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MONEY MARKET IN MARCH

The pressure on the reserves of the commercial banking system which was expected to result from the large excess of Treasury tax collections over Government disbursements in the first quarter of this year was more evident in March than in either of the preceding months of the quarter. In January and February, the banks' losses of funds were offset to a greater extent by the seasonal return flow of currency from circulation, by gold inflows and foreign expenditures here, and, to a smaller extent, by net purchases of Government securities from nonbank investors by the Federal Reserve Banks and Treasury investment accounts for the purpose of maintaining stability in the market for such securities. Offsetting factors again were sizable in March, but were not sufficient to prevent a substantial net drain on bank reserves, especially in the latter half of the month. These factors again included gold imports and foreign disbursements, a considerable reduction in the required reserves of member banks (due to the shrinkage in their deposits caused by tax collections), and a further reduction in the volume of currency outstanding to the lowest level in two years, which reflected in part payments of income taxes with currency.

The net losses of funds sustained by the commercial banking system tended to be concentrated to a considerable extent on the New York money market through heavy withdrawals of funds from the large New York City banks by correspondent banks in other parts of the country and by business concerns. The net outflow in the four weeks ended March 24 amounted to several hundred million dollars. In addition, the effects of the increase at the end of February in the reserves which central reserve city banks in New York City and Chicago are required to maintain against their demand deposits carried over into the early days of March.

As a result, conditions in the New York money market were tight during most of March. This situation had its clearest reflection in rates on day-to-day loans of reserve funds between banks ("Federal funds") which were between 1 and 1¼ per cent during most of the month, except during the week ended March 10, and in the fact that such loans were frequently unobtainable in substantial amounts. In periods of ease in the money market, rates on "Federal funds" have frequently fallen as low as ⅛ or ¼ per cent.

The losses of reserves by the New York City banks resulting from tax collections and withdrawals of funds by correspondent banks and others were partly offset by several factors, including Treasury interest payments on March 15, deposits of the proceeds of security sales and redemptions by their customers, foreign account disbursements, and the reduction in their required reserves that accompanied the shrinkage in their deposits. Nevertheless, they found it necessary to sell substantial amounts of Government securities during the month, and on several occasions borrowed sizable sums from the Reserve Bank pending the receipt of the proceeds of their security sales or other funds. Banks in other parts of the country apparently met the drain on their reserves in part by similar methods, although in many cases they were able to meet their needs to a considerable extent by the withdrawals of funds from their balances with New York City banks, previously mentioned, or with Chicago banks.

In order to enable member banks to maintain their reserves at the required levels, the Federal Reserve System purchased considerable amounts of Treasury bills, certificates, notes, and short-term bonds in the market, especially during the latter half of the month. Nevertheless, as the accompanying table shows, total holdings of Government securities by the Reserve Banks showed a net decline of more than 400 million dollars in the four weeks ended March 24 because of continued redemptions by the Treasury of maturing Treasury bills and certificates held by the Reserve Banks, as well as of Treasury bonds called for redemption on March 15. Further purchases of short-term securities indirectly from banks in need of reserves were made in the closing days of the month, but for the first quarter of the year as a whole Reserve Bank holdings of Government securities were reduced by more than 1½ billion dollars. In the same period, member bank reserves were reduced by approximately 1 billion dollars.

Changes in Federal Reserve Bank Holdings of Government Securities (In millions of dollars)

	Bills	Certificates	Notes	Bonds	Total
Dec. 31 to Jan. 28...	−1,428	− 897	+ 66	+1,686	−573
Jan. 29 to Feb. 25...	− 721	−1,538	+179	+1,127	−953
Feb. 26 to Mar. 24...	− 488	+ 11	+ 64	− 14*	−427

* Includes redemption of 175 million of bonds on March 15.

As this table indicates, Federal Reserve Bank purchases of Treasury bonds in market stabilizing operations were greatly reduced during the past month, amounting (after adjustment for the redemption of 175 million of called bonds on March 15) to only about 160 million dollars. Part of that amount was accounted for by purchases of bonds of relatively short maturities which were sold by banks in need of reserves. Some additional Treasury bonds were purchased for Treasury investment accounts at the support prices during March, but in this case also the amounts were comparatively small.

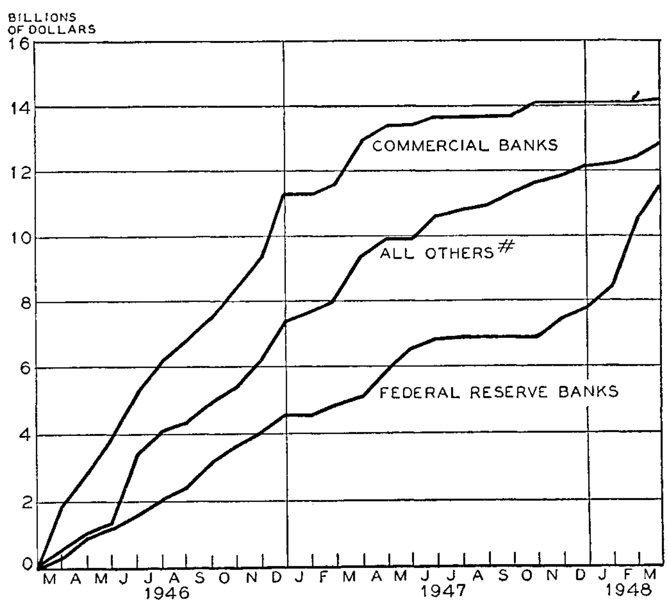
The reduced need for stabilizing operations reflected the growing firmness in the market for the longer term Treasury securities. By the end of the month all such issues were selling at least slightly above the Reserve System's support prices. Sales of such bonds had diminished to relatively small amounts and were readily absorbed by other investors. The announcement shortly after the middle of the month that a 12-month, 1⅛ per cent certificate of indebtedness would be offered in exchange for the certificates maturing on April 1 was interpreted as indicating that there was to be no further rise in interest rates on short-term Treasury certificates for the present, and contributed to the firmness of the market for Treasury securities generally. The President's recommendation of an expanded national defense program was also a factor as it resulted in some increase in confidence, in market circles, that the present floor for prices of Treasury bonds would be maintained.

