

# MONTHLY REVIEW

## *Of Credit and Business Conditions*

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 29

NOVEMBER 1947

No. 11

### MONEY MARKET IN OCTOBER

Delayed reactions to steps previously taken in the field of credit policy and debt management, and immediate reactions to indications of further steps in the same area and in the same direction, were important influences in the money market during October. The initial response of the market to the rise in the rate on three-month Treasury bills, which began early in July, to the subsequent advance in the issue rate of one-year certificates of indebtedness from  $\frac{7}{8}$  of 1 per cent to 1 per cent, and to the announcement of a Treasury offering of a special investment series of  $2\frac{1}{2}$  per cent bonds, was slow and slight. As the rate on Treasury bills moved upward to somewhat above 0.80 per cent at the close of September, however, and the new long term Treasury bonds were actually sold, the repercussions were more pronounced. Finally, the announcement on October 20 that the Treasury would refund approximately 1.8 billion of twelve-month certificates maturing November 1 with an eleven-month issue at 1 per cent per annum, was interpreted by the market as an indication that the rate paid by the Treasury for one-year money would rise above the 1 per cent level established on October 1, and that short term rates generally would probably rise further. And Treasury calls on War Loan accounts with depository banks, for payment of about 800 million dollars in the last week of the month, in the face of the announced "rollover" of the November 1 certificates, injected a further note of uncertainty into the market. It became clearer, in fact, that influences which were contributing to an undesirable expansion of bank credit were being combatted by means of available measures of credit policy and debt management. At the end of the month it was announced that Federal Reserve holdings of Treasury certificates maturing November 1 were being redeemed instead of being exchanged for the new issue of 11-month 1 per cent certificates, thus reducing the amount of Federal Reserve credit in use. It was further announced that the Treasury would redeem 100 million dollars of a bill issue maturing on November 6 largely with funds withdrawn from War Loan accounts in depository banks.

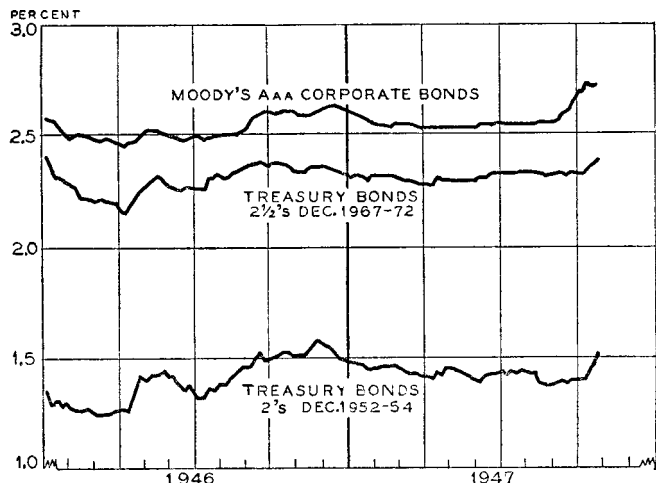
Actual further upward readjustment in short term money rates during the past month came largely in the form of a higher average discount rate on new Treasury bill issues. On October 2, the last bill carrying the repurchase option privilege

and the "pegged" rate of  $\frac{3}{8}$  of 1 per cent matured, and yields on issues then outstanding ranged from 0.76 to 0.83 per cent. The rate advanced moderately to 0.88 per cent on bills dated October 30. At the new level, the three-month bill rate was slightly above the rate paid by the Treasury on one-year certificates prior to August.

As a result of the firming of short term rates, and uncertainty as to the future course of such rates, the tendency of banks to reach out for longer term unrestricted Treasury bonds diminished, thus shrinking the market for sales of such bonds by nonbank investors and, indirectly, the demand of the latter for restricted issues. A continuing strong business demand for bank loans, which improved the earnings position of the banks, was also a factor in the declining appetite of commercial banks for longer term, higher yield bonds. And, of course, the sale of a new issue of nonmarketable Treasury bonds early in October, which absorbed about 870 million dollars of private funds available for investment, contributed to the turn in the long term market. The yield on the Victory Loan issue of December 1967-72 rose from 2.32 per cent at the end of September (unchanged from August 31) to 2.40 per cent on October 30. Weakness in the corporate bond section of the market was most marked during the first half of the month, continuing a movement which had begun in September, and which has led to a noteworthy widening of the spread between yields on Treasury bonds and high grade corporate issues. Moody's average yield of Aaa corporate issues advanced from 2.56 per cent at the end of August to 2.67 per cent at the end of September, and rose further to 2.72 per cent in the middle of October. As shown in the accompanying chart, the recent increases in bond yields have brought the average yield on corporate issues to new highs for several years, and the yields on restricted Treasury  $2\frac{1}{2}$ 's of December 1967-72 and the "bank eligible" 2's of December 1952-54 to at or near the levels reached in the latter part of 1946.

Unsettlement in corporate bond prices was particularly noticeable in the new issues market. Many issues recently offered to the investing public were carried to substantial discounts from the prices at which they were originally sold, making it obvious that new issues, to be successful, would

## Yields on Selected Treasury and High Grade Corporate Bonds\*



\* Wednesday dates; latest figures are for October 29, 1947.  
Source: Federal Reserve Bank of New York and Moody's Investors Service.

have to carry higher coupons. In fact, successively higher yields, as compared with yields of similar seasoned issues, were offered and finally found a ready market. For example, a large Aaa bond issue of a telephone company was offered to the public on October 22 at a yield of 3.07 per cent to maturity, as compared with a yield of 2.90 per cent on an outstanding issue of the same company of almost the same maturity.

## MEMBER BANK RESERVE POSITIONS

The recent tendency of member banks to hold more excess reserves continued into the first half of October. Surplus reserves rose 200 million dollars in the two weeks ended October 15 to 1.3 billion, highest since January 1946. A part of this gain, however, was temporary, reflecting an unusually large surplus position that prevailed at the New York City banks for a few days, and excess reserves fell 450 million dollars in the next two weeks.

The trend toward higher short term interest rates, following the elimination of the buying and repurchase option on Treasury bills at the fixed rate of  $\frac{3}{8}$  per cent and the abandonment of the long established rate of  $\frac{7}{8}$  per cent on one-year Treasury certificates of indebtedness, together with the absence of assurance, conveyed by these changes, that immediately available reserve funds can be obtained by means other than borrowing from the Reserve Banks, may have been at least partly responsible for the higher level of excess reserves in the last two months. The banks are no longer able temporarily to invest their surplus funds with assurance that they can sell short term Government securities directly or indirectly to the Reserve Banks without loss in case of subsequent needs for funds, and they cannot ordinarily obtain reserve funds for the securities they sell until the second day following the day of sale. Thus, despite the large decline during the two weeks ended October 29, it may be that the banks will continue to

hold larger average amounts of excess reserves than has been their practice in recent years, in order to be in a position to meet sudden needs for reserve funds, and that they may tend to borrow from the Reserve Banks more frequently than in the past in times of substantial pressure on reserves.

