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MONEY MARKET IN JUNE

The money market and the Government bond market were affected during the past month by several important developments, including the increase in reserve requirements of central reserve city member banks as of June 11, the announcement on June 10 of a temporary but substantial lifting of the limitations on subscriptions to Series F and G Savings bonds during the period July 1 to 15, large net Government disbursements during the first half of June, and heavy income tax collections beginning June 15. The money market, which was fairly easy during the early part of June, tightened considerably later in the month, and the Government bond market halted its rise and then weakened.

The increase in reserve requirements against demand deposits of central reserve city member banks from 22 to 24 per cent, which was announced by the Board of Governors of the Federal Reserve System on June 2, involved an increase in the total reserve requirements of New York City banks of approximately 400 million dollars and in the reserve requirements of Chicago banks of approximately 100 million dollars. This announcement was followed by a slight lowering of quotations for Government bonds, perhaps in recognition of the indication that measures of credit restraint have not been discarded and, perhaps, in anticipation of possible liquidation of some bonds by central reserve city banks in the adjustment of their positions to meet the higher reserve requirements. Few offerings of Treasury bonds by these banks materialized, however, and the market then tended to firm, reversing its expectations and looking to the central reserve city banks to lengthen the maturities in their Government security portfolios in an effort to recover some of the loss of income which would result from the higher reserve requirements.

Government bond prices turned downward more decisively, however, following the announcement by the Treasury on June 10 that several classes of institutional investors would be permitted to purchase Series F and G Savings bonds, during the period from July 1 through July 15, in amounts considerably in excess of the previously existing limits. During this period institutional investors such as insurance companies, savings banks and savings and loan associations, pension and retirement funds, and endowment funds will be permitted to increase their total purchases for the calendar year 1948 to as much as 1 million dollars, whereas the usual annual limit has been 100 thousand dollars. In addition commercial banks holding savings deposits or issuing time certificates of deposit will be permitted to purchase up to 100 thousand dollars of F and G Savings bonds combined. This marks the first time since the War Loan drives that commercial banks have been permitted to purchase Savings bonds. The estimates in the market of the aggregate amount of subscriptions for such bonds by the various classes of investors during the first half of July have ranged from about 500 million dollars to 1 billion dollars, with guesses tending toward the latter figure as the opening of subscriptions come nearer.

After the first reaction to the announcement of this temporary relaxation of the limitations on subscriptions to these series of Savings bonds, a rally occurred in the market for outstanding marketable Treasury securities. But later appraisals tended to the conclusion that payments for these bonds, offered at a time when other demands for investment funds will be substantial, would drain a large volume of funds from the market, and might well result in sales of outstanding marketable Treasury securities to provide funds for subscriptions to the Savings bonds. Prices of marketable issues again turned downward on June 18, and between June 17 and 28 the longest term restricted Treasury bonds (the 2½'s of December 1967-72) declined 14/32's of a point, while the longest bank-eligible issue (the 2½'s of September 1967-72) declined 1 1/32's points, and the medium-term eligible 2's of December 1952-54 declined 9/32's. Prices of a few issues of Treasury bonds reached the support levels of the Federal Reserve Banks on one or two occasions during this period, but tended to rally when confirmation was obtained that System support was still effective. Little actual selling of Treasury bonds was reported during the period of declining prices; trading volume was light during most of the period, and largely dominated by professional traders.

MONEY MARKET DEVELOPMENTS

Heavy Treasury disbursements in excess of receipts (despite the withdrawal of more than half a billion dollars from War Loan deposit accounts) were chiefly responsible for easy money market conditions in the early part of June. Treasury disbursements were enlarged at the beginning of the month by substantial cash redemptions of tax Savings notes, and of maturing June 1 certificates which were not exchanged for the new issue. The excess of Treasury disbursements in the week ended June 9 was even greater than that in the preceding week, and for the two weeks as a whole there was a decline of over 640 million dollars in Treasury deposits with the Reserve Banks (from 1,788 million on May 26 to 1,144 million on June 9). The resultant large increment to bank reserves exceeded by a wide margin demands on bank reserves through other transactions, notably month-end and holiday demands for currency and a small increase in required reserves.

The banks' net gains of substantial amounts of reserves in the week ended June 2 were, for the most part, added to excess reserves. In the following week, however, the additional reserves arising from Treasury operations were invested in short-term Treasury securities, mainly Treasury bills purchased from the Federal Reserve Banks. Part of these purchases were made by the central reserve city member banks as temporary investments of funds in preparation for meeting the impending rise in their reserve requirements. Reserve positions grew tighter during most of the remainder of the month, first because of the rise in legal reserve requirements of central reserve city member banks, and then as a result of quarterly Treasury receipts of income taxes.

In the week ended June 16, aggregate Treasury cash disbursements were 160 million dollars larger than receipts even though the Treasury withdrew over 800 million dollars from War Loan accounts in depository banks. The large withdrawals of War Loan deposits on June 15 and 16, coupled with the fact that a very large part of the Treasury's disbursements (including payments of interest on the public debt and the cash redemption of the unexchanged portion of the issue of 1¾ per cent bonds maturing June 15) were made in New York, caused a considerable drain on the reserves of out-of-town banks. This drain was partially equalized, however, by reason of the fact that corporations and others with large deposit accounts in New York withdrew substantial amounts of funds to meet heavy tax and other payments in other parts of the country.

