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MONEY MARKET IN SEPTEMBER

Money market conditions were noticeably easier during most of the first half of September but tightened somewhat in the second half. Large net cash expenditures of the Treasury in connection with the redemption of veterans' terminal leave bonds and the unexchanged portions of the Treasury certificates and notes maturing on September 1 and 15, interest payments on the public debt, and other transactions provided the banks with large amounts of funds in the three weeks ended September 17. In addition there were substantial disbursements from foreign accounts with the Federal Reserve Banks financed in large part from sales of gold to the Treasury, and a considerable expansion of Federal Reserve "float". The funds obtained by the banks from these transactions were only partly absorbed by an unusually large increase of currency in circulation, resulting from the coincidence of the normal pre-Labor Day demand with heavy withdrawals of cash for the redemption of veterans' terminal leave bonds, and by a sizable expansion in required reserves. The ease in the market led to a substantial reduction of Federal Reserve credit and a large increase in excess reserves, which were reversed in the remainder of the month as heavy payments of Federal income taxes brought renewed pressure on the banks' reserve positions.

Despite accumulated balances of more than 900 million dollars in its deposit account in the Reserve Banks near the end of August, the Treasury withdrew 262 million dollars from its War Loan accounts in depositary banks early in September, in preparation for the cashing of veterans' bonds beginning on September 2, and other large scheduled disbursements. By the tenth of the month more than 600 million dollars of terminal leave bond redemptions had been reported to the Reserve Banks and charged to the Treasury's account. These payments, together with other substantial expenditures, brought the amount of Treasury balance in the Reserve Banks down to 243 million dollars. Although income tax collections were made at an accelerating rate in the following week, the payment of close to 400 million dollars in interest on the public debt on September 15 carried Treasury balances still lower on that date. Heavy tax receipts in the following two days, however, restored the balance to the previous week's level.

An extraordinary increase of 447 million dollars in currency in circulation in the week ended September 3 (the greatest weekly increase since the 1933 banking holiday) reflected the building up of supplies of vault cash by the banks to meet anticipated needs for the cashing of veterans' bonds, as well as the usual month-end and Labor Day holiday requirements. The normal postholiday return flow of currency did not develop in the following week, when the redemption of veterans' bonds was proceeding at a rapid pace. The volume of redemptions slowed up noticeably in the week ended September 17, and currency returned from circulation as veterans spent or deposited at least part of the cash acquired earlier in the month, thus contributing to the general ease of the money market around mid-September.

A substantial portion of the net additions to bank reserves in the three weeks ended September 17 were used by the banks to retire Federal Reserve credit. This took the form largely of purchases of Treasury bills directly and indirectly from the Federal Reserve Banks and purchases of new issues of bills directly from the Treasury. As a result there was a net decline in Federal Reserve bill holdings of 612 million dollars in the three weeks ended September 17. At the same time, excess reserves of all member banks rose 300 million dollars. Most of the increase occurred among reserve city and country banks, and in large measure probably represented funds accumulated temporarily in anticipation of losses to be sustained as depositors paid their taxes.

The banks continued to shorten the maturities in their certificate portfolios, offering the longest maturities in the open market and investing part of the proceeds in short-dated certificates. Nonbank investors also sold a moderate amount of certificates of the longer maturities as well as a considerable amount of Treasury notes. As a result, the Federal Reserve System made net purchases of 173 million dollars of certificates and 105 million of Treasury notes in the two weeks ended September 10. In the following week, however, the System made small net sales of certificates. On balance Federal Reserve holdings of all Government securities declined 351 million dollars in the three-week period.

Despite the ease of money market conditions, the market supply of the three longest certificates dated July 1, 1948 was relatively heavy and shortly after the opening of subscriptions for the new 12½ month 1 per cent notes, the terms of which were interpreted in the market as virtually establishing a 1 per cent rate for one-year money, the yields on these certificate issues rose to 0.88 per cent on the basis of dealers' bid price, or a slight discount from par. Yields of other certificates of indebtedness also rose slightly as part of the general realignment to the rate on the new notes, which yielded 0.98 per cent bid on a "when-issued" basis. Yields on new Treasury bill issues also advanced gradually to about 0.82 per cent. The Treasury's offer to exchange 1 year certificates bearing interest at 1 per cent per annum for the entire issue of 1.4 billion dollars of ⅞ per cent certificates maturing October 1, announced September 22, confirmed the market's expectations with respect to the rate on one-year money, and the slight firming of certificate yields early in the month.

A major part of the 612 million dollar reduction of Reserve holdings of Treasury bills, in the three weeks ended September 17, represented repurchases by banks of "old" bills issued prior to July 10 which still carried the repurchase option at the pegged rate of ⅜ per cent, although a substantial amount of the decline came through redemptions of "old" bills which were not fully replaced by exchanges for "new" bills or subsequent purchases of such bills in the open market. Despite the gradual rise in yields of the "new" bills, however, the total volume of bills held outside the Federal Reserve System has apparently not expanded to any large extent. The amount of "unpegged" or "new" bills held by investors other than the Reserve System has grown since the first issue on July 10, but the gain has not been proportionate to the increase in the amount outstanding. Thus, although "new" bills accounted for about three quarters of all bills outstanding on September 17, such issues comprised less than two thirds of the bill portfolios of investors other than the Reserve Banks.

Bank reserves were subjected to a substantial drain in the week ended September 24 as the full flow of quarterly income tax payments reached the Treasury, resulting in a large excess of receipts. Treasury deposits in the Reserve Banks rose 560 million dollars during the week to 800 million dollars. In addition, the clearance of tax payment checks caused a reduction in Federal Reserve float of about 170 million dollars, which was only partly offset by a decrease in required reserves accompanying the decline in private deposits. Although payments of taxes in cash brought some return of currency from circulation, and foreign disbursements of funds held with the Reserve Banks also tended to ease the drain somewhat, the net effect of all operations in the week was to exert substantial pressure on member bank reserves. Bank demand for Federal Reserve credit was large and Federal Reserve holdings of Government securities rose 362 million dollars, exceeding the decline in the first part of the month. The increase was entirely in bills; certificate and note holdings were reduced slightly. Excess reserves also declined about 200 million dollars or about two thirds of the gain of the preceding three weeks, and the reduction would have been larger, but for a temporary increase at New York City banks to bring their average reserves for the week up to the amount required.

The early part of the final week of the month witnessed a further reduction in member bank excess reserves, primarily because of income tax collections and purchases of new Treasury bills by some banks. The continued drain on reserves, together with preparations for quarterly bank statements, led to a substantial demand for Federal Reserve credit just before the close of the month.

On September 22, the Treasury announced the terms of its offering of non-marketable 2½ per cent bonds. The maturity of the issue was set at 18 years (maturity date October 1, 1965), and subscriptions were restricted to insurance companies, savings institutions, pension, retirement, and endowment funds, fraternal benefit associations, credit unions, and commercial and industrial banks holding savings deposits or issuing time certificates of deposit in the names of individuals and nonprofit organizations. Subscriptions of banks are limited to 25 per cent of the growth of such time and savings deposits between December 31, 1946 and June 30, 1947, or $25,000, whichever is greater. Subscriptions of the other eligible investors are restricted to 25 per cent of the growth in their net assets (total assets less outstanding indebtedness for borrowed money) in the same period, or $250,000, whichever is greater. Redemption values were so set that only if the bonds are held 8 or 9 years do their yields compare favorably with the current yields of outstanding marketable issues of corresponding maturities and only if the securities are held till maturity do they yield 2½ per cent.

Some weakness developed in the market for outstanding Treasury bonds during the month, but the price declines reflected the absence of demand rather than extensive selling. In fact, the market for Treasury bonds was thin and inactive, and lower price quotations reflected more the dealers' appraisal of market conditions than actual transactions. This more cautious attitude undoubtedly reflects the influence of the new issue which will absorb a substantial amount of long term investment funds seeking outlets with a satisfactory yield; it was even more apparent in the long term corporate bond market which is discussed in another section of this *Review*.

