The International Bank began lending operations last May with a 250 million dollar loan to France, and in August it loaned 195 million dollars to the Netherlands, 40 million dollars to Denmark, and 10 million dollars to Luxemburg. The commencement of activity by the International Monetary Fund also has made some dollar funds available, 25 million having been granted to France and 6 million to the Netherlands up to May 31, 1947, according to the Fund's first statement of operations.

To summarize, in contrast to the small net drain on the gold and dollar resources of foreign countries as a whole in the first postwar year, in the twelve months ended June 1947 the drawings on foreign gold and dollar assets amounted to 3.3 billion dollars, while the utilization of American cash credits, Government and private, was 3.5 billion dollars. There are several reasons for the rapid rise in the utilization of gold and dollar assets and available dollar credit lines. First, for a year or so following the end of the war in Europe foreign countries obtained American goods and services on deferred terms under war-settlement, lend-lease, and surplus-property arrangements, as well as from outright American grants and gifts, and consequently there was less urgent need for foreign countries in that period to draw heavily upon their gold and dollar assets. The earlier American credits and grants enabled foreign countries to conserve their gold and dollar resources temporarily, thus contributing greatly to the maintenance of international liquidity in the immediate postwar period. Second, goods became more plentiful as the process of reconversion in this country advanced, with the result that foreign countries' purchases in the United States increased. Third, the American price level rose considerably in the second postwar year, so that the available gold and dollar assets, as well as the proceeds of American cash credits, have been utilized much faster than had been expected after the end of the war. The rapid exhaustion in recent months of the British credit, which has been drawn upon at a rate greatly in excess of the normal flow of current transactions, has been due in part also to the gradual reestablishment of multilateral convertibility of current sterling—convertibility which had to be partly abandoned on August 20, 1947 as one of the emergency measures taken by the British Government to meet its present economic crisis.

At present foreign countries as a whole still possess some 17 billion dollars in gold and short term dollar assets and about 3.5 billion dollars' worth of American long term securities. There are also 400 million dollars still available from the United States Government credit to the United Kingdom, and (as of July 31, 1947) 944 million dollars of undisbursed commitments of the Export-Import Bank, and 807 million dollars of that bank's uncommitted resources. In addition, the World Fund and Bank may grant additional financial assistance abroad before the end of the year. There are, however, legal and practical limitations upon the rate of lending by the Fund and the Bank, as well as upon the purposes for which their facilities may be used. The Fund's maximum potential dollar aid (including aid already extended) is about 1 billion dollars during the first year of operations; none of it, however, is intended to be used for reconstruction or other purposes involving long term loans, according to the Fund's Articles of Agree-

[3] "Cash credits" exclude war-settlement, lend-lease, and surplus-property arrangements, which have not given rise to dollar balances.

[4] In July 1947, however, repayments exceeded disbursements by about 1 million dollars, mainly because France, whose drawings on her reconstruction credit had been averaging 60 million dollars a month, made no drawings in that month.

ment. The Bank can lend from its own capital only about 725 million dollars (representing the 20 per cent paid-in subscription of the United States plus the 2 per cent of other countries' subscriptions that was paid in dollars). Any additional dollar funds that the Bank makes available must first be raised by the sale of debentures on the United States investment market.

The effective utilization of the dollar resources on which foreign countries may still draw depends, moreover, not only on the aggregate size of such resources, but also on their distribution by countries, which is highly irregular. The countries that are in greatest need of American food, raw materials, and manufactures are in many instances not the countries that hold large gold and dollar assets or unutilized dollar credit lines. Furthermore, even countries that still have gold and dollar assets available cannot actually utilize the entirety of their resources, since a large part represents legal or traditional currency reserves and another sizable portion consists of working balances that have to be preserved in order to insure an uninterrupted flow of their foreign trade.

FARM LOANS BY MEMBER BANKS IN THE SECOND DISTRICT[1]

This bank has recently participated in a nationwide study of agricultural lending by banks. The survey of farm loans at member banks throughout the country was conducted by the Federal Reserve System, and at nonmember insured banks by the Federal Deposit Insurance Corporation.