The adjustment of the reserve positions of the member banks both in New York and the rest of the country was greatly facilitated by a substantial midmonth expansion of Federal Reserve "float," substantial disbursements from foreign accounts with the Reserve Banks financed through sales of gold to the Treasury, and a return flow of currency from circulation. Funds gained by out-of-town banks more than offset losses through Treasury operations, and enabled them to make sizable additions to their excess reserves. These increments, together with a net increase at the New York City banks, raised aggregate excess reserves temporarily to nearly 1.2 billion dollars on June 16, the largest amount since the middle of January.

As a result, there was again a brief period of ease in the money market, which, however, was soon brought to an end as collection of quarterly income tax payments reached substantial volume. During the remainder of the month, the banks generally lost funds rather steadily, particularly in the week ended June 23 when income tax collections reached their peak. The resultant drain on bank reserves from this source and a contraction in "float" compelled the banks to bolster their reserves once again through sales of short-term Treasury securities to the Reserve System and to draw upon their excess reserves.

Member Bank Credit

Demand deposits at the weekly reporting member banks rose substantially during the four weeks ended June 16 (as a result chiefly of large Treasury payments of interest on the public debt and substantial cash redemptions of maturing securities), continuing the irregular advance which started early in April. Adjusted demand deposits of all weekly reporting member banks exceeded 47.2 billion dollars on June 16, a rise of over 800 million from the May 19 total, and 1.9 billion above the March 31 figure, but only about 200 million dollars higher than the level a year ago. Tax collections in the latter half of June undoubtedly cancelled, temporarily, a considerable part of the increase in preceding weeks.

Total loans and investments, in contrast, declined during the four weeks ended June 16. Most of the reduction came in the last week of this period and reflected sales of short-term Treasury securities by the New York City banks, and to a lesser extent the Chicago banks, in order to meet the increase in their reserve requirements. Total loans increased moderately during the month, especially loans to security dealers, but the increase (in terms of total loans and investments) was more than offset by the drop in security holdings. Between March 31 (the low point of the year), and June 16, total earning assets of the weekly reporting member banks rose 860 million dollars, the bulk of this expansion consisting of short-term Treasury securities. Compared with a year ago, however, the total loans of these banks show an increase of more than 3.5 billion dollars, or 18 per cent, while their total investments have been reduced by nearly 3.9 billion dollars.

Although the New York City banks accounted for most of the reduction in Government security holdings of all weekly reporting member banks in the four weeks ended June 16, they also accounted for most of the increase in loans in this period —216 million dollars, as against 43 million for other banks. About one third of the increase in New York was in business loans and most of the remainder was in loans on Government and other securities. Commercial loans of the New York City reporting banks on June 16 were 99 million dollars above the April 28 low point, but were still nearly 300 million below the peak reached last December. At the weekly reporting banks in other cities, also, commercial loans rose moderately in the first half of June, but remained well below the volume reached earlier this year.

RESERVE REQUIREMENTS OF COMMERCIAL BANKS

During the past year and more there has been much discussion of various proposals for changes in the reserve requirements of commercial banks. Some of the proposals have involved new types of requirements, or increases in the existing reserve requirements, or both. The latest suggestion, which was presented without recommendation to the Congressional Joint Committee on the Economic Report by representatives of the Federal Reserve System on May 27, was directed primarily to a reconsideration of the basis for commercial bank reserve requirements.[1] In view of the attention that has been directed to these various proposals, it may be of interest to review the history and the rationale of bank reserve requirements.

For about a century, bank reserve requirements have been the subject of State and later of Federal legislation. During the first half of the nineteenth century notes issued by State banks were frequently subject to depreciation, particularly when they circulated at a considerable distance from the issuing bank, owing in part to the expense involved in sending the notes for redemption and in part to the difficulty of determining the ability of distant banks to redeem their notes with "hard money." To assure convertibility of bank notes and to guard against overissue, a number of States had by 1863 passed laws requiring that banks chartered by them maintain specified specie reserves or deposit balances at other banks as reserves against their note liabilities and, in some States, against deposits also. Similar reserve provisions with respect to deposits were incorporated into the National Bank Act of 1863 and subsequently, in an only slightly modified form, into the Federal Reserve Act.

The National Bank Act adopted a classification of banks by geographical location—central reserve city, reserve city, and all other ("country") banks—for the purpose of determining reserve requirements, which was based on the correspondent bank system that had developed around the middle of the nineteenth century to facilitate redemption of State bank notes. Large bank balances were built up in banks that were located in cities where the bank notes tended to accumulate and where specie reserves also accumulated. These "redemption cities" became the reserve city and central reserve city classifications used by the National Bank Act, and all national banks located in such cities became subject to the specified reserve requirements. The Act authorized national banks (other than central reserve city banks) to keep a portion of their reserves in the form of deposits in reserve city and central reserve city banks. The banks located in such cities were subjected to higher reserve requirements whether or not they actually held deposits of other banks.