The ease of member bank reserve positions, which was reflected in the high level of excess reserves around the middle of the month, came principally from a sizable excess of Treasury cash disbursements over receipts, some increase in Federal Reserve "float," and large net expenditures from foreign accounts with the Reserve Banks. Treasury disbursements were augmented by the cash redemption of the unexchanged portion of Treasury certificates maturing October 1 and of the entire 759 million issue of  $4\frac{1}{4}$  per cent bonds on October 15. In connection with the bond retirement operation, however, the Treasury called for payment by depository banks of almost 610 million dollars on the day the bonds were due. Nevertheless, disbursements were about 200 million dollars greater than receipts in the first two weeks of the month and the Treasury's balance with the Reserve Banks fell from 1,053 million dollars on October 1 to 836 million on October 15.

Foreign expenditures were financed almost entirely by sales of gold to the Treasury, which amounted to nearly 200 million dollars in this period. As a result, the country's monetary gold stock rose to 22.2 billion dollars, approximately equivalent to the peak level reached in October 1941, after allowance for this country's gold subscription of 688 million dollars to the International Monetary Fund, and actually surpassed that peak by the end of the month.

Only a part of the gains of bank reserves derived from these various transactions in the first half of the month was absorbed by an increase in currency in circulation which amounted to 97 million dollars. Of the net increase in available reserve funds, 184 million dollars, or somewhat less than half, were used to reduce borrowings and to purchase short term Treasury securities indirectly from the Reserve Banks, while the remaining 224 million dollars went into excess reserves.

In the week ended October 22, total Reserve Bank credit was reduced substantially. Holdings of Government securities showed a net decrease of 446 million dollars and loans to member banks were reduced 21 million dollars further. Treasury net disbursements, a decline in currency circulation (reversing the flow of the two previous weeks), and net payments out of foreign deposit accounts with the Reserve Banks were the major factors providing the banks with additional reserves and were only partly offset by a rise in required reserves. Thus, a large part of the retirement of Federal Reserve credit resulted in a reduction amounting to approximately 290 million dollars in excess reserves, bringing the total down to 980 million on October 22.

Owing to weather conditions that kept airplanes from taking off and landing at New York for a few days beginning with

October 15, thereby delaying the shipment of checks by air, there was a very sharp expansion of Federal Reserve "float," principally in New York City and to a lesser extent in other areas. Thus, for a few days there was a substantial expansion of excess reserves, a large part of which occurred among the New York City banks. Money market conditions eased and the rate on immediately available "Federal funds" declined sharply to 1-16 of 1 per cent on October 22. The large volume of excess reserves enabled member banks, especially the New York City institutions, to purchase a substantial amount of short term Treasury securities.

Money market conditions tightened considerably in the last statement week of the month, however. Treasury receipts augmented by calls on War Loan accounts of almost 200 million dollars each on October 24 and 27 and 203 million dollars each on October 28 and 29 were substantially larger than disbursements, while a sizable reduction in Federal Reserve "float" also tended to absorb reserve funds, although there were partial offsets in further expenditures from foreign accounts with the Reserve Banks and a decline in currency in circulation. As a result of the net drain on their reserves, member banks sold a substantial volume of short term Treasury securities in the open market, especially Treasury notes, most of which were absorbed by the Federal Reserve Banks, and also increased their borrowing sharply. Member bank excess reserves declined further to 820 million dollars on October 29.

#### MEMBER BANK CREDIT

Reflecting generally buoyant business conditions, the demand for bank loans from individuals, farmers, and business enterprises gained momentum in recent weeks. Total loans of the weekly reporting member banks in 94 leading cities increased 579 million dollars in the four weeks ended October 22, with a sharp increase in business loans and smaller increases in real estate and "all other" loans, partly offset by reductions in security loans and loans to banks. Commercial, industrial, and agricultural loans rose 660 million to 13.6 billion dollars on October 22, the largest increase in any four-week period this year. The rate of gain was much more rapid at New York City banks than at the banks in other principal cities, but practically all of the rise of real estate and "all other" loans in this period took place at out-of-town banks. These banks also reported a moderate increase in security loans as against a decline of 130 million dollars reported by the New York City banks. This decrease was concentrated almost entirely in the week ended October 22 when a sharp reduction in loans to Government security dealers took place as the latter reduced their portfolios. In the last statement week of the month, the New York City banks reported a further sharp rise in business loans and smaller gains in each of the other loan categories.

Government security holdings of the weekly reporting member banks declined 48 million dollars in the four weeks ended October 22. Bond holdings fell 188 million reflecting the

redemption of the 4¼ per cent Treasury bonds in the middle of the month. Bond portfolios of the reporting banks outside New York City actually rose in this period owing to sizable purchases of nonmarketable bonds offered early in the month and to replacements of part of their holdings of the redeemed bonds. Bond holdings of the New York banks, on the other hand, fell 222 million dollars. Holdings of the other types of Treasury obligations, principally bills, fluctuated sharply in accordance with changes in money market conditions, falling in the first two weeks of the period and rising in the next two. On balance, the out-of-town banks reported a small net decrease in their holdings of such securities, while the New York City banks made substantial net purchases of bills and a small amount of certificates which were only partly offset by a sizable decline in their holdings of Treasury notes. In the week ended October 29, the metropolitan institutions sold 276 million dollars (net) of short term securities, chiefly bills and notes, reflecting pressure on their reserve positions resulting from large Treasury withdrawals from War Loan accounts.

#### TERMINATION OF CONSUMER CREDIT REGULATION

On November 1 control over consumer credit by the Federal Reserve System came to an end. On October 27 the Board issued the following statement:

The instalment credit controls exercised by the Board of Governors of the Federal Reserve System under Regulation W, pursuant to Executive Order No. 8843, will cease to be operative after November 1, 1947, in accordance with the resolution of Congress approved on August 8, 1947.

Generally speaking, the instalment terms prescribed by this regulation called for maturities of not more than fifteen months and down payments of at least one-third. The continuance of strong inflationary pressures has confirmed the belief of the Board that this is no time for the relaxation of terms by banks, finance companies and instalment sellers. Demand for automobiles and many other durable goods specifically covered by the regulation is still far in excess of supply. Easier credit will not add to the supply. It can only intensify demand and accentuate the upward pressure on prices. Easier terms should await a time when growth of credit is needed to maintain full production. That time has not arrived and it is not in immediate prospect. Employment and national income are at all time peaks. Inflationary forces continue to exert powerful upward pressures on the general price level. There could not be a worse time to encourage the public to go deeper and deeper into debt. Notwithstanding Regulation W and continued shortages particularly of consumers' durable goods, instalment credit, on which the regulation has been focused, has expanded by more than three billion dollars since the end of the war. Even this is too rapid a rate of growth under the prevailing inflationary conditions. Experience has shown that rapid and excessive expansion of this type of credit is followed by a sharp reversal, thus contributing greatly to economic instability.