Public Debt Redemptions

As in several preceding months, most of the marketable securities redeemed by the Treasury in March were securities held by the Federal Reserve Banks. Total redemptions during the month were approximately 1.4 billion dollars, including about 900 million dollars of unexchanged Treasury certificates maturing on March 1 and Treasury bonds called for redemption on March 15, of which the Reserve Banks held approximately half, and 500 million dollars of Treasury bills, all of which were held by the Reserve Banks.

Redemptions of public debt obligations other than Savings bonds and notes amounted to 4.4 billion dollars during the first quarter of 1948, and since the beginning of the debt redemption operations in March 1946 have reached an aggregate of more than 38 billion dollars. As the accompanying chart shows, it is estimated that of the redeemed securities, about 14¼ billion dollars were held by commercial banks, 11½ billion dollars by Federal Reserve Banks, and over 12¾ billion dollars by all other investors. While it has been the policy of the Treasury since the beginning of the debt redemption operations to retire securities held largely by the banking system, approximately one third of the securities redeemed up to the middle of 1947 were held by nonbank investors; about 45 per cent were held by commercial banks, and 22 per cent by the Reserve Banks. Since last October, however, approximately four fifths of the redeemed securities have been securities held by the Federal Reserve Banks, reflecting the policy in this period of using Treasury surplus funds in a way that would keep some pressure on the reserves of the commercial banks, and thus help to discourage unnecessary expansion of bank credit. Retirements of securities held by nonbank investors have been limited to those which the holders elected to present for cash redemption, instead of exchanging them for new issues of securities. Redemptions of securities held by commercial banks have been small.

Cash Redemption of Marketable Government Securities by Type of Holder*, Cumulated from February 28, 1946†



* Includes both scheduled retirement and unexchanged portions of called or maturing issues.

† End-of-month figures.

Includes U. S. Treasury trust accounts and agencies.

Source: U. S. Treasury Department; distribution by type of holder estimated by the Federal Reserve Bank of New York.

At the end of March the Treasury still had substantial balances in its deposit accounts in the Reserve Banks and in War Loan Deposit accounts in the commercial banks, which can be used for similar purposes in the coming months, to the extent that they are not needed to meet other Government expenditures. Depositary banks were authorized, beginning March 22, to transfer withheld taxes received from employers from Withheld Taxes accounts to War Loan Deposit accounts on their books, where the funds may be held until called for payment. This procedure will help to facilitate a closer balance between Treasury receipts and disbursements.

THE SECURITY MARKETS

The first quarter of 1948 witnessed the gradual development of greater stability in the bond market than had prevailed for several months. By the end of the quarter the supply of and demand for Government bonds were balanced at prices generally somewhat above the Reserve System's support prices, corporate bonds had firmed moderately, and the market for State and municipal bonds had demonstrated substantial absorptive power although yields had risen somewhat further.

On the other hand, stock prices were weak during most of the quarter, especially after the break in farm prices early in February, which was interpreted by some observers as an indication that the postwar boom might have passed its crest. Increasing international tension also appears to have been an important influence tending to depress stock prices during much of the period. In the latter half of March, however, a sizable recovery occurred in the stock market following the President's special message to Congress on the critical international political situation, which indicated the prospect of a substantially expanded national defense program. Favorable action by Congress on a tax reduction bill may also have been a factor.

Bond Market

In the first quarter of 1948 the decline in bond prices which had been in progress for some months came to an end. Yields on high grade corporate bonds and intermediate-term Treasury bonds fell slightly in January from the levels reached early in the month, and the gains in prices were extended subsequently. Moody's average of yields on Aaa corporate bonds fell from 2.90 per cent early in January to 2.83 per cent toward the close of February and declined slightly thereafter. Compared with the low point in April 1946, average yields of highest grade long-term corporate bonds have risen about ⅜ of 1 per cent, net. From a long-range point of view, however, they still remain low, since the rise of the last two years brings them back only to early 1942 levels.

Prices of Treasury bonds lagged behind the upward movement of long-term high grade corporate bonds during the first quarter of 1948, but the market showed definite improvement over the period as a whole. Prices of "bank-eligible" bonds rose moderately early in January, but fell again to the support levels following an advance in Reserve Bank discount rates and the announcement that required reserves of central reserve city member banks would be raised late in February. A renewed rise occurred in March. Until March, yields on longest term Treasury issues continued unchanged at levels corresponding to official support prices (an average of 2.45 per cent for bonds which have 15 years or more to run); thereafter these issues tended to rise slightly above the support prices. At current price levels, yields on medium and long-term taxable Treasury bonds are back to those prevailing in 1944.

Contrary to the decline in yields on corporate bonds, yields on municipal issues continued during the first quarter their postwar uptrend. Moody's average yield on Aaa municipal bonds rose in March to 1.96 per cent, the highest level since 1940, reflecting a large supply of new municipal issues and the prospect of Federal income tax reductions. Foreign bond prices showed marked declines as the political horizon clouded.

Lower grade corporate bonds, which fluctuate more closely with stock prices than with high grade bond prices, remained only slightly above the levels reached toward the close of last year. Yields declined somewhat (prices rose) in the latter part of March, however, in sympathy with the rally in stock values. Nevertheless, some further widening of the spread between the yields on highest grade and lower grade corporate bonds took place during the past three months, and yield relationships moved slightly further in the direction of prewar patterns.

On the whole, the recent firmness in the prices of high grade domestic bonds except for municipals appears to represent the development of greater confidence in the prospect for maintenance of reasonably stable long-term interest rates.

Stock Prices

Stock prices declined gradually during most of the quarter. The decline was slow during the first three weeks of January and somewhat more rapid in the first ten days of February in sympathy with the decline in commodity prices; thereafter, through the middle of March, stock prices fluctuated within a narrow range. On March 16, a new low for the year was made in the Dow-Jones industrial average, which, however, was only one quarter of a point lower than the year's previous low point reached on February 10. The decline in share prices on March 16 was attributed to the international situation, which, however, was the chief factor in the subsequent sharp rise as the implications of a rearmament program for industrial production were more fully realized. The volume of trading generally averaged less than one million shares, except on days of sharply falling or rising prices, when the million share level was exceeded.