One of the principal objectives of the Federal Reserve System was to mobilize and concentrate the gold reserves of the country and to introduce greater elasticity into the money supply, so as to avoid the money stringencies, and even panics, which had plagued the country at intervals for many years. To provide for a gradual changeover to the new system, the Federal Reserve Act did not alter greatly the legal reserve requirements of the National Bank Act and provided for a three-year transition to what were then intended to be the permanent requirements. The most radical changes made by the Act with respect to reserve requirements were the introduction of a distinction between time and demand deposits (making substantial reductions in reserves required against time deposits) and the treatment of uncollected items due from other banks as an offset against demand liabilities rather than as part of reserves. It also lowered the reserve requirements against demand deposits slightly to offset member bank payments to the Reserve Banks for capital stock subscriptions and to attract State banks into the System. The Act required member banks to deposit part of their reserves in the Federal Reserve Banks, but it permitted them to hold part of their reserves in the form of vault cash, and to count temporarily (until November 1917) balances held with national banks in central reserve and reserve cities as reserves within specified limits.

The June 1917 amendment to the Federal Reserve Act required that all reserves henceforth be held with the Reserve Banks, thus eliminating vault cash, as well as balances with other banks, as part of the legal reserve. It provided, however, for an additional reduction in the reserve requirements of member banks (see table) of approximately the same percentage that previously could be held in vault cash. This amendment was adopted to strengthen the reserves of the Federal Reserve Banks with a view to enabling them to meet the demands that were expected to arise out of the United States' entry into World War I.

The classification of banks by geographical location was continued in spite of the fact that member banks were no longer permitted to count their balances with other banks as part of their reserves. The gradation of reserve requirements against demand deposits in the three classes of banks grouped according to their location has remained in effect up to the present day. This method of determining reserve requirements has operated to the disadvantage of the smaller banks located in the large cities that hold little or no deposits of other banks[2] and of the "country" banks that hold relatively large amounts of vault cash and of balances with city correspondent banks, because of distance from Federal Reserve Banks or branches, or for other reasons. Conversely it has favored those banks located outside reserve or central reserve cities that do a type of business similar to that of most large banks in reserve cities.

[1] Hearings on *Credit Policies* before the Joint Committee on the Economic Report, Eightieth Congress, Second Session, 1948, pp. 131-152.

[2] While the Phelan Act of 1918 authorized the Federal Reserve Board to grant permission to banks in outlying sections of central reserve and reserve cities to carry reduced reserves, the Board cannot grant a similar exemption to *individual* banks on the basis of the character of their business rather than on the basis of their location. At the present time, banks in the outlying sections of 22 reserve cities and the 2 central reserve cities are authorized to carry smaller reserves than are required of other banks in the same cities.

Percentage Reserve Requirements for Member Banks

	Against demand deposits												
	Central reserve city banks				Reserve city banks				Country banks				
	Total	Cash in vault*	On deposit with Reserve Banks	Optional	Total	Cash in vault*	On deposit with Reserve Banks	Optional#	Total	Cash in vault*	On deposit with Reserve Banks	Optional#	Against time deposits, all banks
	A. Statutory requirements												
National Bank Act, as amended	25	25	–	–	25	12½	–	12½	15	6	–	9	Same as demand
Federal Reserve Act:													
Upon establishment	18	6	7	5	15	6	3	6	12	5	2	5	5
To be effective by November 1917	18	6	7	5	15	5	6	4	12	4	5	3	5
As amended June 1917	13	–	13	–	10	–	10	–	7	–	7	–	3
As amended August 1935:													
Maximum	26	–	26	–	20	–	20	–	14	–	14	–	6
Minimum	13	–	13	–	10	–	10	–	7	–	7	–	3
	B. Changes in requirements made under provisions of the Banking Act of 1935												
August 16, 1936	19½	–	19½	–	15	–	15	–	10½	–	10½	–	4½
March 1, 1937	22¾	–	22¾	–	17½	–	17½	–	12¼	–	12¼	–	5¼
May 1, 1937	26	–	26	–	20	–	20	–	14	–	14	–	6
April 16, 1938	22¾	–	22¾	–	17½	–	17½	–	12	–	12	–	5
November 1, 1941	26	–	26	–	20	–	20	–	14	–	14	–	6
August 20, 1942	24	–	24	–	20	–	20	–	14	–	14	–	6
September 14, 1942	22	–	22	–	20	–	20	–	14	–	14	–	6
October 3, 1942	20	–	20	–	20	–	20	–	14	–	14	–	6
February 27, 1948	22	–	22	–	20	–	20	–	14	–	14	–	6
June 11, 1948	24	–	24	–	20	–	20	–	14	–	14	–	6

* Cash in vault for reserves under National Bank Act excluded National Bank notes and under Federal Reserve Act excluded National Bank notes, Federal Reserve notes, and Federal Reserve Bank notes.
# Included amounts that could be held with national banks in central reserve and reserve cities. Under Federal Reserve Act all reserves had to be held in vault or in Federal Reserve Banks beginning 36 months after establishment of System.