As has been stated by the President, "It will be in the public interest for every merchant and financial agency extending instalment credit to avoid undue relaxation of terms. It will be far better to reduce prices rather than to relax terms in seeking new customers. Self-restraint on the part of those who use credit as well as on the part of those who extend it will reduce the danger of an over-expansion of instalment credit which would inevitably be followed by severe contraction, thereby contributing to unemployment and reduced production."

The primary responsibility for avoiding excesses now rests upon the lenders and vendors who have been subject to the regulation. Their interest and that of the nation will be served best if they refrain from taking undue advantage of the end of the regulation.

The Board of Governors urges all who participate in the extension of instalment credit to recognize and do all within their power to avert through self-imposed restraints the dangers inherent in easy terms that result in overexpansion of consumers' instalment credit.

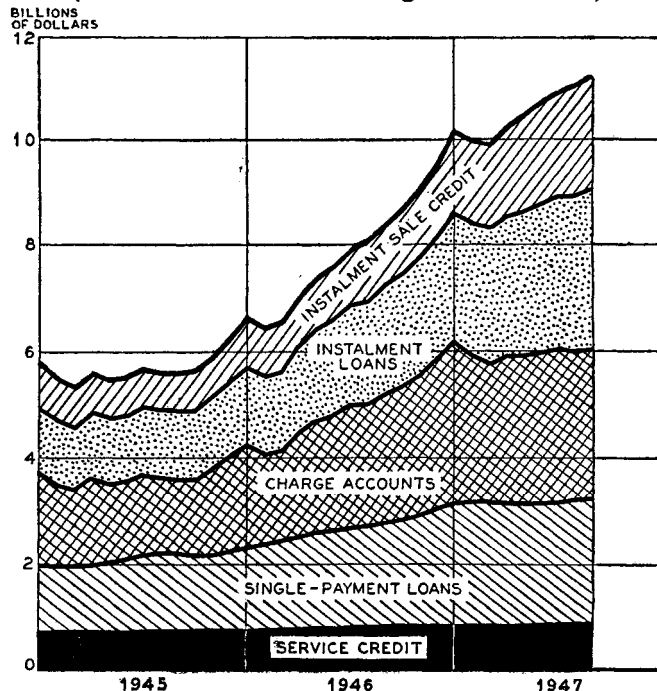
Restrictions on the extension of consumer credit were originally imposed in September 1941 as a wartime anti-inflationary measure. Maximum terms were set for all types of instalment sales or loans, and restrictions were placed on charge accounts and other forms of consumer credit.

On December 1, 1946 controls were removed from all types of consumer financing except instalment contracts covering purchases of 12 major types of consumer durable goods which were still in relatively short supply. Ever since Congress decided that these remaining controls should be lifted on November 1, 1947, the probable effect of the discontinuation of Regulation W on the expansion of consumer credit, particularly in the financing of consumers' durable goods, has been debated.

The amount of consumer credit in use was reduced sharply after 1941 and remained at a relatively low level until the end of the war as a result both of Regulation W and the wartime shortages of such major consumer durables as automobiles, which normally account for a large fraction of total instalment credit purchases. Since the end of hostilities, the amount of consumer borrowing has expanded very rapidly. In the two years between the end of August 1945 and August 1947 the amount outstanding is estimated to have risen from 5.6 billion dollars to 11.2 billion, an all-time high.

The pattern of growth in recent months of the different types of consumer credit, however, shows rather marked differences, as the accompanying chart indicates. Between the fall of 1945 and the end of 1946 all principal types of credit rose

**Consumer Credit Outstanding by Major Types, 1945-47**  
(Estimated amounts outstanding at end of month)



sharply, although consumers' durable goods were still relatively scarce and credit restrictions were not eased until late in the year. At the end of 1946 charge accounts, single-payment loans, and service credit were at record levels; instalment credit, which had experienced the sharpest wartime contraction, however, was still more than a third below its 1941 peak.

Since the beginning of 1947 outstanding charge accounts and single-payment loans have tended to level off. The failure of single-payment loans to increase further may be partly explained by the fact that banks, which are the principal lenders in this field, favor increasingly the instalment loan technique. Charge account sales still account for a somewhat smaller proportion of total sales than they did before the war, despite the fact that retail stores generally have been doing a considerable amount of promotional work in order to increase the number of their charge customers. Department stores charged approximately 38 per cent of their sales during the first 8 months of 1947 compared with 43 per cent in 1941.

Charge accounts are still roughly 25 per cent below the amount that might be expected on the basis of their prewar relationship to disposable income. Since charge accounts were freed from Government controls nearly a year ago, their failure to rise to a level comparable with prewar experience may indicate that the current substantially higher level of income payments and shifts in the distribution of disposable income may have significantly altered consumers' use of this form of retail credit. Following the termination of controls over charge accounts at the end of 1946, however, the number of days elapsing before the average account is paid is rapidly approaching the prewar norm. In 1940 and 1941 the average for department stores was approximately 65 days. Under Regulation W it dropped to about 48, and then in the first 8 months of 1947 rose to about 57 days.

Instalment credit has been rising steadily ever since the end of the war. Between the end of August 1945 and August 1947 total instalment credit outstanding increased 3.2 billion dollars, or 162 per cent, and accounted for more than half of the total consumer credit expansion. Approximately 770 million dollars of the total increase represented outstanding instalment contracts originated by automobile dealers and 840 million instalment cash loans made directly to consumers by commercial banks.

A marked increase has been evident during the past year or so in the number of department stores which, in addition to encouraging a growth in the number of their regular charge account customers, have initiated or revived some sort of revolving credit plan as a means of combating declining sales volume or prospective declines. Under such plans a customer is usually given a maximum line of credit equal to six times the amount he can afford to pay each month. He may then charge any item in the store to this account so long as the total amount outstanding at any one time does not exceed his maximum.

Whether instalment credit will rise sharply following the

termination of controls depends primarily on two factors: first, the available supply of consumers' durable goods, particularly automobiles; and second, the extent to which instalment terms—the size of down payments and the length of repayment periods—are eased. The supply of major consumer durables depends heavily on the steel supply situation which is currently very tight.

In comparison with the maximum terms that have been in force for the past 11 months (20 per cent down on furniture and rugs and 33⅓ per cent on other controlled items, with 15 months to pay the balance), the American Bankers Association has recommended the following new schedule of terms: new automobiles, 33⅓ per cent down, 24 months to pay; other major durables, 20-25 per cent down, 18 to 36 months to pay depending upon the type of merchandise. The majority of the members of the American Industrial Bankers Association report that they will adopt similar terms. Members of the National Retail Dry Goods Association have reported that their terms for soft goods will be 33⅓ per cent down with 6 months to pay, and for major durables 20 per cent down with 12 to 18 months to pay. Most of the large mail order houses, however, are adopting a general schedule of 10 per cent down, 18 months to pay.