Through March 17, as measured by Standard and Poor's weekly index of 402 stock prices, values fell about 9 per cent (from the January 1 level). Public utility and railroad shares showed greater resistance than the market as a whole, falling 2 and 6 per cent, respectively, while the industrials fell 10 per cent. During this period, the coal and petroleum groups, which had been among the outstanding market leaders during 1947, declined 7 and 10 per cent, respectively. The aircraft manufacturing group, which rose 28 per cent between the end of 1947 and March 17, 1948, reflecting expectations of large military plane orders in view of the increased world political tension, became the most active group. Shipbuilding shares, which might also benefit from increased defense expenditures, were among the few groups of stocks to advance in price during this period; their rise amounted to 10 per cent. Air transport shares rose 9 per cent, reflecting some improvement in earnings resulting from higher mail and other rates.

On the other hand, stocks of consumer goods industries and of some industries whose products were in short supply until recently (leather, textile, fertilizer, cement, and paper) recorded the largest percentage declines, running from 22 per cent for leather to 15 per cent for cement and paper stocks.

Beginning on March 17, the day of the President's special message to Congress, there was a sharp reversal of trend in the stock market. By March 27, average prices had risen about 5 per cent, to the highest level since early February. Some of the groups, including the paper, textile, and fertilizer stocks, which had shown the weakest trends during most of the quarter, were among the leaders in the sharp rise in stock prices in the latter half of March; other leaders were the distillery, air transport, copper, and rubber and tire groups.

New Issues

Conditions in the corporate new issue market improved during the past quarter, reflecting the stabilization of bond prices and more realistic pricing of new issues. It is estimated that close to 1½ billion dollars of new domestic corporate issues were offered, compared with 2.2 billion in the last three months of 1947 and one billion in the first three months of last year. Nearly all the new offerings were "new money" issues, while in 1947 refunding issues were still important (more than one fourth of the total amount of new issues in the first quarter).

In contrast to the experience in some previous months, there were no major instances of congestion in the market. In a few cases, after spirited bidding for new public utility bonds, investment bankers, in an effort to maintain an adequate spread for expenses and underwriting risks, set offering prices to yield returns which institutional investors considered too low. But shading of offering prices in such instances was followed by quick sale to investors.

New Domestic Corporate and Municipal Security Flotations
(In millions of dollars)

Quarter	Corporate			Municipal		
	New capital	Refunding	Total	New capital	Refunding	Total
1947						
First	741	275	1,016	605	14	619
Second	1,107	611	1,718	720	6	726
Third	873	387	1,260	586	14	600
Fourth	1,995	243	2,238	314	9	323
1948						
First*	1,420	60	1,480	920	4	924

* March estimated by the Federal Reserve Bank of New York.
Source: *Commercial and Financial Chronicle.*

Yields on new bonds were above those available on comparable outstanding issues; the larger issues had to be offered at somewhat better yields than the smaller ones in order to attract sufficiently wide buying interest.

The marked decrease in the volume of new corporate security flotations from the last quarter of 1947 was related to the SEC requirement that audited financial statements not over three months old be filed with registration statements by corporations planning new issues. In order to avoid the added expenses of a special audit, many companies postpone new public offerings until their regular year-end audits are completed—usually in March. Thus, as in previous years, there was a seasonal slackening in the flotation of new issues in January and February.

The sharpest curtailment in the volume of new offerings during the past quarter was in the utility issues, which are offered for competitive bidding and require registration. Because most of the offerings of industrial securities were placed privately, and thus were exempt from SEC registration, the decline in their volume was not as great. On the other hand, railroad offerings, which largely took the form of equipment trust certificates, expanded sharply reflecting large reequipment programs. Such issues are under the jurisdiction of the ICC and thus are exempt from SEC registration requirements. In recent years, capital expenditures of the railroads have been financed largely from wartime accumulations of cash and other liquid assets, but apparently these assets have now been reduced to current working capital needs. The new railroad offerings in the first three months of 1948 came to 60 per cent of the total for the entire year 1947. Thus, the railroads now constitute a growing element in the demand for funds from the new capital market.

The market for new municipal issues was especially active during the past quarter. Two large State bonus issues accounted for more than half of the estimated 925 million dollars of new municipal offerings. Because of the generally high quality of the new flotations and the attractive rates offered, most issues were well absorbed by the market. The New York and Ohio bonus issues, in the amounts of 300 and 200 million dollars, respectively, went "out the window," and quickly sold at premiums in open market trading. Commercial banks, which had been practically out of the municipal market for some time, apparently were large buyers of the intermediate maturities of these issues.

SURVEY OF THE OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS, JANUARY 1948

The distribution of ownership of demand deposits of individuals, partnerships, and corporations in all commercial banks in the Second Federal Reserve District has been resurveyed as of January 1948 as part of a continued countrywide study by the Federal Reserve System.[1] On the basis of reports submitted by 127 cooperating banks, the total of such deposits in this District as of January 1948 is estimated at 21.7 billion dollars, an increase of 1.1 billion or 5.4 per cent since February 1947, the date of the previous survey. The over-all increase in such deposits during the past eleven months arose primarily from a heavy increase in loans to businesses and individuals, other than loans for the purpose of purchasing and carrying securities. Other factors of deposit increase, such as foreign purchases financed by gold sales here, and direct or indirect sales to the Reserve System of nonbank holdings of Government securities, were outweighed by the opposite factors of net cash payments to the Treasury and net transfers of commercial funds to other sections of the country.

The rise in commercial bank loans and demand deposits during the eleven-month period under review largely reflected the increased requirements of business for funds to carry larger and higher priced inventories, to carry a greater dollar volume of receivables, and to pay wages and other costs of production. The volume of demand deposits held in the several categories of nonfinancial business accounts increased by from 8 to 10 per cent, as shown in the accompanying table, except for accounts of public utilities, transportation, and communications companies, in which a decline of 11 per cent was recorded. In the case of utilities, plant modernization and expansion programs were so great that such corporations as a group drew down a part of their existing cash resources in addition to utilizing bank loans and a large volume of funds raised in the new capital markets.