The survey covered both "real estate loans secured by farm land" and "other loans to farmers." The reporting banks furnished data on each farm real estate loan outstanding on June 20, 1947, and one out of every five of their "other loans to farmers" outstanding on that date. Included in the reports on farm real estate loans were the original amount of the mortgage, date made, date due, appraised value of property, number of acres, type of farm, purpose of mortgage, amount outstanding on June 20, interest charged, and method of repayment. Information reported on "other loans to farmers" included the amount outstanding on June 20, date made, date due, interest rate, security pledged as collateral, purpose of loan, size of farm, type of farm, and net worth of borrower.

In this District 77 member banks participated in the survey; these banks accounted for 29 per cent of total farm real estate loans outstanding at all member banks in the District on June 30, 1947, and 40 per cent of the outstanding other loans to farmers. From the reports obtained from these banks, it is possible to estimate the number and amount of farm loans on the books of all member banks, and to analyze their characteristics. It is estimated that on June 20, 1947 all member banks in the Second District had on their books nearly 38,000 farm loans, other than real estate loans, amounting to nearly 39 million dollars, and more than 7,750 farm real estate loans amounting to nearly 25 million dollars. The fact that farm loans are so numerous in a period when farmers' incomes are at record levels, and their cash positions greatly strengthened, appears to be attributable in part to the ability of farmers to undertake commitments for the improvement of their equipment and expansion of their operations which they were unable to assume when their financial position was weaker. In part this lending results from purchases of farms by younger men who require financial assistance to establish themselves.

As shown in Table I, almost four fifths of the dollar amount and number of farm loans other than real estate loans outstanding on that date were made by banks with deposits of

[1] A second article giving more detailed results of the survey will appear in the October issue of this *Review*.

TABLE I
Loans to Farmers Other than Real Estate Loans, Outstanding on June 20, 1947 at All Member Banks in the Second District*, by Type of Farm and Size of Bank

Type of farm	Number of loans				Dollar amount of loans, in thousands			
		Banks with total deposits, in millions				Banks with total deposits, in millions		
	All member banks	Under $2	$2 to $10	Over $10	All member banks	Under $2	$2 to $10	Over $10
General	3,231	1,538	1,467	226	1,463	600	711	152
Dairy	29,741	7,491	15,170	7,081	30,170	6,757	16,595	6,819
Poultry and eggs	969	246	616	107	1,319	364	853	102
Livestock	137	24	52	60	215	17	108	90
Fruit	947	173	537	238	1,240	406	616	217
Truck (includes nursery products)	1,093	603	288	202	2,033	1,029	166	838
Field crops	140	12	105	24	76	10	57	10
Potatoes	536	148	341	48	1,386	306	1,059	21
Part-time	335	160	92	83	198	49	82	67
Other	227	74	118	36	587	108	410	68
Total, all types of farms**	37,952	10,812	18,798	8,342	38,925	9,745	20,659	8,521

* Estimated on basis of banks covered by the survey; because of rounding, figures do not necessarily add to totals.
** Includes a small amount of loans not classified by type of farm.

TABLE II
Loans to Farmers Other than Real Estate Loans, Outstanding on June 20, 1947 at All Member Banks in the Second District*, by Type of Farm and Size of Borrower

Type of farm	Number of loans						Dollar amount of loans, in thousands					
		Net worth of borrower						Net worth of borrower				
	All borrowers**	Under $2,000	$2,000 to $9,999	$10,000 to $24,999	$25,000 to $99,999	$100,000 and over	All borrowers**	Under $2,000	$2,000 to $9,999	$10,000 to $24,999	$25,000 to $99,999	$100,000 and over
General	3,231	443	1,895	511	87	—	1,463	96	920	313	93	—
Dairy	29,741	2,745	15,450	7,041	1,754	89	30,170	1,518	13,346	9,461	3,860	443
Poultry and eggs	969	64	393	295	167	13	1,319	43	251	492	355	172
Livestock	137	—	12	24	77	—	215	—	2	28	177	—
Fruit	947	36	334	232	231	78	1,240	15	243	164	416	388
Truck (includes nursery products)	1,093	111	525	260	162	37	2,033	40	248	447	638	661
Field crops	140	52	25	50	13	—	76	9	5	51	11	—
Potatoes	536	12	163	115	180	39	1,386	5	224	506	423	146
Part-time	335	76	210	12	12	—	198	26	146	12	11	—
Other	227	—	100	25	90	13	587	—	95	17	413	62
Total, all types of farms**	37,952	3,539	19,143	8,564	2,771	269	38,925	1,752	15,494	11,490	6,399	1,871