In the last few months, however, it appears that the actual average terms of instalment contracts have been below the permissible limits either because the principal lenders and merchants have not taken full advantage of the maximum terms permitted under Regulation W, or because customers have made payments more rapidly than required. The accompanying table gives the average number of months that selected types of instalment contracts were outstanding in 1941, 1945, and the first 8 months of 1947. The only type of contract in this list which approached the legal limit of 15 months was the retail automobile paper held by sales finance companies which had an average term to final payment of 14 months<sup>1</sup>. This type

<sup>1</sup> The automobile paper held by the commercial banks and particularly by the sales finance companies includes some items such as trucks and airplanes which were not covered by Regulation W. The average term of sales finance company passenger paper may be shorter than that held by the banks because it includes a relatively larger amount of used-car paper.

Average Term of Instalment Sale or Loan Contracts of Selected Agents,\* 1941, 1945, and 1947 (Number of months to maturity)

Agent and type of contract	1941	1945	1947#
Commercial banks			
Automobile loans			
Purchased.....	n.a.	10	11
Direct.....	n.a.	10	12
Other retail loans.....	n.a.	10	12
Personal instalment cash loans.....	n.a.	11	12
Sales finance companies			
Retail automobile paper.....	18	11	14
Small loan companies.....	12	9	11
Department stores.....	10	5	6
Furniture stores.....	17	8	8

n.a. Not available.

\* Derived by formula  $\text{number of months} = \frac{2}{\text{collection ratio}} - 1$  (collection ratio is collections during month divided by balance at beginning of month) from basic data published by Board of Governors of the Federal Reserve System.

# Average of first eight months.

of paper also showed the greatest increase in length over 1945. In the first 8 months of 1947 instalment paper of commercial banks and small loan companies averaged 11 or 12 months. The average repayment period of department and furniture store instalment credit was particularly short in comparison with both prewar practice and Regulation W requirements. However, the fact that a greater proportion of soft goods is currently being sold on the instalment plan than was true in 1941, owing both to the relative shortage of hard goods and to the increasing promotion of revolving credit and other plans, probably weights the department store figures. Furniture store figures may also be weighted, but probably not to any considerable degree, by the fact that during and since the war many furniture stores have diversified their merchandise and have carried a larger amount of soft goods, on which instalment terms are normally considerably shorter.

A number of credit men have expressed the opinion that while terms will be liberalized to some extent following the end of Regulation W, and while credit is being used increasingly to promote sales, particularly in the soft goods lines, no very sharp increase in the growth of consumer credit is likely to occur in the near future, or at least until the supply of durable goods is more nearly equal to demand. Speaking in Montreal last month, the manager of the credit management division of the National Retail Dry Goods Association stated:

While instalment terms will be liberalized when credit restrictions are removed by elimination of Regulation W on November 1, retailers are determined to continue the extension of credit on a sound and conservative basis.

Representatives of other major groups in the instalment financing field have made similar statements. The American Bankers Association in publishing its recommended schedule of terms (which a number of banks have announced they are adopting) stated:

All bankers recognize the necessity of keeping the terms on instalment credit on a sound basis. Excessive debt should not be made attractive and merchandised in easy payments. The days of a dollar down and a dollar a week should not return.

Some businessmen, however, feel that the end of Regulation W will mark the return of keen competition in the field of credit terms, and that credit terms will be strongly influenced by the necessity for maintaining high volume to meet today's high operating costs. A recent survey conducted by the N.R.D.G.A. indicated that while 75 per cent of replying retail stores contemplated no change in their own credit policies, 65 per cent of them anticipated highly competitive conditions to materialize any time from "shortly after November 1" to "sometime in 1949".

The need for a conservative and cautious approach to any liberalization of credit policies expressed by many leaders in the consumer credit field is evident. With consumers' spendable incomes at record levels and our material and human resources nearly fully employed, the danger that unsound credit practices will add to inflationary pressures is great.

## COMMERCIAL BANK LENDING IN 1947

Beginning with the end of 1945, there has been a decided reversal of the wartime growth in the proportion of security investments to total loans and investments and the accompanying decline in the proportion of loans at commercial banks. This tendency for loans to regain their prewar importance in bank total assets continued during the first half of 1947. The continued shift in asset composition arose from a further expansion in lending at a time when the Treasury was continuing its debt retirement program. The greatest increase in the ratio of loans to assets occurred at nonmember insured banks, whereas this ratio changed only slightly at leading member banks which report weekly. At member banks which do not report weekly the rise in the ratio of loans to total assets was almost as great as at insured nonmember banks.

Differences in relative gains in the ratio of loans to assets reflect both uneven rates of loan expansion and the uneven effects of the redemption of Treasury securities. On the one hand, the percentage increase in loans outstanding was most rapid at nonmember insured banks, which are mostly "country banks," and was smallest at weekly reporting member banks in the principal cities. On the other hand, the large share of Treasury securities and Government deposits held by the large city banks led to a greater proportionate drop in their security portfolios. Part of this reduction, however, was attributable, not to the direct effects of Treasury redemptions, but to market sales induced by withdrawals of funds by correspondent banks. Thus the use of current Government revenues to retire public debt resulted in a reduction of another category of assets—demand balances with other banks—on the books of both nonmember and nonreporting member banks. It appears that the share of income taxes paid by depositors at the two nonreporting groups of banks was greater than the holdings of those banks of the securities redeemed by the Treasury. As a result the larger proportionate drop in Government security holdings of the weekly reporting banks was about matched by the greater reduction of deposit balances with city correspondents at the other two groups.

The lower percentage rate of expansion of loans at the weekly reporting member banks in principal cities has been evident since the end of the war, as was pointed out in the June 1947 issue of this *Review*. The decline in security loans—especially loans on Government securities, which were so largely concentrated in these banks—was chiefly responsible for the relatively small increase in total loans of such banks in the immediate postwar period. In the first half of 1947, loans on securities again decreased, but their importance in the total had already receded to a point (14 per cent of total loans at the end of 1946) where a further decline did not so substantially offset increases in other categories. The percentage decrease in security loans in the

other two classes of banks was larger in that period, as indicated in Table I, but at these banks security loans were much less important in their total volume of loans (3 and 4 per cent, respectively).

The principal cause of the variation in the growth of loans was the difference in the rate of increase of business and agricultural loans. The effect of the slackening of the rate of accumulation of inventories during the first half of 1947 on the expansion of such loans in all classes of banks was clearly perceptible. At the reporting banks in principal cities, where business and agricultural loans comprised nearly 60 per cent of total loans, the half-yearly gain was only about 4 per cent. Such loans rose more rapidly at the other banks, partly because these banks extend more agricultural loans, which clearly were increasing faster. Another possible cause of the more rapid rise at the "country" banks may have been a shift in the incidence of inventory financing from the larger centers to the smaller communities.