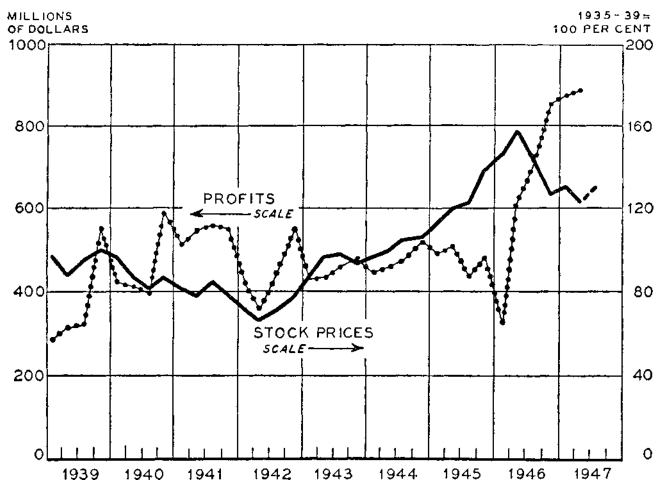
SECURITY MARKETS

A year has elapsed since the sharp decline in stock prices that began the day after Labor Day of 1946, following the downward drift of the preceding three months. Since that time prices have fluctuated between 113.2 and 131.3, as measured by Standard and Poor's broad index of 402 stocks, a comparatively narrow range of about 18 points or 16 per cent from the low to the high point. At the low point, reached in May 1947, stock values were 29 per cent below the postwar peak reached a year earlier. However, many of the low priced issues had declined by 75 to 80 per cent from their peak prices. A subsequent recovery from the May lows added 13 per cent to stock values by mid-July. Prices receded slightly thereafter, and in the last week of September reached a point about 5 per cent below the July recovery peak. For the year ended September as a whole, there was only a nominal change of a few points in the price averages. Turnover of shares on the New York Stock Exchange fell off with the culmination of the decline in 1946 and has remained relatively depressed.

While the index of all stock prices fluctuated within a fairly narrow range during the past year, there have been wide variations among different industry groups. In general, over the year as a whole, the higher grade common stocks have made a better showing than the lower grades and the shares of capital goods industries have been stronger than those of consumers' goods enterprises. Stocks of coal, petroleum, chemical, paper, building material, and shoe companies have recovered most from the May low point and have resisted most vigorously the general tendency to decline from the July highs. With the exception of shoes, share values of all these industrial groups, and of the automobile and shipping groups as well, were considerably higher toward the third week of September than a year ago.

By and large, variations in prices of stocks have reflected changes in the earnings positions of the different industry groups. The relatively strong issues reflected the expanded earning power of certain durable and capital goods industries and of the petroleum and paper companies, and the weaker groups reflected the decline (or slower rate of increase) of profits in the consumers' goods and service industries such as the amusements, distilleries, some nondurable goods manufacturing companies, and retail trade. Nevertheless, for the market as a whole, valuations placed on stocks in the past year have not increased at the same rate as current corporate profits. As indicated in the accompanying chart, stock prices have failed to reflect the marked expansion in profits beginning with the

Corporate Net Profits and Industrial Stock Prices, 1939-47 Quarterly*



* Profits, after taxes, are quarterly totals of 629 industrial corporations. Stock prices are quarterly averages of Wednesday figures for 354 industrial stocks; 1935-39 average = 100 per cent; third quarter of 1947 partly estimated by Federal Reserve Bank of New York.
Source: Profits, Board of Governors of the Federal Reserve System; stock prices, Standard and Poor's.

second quarter of 1946. In fact, the slump in prices which occurred in the summer of 1946 came at a time when corporate sales and profits were rising to new record levels. On the other hand, market appraisals of stock values after the end of the war had apparently ignored the temporary adverse effect of reconversion on corporate earnings, and stock prices had continued to advance during the latter half of 1945 and the first five months of 1946. The present low level of stock prices relative to earnings undoubtedly reflects the uncertainty of investors with respect to the permanence of the current high levels of corporate profits. It is also likely that the many predictions of business recession have been a depressing factor throughout the year.

Bond Market

The bond market has moved within a narrow range during the past three months. Yields on Treasury bonds declined slightly over this period but the return on obligations of other types of issuers rose somewhat. Among the more important influences affecting the market were the increase in short term interest rates which resulted from the unpegging of Treasury bill and certificate yields, substantial sales of Government bonds for Treasury investment accounts, and the large volume of new issues offered in the market or in prospect, including the World Bank bonds and the Treasury's nonmarketable issue as well as corporate and municipal issues. The effect of these factors has been to bring pressure on the prices of corporate and municipal issues (i.e., to raise their yields). This pressure has led to price concessions on new offerings to the public as well as markdowns on outstanding, seasoned issues.

Yields of the highest grade corporate bonds, as measured by Moody's Investors Service average yield on Aaa issues, rose gradually in the past three months from 2.55 in June to 2.66 per cent near the end of September, highest since February 1945. This advance in long term bond yields may constitute a resumption of the gradual rise which got under way in April 1946, following the elimination of the Federal Reserve Banks' preferential discount rate on Government securities maturing within a year, and which lasted through the rest of that year. The decline in Aaa bond yields in the first four months of this year and the subsequent leveling off through early June reflected the strength of the Treasury bond market and accompanied some reduction in the volume of "new money" corporate security offerings in the first five months of 1947. Second grade bonds (such as Moody's Baa) have been less influenced by the moderate changes that have occurred in short term interest rates than by changes in stock prices. Their average yield has moved much more irregularly than that of Aaa issues, but it has also moved upward since early 1946 to a new high of 3.29 per cent late in September 1947—the highest since August 1945.

Most of the increase in corporate bond yields (decrease in prices) of the past three months came in September. This weakness in the corporate bond market has been attributed in part to reduced demand from institutional investors eligible to subscribe for the Treasury's offering of long term, 2½ per cent, nonmarketable bonds, and to a rather large volume of flotations of "new money" issues.

The elimination of the excess profits tax and the reduction in 1946 personal income taxes (which reduced the value of tax exemption), and the sharp increase in new municipal security flotations were responsible for a substantial decline in municipal bond prices in the postwar period. Municipal bond yields rose from 1.57 per cent (Standard and Poor's average) in July 1945 to 2.02 per cent in March 1947. Subsequently there was some decline, but in the past three months the average rose slightly to 1.92 per cent in September (preliminary). Further substantial flotations of new municipal securities are in the offing. The pressure of these additional supplies, together with the possible further reduction in the value of the tax exemption feature of these securities if Federal income taxes are further reduced, have raised doubts as to the maintenance of the present price levels for long term municipal issues, apart from the effects of rising interest rates. This uncertainty has led in the last three months to a considerable demand for relatively short maturity issues, prices of which have advanced or at least held up better than those of the longer term bonds.

New Security Issues

During the third quarter of 1947, the capital markets were called upon to provide an estimated total close to 1.8 billion dollars of new funds to business corporations, State and municipal governments, and the World Bank. The total of "new money" security offerings of the past three months was approximately the same as that in the preceding quarter and in the fourth quarter of 1946. Refunding issues, on the other hand, amounted to only 400 million dollars, about a third below the April-June quarter and about half the quarterly average of 1946. Corporate financing for purposes of expanding plant, equipment, and working capital in the third quarter of this year came to about 900 million dollars. The usual summer slowdown in the volume of new financing was reflected in a decline of 200 million from the second quarter, and the July-September volume was about 600 million below the fourth quarter of 1946 (the peak period for a number of years), but, with these exceptions, was higher than in any other quarterly period since mid-1930. Announcements of extensive programs of facility expansion in the public utility and petroleum industries, together with large anticipated capital expenditures of enterprises in other fields (as brought out in a recent SEC-Department of Commerce Survey), are expected to lead to continued large volumes of new corporate security flotations.