* Estimated on basis of banks covered by the survey; because of rounding, figures do not necessarily add to totals.
** Includes a small amount of loans not classified by type of farm and net worth.

less than 10 million dollars. Of the total amount and number of loans made by banks in this category, about one third was made by banks with deposits of less than 2 million dollars. As might be expected, the largest banks in the District, including the New York City banks, participated only to a relatively small extent in loans to farmers, since in most cases the resources of the smaller country banks are adequate to finance the credit requirements of the farmers located in their general vicinity.

Table II shows the dollar amount and number of these farm loans by type of farm and size of borrower. It indicates that about three fifths of the number of loans were made to small borrowers, those having a net worth of less than $10,000, while only 8 per cent of the loans went to borrowers with assets exceeding $25,000. However, the large borrowers—those with assets over $25,000—accounted for about 20 per cent of the total dollar amount, because on the average they borrowed larger amounts. More than three quarters of the loans outstanding, both in number and in dollar amount, were made to farmers engaged in dairying. The rather heavy concentration on dairy farm financing reflects the preponderance of this type of farming in Second District agriculture. This fact is readily explained by the general adaptability of the land to dairy farming together with the proximity of the largest milk market in the world. The development of the various dairymen's cooperatives, frequently with the support of the banks, has given impetus to this industry. In addition, member banks in this District had outstanding loans totaling more than a million dollars to farmers engaged in the production of truck crops, fruit, potatoes, and poultry and eggs, and in general farming.

Table III shows the estimated number and dollar amount of "real estate loans secured by farm land" outstanding on June 20 at all member banks in the District by type of farm and size of bank. It indicates that banks with deposits ranging from 2 to 10 million dollars accounted for more than 50 per cent of all farm mortgages, while banks with deposits exceeding 10 million dollars accounted for about 30 per cent. It also shows that nearly two thirds of the estimated 7,759 farm mortgage loans outstanding were made to farmers engaged in the dairy business.

Representatives of this bank visited each bank participating in the survey to assist in preparing the schedules, and through this personal contact obtained the benefit of the banker's viewpoint and experience concerning the farm loan business. A number of banks in this District have developed comprehensive programs designed to expand their agricultural departments. Several banks have employed graduates of agricultural colleges, while others have officers who are "farm minded" and who are familiar with the many problems associated with farming. These officers play an important part in formulating farm policies and practices of their banks and advise farmers with regard to their individual problems. Such banks have been successful in expanding their farm loan business, and not only have increased their earning power, but also have been helpful in promoting the development of agriculture and related activities in their communities. At the same time they have discouraged prospective borrowers from assuming commitments which would be likely to involve them in difficulties.

Most of the banks visited agreed that, in general, the farmers are in a much stronger cash position today than before the war, either in the form of war bonds or in bank deposits. It was generally conceded that in many instances the farmers who are borrowing today are those who in 1939 were considered in the "marginal" category with a rather poor credit

TABLE III
Real Estate Loans Secured by Farm Land, Outstanding on June 20, 1947 at All Member Banks in the Second District*, by Type of Farm and Size of Bank