The pace of growth of real estate loans, too, slowed noticeably at all classes of banks during the first half of 1947, reflecting a lag in new construction and a leveling off of real estate prices. At the nonmember banks where the proportion of real estate loans was greatest, amounting to over 40 per cent of total loans, the percentage increase was least. On the other hand, at the weekly reporting member banks, where the fraction of real estate loans to the total was only about one eighth, the percentage gain was greatest. This pattern may have conformed to the distribution of housing starts and completions. Housing starts in 1946 were greater than completions and a large backlog of uncompleted dwellings was carried over into 1947. When this backlog began to be cleared up as building materials became more abundant, completed dwellings were sold and mortgages on such homes increased the banks' real estate loan portfolios. The backlog may have been disproportionately great in larger centers where housing needs were greatest, and may thus

Table I  
Changes in Loans of Insured Commercial Banks in the First Half of 1947  
Classified by Type of Loan and Bank\*  
(Amounts in millions of dollars)

Type of loan	Type of bank					
	Member				Nonmember	
	Weekly reporting†		Other			
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Security.....	- 271	- 9.9	- 41	-16.7	- 18	-11.7
Business and agricultural	+ 445	+ 3.9	+309	+11.5	+185	+13.8
Real estate.....	+ 487	+19.6	+395	+13.8	+215	+12.3
All other.....	+ 380	+13.3	+255	+17.3	+175	+21.8
Total loans.....	+1,041	+ 5.4	+918	+12.6	+557	+13.8

\* Excludes banks in the possessions of the United States and thus differs slightly from data published by the Federal Deposit Insurance Corporation.  
† End-of-month data estimated from Wednesday figures.

have contributed to the more rapid rise in real estate loans at banks located in those centers.

The category of "all other loans" expanded less rapidly at both classes of member banks than during the previous year. Consumers' loans, which account for a considerable portion of this category, probably slackened their rate of growth because of the leveling off in the output of durable goods during the first half of 1947. An increased participation in the consumer loan market by nonmember banks may be responsible for their more rapid increase in such loans. The rate of entry of such banks into the consumer credit field was almost certainly greater.

**Table II**  
**Changes in Loans of Weekly Reporting and Other Member Banks**  
**June 30-August 27, 1947**  
 (Amounts in millions of dollars)

Type of bank	Loans on securities		Other loans		Total	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Weekly reporting banks	-294	-12.0	+ 936	+5.2	+ 642	+3.1
Other member banks...	- 31e	-15.1	+ 434e	+5.4	+ 403	+4.9
Total.....	-325e	-12.2	+1,370e	+5.3	+1,045	+3.6

e Estimated by Federal Reserve Bank of New York.

Since the end of June, loans of member banks have expanded sharply. Total loans in weekly reporting member banks increased through August at a lower rate than loans in the nonreporting class, owing to a further contraction in security loans. Loans other than those on securities showed almost the same rate of increase at both reporting and non-reporting member banks between the end of June and the end of August. Business and agricultural loans at reporting member banks increased at a substantially greater rate than during the first half of the year, apparently in response to seasonal influences as well as to further increases in inventories. The percentage increase in July and August—about 5 per cent—was less than that for the following six weeks, again in conformity with the prewar seasonal pattern. If this pattern is maintained in the ensuing months, the rate of increase in business loans, which continued high at the reporting member banks in October, should slacken in the remainder of the year, especially toward the end.

**THE RECENT RISE IN CONSTRUCTION ACTIVITY**

During the first half of 1947, both residential and non-residential construction fell short of the high volume that had been anticipated. In the third quarter, however, there was a sharp spurt in building activity, as the following table indicates. The value of construction put in place showed twice the normal seasonal increase between the second and third quarters. The value of private nonfarm housing erected during September was 475 million dollars, the highest since the end of the

war and probably close to the peak reached during the housing boom of the twenties. Private nonresidential construction in September was slightly above the 1946 peak. Public construction, including institutional, military, and public works projects and housing financed with government funds, has been running somewhat above last year, although far below wartime levels.

In part this recent rise in building activity has been the result of the removal of Federal controls on nonresidential construction on June 30. Value of work on stores, restaurants, and garages, for instance, rose 22 per cent during the third quarter, although such work ordinarily declines at this time of year. A factor in the rise in residential activity has been the removal of rent control on newly constructed housing, and the lifting of restrictions on erection of larger and more expensive dwellings.

Another important factor has been the continued strength of building costs. During 1946 and the early part of 1947 construction costs were rising so rapidly and so unpredictably that most contractors refused to accept work on anything but a cost-plus basis. Furthermore there was a widespread feeling that building costs would soon decline, which caused many firms, individuals, and State and local government authorities to defer all but the most urgent construction plans. Building costs have now stabilized sufficiently to allow many contractors to quote firm prices, but they are still rising, though somewhat more gradually, and no sizable drop is in sight for the immediate future. As a result, many of the projects deferred in anticipation of lower construction costs have been revived and are contributing to the current spurt in building activity.

In spite of the recent increase, the total for the year 1947 is not likely to come up to earlier expectations. The volume of

**Construction Activity Indicators by Quarters**  
 (1939 average = 100)

Item	1946				1947		
	I	II	III	IV	I	II	III
New construction activity							
Residential.....	82	142	212	218	177	195	253
Nonresidential.....	110	156	201	183	154	189	234
Construction contracts awarded							
Residential.....	140	350	258	195	224	216	245
Nonresidential.....	176	240	209	160	156	210	237
Dwelling units started.....	110	154	144	113	111	170	197
Dwelling units completed.....	40	60	101	139	140	142	166
Construction costs.....	147	156	165	171	183	190	197
Construction labor—average hourly earnings.....	152	154	160	166	172	177	180*
Building materials—wholesale prices..	135	142	147	161	192	195	198
Building materials—production.....	95	125	142	139	125	138	142*
Construction employment.....	98	125	147	148	132	147	164

\* Based on July and August data.

Source: New construction activity (value in current prices of work put in place)—U. S. Departments of Commerce and Labor.  
 Construction contracts awarded (value for 37 Eastern States)—F. W. Dodge Corporation.  
 Dwelling units started and completed (new permanent nonfarm dwellings—completions in 1939 assumed equal to starts), average hourly earnings of private building construction workers, wholesale prices of building materials, and number of wage and salary workers employed in construction—U. S. Bureau of Labor Statistics.  
 Construction costs (composite index) and building materials production (index of physical volume)—U. S. Department of Commerce.