Among the financial business accounts, deposit balances of insurance companies rose 351 million dollars or 43 per cent, owing mainly to sales of U. S. Government securities in the closing months of 1947 and early in 1948, when there was considerable uncertainty as to the future course of interest rates. Trust funds of banks, on the other hand, declined 128 million dollars or 20 per cent, owing to a reduction in trust account balances which in some cases had been built up at the beginning of the period for the redemption of securities.

Estimated Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in All Commercial Banks in the Second Federal Reserve District
(Dollar amounts in millions)

Type of owner	Dollar balance Jan. 1948	Feb. 1947 to Jan. 1948		July 1945 to Jan. 1948	
		Dollar change	Per cent change	Dollar change	Per cent change
Manufacturing and mining	6,725	+ 498	+ 8.0	− 587	− 8.0
Public utilities, transportation, and communications	1,424	− 180	−11.2	− 46	− 3.1
Retail and wholesale trade and dealers in commodities	3,358	+ 311	+10.2	+ 738	+28.2
All other nonfinancial business, including construction and services	1,354	+ 123	+10.0	+ 318	+30.7
Total nonfinancial	12,861	+ 752	+ 6.2	+ 423	+ 3.4
Insurance companies	1,175	+ 351	+42.6	+ 362	+44.5
Trust funds of banks	513	− 128	−20.0	− 95	−15.6
All other financial business*	1,503	+ 6	+ 0.4	+ 299	+24.8
Total financial	3,191	+ 229	+ 7.7	+ 566	+21.6
Nonprofit organizations	590	+ 25	+ 4.4	+ 154	+35.3
Personal (including farmers)	4,372	+ 170	+ 4.0	+ 848	+24.1
Foreign accounts	680	− 69	− 9.2	− 41	− 5.7
Total demand deposits of individuals, partnerships, and corporations	21,694	+1,107	+ 5.4	+1,950	+ 9.9

* Includes investment, finance, real estate concerns, insurance agencies, etc.

Personal checking accounts, including balances of farmers, rose only 4.0 per cent, a rate of increase less than half as great as during the preceding thirteen months (January 1946-February 1947) and approximately one-fourth the rate of increase from January 1945 to January 1946. This reduction in the rate of accumulation of demand deposits in personal accounts, together with the increase in instalment loans and other bank loans to individuals, reflects the greater rise in consumer expenditures than in incomes that accompanied the growth in the volume of available consumer goods. Balances of nonprofit organizations followed almost the same general pattern of accumulation as personal accounts, but the reduction in the rate of increment was somewhat more pronounced. Foreign account balances were drawn down 9 per cent as payment for the record volume of purchases of goods in this country apparently made it necessary, in addition to using the proceeds of credits and of gold and security sales, to draw to some extent against available dollar balances.

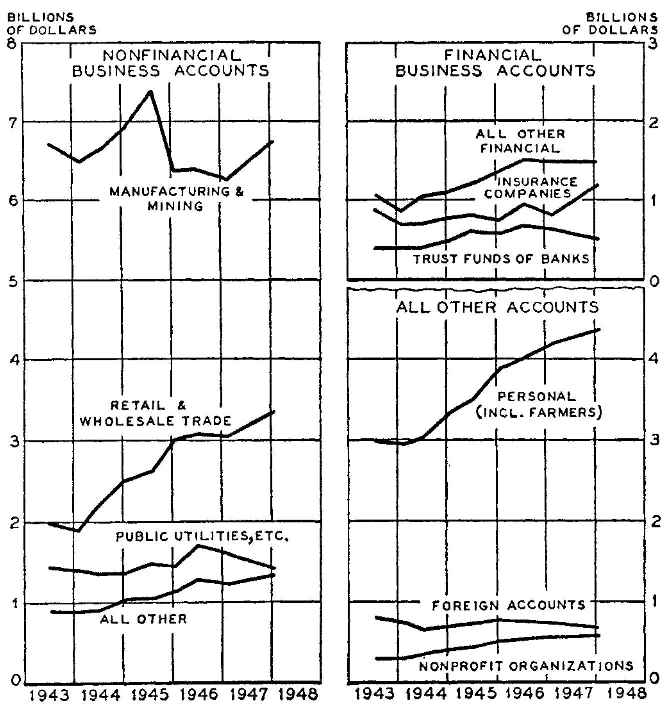
Demand deposit gains during the eleven-month period were greatest in the larger banks of the District. Banks of all size groups shared in the rise in business balances, but the rise in personal accounts was greatest in the larger banks and in the aggregate was confined to banks with total deposits of over 10 million dollars. In the smallest banks, those with deposits under 1 million dollars, the over-all deposit increase was held to virtually negligible amounts, as in these banks the increases

[1] These surveys are now on an annual basis; prior to 1947 they were conducted at approximately semiannual intervals.

in business balances were just about offset by slight percentage declines in personal accounts (including those of farmers), which constitute the greater part of the small banks' deposit structure.

The aggregate changes in the deposit balances of the different ownership groups during the whole postwar period (July 1945-January 1948) are shown in the accompanying table and chart, and the latter also shows changes during the last two war years. Deposits of manufacturing and mining companies showed a net decline of about 600 million dollars or 8.0 per cent in the postwar period and were virtually unchanged between July 1943 and January 1948, as balances built up during the war were largely disseminated in the immediate postwar period for reconversion expenses. Public utility balances remained relatively stable during the war, rose sharply in the immediate postwar period, reflecting the proceeds of new capital issues, and have since been steadily reduced. Accounts of wholesale and retail trade, "all other *nonfinancial*" business (which largely represents construction and service industries), and "all other *financial*" companies (consisting of investment, finance, insurance agency, and real estate concerns) rose with but minor interruptions throughout the late war and postwar periods. Personal accounts (including accounts of farmers) and accounts of nonprofit organizations increased without interruption, but the rate of accumulation slowed down in the postwar period. Insurance company deposits fluctuated irregularly, showing a net rise of 315 million dollars from July 1943 to date. Trust funds of banks were built up in 1945 and 1946 but have since been drawn down. Foreign accounts, except for declines in 1943 and 1944, have fluctuated within relatively narrow limits.