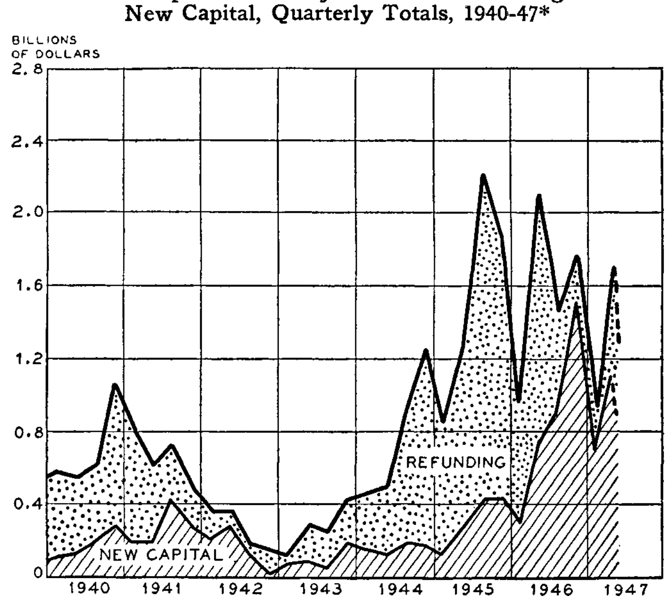
Almost all the refunding issues floated in the past three months were corporation securities. As reported in past surveys of the security markets in this *Review,* there was a considerable diminution in the flotation of refunding issues following the repeal of the excess profits tax and the resultant reduction of the "tax saving" derived from refunding called securities at a premium; and the gradual firming of interest rates beginning in April 1946, which has reduced the possible interest savings obtainable through refinancing, has also played an important part in this development. Thus, corporation refunding issues in the third quarter were approximately one-third below those in the corresponding months of 1946, and about one-half the quarterly average for that year, which in turn was more than 40 per cent below the average for 1945.

Recent corporate financing has shown little departure from trends established earlier in the year. Bond issues have predominated as public utility financing has continued to comprise a substantial proportion of the total (about one half). Stock issues have remained at the comparatively low levels prevailing after the substantial drop in prices of outstanding issues in the summer and fall of 1946.

From time to time the market for new issues has suffered from temporary periods of congestion. The latest instance of such a condition occurred in July, when a total of about one billion dollars of new securities (including one quarter of a billion dollars of attractively-priced World Bank bonds) was put on the market. Many investors, particularly the insurance companies, held back from purchasing several of the larger new public utility offerings which were considered too closely priced in relation to comparable issues outstanding. In several such cases, concessions from offering prices were necessary to move the issues from the underwriters' shelves. Some offerings in July, however, were very successful, and in subsequent months underwriters have endeavored to adjust their pricing to current market developments.

The problem of pricing new issues has been made more difficult by the firming of interest rates in recent months and has become particularly important because underwriting spreads (the difference between the price to the public and the price paid by investment bankers to issuing corporations) have been narrowed considerably. This is attributed to competitive bidding among underwriters and others for new issues,

Domestic Corporate Security Issues for Refunding and for New Capital, Quarterly Totals, 1940-47*



* Third quarter of 1947 partly estimated by Federal Reserve Bank of New York.

Source: *Commercial and Financial Chronicle.*

the competition of large institutional investors seeking new securities direct from corporate issuers (private placements), and other factors.

The volume of new municipal securities (including issues of State and local governments)offered in July to September 1947 amounted to over 550 million dollars. This figure, which is partly estimated, is the lowest quarterly total for the year, but historically it represents a very high level. For the first nine months of the year new municipal financing totaled 1,850 million dollars, which is twice the volume in the entire year 1946, and higher than the total of such financing for both new capital and refunding purposes in any year since the compilation of these figures was begun by the *Commercial and Financial Chronicle* in 1919. Prior to 1947 the peak year had been 1927, when 1,510 million dollars of new municipal securities were offered to the public. A few large State issues for the purpose of raising funds with which to pay bonuses to veterans were among the offerings of the past three months; the offerings also included housing bonds and bonds for other public works and improvement projects, as well as an issue for the purchase by a municipal authority of a privately-owned transit system.

Some congestion was noted in the municipal market, with unsold inventories of municipal issues in dealers' hands reaching a record high of 146 million dollars on September 25. A large supply of additional securities still to come on the market is indicated by The Bond Buyer's "inventory" of 6.2 billion dollars of proposed new State and municipal issues as of September 1. As of September 10, security issues involved in veterans' aid proposals alone ranged between 3.6 and 3.7 billion dollars, of which less than 900 million dollars had been sold. Only part of the unsold, proposed veterans' issues are included in the "inventory" figures.

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

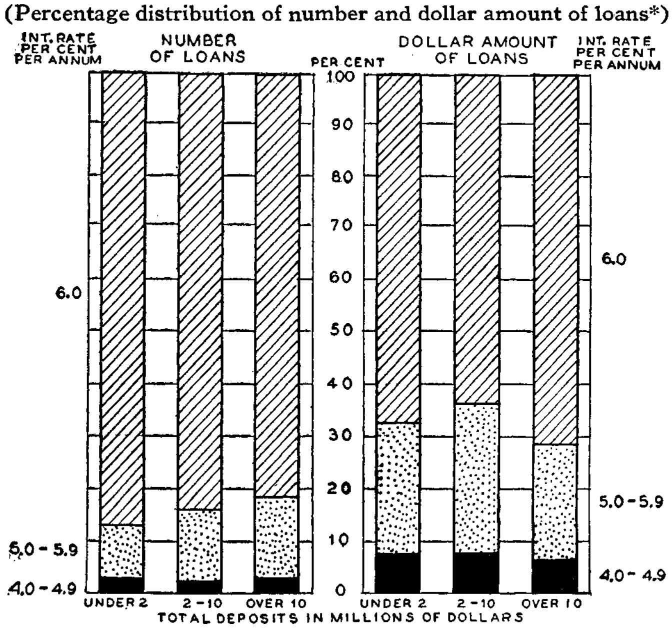
The recent survey of loans to farmers outstanding on June 20, 1947 at member banks in this District provided information on the interest rates charged on such loans, the farmers' reasons for borrowing, and the amounts they borrowed.

In general, the interest rate data reported in the survey emphasized the relatively narrow spread in the rates charged farmers by member banks in the different parts of the District. All farm loans outstanding were made at rates between 4 and 6 per cent. These data also indicated that the size of the lending bank is not an important factor in rate determination and that any variation in rates is more likely to be related to size of loan and net worth of borrower. The average interest rates charged tended to be somewhat higher for borrowers whose net worth is relatively low in view of the greater risk in lending to such borrowers. The survey also revealed that about half of the number of nonreal estate farm loans outstanding were in amounts of less than $500, and that some two thirds of the dollar amount of all loans were made to purchase livestock or machinery. Mortgage loans usually are for larger amounts and interest rates average somewhat lower than for other farm loans. About three quarters of the dollar amount and number of farm mortgages outstanding were made to enable the farmer to buy the property mortgaged. According to the survey, more than two thirds of the dollar amount and about three fifths of the number of farm mortgages outstanding on June 20, 1947 at member banks in this District were made between the beginning of 1946 and the survey date, i. e., during a period when farm real estate prices were relatively high.