Type of farm	Number of loans				Dollar amount of loans, in thousands			
	All member banks	Banks with total deposits, in millions			All member banks	Banks with total deposits, in millions		
		Under $2	$2 to $10	Over $10		Under $2	$2 to $10	Over $10
General	1,411	400	711	300	3,865	693	2,315	857
Dairy	4,925	888	2,509	1,528	15,651	2,507	8,252	4,892
Poultry and eggs	391	34	241	116	1,302	60	838	404
Livestock	34	6	20	8	164	7	140	18
Fruit	348	23	193	132	1,272	70	537	664
Truck (includes nursery products)	196	70	58	68	598	195	205	198
Field crops	10	—	10	—	29	—	29	—
Potatoes	127	48	75	4	454	98	348	8
Part-time	210	92	58	60	643	212	237	194
Other	87	—	75	12	709	—	642	67
Total, all types of farms**	7,759	1,560	3,951	2,248	24,758	3,842	13,544	7,372

* Estimated on basis of banks covered by the survey; because of rounding, figures do not necessarily add to totals.
** Includes a small amount of loans not classified by type of farm.

standing, but who are good risks today because of the substantial increase in their incomes. But there was evidence of an awareness among the banks of the dangers of an overexpansion of credit to these "marginal" farmers, who in the event of a slackening of demand and price decline might have difficulty in meeting their commitments. This feeling has resulted in a more careful appraisal of loans being extended to farmers, and some banks have adopted a more conservative attitude than was the case last year or in the early part of 1947, in the form either of shortening maturities or of requiring more security for loans.

The bankers reported that farmers, in general, have moved towards greater mechanization at a rapid pace since the end of the war. This rapid mechanization is attributed to the high cost and shortage of labor, together with the increasing availability of farm machinery. In addition, in the case of dairying, there has been an expansion of herds in order to increase the productive capacity of the farms. There has also been a sharp rise in feed prices, in the cost of machinery, livestock, and fertilizer, and in the general expenses of operating a farm. The bankers also reported that there had been an increase in retirements among farmers, either through turning over the operation of their farms to their sons, or selling to tenants or to farmers who had migrated to the area; many of these "retirements" had been delayed because of the war. It is also probable that some farmers have retired in order to take advantage of the high prices now being offered for their farms. A rather substantial number of the new owners have been young veterans, most of whom have had previous farming experience and who were able to purchase farms through the benefits afforded them under the "GI" loan program. All of these factors have contributed towards maintaining a relatively substantial volume of farm loans in this District at a time when farm income has been at or near record levels.

DEPARTMENT STORE TRADE

In August the monthly dollar volume of department store sales in the Second Federal Reserve District dropped below the peak year-ago level and the year-to-year drop was the first since February 1944. The seasonally adjusted sales volume is estimated to have declined about 2 per cent from the level that had been maintained from May to July, and to have been about 4 per cent below the all-time high of August 1946.[1] Trade sources indicate that the unusually warm weather adversely affected sales, especially during the first half of August.

For the first eight months of this year, the dollar volume of department store sales exceeded the total for the same months in 1946 by about 7 per cent. However, this gain was smaller than the estimated average increase in prices of merchandise sold in such stores. Department store executives expect the rate of increase in sales so far this year to be approximately sustained during the balance of the year. Their predictions are based on the expected stimulus to women's apparel sales caused by changes in fashions, on the effects of promotions of merchandise priced to attract customers, on removal of all restrictions on instalment buying November 1, and, to a certain extent, on veterans' spending of the proceeds of cashed-in terminal leave bonds.

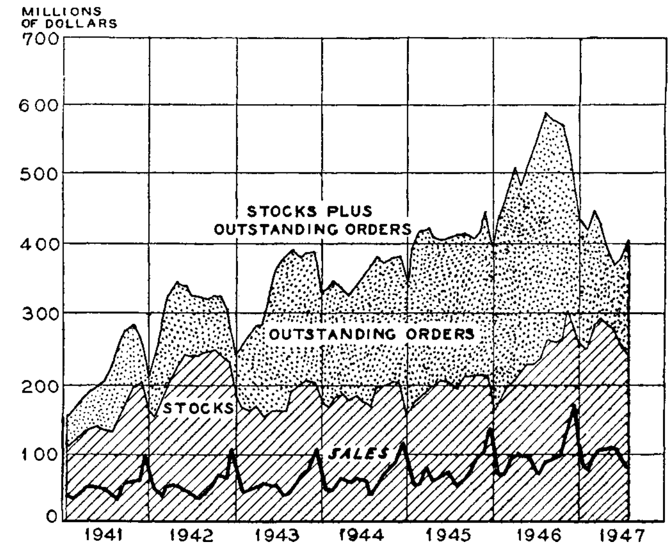
[1] Total sales in August were about 8 per cent below those in August 1946. The seasonally adjusted index allows for variations in the number of shopping days; there was one less shopping day in August this year.