The only important development with respect to reserves during the last thirty years was the authority given to the Board of Governors to raise or lower the legal minimum reserve ratios. The so-called Thomas Amendment of the Agricultural Adjustment Act of 1933 permitted the Board of Governors to change reserve requirements provided it declared, with the approval of the President, that an emergency existed by reason of credit expansion. This provision was considered vague and ineffective and consequently it was clarified and modified in the Banking Act of 1935. This Act permitted the Board of Governors, in order to prevent "injurious credit expansion or contraction," to change requirements by an affirmative vote of not less than four members without having to declare the existence of an emergency or to secure the approval of the President. The Board was authorized to change member bank reserve requirements within a range of the percentage requirements set in the Amendment of 1917 and twice those percentages.

The Board of Governors has used this authority on ten occasions (see table). It will be observed that the advances made by May 1, 1937, and again on November 1, 1941, exhausted the Board's legal authority to raise reserve requirements. The advances were occasioned by the accumulation of unprecedented excess reserves in member banks in the middle thirties and in the early years of World War II, which threatened to become the basis of excessive credit expansion. The subsequent reductions in New York and Chicago during the war were the result of war financing which drained bank reserves from the two cities to other parts of the country. The recent two successive increases in reserve requirements of banks in these two cities brought them within two percentage points of the legal maximum of 26 per cent for demand deposits in central reserve cities.

Alternatives to the Present System

The reserve provisions of the Federal Reserve Act were considered a decided improvement over the requirements of the National Bank Act, but even before the Federal Reserve Act was passed the geographical basis for determining reserve requirements was attacked. Professor William A. Scott of the University of Wisconsin in a letter to the Hon. Carter Glass proposed: ". . . that deposits should be classified as bankers' balances, individual deposits and time deposits and the percentage of required reserves be made different in these different classes and the present reserve distinction between country, reserve city and central reserve city banks be abolished."[3]

A few years after the Federal Reserve System was established, the Federal Reserve Board was advised of a need for a revision in the method used for determining reserve requirements. The Federal Advisory Council in its recommendations to the Board in September 1919 suggested that the reserve requirements of all member banks should be based on the character of deposits and not on their geographical location.

In 1931 the Committee on Bank Reserves of the Federal Reserve System reported after an exhaustive study that the

[3] Quoted in *The Federal Reserve System,* by H. Parker Willis, New York, 1923, page 447.

existing system of reserve requirements had not functioned effectively since its inception, largely because of defects in the definition of reserves and of liabilities against which reserves must be carried. The Committee took the view that the existing system had not operated to relate the expansion of member bank credit to the needs of trade and industry, nor had it adequately reflected changes in the volume and activity of member bank credit. It also found that the required reserves had been inequitable and unfair as between individual member banks and groups of banks.

The Committee concluded that the existing aggregate volume of member bank reserves was sufficient at that time. It therefore limited its recommendations to measures designed to remove inequities in their distribution among member banks and to relate fluctuations in reserve requirements to the activity of deposits as well as to their volume. Specifically, the Committee proposed that both the classification of time and demand deposits and the classification of member banks according to location be abolished and that all deposits be treated alike; that vault cash be counted as legal reserve; and that reserve requirements be based on the *activity* as well as the *volume* of deposits by requiring each member bank to hold a reserve equal to 5 per cent of its total net deposits and 50 per cent of average daily debits. The first two parts of the Committee's proposals were favorably received, but the third part, the "velocity" reserve plan, encountered strong opposition, and no action was taken by Congress on the proposals.

The Glass Bill of 1932 (S. 4115) proposed that the statutory reserve requirements against time deposits be raised to the same level as reserves against demand deposits, the increase to be spread evenly over a period of five years. A modified version of this proposal, which would subject only future increases in time deposits to the same reserve requirements as demand liabilities, was also advanced. Congress did not follow either proposal, but in the Banking Act of 1935 adopted an amendment which authorized the "Board of Governors. . . . to define the terms 'demand deposits,' . . . and 'time deposits,' . . ." The Board subsequently issued more precise definitions of time deposits (Regulation D) in order to assure proper classification of deposits.

In its Annual Report for 1945, and in subsequent recommendations to Congressional committees, the Board of Governors advanced proposals that the Reserve System be authorized to increase the existing reserve requirements of the banks, or to impose new secondary or "special" reserve requirements, or both. These proposals were addressed to the problem of restraining inflationary expansion of credit, rather than to the problem of finding a more equitable basis for determining the reserve requirements of individual banks.

It is to the latter problem that the plan submitted by representatives of the Reserve System to the Joint Committee on the Economic Report, on May 27, was primarily directed. Adoption of this plan would require amendment of the Federal Reserve Act to:

Eliminate the distinction between central reserve, reserve city, and country banks;

Establish separate reserve requirements (applicable to all member banks alike) for interbank deposits, for other demand deposits, and for time deposits;

Permit vault cash to be counted as part of required reserves; and

Permit any bank to deduct from its required reserves a percentage of its balances due from other member banks equal to the percentage of reserves to be held against interbank deposits.

It will be noted that this plan follows basically the recommendations of Professor Scott in 1912 and of the Federal Advisory Council in 1919. Thus it is not to be regarded as a new invention, as it is based upon an old idea, the merits of which from the viewpoint of equity have long been advocated.