Interest Rates

It is estimated that nearly 85 per cent of the number and 66 per cent of the dollar amount of nonreal estate farm loans outstanding at all member banks in the Second District on June 20, 1947 carried an interest rate of 6 per cent. Chart I, which shows the proportion of these loans outstanding at various interest rates in different sized banks, indicates that, in general, farmers are able to borrow (other than on real estate) at about the same rate regardless of the size of the lending bank. It also shows the relatively small percentage of loans made at less than 5 per cent by banks of all sizes. However, the interest rates on farm mortgages (Chart II) were generally lower than on other loans to farmers and there was also some variation in the rates charged by banks of different sizes. Some 45 per cent of the dollar amount and 31 per cent of the number of farm mortgages outstanding were at rates ranging between 4 and 5 per cent, while only 10 per cent of the dollar amount and 16 per cent of the

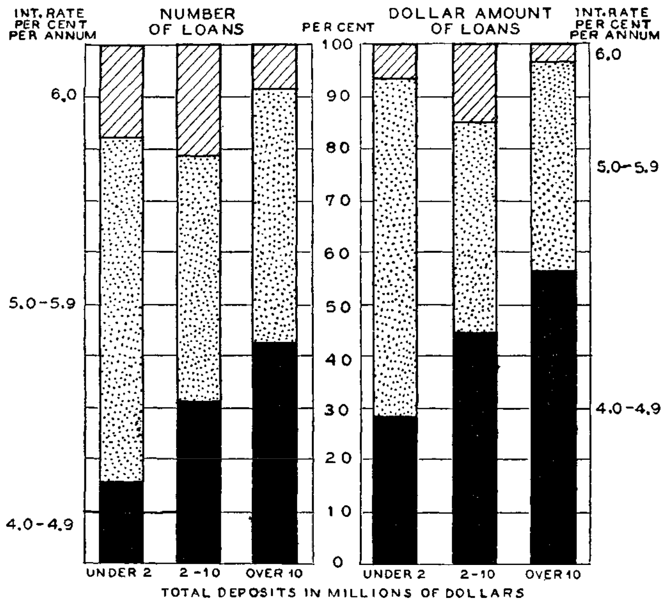
Chart I
Interest Rates Charged on Loans to Farmers, Other than Real Estate Loans, by Second District Member Banks of Various Size
(Percentage distribution of number and dollar amount of loans*)



* Derived from survey of agricultural loans outstanding on June 20, 1947.

[1] This is the second article covering the results of a survey of agricultural lending by member banks in the Second District; the first article appeared in the September issue of the *Review*. A more complete analysis of the data derived from the survey will be published soon in pamphlet form and will be available upon request from the Research Department, Federal Reserve Bank of New York.

Chart II
Interest Rates Charged on Real Estate Loans to Farmers Secured by Farm Land, by Second District Member Banks of Various Size
(Percentage distribution of number and dollar amount of loans*)



* Derived from survey of agricultural loans outstanding on June 20, 1947.

number were made at 6 per cent. The percentage of loans made at rates between 4 and 5 per cent ranged from 28 per cent of the dollar amount in the group of smallest banks, to 56 per cent in the largest banks, and from 16 to 43 per cent of the number of loans in the smallest and largest banks, respectively. The generally lower rates charged by the larger banks on farm mortgages may be explained in part by the larger volume of loans at 4 per cent which were in many instances made to meet the competition of other lending institutions.

As a supplement to the data reported on each loan the banks in the survey were asked to list the prevailing interest rates charged farmers in 1930, 1940, and today. Virtually all of the banks in the survey reported that in 1930 their rate on farm mortgages was 6 per cent; by 1940, about one third of the number of banks had lowered their rate to 5 per cent. Today, more than two thirds maintain a prevailing rate of 5 per cent, and less than one fifth charge higher rates—from 5 to 6 per cent. On other loans to farmers the interest rates charged have also declined, but not so definitely as in the case of farm real estate loans. At present, about two thirds of the banks charge 6 per cent. The remainder of the banks reported rates varying from 4 to 5½ per cent, with the largest number (about one fifth) charging 5 per cent, whereas in 1930 all of the banks charged 6 per cent.

Most of the bankers visited in connection with the survey felt that stable rates of interest near present levels are an important factor in maintaining a satisfactory earnings position —especially in those banks whose farm loans represent a substantial part of their earning assets. They explained that because the servicing of farm loans and mortgages is somewhat costly, the net return in most cases is considerably less than the rate charged. This, together with the fact that a more cautious lending policy has been adopted by a number of banks, leads to the conclusion that interest rates on farm loans will probably be maintained at or near present levels. An important factor in the relatively high rates charged on farm loans is their comparatively small size in most cases.

Size of Loan

A breakdown of the number and dollar volume by size of loan, as shown in Table I, reveals that more than two thirds of the estimated 38,000 nonreal estate farm loans outstanding at all member banks on the survey date were in amounts of less than $1,000 and about 50 per cent were for less than $500. The number of small farm borrowers currently being served by member banks throughout the District is thus rather substantial. The small amounts presently being borrowed by individual farmers reflect in turn the relatively small-scale nature of individual farm operations in this District. About 28 per cent of the number of loans were in amounts ranging between $1,000 and $4,999 and less than 4 per cent of the number were in amounts of $5,000 or larger. In dollar amount, loans under $1,000 accounted for more than one fifth of the loan aggregate, while loans in amounts between $1,000 and $4,999 constituted more than half of the total. In the case of real estate farm loans the average loan, as might be expected, was substantially larger than in the case of other loans to farmers and about half of these loans were in amounts of $2,500 or more, about one third ranged between $1,000 and $2,499, and some 16 per cent were for less than $1,000.

The results of the survey reveal a relationship between the average size of nonreal estate farm loans and the interest rates charged, the size of the borrower, the purpose of the loan, the length of maturity, and the type of collateral utilized. There appears to be no question that in a number of cases the rates charged varied inversely with the size of the loan, reflecting the relatively greater costs involved in the handling of small loans. Furthermore, it is natural that the operators of the larger farms should tend to borrow larger amounts than the smaller agriculturists, and that the purpose of the loan should be a factor in determining how much was borrowed

Table I
Percentage Distribution of Agricultural Loans, Outstanding on June 20, 1947, at All Member Banks in the Second District*, by Size of Loan

Size of loan (In dollars)	Loans to farmers other than real estate		Real estate loans secured by farm land	
	Number	Dollar amount	Number	Dollar amount
Less than 500........	50.1	9.8	5.2	0.5
500 to 999........	18.4	11.9	10.8	2.5
1,000 to 1,499........	9.8	10.9	10.8	4.1
1,500 to 2,499........	9.8	17.1	23.0	14.4
2,500 to 4,999........	8.4	25.2	33.3	37.5
5,000 to 9,999........	3.0	17.6	14.3	29.4
10,000 to 24,999........	0.5	6.2	2.5	10.6
25,000 to 49,999........	—	1.3	0.1	1.0
50,000 and over........	—	—	—	—
Total................	100.0	100.0	100.0	100.0

* Estimated on basis of banks covered by the survey.

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 Purpose of Borrowing

Type of farm	All loans, in thousands of dollars	Percentage distribution of dollar amount within each type of farm group					
		To pay production or living costs	To buy or improve land or buildings	To buy machinery or livestock	To repay debts	For other purposes	Purpose not known
General	1,463	35.4	5.2	54.3	2.1	—	3.1
Dairy	30,170	9.8	9.0	74.1	6.0	0.2	0.9
Poultry and egg	1,319	70.6	6.2	22.0	0.5	0.7	—
Livestock	215	3.7	—	96.3	—	—	—
Fruit	1,240	75.2	1.9	22.4	—	—	0.5
Truck (inc. nursery products)	2,033	54.5	2.9	42.3	—	—	0.3
Field crops	76	55.3	—	44.7	—	—	—
Potato	1,386	82.3	6.0	10.7	0.1	—	0.9
Part-time	198	28.3	—	71.2	0.5	—	—
Other	587	47.5	25.0	27.1	—	0.4	—
Total, all types of farms**	38,925	20.5	8.2	65.2	4.8	0.2	1.1

* 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 what collateral was used. In turn, the amount borrowed is sometimes (although not necessarily) a factor in the terms of repayment or maturity—more so in farm real estate loans than in other loans to farmers.

Purpose of Borrowing

As shown in Table II, it is estimated that nearly two thirds of the dollar amount of nonreal estate farm loans outstanding at all member banks in this District were made to enable farmers to buy machinery or livestock. More than half of the number of loans were made for this purpose. This reflects, to a relatively large extent, the increasing costs of replenishing and expanding dairy farmers' herds and the higher degree of mechanization which has taken place on all types of farms. Production and living costs accounted for some 30 per cent of the number of loans and about 20 per cent of the dollar volume. Farmers producing fruit and potatoes did roughly three quarters of their borrowing for the purpose of meeting such costs, since in most instances their incomes are largely dependent upon seasonal crops and are not as stable as, for example, the incomes of dairy farmers. Less than 5 per cent of the dollar amount of loans was made to enable farmers to repay debts, indicating to some extent the relatively strong financial condition of farmers in general. About 8 per cent of the loans outstanding were made to permit the borrower to buy or improve land or buildings.