It appears likely that the decline in department store inventories which has taken place during recent months may be reversed in the near future. At the close of July the seasonally adjusted index of stocks was again sharply lower, dropping to 18 per cent below the all-time high of last February. With the exception of last fall's low caused by the delivery strike, the dollar volume of inventories in July was the smallest since June 1946. The ratio of stocks to sales was the lowest for any July on record.

Low stocks are found primarily in women's wear departments; at the close of July stocks for this group were 19 per cent below those on the corresponding date last year. Men's wear stocks, however, were 12 per cent, and homefurnishings stocks 14 per cent, higher than a year ago. Many stores, having deferred placing orders for fall merchandise at the usual season, have experienced difficulties in obtaining deliveries of style merchandise now expected to be in demand. During August manufacturers of coats and suits in the New York market announced substantial price increases. Because of the short supply, trade sources indicate that retailers will have to accept the increase, and few cancellations are expected.

The accompanying chart shows the sharp increase that has recently taken place in outstanding orders. On May 31 of this year outstanding orders were 65 per cent below those outstanding one year earlier. At the close of July, orders were not quite 50 per cent lower than a year previous.

Estimated Dollar Volume of Sales, Stocks, and Outstanding Orders of Second District Department Stores, 1941-July 1947



Source: Estimated from reports received by Federal Reserve Bank of New York. Stocks and orders at end of month.

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

Locality	Net sales		Stocks on hand July 31, 1947
	July 1947	Jan. through July 1947	
Department stores, Second District....	+ 8	+ 8	— 2
New York City..................	+ 9	+ 8	— 5
Northern New Jersey..............	+ 5	+ 6	— 8
Newark....................	+ 3	+ 4	— 8
Westchester County...............	+16	+12	+ 6
Fairfield County..................	+ 7	+10	+13
Bridgeport.....................	+ 5	+ 9	+12
Lower Hudson River Valley........	+10	+14	+ 6
Poughkeepsie...................	+ 6	+10	+ 5
Upper Hudson River Valley........	+ 8	+10	+ 1
Albany.........................	+ 7	+10	+ 2
Schenectady....................	+ 8	+ 8	— 3
Central New York State...........	+ 4	+12	+ 4
Mohawk River Valley...........	+11	+10	+ 4
Utica........................	+13	+11	— 4
Syracuse......................	+ 1	+13	+ 4
Northern New York State..........	+17	+20	—
Southern New York State..........	+ 5	+12	+13
Binghamton....................	+ 2	+ 8	+ 5
Elmira.........................	— 5	+11	+17
Western New York State...........	+ 7	+10	+10
Buffalo.........................	+ 7	+10	+10
Niagara Falls..................	+ 5	+10	+ 2
Rochester......................	+ 8	+11	+10
Apparel stores (chiefly New York City).	— 3	— 4	— 5

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

Item	1946	1947		
	July	May	June	July
Sales (average daily), unadjusted.........	158	237	231	170
Sales (average daily), seasonally adjusted..	236	253	254	254
Stocks, unadjusted......................	197r	224	206	194
Stocks, seasonally adjusted...............	208	221	215	205

r Revised.