The specific requirements suggested for the three classes of deposits, as the basis for the transition from existing reserve requirements, are 30 per cent for interbank deposits, 20 per cent for other demand deposits, and 6 per cent for time deposits. (Cash items in process of collection would be deductible from "other" demand deposits before computing required reserves.) These percentages, taken together with full reserve credit for vault cash and greater reserve credit for balances on deposit with other member banks, are designed to leave aggregate reserve requirements of all member banks at approximately the same level as at present. Some redistribution of these aggregate requirements among individual banks would, of course, be involved, but in most cases the changes would not be very great, and it has been suggested that, if the plan were adopted, the Board of Governors should be authorized to waive penalties for reserve deficiencies for an adequate transition period.

Adoption of this plan would have little bearing on the question of restraining unnecessary expansion of bank credit in an inflationary period, or of relieving pressure on the banking system in a period of deflation. But changes in the reserve requirements of the banks as a means of achieving those ends could be applied quite as well to the proposed system of reserve requirements as to the existing system. The representatives of the Reserve System who appeared before the Joint Committee suggested that the System be authorized to raise or lower the proposed basic percentages by a maximum of 50 per cent. But, as their testimony brought out, two separate issues are involved—first, whether the basis for determining bank reserve requirements should be revised and, second, whether the Federal Reserve System should be given greater authority to change the general level of reserve requirements as an instrument of credit control. The answers to these questions, therefore, may and probably should be considered separately.

CURRENCY HOARDING[1]

In discussions of the monetary situation, reference is frequently made to changes in the velocity of currency circulation and bank deposits. Since velocity is directly affected by increases in the amount hoarded or the reactivation of idle money, conjectures as to possible future changes in velocity necessarily involve an estimation of the amount and nature of such holdings.

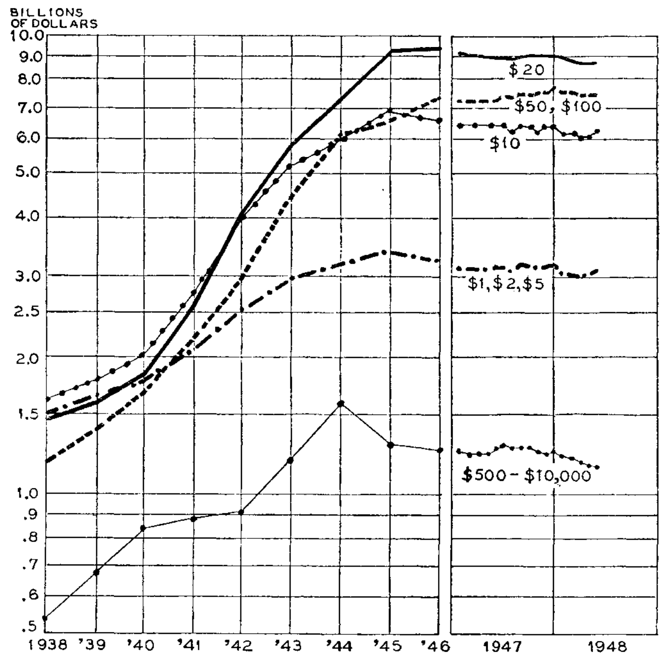
Direct statistical measurement of either hoarded currency or idle deposits is not possible. But a rough estimate of the amount of currency that may be needed currently for everyday cash transactions can be made by relating currency of different denominations to such over-all measures of the volume of monetary transactions as national income or consumer expenditures and applying the ratios which prevailed in the prewar period to current levels of national income. Since patterns of money use change and the effects of the war on the use of currency are difficult to evaluate, such estimates are of necessity only very rough approximations. Nevertheless, if these estimates of currency requirements are compared with the total amount of currency outstanding today, it is obvious that the total currency outside banks is well in excess of present cash needs for current transacations and that a substantial amount is being withheld from general circulation. Of the approximately 25 billion dollars of currency outside the banks possibly as much as 9 or 10 billion apparently is being hoarded, here and abroad, or has been lost or destroyed.

The wartime increase in the notes of the smaller denominations ($1, $2, and $5 bills), which are most frequently used in cash transactions and which generally are not likely to be hoarded in sizable amounts because of the bulk involved, was close to what might have been expected from the prewar ratios. In fact the increase was somewhat less than might have been expected, but allowance must be made for the increased demand for larger bills reflecting the rise in wages and prices.

In contrast, circulation of the $20 bills increased considerably. These bills were apparently a preferred medium for hoarding. The demand for them, as the accompanying chart shows, was extremely heavy throughout the war and early postwar years. Although the relative growth in the number of $20 bills outstanding might have been expected to be greater than the increased circulation of small denominations (because of increases in wages and prices), the actual increase appears to have been excessive by any measure. At the present time it may be estimated on the basis of prewar relationships that nearly 5 billion dollars of the 8.7 billion of these bills outstanding are not being actively circulated. Before the war these bills normally circulated at a rate several times faster than $100 bills judging by the rates of return of unfit currency to this bank. Currently, because such a large proportion of $20's apparently are being hoarded, the turnover of the total amount outstanding is approximately the same as that for the $100's.

[1] Changes in currency circulation from the end of the war through 1947 were discussed in the March 1948 issue of this *Review*.

Amount of Currency in Circulation by Denomination*
(End of year 1938-46, end of month 1947-48)



* Plotted on ratio scale to show proportionate changes.
Source: U. S. Treasury Department.