More than three quarters of the farm mortgages outstanding on June 20 at all member banks in this District, both in dollar amount and number of loans, were made to permit the borrower to buy the property mortgaged, and about 7 per cent were made for the construction or repair of buildings, 3 per cent for the purchase of other land, and some 10 per cent for other reasons, primarily for purchases of equipment and livestock.

AGRICULTURE IN THE SECOND DISTRICT

In the past few years, agricultural producers in the Second Federal Reserve District, like those in the rest of the country, have been enjoying the highest receipts from farm marketings in history. Since cash receipts of farmers during the first half of this year in New York and New Jersey were running 22 per cent above the corresponding period of last year, it appears likely that the cash income of Second District farms during 1947 will top one billion dollars for the first time on record. This compares with an average for the years 1935-39 of between 350 and 400 million dollars. Much of the gain over prewar levels in agricultural income has been due, of course, to the steady rise of farm prices. Nevertheless, marked gains in the physical output of many products have also contributed to the advance.

In New York State, which accounts for over 85 per cent of the Second District's farm marketings, output of dairy and poultry products and fruits has been maintained at a high level. Nearly two thirds of the sales volume of farm produce in New York and in the District is concentrated in these lines. During the first eight months of this year, milk production, in which New York is second only to Wisconsin, averaged 6 per cent higher in physical volume than in the corresponding period last year. Egg output in New York and New Jersey was up 3 per cent in volume during the same period.

The New York State fruit crop, as estimated by the Department of Agriculture on September 1, will be somewhat better than average this year. The commercial apple crop is estimated at over 16 million bushels, 6 per cent larger than last year and the second largest in the nation. The New York grape crop, which is the largest outside California, appears to be somewhat below last year's volume, but is still 18 per cent higher than the average of the ten preceding years. The yield of pears and cherries in New York is estimated to be up sharply from last year, but the peach crops in both New York and New Jersey have been below last season's total. In each instance, however, the crop promises to be above the ten-year average.

Output of basic feed grains, important to an area of dairy and poultry farms, has dropped sharply this year to approximately half of the 1946 level. The New York State Department of Agriculture and Markets estimates feed grains in this State will total about 418,000 tons in 1947, compared with 828,000 tons last year and a ten-year average of 626,000 tons. The corn crop in the Second District is down one fifth from 1946 and the crop of oats is less than half of last year's. These are partly offset, however, by a good wheat crop, about 60 per cent above the 1946 level.

Potato production is expected to be about one-fifth less than last year's crop, whose record-breaking size caused a serious surplus problem. Potatoes are an important crop in this District, since New York is the third largest potato-producing State and New Jersey the eighth. Altogether the Second District produces about 11 per cent of the nation's potatoes.

Although sharp, the gains in farm incomes in this area have not been so spectacular as in other areas of the country. Incomes in sections specializing in grain and livestock pro-

Table I
Distribution of Value of Farm Products Sold
(Crop year 1944)

Type	Per cent of total	
	Second District	Rest of the United States
Dairy products	46.3	14.4
Poultry and poultry products	15.6	9.6
Grain, hay, and other field crops*	9.7	35.6
Vegetables	8.2	3.4
Livestock and livestock products (except dairy and poultry)	7.8	28.6
Fruits and nuts	6.5	6.6
Horticultural specialties	5.2	1.3
Forest products	0.7	0.5
Total value of farm products sold	100.0	100.0

* Includes potatoes.
Source: Computed by the Federal Reserve Bank of New York from *United States Census of Agriculture: 1945.*

duction have profited to a much greater extent from the wartime and postwar increase in demand and the rise in prices. A further indication of this trend lies in the movements of farm real estate prices. In New York State, the average value per acre of farm real estate in July 1947 was 59 per cent above the 1935-39 average, and in New Jersey the rise was 63 per cent. In the country as a whole, however, prices were nearly double the prewar level and in some States the rise in real estate values ranged as high as 170 per cent.

The basic reason for this District's more moderate gains lies in the structure of its agricultural economy. Table I shows the differences between the Second Federal Reserve District and the rest of the country in the sources from which farm cash income is derived. In this District, the chief agricultural pursuit is dairy farming, which accounts for nearly one half of the total value of farm products sold. In the rest of the country, however, only one seventh of farm income comes from dairying. Vegetable production accounts for about twice as great a share of the total here as in the rest of the United States. Poultry farming yields nearly one sixth of total income in this District compared with one tenth in the rest of the United States. The importance of these lines is a reflection not only of adaptation to soil and climatic conditions, but also of the proximity of mass markets on the heavily populated Eastern seaboard. An overwhelming share of the dairy and poultry products is marketed as fresh milk and eggs, while truck gardening is predominant in vegetable production. The greater importance here of horticultural specialties—flowers, seeds, and nursery products—is also a reflection of the big city markets.

The lines which account for nearly two thirds of the agricultural output of the rest of the country—grain and other field crop production and livestock raising—contribute only about one sixth of the Second District's farm income. If the Census of Agriculture did not classify potatoes with "other field crops," the share of these groups in the District total would be still lower, probably about one tenth.

Wartime trends in farm production and shifts in the structure of the farm economy are revealed by the 1945 Census of Agriculture, published this year by the U. S. Department of Commerce, and are summarized in Table II. The Second District followed the national pattern of achieving higher output with decreasing numbers of farm workers. About 10 per cent fewer farmers and farm laborers harvested more than 7½ million acres of crops in 1944—an increase of 6 per cent over the 1939 acreage. New York State alone produced in 1944, 76 million gallons more milk, 24 million dozen more eggs, and 8 million more chickens than in 1939.

The national tendency toward greater concentration of farms was also apparent in this District. Between April 1940 and

Table II
Selected Data on Agriculture in the Second Federal Reserve District and in the United States
(1940 and 1945 Census data)

Item	Unit	Second District	United States	Second District as per cent of United States total	Per cent change: Second District	Per cent change: United States
		January 1, 1945*			April 1, 1940 to January 1, 1945	
Farms	Thousands	165	5,859	2.8	— 2	— 4
Land area in farms	Millions of acres	19	1,142	1.6	+ 3	+ 8
Value of farms	Millions of dollars	1,353	46,389	2.9	+ 17	+ 38
Farm labor force	Thousands	261	8,373	3.1	— 10	— 14
Cropland harvested	Millions of acres	7	353	2.1	+ 6	+ 10
Tenure						
Owners	Thousands	127	3,301	3.8	— 2	+ 7
Part-owners and managers	"	24	699	3.4	+ 39	+ 7
Tenants	"	14	1,858	0.8	— 36	— 21
		1944 crop year*			1939 to 1944 crop year	
Value of all farm products	Millions of dollars	646	18,108	3.6	+101	+132
All farm products sold	" " "	595	16,231	3.7	+107	+143
All crops	" " "	176	7,508	2.4	+ 99	+143
Grain, hay, and other field crops#	" " "	58	5,621	1.0	+ 75	+128
Fruits and nuts	" " "	39	1,079	3.6	+162	+265
Vegetables	" " "	49	577	8.5	+137	+189
Horticultural specialties	" " "	31	231	13.5	+ 55	+ 79
All livestock and livestock products	" " "	414	8,645	4.8	+111	+144
Dairy products	" " "	275	2,531	10.9	+112	+126
Poultry and products	" " "	92	1,587	5.8	+129	+186
Other livestock and livestock products	" " "	47	4,527	1.0	+ 78	+142
Forest products	" " "	4	78	5.1	+ 56	+100
Farm products used by farm household	" " "	52	1,878	2.7	+ 53	+ 66

* Because of rounding, figures do not necessarily add to totals. Percentages computed from unrounded data.
\# Includes potatoes.
Source: Computed by the Federal Reserve Bank of New York from *United States Census of Agriculture: 1945.*

January 1945, the number of farms decreased 2 per cent and the average size of a farm rose 5 per cent to 114 acres. The latter is, however, still well below the national average of 195 acres per farm. In 1945, 90 per cent of the District's farm operators were either owners or part-owners of their land, in contrast to 68 per cent in the country as a whole. Farm tenancy decreased by more than a third in this area between 1940 and 1945, indicating not only a greater proportion of owners but also a net movement out of agriculture.