Estimated Ownership of Business and Personal Demand Deposits at All Commercial Banks in the Second Federal Reserve District*



* Except for latest interval, Feb. 1947-Jan. 1948, figures are semiannual since July 1943.

CANADA'S INTERNATIONAL ECONOMIC POSITION

It is paradoxical that Canada, of all countries, should have found itself during recent months in a serious economic predicament. In the case of most of the former belligerents, the current economic difficulties have resulted from the fact that the war caused their output and reserves to fall below their consumption and reconstruction requirements. But the Canadian economy, far from having been shattered by the war, emerged from the conflict greatly expanded and strengthened. Canada's gross national product has more than doubled in real terms since 1938; its living standards have markedly improved as compared with prewar; and its labor force is fully employed. Yet in the midst of its unprecedented boom Canada has been going through a crisis in its international financial relations. The roots of this crisis are rather complex.

The Canadian economy depends on foreign markets for the sale of a large part of its total output. Even before the increase in foreign demand for Canadian goods resulting from the war, 27 per cent of Canada's total output was sold abroad, and all but about 8 per cent of these foreign sales went to pay for imports. Although Canada's present national product is much larger than before the war, the distribution of this product as between domestic and foreign markets has hardly changed: in 1947, 28 per cent went into exports, and the export surplus constituted only about 3 per cent of total exports.

What distinguishes Canada's international economic position, however, is not only the importance of foreign trade but also the geographical distribution of that trade. The bulk of Canada's exports is usually sold in Europe (mainly Great Britain), but most of its imports come from the United States. This multilateral arrangement gave no ground for concern so long as Canada was able to use the proceeds of its sales to Europe to pay for its purchases in the United States. But in this respect the current situation differs radically from that prevailing before the war. Since the war Canada's European customers have been largely unable to pay for badly needed Canadian goods either by exports or by drawing on their depleted gold and foreign exchange reserves.

Fully aware of this problem, Canada in the first eighteen months after the war authorized credits to the extent of almost

2 billion (Canadian) dollars to its customers in Europe and Asia. The recapturing of accustomed export markets not only was essential for the long-run stability of the Canadian economy, but also was a prerequisite for the maintenance of a high level of income and employment during the critical reconversion period. What was perhaps not clearly realized was the close relation between the volume of exports and level of income on the one hand, and the economy's propensity to import on the other. In value terms, Canada's imports in 1947 were four times the 1938 level, and imports from the United States were five times as large as before the war. Since Canada's total foreign trade was nearly balanced and since about one quarter of the exports were sold on credit, about one quarter of the imports had to be paid for out of previously accumulated reserves. Moreover, since the excess of imports over cash exports consisted mainly of purchases in the United States, the only reserves that could be used to pay for the excess were gold and United States dollars.

At the end of 1946, Canada's holdings of gold and United States dollars amounted to over 1.2 billion U. S. dollars. But instead of forcing a rigid conservation of these international liquid reserves, the Canadian Government, following the example of the United States, abandoned virtually all wartime foreign trade restrictions, thus opening the gate for unlimited Canadian buying in the United States. Pressure on the part of the Canadian business community appears to have played a role in inducing this premature return to normalcy. Equally important, perhaps, was the generally shared expectation that Europe's recovery would proceed very much faster than it actually did, and that the European customers of Canada would be in a position relatively soon to pay for Canadian deliveries. The unprecedentedly large gold and United States dollar holdings were therefore regarded as sufficient to tide over the period of European insolvency, and their rationing was thought to be superfluous. As a result, they were used up very much faster than had been anticipated. By the end of 1947 total Canadian gold and United States dollar balances had declined to some 500 million U. S. dollars, an amount barely sufficient for indispensable working balances.

The drain on Canada's gold and United States dollar reserves in 1947 alone amounted to almost 750 million dollars. Long before the end of the year it had become obvious that the drain could not be permitted to continue. It was not, however, until November 1947 that the Canadian Government embarked upon a dollar-conservation program. This program involved the following measures to bolster Canada's dollar position:

1. A credit of 300 million dollars was arranged with the United States Export-Import Bank, maturing in 3 to 5 years.

2. Canadian residents traveling for nonessential purposes in the United States were limited to an annual expenditure of $150.

3. Certain goods that had been supplied almost exclusively by the United States were either entirely barred from further importation or placed under a quota system.

4. The production of many goods for which raw materials had to be imported from the United States was discouraged by discriminatory excise taxes.

5. Tax inducements and direct subsidies were introduced to increase Canada's gold output.

6. Britain's right to draw on its credit line in Canada was limited during the first quarter of 1948 to about 30 per cent of the value of British net purchases from Canada.

This program appears already to have yielded valuable results. During December 1947 and January 1948, the first two months of the program's operation, the trade deficit with the hard-currency area amounted to 84 million dollars, or 24 million less than in the corresponding two months in 1946-47. This relatively small saving does not wholly measure, however, the impact of the dollar-conservation program. There can be no doubt that in the absence of the program the deficit would have been much larger, if only because of price increases in the United States. At the same time, Canada's gold and United States dollar holdings have not only ceased to decline but have started to rise. From a low point of 461 million dollars in the middle of December 1947, they increased to 527 million dollars at the end of February 1948. While this increase, too, is not very great, the situation would have been a great deal worse but for the restrictions adopted in November.

The Canadian emergency regulations gave rise to a considerable amount of criticism in Canada as well as in the United States. One of the main arguments leveled against them was that Canada had resorted to methods that violated the spirit if not the letter of the nondiscrimination clauses of the Bretton Woods agreements and of the agreements negotiated in connection with establishment of the International Trade Organization. However, the circumstances faced by the Canadian Government called of necessity for resort, at least temporarily, to strong measures of this sort. An over-all curtailment of imports would have damaged the economy of Canada as well as of other countries, while helping very little in solving Canada's U. S. dollar problem.