The $50 and $100 bills seem also to have been used extensively for hoarding purposes. The amount of these bills outstanding increased quite sharply until 1945 when the Treasury asked the banks to report all requests for or deposits of large bills in order to help uncover black marketeers and tax evaders. The Treasury's action did not completely check, although it slowed down, the demand for $50 and $100 bills. The number of these bills outstanding, in contrast to the other denominations, continued to increase until the beginning of 1948. Currently between 3½ and 4½ billion dollars more of these bills are outstanding than might be expected on the basis of prewar patterns of currency use.

The Treasury's action, as the chart shows, did, however, abruptly check the demand for the largest denomination notes ($500 to $10,000). During the past three years moderate amounts of these bills have been returning to the banks, possibly in exchange for $20, $50, or $100 bills.

During the first six months of 1948 a considerably larger amount of currency was returned to the banks than can be accounted for by such seasonal factors as the post-Christmas return flow and quarterly income tax payments. Currency of all denominations has been returning at about the same rate, with the exception of $50 and $100 bills, the "circulation" of which also has been reduced, but not so rapidly. Judging by changes in the note liabilities of the different Reserve Banks, all sections of the country have experienced some contraction in currency circulation. Part of this return flow has undoubtedly come from hoards; some may also represent a decline in the amount of currency which people keep on hand for daily transactions. Wartime dislocations are gradually being eliminated, reducing abnormal needs for currency, and the rising cost of living may be reducing the "pocket money" of those whose incomes have not kept pace.

Some observers have suggested that a return flow of currency from abroad may also have been a factor. Opinions differ widely as to the amount of foreign holdings of United States currency; some estimate them at less than a billion dollars, others as high as 4 billion. Repatriation of this currency depends on political and economic conditions both here and abroad, and it is hard to guess whether and when any large amounts might be returned. During the past two years, however, there apparently has been a marked rise in receipts of currency from overseas, at least in the New York area. Recent discussion of a possible currency conversion may have been a contributing cause. As yet, however, these receipts do not appear to have been large enough to have had a very significant effect on total currency circulation.

EXPORT CREDIT INFORMATION ON LATIN AMERICAN COUNTRIES[1]

Since May 1947 this bank has been receiving monthly reports from twelve large New York City banks on their draft collection experience in individual Latin American countries. In the report the banks list the number of collections that are paid promptly, according to a schedule of prompt payment assigned to each country, and the number that are paid up to 30 days slow, 31 to 60 days slow, 61 to 90 days slow, and over 90 days slow. In addition each bank reports the dollar amount of outstanding collections and the dollar amount of confirmed letters of credit outstanding at the end of each month.

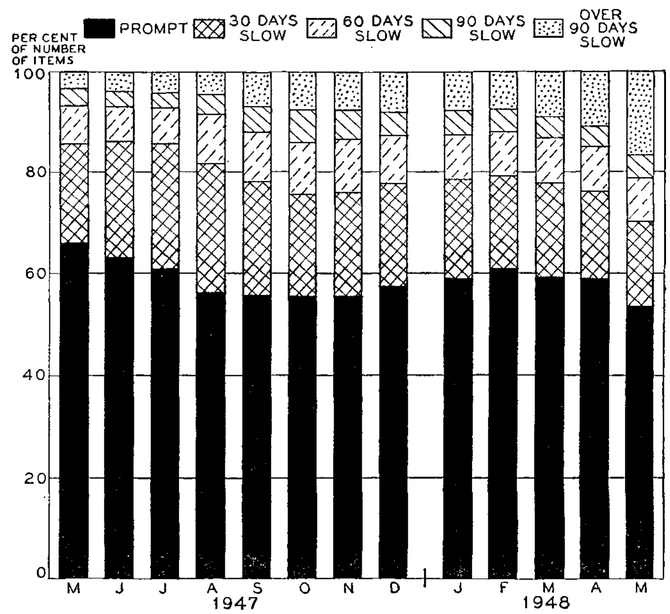
These data give definite evidence of a slowing down of collection payments by Latin America in the aggregate during the past 13 months, although the experience of the reporting banks has varied widely among countries. Collections paid promptly have declined, payments over 90 days slow have increased, and the dollar amount of outstanding collections has increased since May a year ago. This trend reflects the drain on Latin American gold and dollar resources caused by the large demand for American goods after the war, while the prices of these goods were rising. The shortage of dollar exchange in most Latin American countries has necessitated the inauguration of drastic exchange controls which have resulted in added delays for administrative reasons.

The accompanying chart showing monthly percentages of Latin American collections paid with different degrees of promptness reflects the trend of payments to the twelve reporting banks. It indicates that prompt payments declined from 65.7 per cent during May 1947 to 55.4 per cent during October. Some slight improvement occurred from November 1947 to February 1948, with an increase in prompt collections to 60.8 per cent. Since February, however, there has been a steady decline in promptness; payments in the prompt category during May 1948 were 53.5 per cent of the total collections paid by Latin America as a whole through the twelve reporting banks. At the same time, the percentage of payments in the over 90 days slow category has shown a steady increase (interrupted only in November 1947, January and February 1948) from 3.4 per cent of total collections during May 1947 to 16.6 per cent during May 1948.