Mechanization accounted for part of the increase in agricultural productivity. Second District farms had more than 104,000 tractors, an increase of 38,000 over 1940, and over half the farms had at least one tractor. Despite wartime curtailment of automobile and truck production, the number of trucks on farms rose 18,000 or 28 per cent, while the number of autos rose 6 per cent. About 83 per cent of Second District farms were electrified, and nearly 90 per cent had radios. Only 60 per cent of the farmhouses had running water and only 53 per cent had telephones. For all types of facilities, however, the percentages were well above the national average.

The principal lines of agricultural activity in this District are for the most part not among those in which prices have been rising spectacularly in recent years. New York State, which ranked seventh in value of cash receipts from farm marketings in 1935-39, had fallen to thirteenth place in 1946, while New Jersey had fallen from thirtieth to thirty-fourth place. The high prices for meats have, of course, widened the market for this District's output of eggs, cheese, poultry, and similar meat substitutes. However, the increasing prices of feed grains, stemming largely from the short corn crop, seriously affect the production costs of the dairy and poultry farms. Not only has the tonnage of feed grains produced in New York State fallen far below normal this year, but the quality of the hay crop is much inferior for feeding to dairy cattle. Consequently, farmers in this State must now buy larger quantities of feed at rising prices. The price received by New York farmers for milk in July 1947 was 9 per cent below that received in the same month last year, according to the State Department of Agriculture and Markets. During the same period, however, the cost of feed (concentrates, per hundred pounds) rose 9 per cent and in the following two months there was a further advance of 6 per cent. When retail prices for eggs and dairy products have advanced in response to increased costs and greater demand, there has been a noticeable stiffening of consumer resistance.

THE BRITISH ECONOMIC PROBLEM

Since the end of the war, as during the war, Great Britain has lived in a state of acute emergency. Reduced to bare essentials the problem faced by the United Kingdom consists in the very great increase in the demands on its economic system and the serious shrinkage in the means available to meet those demands. Both of these developments are consequences of the war and its aftermath. The increase in requirements confronting Britain's domestic and foreign resources is noticeable in all brackets of her national economy. Instead of the 400 thousand men in the Armed Forces in 1938, over a million are required now. Instead of the 16 million pounds spent overseas by the government in 1938, at least 175 million are being thus currently absorbed. Instead of the 30 million pounds paid as interest, etc., to foreign holders of British securities, over 70 million have to be transferred abroad for this purpose today. Furthermore, the swelling of the social services (owing partly to veterans' benefits and partly to the welfare policies of the government) and the political necessity of maintaining a standard of living that, on the average, is not much lower than before the war bring the total civilian outlay well above the prewar level. At the same time, the necessity of repairing war damages and replenishing inventories, as well as the extraordinary wartime wear and tear of productive facilities, have almost doubled (as compared with 1938) the replacement needs of the British economy.

At least equally telling has been the influence of the war on the other side of the ledger—on the means available to meet the enlarged requirements. Owing to the physical composition of Britain's domestic output as it developed over the past century, only a relatively small part of it is designed to be consumed in the British Isles; the balance, consisting mainly of industrial goods, has to be exported in exchange for food and raw materials. The terms of this exchange are therefore of paramount importance. During the interwar period they were, on the whole, very favorable to Britain. Although the depressed state of world markets during the thirties reduced the total demand for British goods and to some extent caused underemployment in Britain, the relative prices then prevailing enabled Britain to import cheap food and raw materials, at the same time securing relatively high prices for her industrial exports. This situation has drastically changed. Britain, it is true, can sell abroad everything she is able to export, and the prices of British exports have risen significantly. The cost of British imports, however, has soared even more, with the result that for the same amount of domestic effort Britain today receives from abroad less food, fewer raw materials, fewer services, than before the war.

Yet, even with the exceptionally favorable terms of trade enjoyed by Britain before the last war, Britain's relatively high standard of living was made possible only by her earnings abroad and some liquidation of her foreign assets. From these sources were obtained 300 million pounds in 1938, or 6.5 per cent of the British national expenditure. Between September 1939 and June 1945 the necessity of selling foreign investments and accumulating sterling liabilities to foreigners in order to meet war expenditures resulted in a reduction of Britain's foreign assets at a greatly accelerated pace—by about 4,500 million pounds. Annual revenue from abroad on account of interest, dividends, etc., diminished by about 50 million pounds. The gap between total available resources and requirements thus took on dangerous proportions and in 1946 it amounted to 400 million pounds, which had to be borrowed abroad.[1]

There are four ways in which this deficit might be reduced or eliminated:

1. The terms of trade might improve sufficiently to provide the British with more imports for the same quantity of exports. Such a change, however, clearly depends, not on the British themselves, but on the relative prices prevailing in world markets. There is no reason to expect early relief from this source. Moreover, any shift of relative prices in Britain's favor might well be accompanied by a slump in the demand for British goods. The net result of these two opposing tendencies cannot be readily predicted, but it cannot be assumed that it would necessarily mean a material improvement in Britain's over-all position.

2. British output might be increased, either by raising the production of goods for the home market from domestic resources, thus reducing import requirements, or by expanding the volume of commodities available for export. Both have been the objective of the production drive of the British Government during the past two years. But while reconversion and the restoration of output to prewar levels have on the whole been successful (Britain's production today, indeed, may be even larger than in 1938), the effort to lift production further is encountering formidable obstacles.

Most important of these obstacles is the shortage of coal. From 228 million tons in 1938, Britain's output dropped to less than 190 million tons in 1946, or barely sufficient to take care of her domestic requirements at the present high employment level. It leaves nothing for exports, which before the war amounted to over 40 million tons of coal a year. The reasons for the coal deficiency are peculiar to the coal mining industry only in part. To a large extent they are the same factors that limit output in many other branches of British manufacturing. For example, industrial equipment has been poorly maintained, a large part of it is obsolete, and production methods in some lines are old-fashioned; productivity is therefore low. The imperative modernization of British industry in order to increase its productivity would require a heavy investment of capital. The circle becomes vicious, since large outlays on machinery would necessitate a further diversion of domestic and foreign resources from immediate consumption. Yet in the absence of such outlays a major increase in total output is problematical. The government therefore intends to carry through a considerable volume of industrial reequipment, but the ambitious original program has had to be severely trimmed. Concomitantly the earlier goal of raising exports to 140 per cent of the 1938 level by the end of 1947 has had to be abandoned; what is now hoped for is to reach the 140 per cent level by the middle of 1948, but the attainment of even this goal is by no means assured.

3. Total requirements might be reduced. Such a reduction was provided for a few weeks ago in the British Government's emergency program. Importations of food, tobacco, gasoline, and films are to be seriously curtailed. Government expenditures abroad (for the maintenance of military establishments in the Near East, Greece, Germany, and elsewhere) are to be reduced, and, as mentioned above, the outlay on imported investment goods will be cut. The total savings that may be thus achieved are officially estimated at about 230 million pounds for the fiscal year 1947-48. The success of this effort to reduce the balance of payments gap, however, depends on a number of factors. The international political situation and the outcome of negotiations with other countries will determine the extent to which the British can curtail their foreign commitments. World price developments in the next twelve months will decide whether the import cuts made will actually save the estimated amount of foreign exchange.

4. Foreign resources might be drawn upon to meet the deficit. The American credit of 3,750 million dollars which was intended to fill the gap for about four years has not achieved that purpose. The expectation that it would give Britain a sufficient breathing spell in which to balance her international accounts by increasing her output as well as by reducing her requirements has proved to be too optimistic: except for 400 million dollars, the credit is already exhausted. The recovery of British domestic production proceeded more slowly than had been expected, the fuel crisis during the winter of 1946-47 in particular constituting a serious setback. Exports increased, but not as much as had been anticipated. Meanwhile governmental expenditures abroad continued on a large scale. A part, even if only a very small part, of the indebtedness to foreigners incurred by Britain during the war had to be repaid. Part of the exports went to countries that were unable to pay for them except in the form of blocked local currencies. At the same time domestic consumption and investment, which had been severely reduced during the war, had to be permitted a moderate increase. Another important factor responsible for the rapid expenditure of the American credit has been the great rise in American prices which took place after the credit was arranged. It is estimated that the value of the credit in real terms was reduced by the American price increases since its negotiation by about 30 to 40 per cent. To make matters worse, the hope was not fulfilled that foreign countries would make only moderate use of the permission granted them during 1947, particularly after July 15, 1947, to convert (indirectly) their sterling balances into dollars. There was a "run on the bank".