Moreover, it is generally recognized that free international trade on a nondiscriminatory basis is hardly possible under present world economic conditions. Such exception as may be taken to Canada's postwar foreign economic policy must rather be based on the ground that it was tardy in dealing with the balance-of-payments difficulties. Had similar restrictions been adopted a year earlier, they would certainly have deprived Canada of some nonessential imports, but they would probably have saved it the necessity of negotiating a loan and would have rendered its U. S. dollar position considerably stronger than that position is today.

However that may be, the chances now appear good that Canada will be able to reach an equilibrium in its balance of payments within a relatively short time. The adoption of the European Recovery Program, which provides for large "offshore" purchases outside the United States, should contribute materially to an improvement in Canada's dollar position. What is more important, however, a successful implementation of ERP may also lead to the general recovery of the Western European economy, which is a prerequisite for the normalization of international trade. For it is only within the framework of reestablished international economic relations that Canada can resume its traditional triangular commerce with the United States and across the Atlantic, and maintain its economy at a high level of employment and income.

DEPARTMENT STORE TRADE

Daily average sales in Second District department stores during March are estimated to have been slightly greater than in March 1947. But when daily average sales are adjusted for the difference in the date of Easter, it is not certain that there has been any increase at all. Although sales increased seasonally between February and March, the increase appears to have been smaller than might have been expected on the basis of the early date of this year's Easter and other seasonal factors.

During the first half of March, the dollar volume of sales averaged only 1 per cent more than during the corresponding period of 1947. Merchants who had expected a much more active trade in view of the early Easter attributed this disappointing result largely to unfavorable weather. In many areas outside this District, where the weather was more favorable, sales during the first two weeks of the month were reported to have been well ahead of those of a year ago. Sales in District stores improved following a turn to warmer weather around the middle of the month, and gains over last year were particularly large in the few days just before Easter.

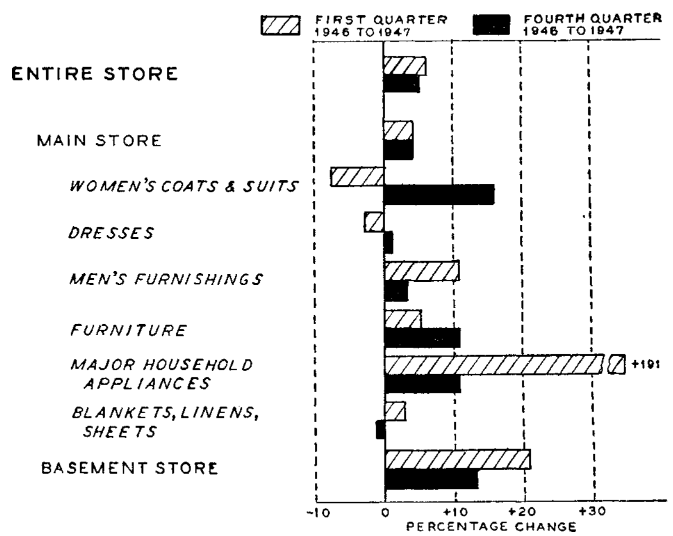
Department store stocks, measured by their retail value, increased during February by more than the usual percentage. After adjustment for normal seasonal variation, the aggregate value of stocks was 7 per cent greater at the end of February than at the end of January. The seasonally adjusted index of the dollar value of stocks, computed by this bank from information furnished by merchants throughout the Second District, rose almost without interruption during the seven months ended this past February. The index figure for February was 250 per cent (1935-39 average equaling 100 per cent), or fully one-fifth above a July 1947 low, and was approximately back to the postwar peak level reached at the end of February 1947.

This enlargement of stocks occurred exclusively in stores outside New York City. In contrast to stores in the rest of the District, the value of whose inventories on the average increased by 7 per cent, New York City stores held 5 per cent less merchandise, measured in dollars, at the end of February than they had held one year previously. These divergent movements in stocks reflect more liberal buying on the part of out-of-town store managements and the continued maintenance by the New York City stores of a cautious buying policy. Sales experience has not differed greatly between the City stores and those elsewhere in the District. In both groups, dollar sales volume increased at much the same rate during 1947.

Sales Trends in Major Departments

Sales in selected departments during the first and fourth quarters of the fiscal year ended January 31, 1948 are compared in the accompanying chart with those during the corresponding periods of the previous fiscal year. Sharp differences in relative year-to-year changes in sales by departments occurred between

Department Store Sales for Selected Departments, Second Federal Reserve District (year-to-year percentage changes for first and fourth quarters, fiscal year 1946 to fiscal year 1947*)



* First quarter includes February, March, and April. Fourth quarter includes November, December, and January of the following year; thus the fourth quarter of 1947 is the three-month period from November 1947 through January 1948.

the opening and closing quarters of the past fiscal year. In both periods the basement store made a relatively better showing than did the main store, but between the two periods the year-to-year rate of increase for the basement store declined from 21 per cent to 13 per cent. In contrast, sales in the main store increased between the two periods by a stable but much lower rate, 4 per cent. Total store sales, owing wholly to the declining rate of expansion in basement sales, made a somewhat lesser year-to-year gain in the fourth quarter than in the first quarter.

The improvement in women's apparel sales shown in the chart reflects the success of changes in styles. In the first quarter of the fiscal year, the year-to-year comparison was distinctly unfavorable for the women's coat and suit department; by the last quarter, however, this department was recording marked gains over the corresponding period a year earlier. The dress department showed much the same changes, though to a lesser extent. The trend for men's furnishings was the reverse as men gradually refilled their wardrobes; gains were substantial in the early part of the year and later tapered off.