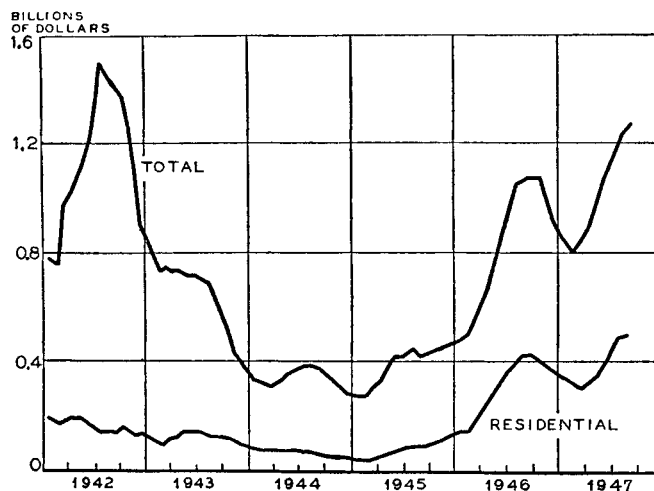
new construction expenditures for the first ten months of 1947 has totaled over 10 billion dollars and it now appears likely that the total for the year will be about 12 billion, compared with the forecasts of 15 or 16 billion dollars at the start of this year. Although the value of new construction so far this year is running 28 per cent above the corresponding period of last year, the bulk of the increase apparently has been due to rising prices. The Department of Commerce composite index of construction costs has averaged about 22 per cent above 1946 during the first three quarters of this year, which would indicate an increase in physical volume of construction of less than 10 per cent.

During 1946, under the impetus of the Veterans' Emergency Housing Program, builders started work on 1,001,800 new dwelling units of all types, including temporary accommodations, trailers, and conversions, and completed 642,300. Permanent new family dwelling units accounted for 670,500 of the units started and 437,800 of the completions. During the first nine months of 1947, with Government control of the housing program largely abandoned, 615,000 new permanent units were started and 576,000 were completed. By early August this year more permanent dwellings had been completed than in the entire year 1946. This largely reflects the extremely low level of construction activity at the start of 1946 and the delays and bottlenecks encountered in obtaining building materials and labor during the year. The beginning of 1947, on the other hand, witnessed a housing program in full swing and a backlog of 370,000 partly completed homes.

Private nonresidential construction has been proceeding at an accelerated rate. Since the end of the war it has consistently accounted for about 40 per cent of the total value of new construction, compared with only one fourth in 1939, whereas residential construction accounted for approximately one third of the total in both 1939 and the first three quarters of 1947. Inasmuch as much of the large volume of Government-financed wartime industrial expansion was not readily adaptable to peacetime production, industrial building has been maintained at a high rate in the past two years. Reconversion of war plants and expansion of civilian production facilities have kept the physical volume of private industrial building at the highest level on record except for 1929, although there appears to have been some tapering off in recent months. Privately financed public utilities have also maintained their expenditures at a high level during 1947. Telephone companies and electric utilities have undertaken considerable expansion of facilities to meet the large backlog of demand accumulated during the war and the growing needs for their services.

Commercial construction, despite a rise since the end of controls, has failed to equal the 1946 peak. Commercial building was more severely curtailed during the war than either industrial or utility construction. Not only were stores, restaurants, and other commercial buildings needed for war-expanded com-

Value of New Construction Work in the United States, 1942-47



Source: Estimates of value of work put in place prepared jointly by the U. S. Departments of Commerce and Labor.

munities, but facilities are also in demand for the new residential developments being built. A large volume of commercial construction was started immediately after the elimination of wartime controls, but early in 1946 further new projects were curtailed in favor of the veterans' housing program. The physical volume of activity this year, although below 1946, compares favorably with prewar levels.

Public construction activity soared to unprecedented heights during the war. The construction of military installations and Government-financed industrial facilities reached a peak in 1942, as shown in the accompanying chart. Since the end of the war, public construction has dropped in importance to well below prewar proportions. In 1946 there was great emphasis on veterans' emergency housing, but this year the amount of public housing activity has been sharply lower. In some cases high construction costs have retarded public construction projects, but in many other cases State and local governments are proceeding with the building of schools, hospitals, roads, and other public works deferred during the war.

The high rate of construction expenditures has been a major factor in sustaining current high levels of employment and income. The demand for housing continues strong, as indicated by a recent Federal Reserve survey of consumer buying plans, and the residential building boom should continue next year, unless rising prices or unexpected curtailment of income force many potential buyers out of the market. Expenditures on plant and equipment, as estimated by the Securities and Exchange Commission, are expected to reach a new postwar peak in the last quarter of this year, reflecting a high degree of business confidence in the immediate business outlook. In general, a high level of building activity, both in physical volume and in dollar expenditure, is in prospect for 1948 if costs are not increased appreciably further.



**DEPARTMENT STORE TRADE**

The arrival of cooler weather in the latter half of September and very early part of October brought active response from shoppers; sales in Second District department stores were very brisk during this period. Dollar volume during the week ended October 4 was the largest for any week of the year to date. During the following three weeks when the weather again turned very warm, sales ran consistently below the first week's high although somewhat above the average for September. The over-all increase between September and October this year was less than the usual amount, however, and consequently a preliminary estimate of this bank's seasonally adjusted index of sales for October shows a decline from September and is more than 10 per cent below the high levels of May, June, and July.

Sales in October of this year, on a preliminary basis, were a little more than 25 per cent above October 1946. The exact meaning of this gain is difficult to assess, however, for during October last year sales in New York City and Newark (which usually account for more than two thirds of total reported District sales) were severely hampered by the delivery and trucking strikes. The prospect before the customer of waiting an indefinite time for purchases to be delivered or of having to carry packages home deterred shopping greatly in these two very large areas. Furthermore, the trucking strike interfered with the flow of merchandise to the stores. On a seasonally adjusted basis, October was the lowest month in 1946.

**STOCKS AND OUTSTANDING ORDERS**

Reports from stores which account for about three fifths of total department store sales in the Second Federal Reserve District indicate that during the past year, department stores in this District have adjusted their merchandise commitments (stocks on hand plus outstanding orders) to a more nearly normal relationship to sales than was maintained throughout the war and until the closing months of 1946.

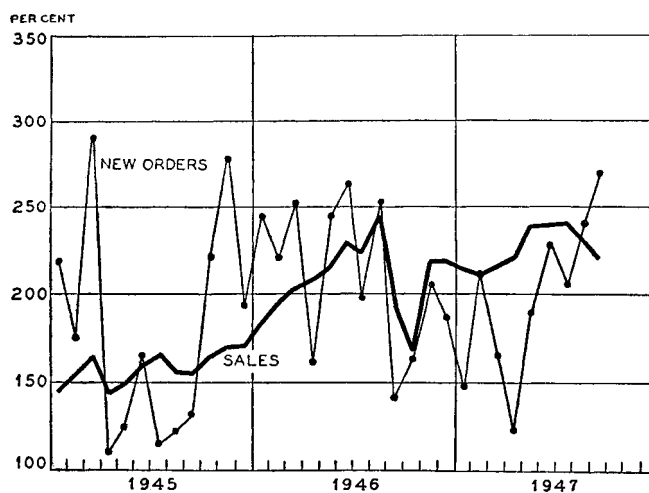
From the time of our entry into the war, through the third quarter of 1946, a combination of factors caused department stores to extend greatly their merchandise commitments. In the very early war period, because of the prospect of higher prices and of an anticipated shortage of consumers' goods, department stores built up their stocks at a very rapid rate. During the summer of 1942, inventories of reporting stores reached a peak which was not exceeded until a full year after the end of the war. They were reduced sharply during the fall and Christmas seasons of 1942 in accordance with wartime controls on retail inventories, and remained at relatively low levels for the next three years. In the meanwhile, a growing volume of sales, continuous pressure on prices (visible in upgrading of merchandise as well as in increased prices)—both arising from swelling consumer incomes—and increasing difficulties in obtaining deliveries, led to a rapid increase in