As a result, Britain still faces most of the problems that confronted her when the loan was granted. Should the new austerity and export expansion program mentioned above succeed, the total gap between British resources and requirements would be narrowed to about 140 million pounds (560 million dollars) in the coming year. This, however, may be an over-optimistic estimate, and one billion dollars seems a more realistic figure for the probable deficit. Moreover, another 400

[1] Gross foreign borrowings, including drafts against the American and Canadian Government credits, amounted to 532 million pounds, but there were offsetting credit items totaling 132 million.

to 500 million dollars a year will have to be provided to meet the dollar requirements of the sterling area.

What are Britain's chances of coping successfully with this deficiency? One line of defense consists of about 2.4 billion dollars' worth of gold and dollar reserves held by the British Government. While it would be dangerous to reduce this ultimate reserve below some minimum level, it can be and has been drawn upon to help meet present needs. Of the American loan, 400 million dollars are still left, as is an approximately similar amount of the Canadian credit (provided the United States is willing, and Canada able, to release these amounts). Other dollar assets could be added to make up a substantial sum for meeting urgent short term requirements. Some further help from the British Commonwealth can no doubt be expected and, in addition, some capital funds may be obtained from or through the International Bank for Reconstruction and Development, and some further temporary relief may be had from the International Monetary Fund. There is thus no cause for alarm so far as Britain's short-run prospects are concerned.

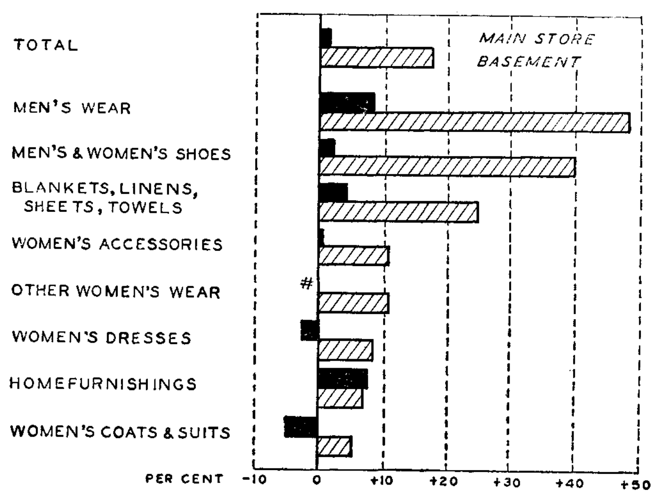
Merely keeping the wolf from the door for a few years, however, is no solution of the British problem. A lasting equilibrium between British resources and requirements, with a decent standard of living on the British Isles, can be reached only though a large and rapid increase in productivity by men and machines. Thorough modernization of British industry, as well as its reorganization and reconstruction, to serve the demands of a changed and still changing world market, and, temporarily at least, the maximum utilization of British agricultural resources, are the most important signposts on Britain's road to permanent recovery. To accomplish this Britain requires increased domestic saving and investment, as well as dollars to pay for necessary imports of equipment, raw materials, and food. To whittle away available reserves on current consumption unless such a long-range program is in prospect would only mean postponement of her problem. A real solution will depend on the extent to which Britain can concentrate her available resources, together with such help as she may receive from this country, on a long-range program of economic reconstruction.

DEPARTMENT STORE TRADE

Department store sales in the Second District failed to make as great a gain as usual from August to September, despite the extensive cashing in of terminal leave bonds beginning September 2. Protracted hot weather during the first half of the month, which delayed effective promotions of fall merchandise and retarded shopping generally, and probably also consumer resistance, resulting primarily from sharply rising food prices, held the daily average gain to 30 per cent,[1] considerably below the usual August to September increase. As a result, seasonally adjusted average daily sales during September, although about 10 per cent larger than in September 1946, are estimated to have declined 8 per cent below August of this year. In the latter half of the month, however, trade was stimulated by more seasonable weather, and gains over the corresponding period last year, when business was hampered by the delivery strikes, were large.

The influence of rapidly rising consumers' prices over the last year and of greater availability of all types and grades of merchandise are evident in a changing pattern of department store sales. The accompanying chart shows that the dollar volume of basement sales has increased more rapidly than that of main store sales during the period February through August of this year, compared with the same period last year. With a few minor exceptions the disparity between main and basement departmental groups occurred in each of the months over which the charted data have been cumulated. The one exception to the general trend, homefurnishings, results from the lack of close comparability between the two departments in the main and basement stores. The homefurnishings group in the main store specializes in furniture and other large durable commodities, the production of which was severely curtailed during the war. Many "big ticket" commodities such as washing machines and console model radios have only recently become available in quantity; the deferred demand is still substantial for many such durable products. The basement, on the other hand, carries in its homefurnishings group mostly smaller items which came on the market in abundance shortly after reconversion got under way and for which the backlog of demand has been largely exhausted. It is noteworthy,

Department Store Sales in Main Store and in Basement, by Departmental Groups, Second Federal Reserve District*
(Percentage change, Feb.-Aug. 1946 to Feb.-Aug. 1947)



* Data for women's apparel include misses' and juniors'; men's wear includes boys'. Total main store and basement figures include departments other than those shown separately.
\# Less than one per cent.

[1] Preliminary estimate.

however, that the main store failed to register a substantially larger increase in this group than the basement.

Sales of women's coats, suits, and dresses, which are important in total department store sales, decreased in the main store while gaining in the basement. Although sales of men's wear increased even more substantially (almost 50 per cent) in the basement, they rose only 8 per cent in the main store.

During recent years, until 1947, gains in basement sales have accounted for about 10 per cent of store-wide gains; this proportion has been drastically altered during the period under review. As shown in the table opposite, during the February-August period this year basement departments accounted for not less than half of the total sales gains over last year. Since the sales of several large stores which have no basements are included only in the main store figures, the shift to *basement type* merchandise is probably understated.

Basement departments have traditionally featured lower priced lines than comparable departments in the main store. Consequently it is to be expected that in a period of rapidly rising prices consumers would tend to increase the proportion of their purchases in the basement. Another noteworthy development has been the greater use of credit by consumers; the volume of open book credit outstanding at a large sample of Second District stores at the end of August was more than 15 per cent larger than a year ago, although sales had by no means increased in the same proportion. Inasmuch as credit sales are made mainly in the main store, they tended to support main store business.

The table also indicates that during the recent seven-month period the rate of increase in total sales has declined considerably below the tremendous gain achieved during the first year of peace and also below wartime rates of increase.

Year-to-Year Percentage Increases in Total Department Store Sales, February-August, and Their Percentage Distribution between Main Store and Basement, Second Federal Reserve District

February-August	Percentage increase from preceding year	Share in total increase	
	Total store	Main store	Basement
1941	13	90	10
1945	14	90	10
1946	38	92	8
1947	3	49	51

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

Locality	Net sales		Stocks on hand Aug. 31, 1947
	August 1947	Jan. through August 1947	
Department stores, Second District	— 9	+ 6	— 2
New York City	— 8	+ 6	— 6
Northern New Jersey	—11	+ 3	— 8
Newark	—13	+ 1	— 8
Westchester County	— 7	+ 9	+ 6
Fairfield County	— 6	+ 8	+ 1
Bridgeport	— 6	+ 7	— 1
Lower Hudson River Valley	— 7	+11	+ 9
Poughkeepsie	— 6	+ 7	+ 6
Upper Hudson River Valley	— 9	+ 8	+ 3
Albany	— 9	+ 8	+ 3
Schenectady	—12	+ 6	0
Central New York State	—11	+ 9	+ 8
Mohawk River Valley	0	+ 9	+ 5
Utica	+ 1	+ 9	— 5
Syracuse	—16	+ 9	+ 9
Northern New York State	+ 9	+19	—
Southern New York State	— 7	+10	+13
Binghamton	—12	+ 5	+ 6
Elmira	— 5	+ 8	+14
Western New York State	—10	+ 8	+15
Buffalo	—13	+ 7	+18
Niagara Falls	—11	+ 7	+10
Rochester	— 7	+ 9	+ 8
Apparel stores (chiefly New York City)	—26	— 7	— 9

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

Item	1946	1947		
	August	June	July	August
Sales (average daily), unadjusted	189	231	170	179
Sales (average daily), seasonally adjusted	259	254	254	246
Stocks, unadjusted	221r	206	193r	215
Stocks, seasonally adjusted	212r	215	204r	207

r Revised.