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

Locality	Net sales		Stocks on hand
	Feb. 1948	Jan. and Feb. 1948	Feb. 29, 1948
Department stores, Second District	+ 8	+ 6	0
New York City	+ 6	+ 5	− 5
Northern New Jersey	+ 9	+ 6	+ 8
Newark	+ 8	+ 6	+ 5
Westchester County	+ 2	− 2	− 3
Fairfield County	+ 4	+ 4	+ 7
Bridgeport	+ 3	+ 2	+ 7
Lower Hudson River Valley	+ 7	+ 6	+14
Poughkeepsie	+12	+10	+15
Upper Hudson River Valley	− 1	+ 2	+ 6
Albany	− 7	− 4	+ 7
Schenectady	+ 6	+ 8	− 1
Central New York State	+19	+12	+ 4
Mohawk River Valley	+12	+ 8	+17
Utica	+15	+10	+11
Syracuse	+22	+13	− 3
Northern New York State	+26	+18	—
Southern New York State	+ 7	+ 5	+15
Binghamton	+ 7	+ 4	+12
Elmira	+13	+ 8	+24
Western New York State	+13	+12	+ 6
Buffalo	+14	+12	+ 7
Niagara Falls	− 1	− 2	0
Rochester	+14	+13	+ 3
Apparel stores (chiefly New York City)	+ 1	+ 1	− 7

Indexes of Department Store Sales and Stocks Second Federal Reserve District

(1935-39 average = 100 per cent)

Item	1947		1948	
	Feb.	Dec.	Jan.	Feb.
Sales (average daily), unadjusted	188	408	192	202
Sales (average daily), seasonally adjusted	224	241	240	241
Stocks, unadjusted	232r	211	205r	232
Stocks, seasonally adjusted	249	236	233r	250

r Revised.

Department Store Sales and Stocks for Selected Hard Goods Departments, Second Federal Reserve District

(Percentage changes, January 1947 to 1948)

Department	Sales	Stocks
Major household appliances	+ 2	+88
Radios and phonographs	0	+30
Cameras	+ 3	+26
Furniture	+14	+ 2

There has been no uniform trend in homefurnishings departments. Furniture sales, which bulk largest among homefurnishings, tended to show strong improvement at the fiscal year's end, as did sales of floor coverings and many other household goods. Sales of major household appliances—refrigerators, washing machines, and similar items—were unable to maintain the extremely high year-to-year increases of the first quarter. A large drop from the unusual gains of the first quarter had been expected, but not to the extent realized. By the last quarter, appliance sales were making gains no better than those made by some other homefurnishings for which the demand had been less pressing (since their production had never been completely discontinued). As a matter of fact, the rate of sales increase achieved by the major appliances department has narrowed so sharply that for the last month of the fiscal year, January 1948, the year-to-year increase was a modest 2 per cent. For the entire quarter ended in January, the increase was 11 per cent, as against almost 200 per cent for the first quarter. Clearly, at the end of the fiscal year the supply situation had improved considerably and the most urgent needs had been filled. As shown in the table above, department store stocks of major appliances, and of most other "big ticket" hard lines, were substantially larger at the end of January 1948 than they were a year earlier. There have been numerous reports of intensified competition among appliance and radio specialty shops. Spotty, but in some cases considerable, price cutting has been reported, even on top-brand equipment, usually through trade-in allowances. This indicates that increased inventories and lagging sales in hard lines were not limited to department stores. January year-to-year changes in department store furniture sales and stocks stood in sharp contrast to the trends in the other categories of hard goods shown in the table. Furniture stocks were slightly larger than a year ago, but the increase in sales was substantially greater.

Indexes of Business

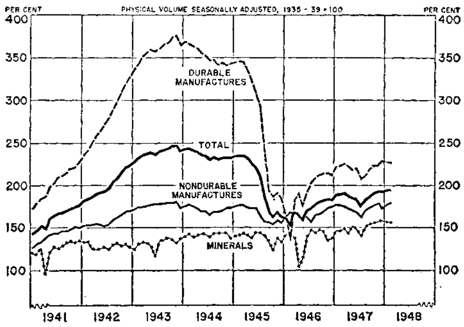
Index	1947		1948	
	Feb.	Dec.	Jan.	Feb.
Industrial production*, 1935-39 = 100..... (*Board of Governors, Federal Reserve System*)	189	192	193	193*p*
Electric power output*, 1935-39 = 100..... (*Federal Reserve Bank of New York*)	224	237	246	247*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	202	204	192*p*	
Sales of all retail stores*#, 1935-39 = 100.... (*Department of Commerce*)	288	330	324	320*p*
Factory employment				
United States, 1939 = 100............... (*Bureau of Labor Statistics*)	154	158	157	156*p*
New York State, 1935-39 = 100......... (*New York State Department of Labor*)	133	133	131	131*p*
Factory payrolls				
United States, 1939 = 100.............. (*Bureau of Labor Statistics*)	311	357	350*p*	
New York State, 1935-39 = 100......... (*New York State Department of Labor*)	283	304	302	301*p*
Personal Income*, 1935-39 = 100......... (*Department of Commerce*)	276	306	307*p*	
Composite index of wages and salaries*‡, 1939 = 100........................... (*Federal Reserve Bank of New York*)	169	183	183*p*	
Consumers' prices, 1935-39 =100......... (*Bureau of Labor Statistics*)	153	167	169	168*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City........................	87	87	88	92
Outside New York City...............	86	81	86	89

* Adjusted for seasonal variation. *p* Preliminary.
\# Dollar figures for 1946 and 1947 and seasonal adjustment factors from 1942 to date have been 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, Domestic Research Division.

DEBITS AND CLEARINGS STATISTICS

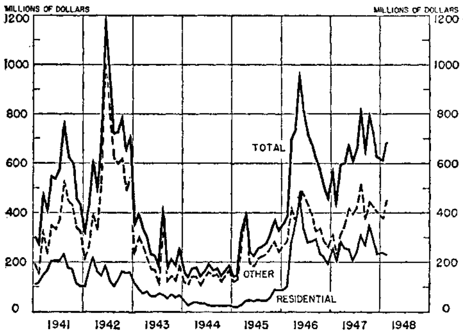
The Board of Governors of the Federal Reserve System has recently published a technical paper entitled *Debits and Clearings Statistics, Their Background and Interpretation,* prepared by George Garvy, Chief of the Domestic Research Division of the Federal Reserve Bank of New York. Broadly stated, the purpose of the paper is to determine the effectiveness of two long established and widely used series of banking statistics in reflecting basic economic processes. The author has undertaken to explain differences in the composition of the debits and clearings series and has offered suggestions for improvement of the debits series. This publication is being sold at a price of 25 cents for single copies, and at 15 cents per copy in quantities of 10 or more. All orders should be addressed to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

INDUSTRIAL PRODUCTION



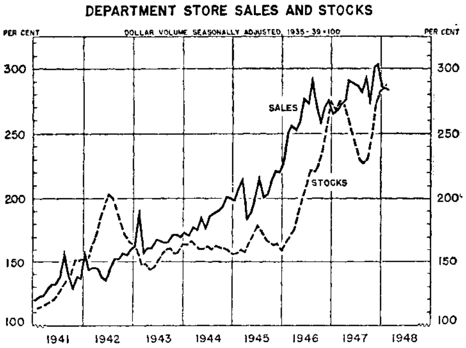
Federal Reserve indexes. Monthly figures; latest shown are for February.