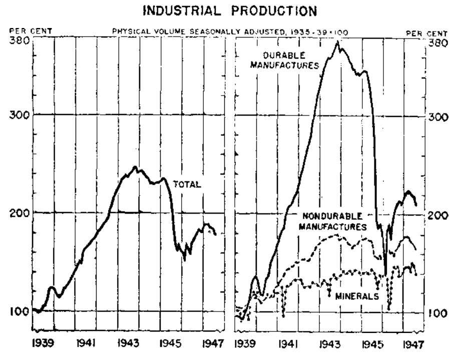
Indexes of Business

Index	1946	1947		
	July	May	June	July
Industrial production*, 1935-39 = 100..... (*Board of Governors, Federal Reserve System*)	172	185	184	178p
Electric power output*, 1935-39 = 100..... (*Federal Reserve Bank of New York*)	195	224	222	218p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	191	201	207p	
Sales of all retail stores*, 1935-39 = 100..... (*Department of Commerce*)	248	274	275p	274p
Factory employment				
United States, 1939 = 100............. (*Bureau of Labor Statistics*)	144	151	151	150p
New York State, 1935-39 = 100......... (*New York State Department of Labor*)	123	127	125	121p
Factory payrolls				
United States, 1939 = 100.............. (*Bureau of Labor Statistics*)	267	312	319p	
New York State, 1935-39 = 100......... (*New York State Department of Labor*)	244	269	270	264p
Personal income*†, 1935-39 = 100......... (*Department of Commerce*)	259	277	279p	
Composite index of wages and salaries*‡ 1939 = 100........................... (*Federal Reserve Bank of New York*)	161	173	175p	
Consumers' prices, 1935-39 = 100......... (*Bureau of Labor Statistics*)	141	156	157	
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City.......................	93r	80	88	85p
Outside New York City...............	81	88	88	88p

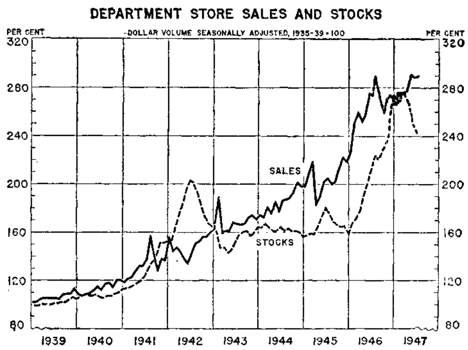
* Adjusted for seasonal variation. p Preliminary. r Revised.

† Index of seasonally adjusted annual rates computed by Federal Reserve Bank of New York from new series of personal income prepared by the U. S. Department of Commerce.

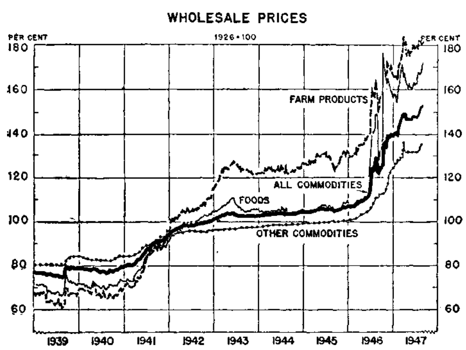
‡ A monthly tabulation of the 15 component indexes of hourly and weekly earnings computed by this bank will be sent upon request. A general discussion of the new indexes appeared in the November 1946 issue of this *Review*, and a more detailed description in the *Journal of the American Statistical Association* for June 1947. Reprints of these articles are available on request. Tabulations of the monthly indexes, 1938 to date, and description of component series, sources, and weights may also be procured from the Research Department, Federal Reserve Bank of New York.



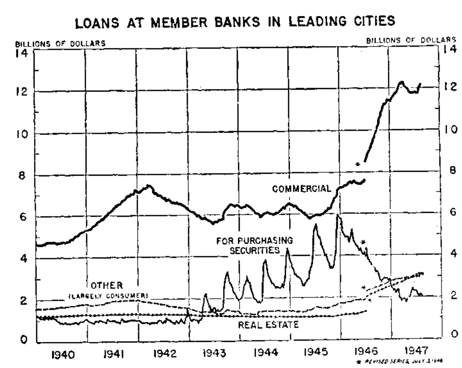
Federal Reserve indexes. Monthly figures; latest shown are for July.



Federal Reserve indexes. Monthly figures; latest figure shown for sales is July, latest for stocks is June.



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended August 16.