forward orders for merchandise. In the face of a tight supply situation, stores deliberately duplicated orders extensively, particularly during the twelve months ended in August 1946, in an effort to obtain from one supplier or another the goods needed to meet unprecedented consumer demands. By the end of August 1946, the dollar volume of outstanding orders of the group of stores that report such data were six and one-half times the volume at the close of August of 1940, although sales of these stores for the first eight months of 1946 were less than two and one-half times sales for the corresponding period in 1940.

The flow of merchandise had increased rapidly by the fall of 1946, and in some lines stocks suddenly were built up to higher levels than were required to support the current volume of sales. Stores were quick to recognize the uneven distribution of stocks. In the face of a certain amount of consumer resistance, and fearing that prices might decline from levels reached after the liquidation of the O.P.A., stores conducted widespread clearance sales at substantial markdowns. New orders were placed in much more modest volume during the nine months following August 1946, and for the first time in several years overdue orders were canceled by a number of stores.

By the end of May 1947 outstanding orders declined to less than one third of their peak volume. The flow of merchandise during the preceding nine months became more closely related to departmental needs, enabling stores to achieve a much more balanced inventory position. Thus, merchandise commitments relative to sales in the months after August 1946 gradually

**Indexes of New Orders and Sales for a Representative Group of Department Stores, Second Federal Reserve District, 1945-47\***  
(1940 averages = 100 per cent)

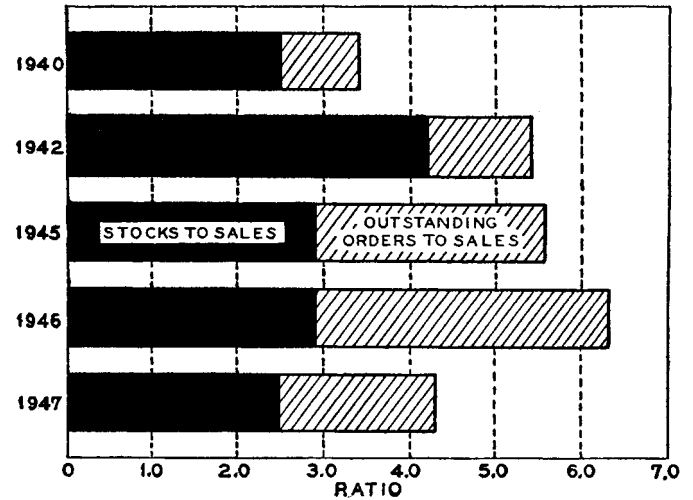


\* New orders (not seasonally adjusted) estimated from sales and changes in stocks and outstanding orders reported by a group of identical department stores. Index of sales is seasonally adjusted and is based on a slightly larger sales volume.

came closer to the relationship prevailing in the corresponding months of 1940. By May 1947, the ratio of end-of-month merchandise commitments to monthly sales was practically the same as it had been in the same month of 1940.

During the summer of 1947 receipts of merchandise were light and earlier expectations of a price decline were not fulfilled. Encountering unexpected difficulties in obtaining deliveries, and fearing to be caught short of merchandise for the coming season, stores once again expanded their volume of new orders considerably. At the end of September 1947, as shown in the accompanying bar chart, the ratio of merchandise commitments to sales during the month stood at 4.3, somewhat higher than in September 1940 (when the ratio was 3.4) but well below the ratio for the same month of 1946 and several preceding years. The solid portion of each bar—which represents the ratio of stocks to sales—shows the relatively low level of stocks at the end of September of this year. Outstanding orders, on the other hand, were relatively high. Nevertheless, buying policies on the whole have remained fairly cautious.

Ratios of September Stocks and Outstanding Orders to Sales for a Representative Group of Department Stores, Second Federal Reserve District\*



\* Stocks and orders are for end of month. Ratios computed from data reported by a group of identical department stores.

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

Locality	Net sales		Stocks on hand Sept. 30, 1947
	Sept. 1947	Jan. through Sept. 1947	
Department stores, Second District...	+19	+ 8	+ 6
New York City.....	+22	+ 8	+10
Northern New Jersey.....	+20	+ 5	- 8
Newark.....	+17	+ 3	- 9
Westchester County.....	+20	+10	+ 1
Fairfield County.....	+ 5	+ 7	+ 2
Bridgeport.....	+ 2	+ 7	+ 1
Lower Hudson River Valley.....	+14	+11	+ 6
Poughkeepsie.....	+12	+ 8	+ 2
Upper Hudson River Valley.....	+17	+ 9	+ 2
Albany.....	+18	+ 9	+ 6
Schenectady.....	+10	+ 6	- 6
Central New York State.....	+ 8	+ 9	- 3
Mohawk River Valley.....	+14	+ 9	+ 3
Utica.....	+ 9	+ 9	- 1
Syracuse.....	+ 5	+ 8	- 6
Northern New York State.....	+39	+21	-
Southern New York State.....	+15	+10	+ 9
Binghamton.....	+11	+ 6	+ 1
Elmira.....	+13	+ 8	+14
Western New York State.....	+14	+ 8	+ 9
Buffalo.....	+17	+ 8	+13
Niagara Falls.....	+ 5	+ 7	- 1
Rochester.....	+12	+ 9	+ 1
Apparel stores (chiefly New York City).....	- 1	- 6	- 9

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

Item	1946	1947		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted.....	214	171r	179	244
Sales (average daily), seasonally adjusted..	206	255r	246	234
Stocks, unadjusted.....	216	193	215	227
Stocks, seasonally adjusted.....	200	204	206r	210

r Revised.

Indexes of Business

Index	1946	1947		
	Sept.	July	August	Sept.
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	180	176r	182	185p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	204	218	229	238p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	199	188	210p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	260r	277r	274	288p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	150	150	154	156p
New York State, 1935-39 = 100..... (New York State Department of Labor)	129	121	127	130p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	290	314	322p	
New York State, 1935-39 = 100..... (New York State Department of Labor)	265	265	275	288p
Personal income*, 1935-39 = 100..... (Department of Commerce)	260	286	283p	
Composite index of wages and salaries*† 1939 = 100..... (Federal Reserve Bank of New York)	164	176p	176p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	146	158	160p	
Velocity of demand deposits*#, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	90	83	88	88
Outside New York City.....	79	82	86	86

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

† A monthly release showing the 15 component indexes of hourly and weekly earnings computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, together with information on component series, sources, and weights, and reprints of articles describing the indexes may also be procured from the Research Department.