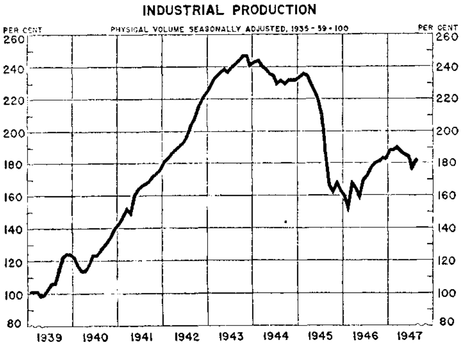
Indexes of Business

Index	1946	1947		
	August	June	July	August
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	178r	184	177	182p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	202	222	218	229p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	194	209	192p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	261	275	275	272p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	148	151	150	153p
New York State, 1935-39 = 100 (*New York State Department of Labor*)	127	125	121	127p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	284	320	314p	
New York State, 1935-39 = 100 (*New York State Department of Labor*)	259	270	265	275p
Personal income*#, 1935-39 = 100 (*Department of Commerce*)	264	284	287p	
Composite index of wages and salaries*‡ 1939 = 100 (*Federal Reserve Bank of New York*)	163r	176	177p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	144	157	158p	
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	88	88	85p	86p
Outside New York City	85	88	88p	92p

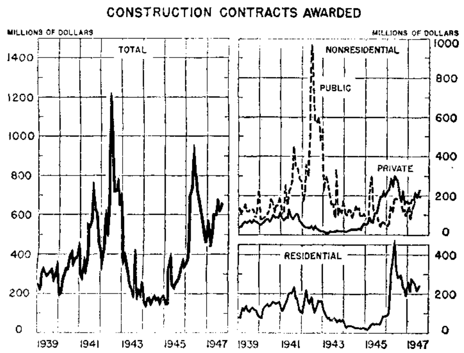
* Adjusted for seasonal variation. p Preliminary. r Revised.

\# 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.

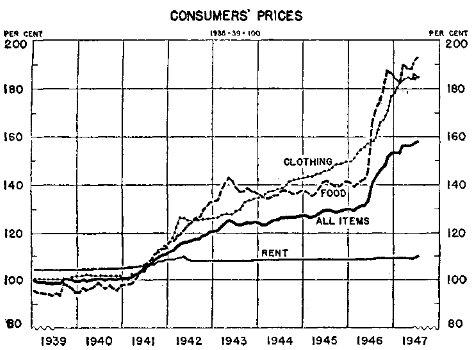
‡ A monthly tabulation of the 15 component indexes of hourly and weekly earnings computed by this bank will be sent upon request. A general discussion of the new indexes appeared in the November 1946 issue of this *Review*, and a more detailed description in the *Journal of the American Statistical Association* 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.



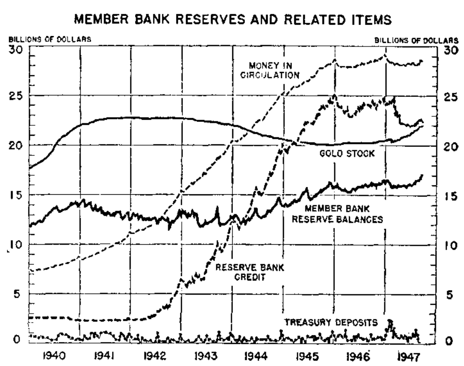
Federal Reserve index. Monthly figures; latest figure shown is for August.



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 July.



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



Wednesday figures; latest shown are for September 17.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, September 26, 1947)

INDUSTRIAL output in August recovered most of the decline shown in July. Total value of retail trade continued to show little change. Prices of goods in wholesale and retail markets advanced further to new high levels.

Industrial Production

The Board's seasonally adjusted index of industrial production was 182 per cent of the 1935-39 average in August as compared with 177 in July and 184 in June. Most of the August advance was due to increases in output of nondurable manufactured goods and minerals to levels slightly above June rates. Activity in industries manufacturing durable goods increased somewhat in August but remained 3 per cent below the June level.

Output of steel rose to a rate of 90 per cent of capacity in August, and indications are that it will average about that rate in September. Automobile production declined further in August, but advanced sharply in September. Output of lumber and most other building materials advanced in August, following decreases in July, while output of nonferrous metal products continued to decline.

Output of most nondurable goods increased in August, reflecting in part a recovery from exceptional vacation influences in July and in part increased domestic demand in such lines as textiles and leather products. Output of manufactured food products continued to advance somewhat more than is usual at this season.

Coal production rose sharply in August, the first full month of operations under the new wage contracts, but output for the month was still below the rate prevailing early this year. Output of crude petroleum showed a further slight advance.

Employment

Employment in manufacturing increased in August, following a decline in July, and was somewhat larger than in June, reflecting chiefly seasonal increases in the food and apparel industries. A further rise in construction employment occurred in August. The number of persons unemployed declined to an estimated 2.1 million persons, which was about the same as a year ago.

Construction

Value of contracts awarded for construction, as reported by the F. W. Dodge Corporation, rose by one fourth from July to August and was higher than in any month since the postwar peak of May 1946. Increases occurred in all major types of construction but were especially marked in awards for public utility construction, which more than doubled. Awards for all other nonresidential construction rose somewhat, while value of awards for residential building increased by more than one fourth. The number of new permanent houses started in August was estimated by the Bureau of Labor Statistics to be 83,000 units as compared with 80,000 last month and 65,000 a year ago.

Distribution

Department store sales in August and the first half of September increased by less than the usual amount at this time of the year. Value of sales was about two per cent less than in the corresponding period last year. Retail sales at all types of stores were about five per cent larger in August than in the same month a year ago, reflecting chiefly increased sales of durable goods. Value of sales of most nondurable goods was only slightly larger, although retail prices were considerably higher than in August 1946.

Loadings of railroad revenue freight increased considerably in August to a rate slightly above the same month a year ago. The August increase reflected a sharp rise in coal shipments and a substantial gain in loadings of miscellaneous freight. In the early part of September freight carloadings continued at a high level, after allowance for the usual Labor Day influence.

Commodity Prices

The general level of wholesale commodity prices advanced further from the middle of August to the middle of September, and exceeded the peak reached in March of this year by about five per cent. Prices of farm products and foods showed the largest increases. Prices of many industrial commodities have risen sharply since June.

Retail prices increased about one per cent from June to July, according to preliminary figures for the consumers' price index of the Bureau of Labor Statistics. Rent levels in the six cities surveyed showed somewhat less than one per cent rise in July, which was the first month affected by the new controls permitting increases of 15 per cent on new leases extending through 1948. Indications are that retail prices have risen further since that time.

Bank Credit

Further large gold inflows and a shift of funds from Treasury and foreign balances at Reserve Banks to accounts held at commercial banks in August and the first half of September provided funds for a substantial expansion in member bank reserves, a large outflow of currency associated with cashing of veterans' Terminal Leave Pay bonds, and a decline in Federal Reserve holdings of Government securities. Required reserves increased considerably during the period reflecting large additional expansion in bank deposits.

Commercial and industrial loans at banks in leading cities continued to increase sharply in August and early September. Consumer and real estate loans also expanded further, and holdings of Government securities showed little change.