CONSTRUCTION CONTRACTS AWARDED



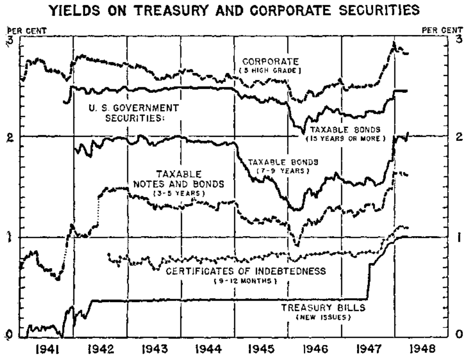
F. W. Dodge Corporation data for 37 Eastern States. Other includes nonresidential buildings and public works and utilities. Monthly figures; latest shown are for February.

DEPARTMENT STORE SALES AND STOCKS



Federal Reserve indexes. Monthly figures; latest figure for sales is February, latest for stocks is January.

YIELDS ON TREASURY AND CORPORATE SECURITIES



Weekly averages of daily figures compiled by Federal Reserve from data reported by U. S. Treasury Department; latest shown are for week ended March 20.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, March 25, 1948)

OUTPUT of manufactures and minerals continued to show little change in February. Department store sales increased by about the usual seasonal amount in February and the first half of March. Wholesale prices generally showed little change following marked declines in farm products and some other commodities from mid-January to mid-February.

Industrial Production

Industrial production was maintained in February at the January rate of 193 per cent of the 1935-39 average, according to the Board's seasonally adjusted index.

Output of durable goods declined slightly in February, partly because unusually severe weather conditions led to a curtailment of activity in a number of lines early in the month. Steel production, however, was maintained at the January rate and scheduled operations were increased in the first three weeks of March. Activity in the machinery and transportation equipment industries declined somewhat in February. Automobile production was sharply reduced in the first two weeks of the month but recovered to earlier postwar peak rates during the last half, and has been maintained at a high level in March. Output of most other durable manufactures showed little change from the January level.

Activity in nondurable goods industries in February, after allowance for seasonal variation, was slightly above the January rate. Textile mill activity was maintained at the record level reached in January. Distillers' output of alcoholic beverages is estimated to have increased sharply in February, following the end of limitations on grain usage. Newspaper publishing activity, as reflected in newsprint consumption, showed a substantial gain. Output of manufactured food products was maintained at the level of recent months, notwithstanding a further decline in meat production. Activity in most other nondurable goods industries continued at the January rate or declined slightly.

Output of minerals in February was maintained at the January level. Bituminous coal production declined 4 per cent, while output of anthracite, crude petroleum, and metals advanced. In the middle of March bituminous coal output was sharply reduced by a labor-management dispute.

Employment

Employment in nonagricultural establishments in the middle of February was slightly below the January level, after allowance for seasonal changes. The decline reflected mainly the effects of unusually severe weather conditions on activity in industries manufacturing durable goods, and also in mining and construction. The number of persons unemployed increased and was 150,000 larger than in February 1947.

Construction

Value of construction contracts awarded, according to the F. W. Dodge Corporation, rose somewhat more than seasonally in February reflecting largely an increase of one-fourth in awards for public types of construction. Private residential awards showed little change as an increase in contracts for apartment buildings was offset by a decline in awards for single family homes. According to Department of Labor estimates the number of dwelling units started was 50,000 in January and 47,000 in February, as compared with a total of 84,000 in the same two months in 1947.

Distribution

Department store sales increased seasonally in February and the early part of March but the Board's seasonally adjusted index of sales continued somewhat below the average level in the fourth quarter of 1947.

Carloadings of railroad freight during February and the first half of March were somewhat below year-ago levels. Shipments of grain and livestock products were 30 per cent smaller, loadings of forest products and merchandise in less than carload lots were less by about 10 per cent, while shipments of most other classes of freight were at the same levels as in the corresponding period of 1947.

Commodity Prices

Prices of farm products rose somewhat from mid-February to mid-March, following the sharp declines in the preceding four weeks. Prices of some industrial materials, like leather and cotton fabrics, however, declined further, and prices of most types of finished industrial products continued unchanged.

Prices of foods in wholesale and retail markets, which had generally been reduced by 3 to 5 per cent from mid-January to mid-February, showed little change through the middle of March. In the third week of the month wholesale meat prices advanced, reflecting the effects of the industrial dispute in the packing industry.

Bank Credit

Tax receipts in February and the first half of March in excess of Treasury payments shifted deposits from accounts of individuals and businesses at commercial banks to Treasury balances at the Reserve Banks. As a result of these deposit transfers, over 1.5 billion dollars were drained out of bank reserve balances. Banks received some new reserve funds from further gold inflows and a small return of currency from circulation. Federal Reserve purchases of Government securities in the market supplied the remainder of the funds required to maintain member bank reserve positions.

Further purchases of Treasury bonds were made by the Federal Reserve in support of the market prices of these issues, although after mid-February market conditions were stronger and the volume of such purchases was greatly diminished. Total holdings of Government securities at the Reserve Banks continued to decline, reflecting Treasury use of its current cash surplus and of a part of its deposit balances to retire about 2.8 billion dollars of securities held by the Reserve Banks.

Required reserves of member banks in New York and Chicago were increased by about 500 million dollars on February 27, the effective date for an increase in their reserve requirements against net demand deposits from 20 to 22 per cent.

Government security holdings at banks in leading cities declined during February and early March. Real estate loans continued to expand. Commercial and industrial loans declined somewhat at banks in New York City and showed little change at banks in other leading cities.