The most striking instance of a slow-down in draft payments, and the one which has most heavily affected the composite figures for Latin America as a whole, is the experience in Brazil. During May 1947, 6,100 Brazilian collections were paid, of which 61.0 per cent were prompt and only 2.6 per cent were in the over 90 days slow category, whereas in April 1948 only 1,900 were paid of which 11.3 per cent were prompt and 32.7 per cent were in the over 90 days slow category. The number of drafts paid during May 1948 increased to 3,300, but only 7.2 per cent were prompt and 45.7 per cent were over 90 days slow. The backlog of outstanding Brazilian collections increased from 45 million dollars on May 29, 1947 to 80 million at the end of May 1948.

As shown in the accompanying table, the experience of the reporting banks in several other countries has been rather similar. In Chile, for example, the percentage of prompt payments fell from around 50 in the summer of 1947 to 6 in May 1948; however, the actual number of collections paid reached its lowest point in March and has subsequently increased materially. In Paraguay the percentage of prompt payments has varied widely, reaching a peak of 81 per cent in July 1947

Degree of Promptness in Collections Paid by Latin American Countries as Reported by Twelve New York City Banks (In per cent of number of items paid)



[1] A reprint of this summary, to which have been added tables showing the actual number of collections paid and the dollar amounts of collections and confirmed letters of credit outstanding for each country and for each month from May 1947 to May 1948, is available and will be sent on request from the Research Department, Financial Statistics Division, Federal Reserve Bank of New York.

Number of Collections Paid Promptly in Percentage of Total Number of Collections Paid by Individual Countries as Reported by Twelve New York City Banks, May 1947 to May 1948
(Collections classified according to the schedule of promptness for each country)

Country	Prompt payments	1947								1948				
		May	June	July	August	Sept.	October	Nov.	Dec.	Jan.	Feb.	March	April	May
Argentina	2 Months	44.7	41.8	40.6	35.0	43.7	33.3	44.0	42.8	40.7	46.0	36.7	31.6	30.9
Bolivia	2 Months	50.0	73.3	55.9	61.0	41.6	55.7	28.6	44.9	55.5	62.0	72.6	66.9	57.2
Brazil	6 Weeks	61.0	60.5	47.5	38.3	38.1	33.2	31.5	34.1	30.2	25.6	19.4	11.3	7.2
Chile	2 Months	48.6	53.3	51.5	48.6	43.2	46.4	51.4	46.3	42.9	51.6	27.6	10.2	6.3
Colombia	7 Weeks	64.8	53.1	55.7	39.6	44.0	40.0	46.3	50.2	53.9	52.5	46.5	37.1	31.5
Costa Rica	2 Months	27.4	46.6	32.8	48.2	25.5	23.3	32.6	32.5	33.6	36.7	6.3	8.5	9.5
Cuba	3 Weeks	86.5	79.5	79.9	83.7	77.9	79.0	81.5	75.1	78.4	81.5	78.6	76.9	84.6
Dominican Republic	1 Month	76.8	65.6	76.5	82.8	78.7	70.8	79.1	73.0	77.8	70.5	79.8	77.7	80.2
Ecuador	6 Weeks	60.6	51.7	55.6	44.3	43.6	47.8	43.7	54.3	54.5	61.7	58.3	53.1	50.2
Guatemala	6 Weeks	73.0	61.7	78.0	73.6	67.3	60.9	61.3	58.2	55.6	68.2	61.4	68.0	75.7
Haiti	1 Month	81.5	76.0	65.6	70.8	76.8	75.7	83.7	75.4	83.2	75.8	78.7	85.3	79.5
Honduras	1 Month	58.8	57.6	56.5	57.3	56.0	58.3	53.4	53.8	63.6	53.9	48.3	48.9	52.7
Mexico	1 Month	74.3	71.8	70.2	69.9	73.1	69.2	76.3	76.9	73.7	77.9	77.6	79.6	80.7
Nicaragua	6 Weeks	79.0	73.5	74.0	63.3	77.9	79.8	75.6	78.6	78.1	67.8	83.1	78.3	71.4
Panama	1 Month	86.5	80.8	85.4	73.4	83.1	86.3	79.5	81.6	87.9	84.1	86.6	87.7	83.7
Paraguay	2½ Months	39.3	58.4	81.3	54.7	28.2	31.3	43.5	29.9	53.1	26.9	6.8	11.6	9.1
Peru	2 Months	59.5	58.7	60.6	51.3	55.7	67.2	59.0	52.2	65.9	50.2	50.9	48.3	59.2
Salvador	1 Month	53.4	68.7	61.4	48.3	47.0	60.2	57.2	58.8	61.5	65.9	58.3	57.2	57.7
Uraguay	2 Months	49.4	43.4	48.1	50.3	53.1	44.4	31.5	24.8	40.4	51.3	47.9	60.2	63.5
Venezuela	6 Weeks	66.5	65.6	61.2	64.9	59.0	61.5	60.7	62.9	65.8	65.8	69.3	72.4	68.7
British Guiana	6 Weeks	69.2	74.0	58.0	56.6	64.9	61.5	74.7	78.2	63.7	65.6	76.9	69.9	80.5
Dutch Guiana	5 Weeks	57.8	58.5	39.8	39.1	49.4	67.3	63.3	66.9	47.9	76.3	60.2	44.8	63.8
French Guiana	5 Weeks	—	—	—	100.0	—	50.0	63.7	—	—	—	—	100.0	—
All countries		65.7	63.0	60.6	56.1	55.8	55.4	55.4	57.5	59.0	60.8	59.2	58.9	53.5

and falling as low as 7 per cent in March 1948, but subsequently improving slightly. In Costa Rica, also, there was a sharp drop in payments early this year, reflecting the political upheaval in that country, but some improvement has recently occurred. Collections in Colombia have been affected similarly, but less drastically, by the political disorders this spring.