Excludes loans to banks. Wednesday figures; latest shown are for August 13.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, August 27, 1947)

INDUSTRIAL production was at a lower level in July than in June, owing in part to influences of a temporary nature. Retail trade was generally maintained. Prices advanced during July and also the first half of August.

Industrial Production

Production of manufactures and minerals both declined in July and total industrial production, according to the Board's seasonally adjusted index, was at 178 per cent of the 1935-39 average. This was 6 points below the June level and 12 points below the March postwar high of 190. Scattered information now available indicates a somewhat higher level for August than for July.

Output of durable manufactures generally decreased in July. There was a marked reduction in steel output during the first two weeks of the month, when a coal shortage seemed imminent. Activity in shipbuilding was sharply reduced by work stoppages, and there was a moderate decline in activity in the machinery industry. Automobile output declined somewhat in July, and showed a further reduction in the first half of August, with production still limited by the sheet steel shortage. Nonferrous metal manufacturing continued to decline in July, partly as a result of some reduction in demand. Output of lumber and of stone, clay, and glass products was also at a lower level than in June.

Nondurable goods production continued to decline in July. There was a further reduction in textile output, owing in part to vacations of production workers but also to earlier slackening of demand. Output of rubber products also continued to decline. Production of paperboard was lower in July but increased in August to the earlier high level. In the canning industry production rose more than is usual in July but was considerably below the unusually high level of last season.

Mineral output declined in July. There was a sharp drop in bituminous coal and anthracite output, accounted for largely by vacations early in the month. Output of crude petroleum declined slightly but was still at a very high rate.

Employment

Factory employment declined somewhat further in July, after allowance for seasonal changes, while employment in most other nonagricultural lines continued to show little change. Total Government employment was reduced by 120,000 to about 5,300,000 persons in mid-July, reflecting a reduction in Federal employment and also a decline of a seasonal nature in other Government employment.

Construction

Value of construction contracts awarded, according to the F. W. Dodge Corporation, rose in July, reflecting increases in awards for most types of private construction. Awards for private residential work were one-fourth larger than in June as contracts for hotels, apartment hotels, and one-family houses for sale or rent increased substantially. Value of awards for commercial and manufacturing building increased by about one third. Federal controls on private construction were largely eliminated as of June 30.

Distribution

Department store sales showed the usual seasonal decline in July, and the Board's adjusted index remained at the high May and June level. In the first two weeks of August, sales showed less rise than usual and were 4 per cent below the corresponding period of a year ago whereas in July sales were 5 per cent higher than last year. This difference reflected in part the sharp temporary rise in sales which occurred in August a year ago, and unfavorable shopping weather in many sections this year.

Commodity Prices

Prices of basic commodities in the middle of August were generally at about the advanced levels reached on July 15. Prices of corn, hides, and wool tops rose further in this period, while prices of cotton and vegetable oils declined. Higher corn prices resulted in part from deterioration of the corn crop, which on the basis of August 15 conditions was estimated at 2.4 billion bushels as compared with the record crop of 3.3 billion last season. Lower cotton prices were attributable in some part to more definite prospects for a crop susbtantially above last season.

The general level of wholesale commodity prices advanced somewhat further from July 15 to the middle of August, reflecting chiefly further increases in prices of meats, dairy products, and fuels, and a general advance of about 10 per cent in prices of iron and steel products. Prices of new automobiles were generally raised in this period. Steel scrap prices declined in the middle of August, following sharp advances in preceding weeks.

Bank Credit

Further additions to monetary gold stock, an inflow of currency from circulation, and purchases of Government securities by the Reserve Banks increased member bank reserve balances in July and the first three weeks of August. In August these additions to bank reserves were partly offset by a shift of funds to Treasury balances at Reserve Banks as a result of an excess of Treasury receipts over expenditures. Required reserves increased over the period, reflecting continued expansion of deposits at member banks.

Commercial and industrial loans at banks in leading cities increased sharply during July and the first half of August, particularly at banks outside New York City. Real estate and consumer loans showed further sustained growth. Government security holdings declined somewhat at banks in New York City but showed little change at other city banks.