# These are new series for the period 1935 to date based on "annual rate of turnover of demand deposits except interbank and Government" published by the Board of Governors. These rates have been adjusted for seasonal variation and placed on a 1935-39 base by this bank. Tabulations of monthly data, both adjusted and unadjusted, are available on request from the Research Department. The series formerly published was discontinued because of the revision in the weekly reporting member bank series.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, October 25, 1947)

**I**NDUSTRIAL output and employment expanded somewhat further in September. Value of retail trade increased, reflecting partly a further rise in prices. In the early part of October department store sales declined. Prices of wheat, hides, rubber, and steel scrap showed marked advances, while prices of most other basic commodities showed little change.

INDUSTRIAL PRODUCTION

Output of manufactured products and minerals showed some further rise in September, and the Board's seasonally adjusted index of industrial production advanced three points to 185 per cent of the 1935-39 average. This was the same as the May index and 5 points below the postwar peak in March of this year.

Activity in durable goods industries as a group increased further in September owing mainly to larger output of steel and of most types of machinery and transportation equipment. Steel production was temporarily curtailed around the middle of the month as a result of an industrial dispute, but advanced sharply in the latter part of the month and continued to rise in October, reaching a scheduled rate of 97 per cent of capacity. Output of passenger automobiles and trucks rose sharply in September, but declined again in the early part of October. Production of railroad equipment, chiefly freight cars, showed a substantial gain in September, reflecting in part improved supplies of materials. Output of building materials was maintained in large volume to meet demands arising from the advanced rate of construction activity.

The Board's index of nondurable-goods output showed a slight increase in September, reflecting mainly increased production of rayon textiles, paperboard, and petroleum products. Activity at cotton mills and output of manufactured food products and some other nondurable goods showed little change from the level of the preceding month.

Minerals production rose further in September, reflecting a new record rate of crude petroleum output and a substantial gain in coal production. Output of bituminous coal advanced seven per cent and was close to the same volume produced in September of last year. Output of fuels continued to rise in early October, under the pressure of exceptionally strong demand.

EMPLOYMENT

Nonagricultural employment increased by 450,000 persons in September, and was at the record level of 43 million, according to Bureau of Labor Statistics figures. The increase largely reflected seasonal gains in nondurable goods manufacturing and trade, and in the number of school employees of State and local governments.

CONSTRUCTION

The value of new construction activity on projects under way, as estimated by the Departments of Commerce and Labor, increased somewhat further in September. Work was started on 88,000 new dwelling units in September, an increase of 2,300 from August, and work was completed on 77,000 units. The value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined in September following a sharp increase in August, and was at about the level of other recent months. Declines occurred in most lines, but the greatest reduction took place in public utilities, which had increased most markedly in August.

DISTRIBUTION

Department store sales increased by more than the usual amount in September, owing in part to the advent of cooler shopping weather and the expenditure of proceeds from redemption of terminal leave bonds. Sales at other retail stores also increased, reflecting chiefly higher prices for foods and a larger volume of purchases of durable goods. In the early part of October department store sales declined considerably from the high rate reached at the end of September.

Shipments of railroad revenue freight continued to advance in September and the early part of October. The usual large seasonal rise in loadings of miscellaneous freight and further gains in coal shipments accounted for most of the increase.

COMMODITY PRICES

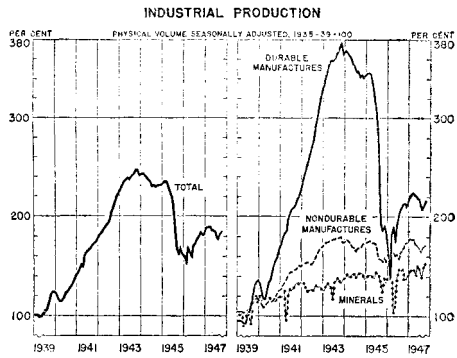
The general level of wholesale commodity prices in the middle of October was at the advanced level reached in the middle of September. Prices of wheat and some other farm products and foods reached new high levels. Prices of butter, corn, and meats, however, declined, following earlier sharp increases. Wholesale prices of most groups of industrial commodities continued to show advances in the early part of October.

Retail prices rose further by about one per cent from July to August with the largest increases shown in prices of foods and fuels. Further marked advances in retail food prices have occurred since August.

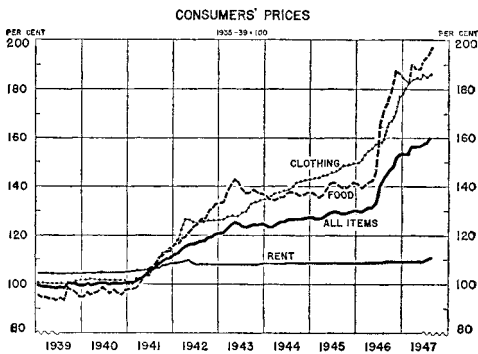
BANK CREDIT

Commercial and industrial loans at banks in leading cities continued to increase substantially during September and the first half of October. Real estate and consumer loans also showed further growth. Holdings of Government securities declined somewhat, reflecting Treasury retirement of bonds maturing on October 15.

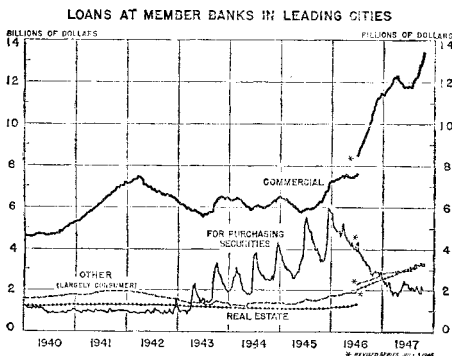
Additions to monetary gold stock continued to supply reserve funds to banks. Treasury balances at Reserve Banks, which were expanded considerably in late September as a result of large quarterly tax receipts, declined in October. The effects of these fluctuations on the reserve positions of banks were offset by changes in Federal Reserve holdings of Government securities, which increased in the latter part of September and declined during the first three weeks of October.



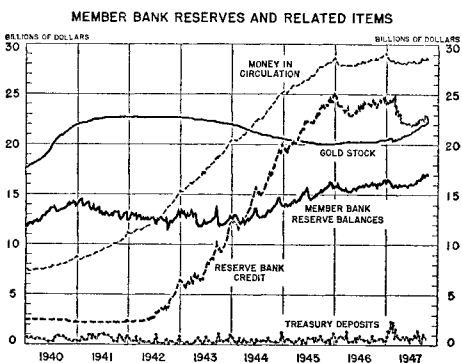
Federal Reserve indexes. Monthly figures; latest shown are for September.



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



Excludes loans to banks. Wednesday figures; latest shown are for October 15.



Wednesday figures; latest shown are for October 22.