Some countries, particularly Cuba, the Dominican Republic, Haiti, Mexico, and Panama have had notably good records of prompt payments during the entire period from May 1947 to May 1948. In the case of Mexico financial assistance by the United States Government has played a role, supplementing the effect of import restrictions, in maintaining satisfactory exchange conditions, while the four other countries have been aided by their large foreign exchange holdings.

The dollar amount of Latin American collections outstanding at the end of each month, as reported by the twelve banks, has increased almost uninterruptedly since May 1947. At that time, 100 million dollars of collections were outstanding, compared with 143 million at the end of May 1948. This increase is largely concentrated in Brazil, as indicated above, although there have been smaller increases in a few other countries, notably Colombia. During the period under review, the total number of collections paid by Latin America as a whole to the twelve reporting banks has declined from 24,400 items to 17,300 items.

The dollar amount of confirmed letters of credit outstanding at the twelve reporting New York City banks has shown a decline of 100 million dollars since May 1947—from 326 million in that month to 226 million in May 1948. More than half of the decline can be accounted for by a decrease of about 54 million dollars in credits outstanding for Argentina.

A word of caution on the interpretation of the data should be added. Primary significance attaches, not to the absolute figures shown for each country, but to their trend. Comparisons between countries are difficult to draw, since the degree of promptness shown depends not only on economic conditions, but also on administrative practices, chiefly exchange control, and upon the somewhat arbitrary "prompt schedule" period assigned to each country. Effective use of the data is possible only if they are viewed in conjunction with all other factors bearing upon the situation.

To anyone interested, a monthly press release is available upon request.

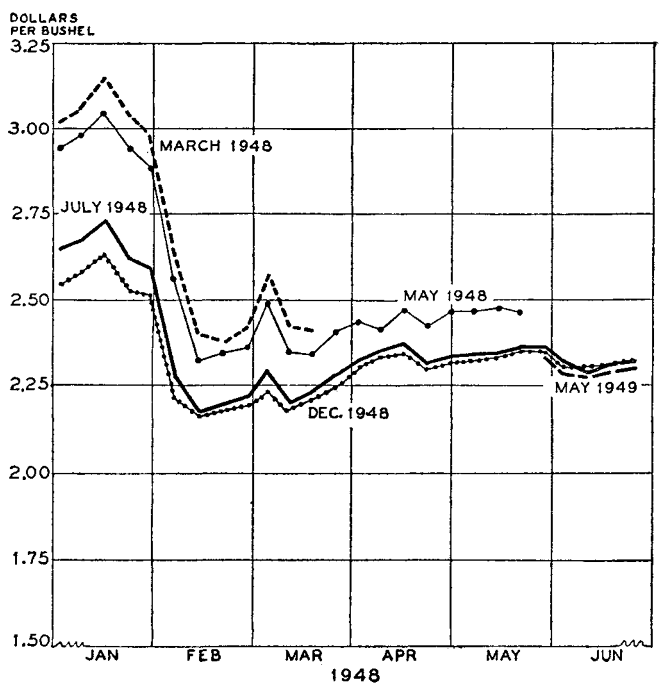
RECENT COMMODITY PRICE DEVELOPMENTS

In the four months following the low point of the break in farm and food prices, commodity prices have been gradually creeping upward again. Wholesale prices, as measured by the weekly index of the U. S. Bureau of Labor Statistics, had in the week ended June 19 recovered to a point approximately equal to the January peak and within one per cent of the record set in May 1920. Retail prices, as measured by the BLS index of consumers' prices, reached their highest point in May, more than 70 per cent above the prewar (1935-39) level and 14 per cent higher than the peak reached after World War I.

The actual amount of price advances in recent weeks has varied widely among the various groups of commodities, but the firm tendency pervaded most of the price structure. Prices of farm products, which led in the January-February decline, have recovered nearly two thirds of their losses; by mid-June food prices had nearly returned to their January peak. Both indexes reflect the recent sharp rise in livestock prices. The index for all other commodities combined reached a new postwar peak. The steady but moderate advance of fuel and lighting materials, housefurnishings, and building material prices was not interrupted even in February. Prices of metals and metal products also rose steadily throughout the first four months, but in the past six weeks have leveled off. Despite the price reductions in some types of steel products this spring, *Iron Age's* composite finished steel price in June was still slightly higher than at the start of the year, averaging 3.245 cents per pound on June 22, compared with 3.226 on January 1 and 3.276 in February. The heavy demand for nonferrous metals has resulted in sharp price increases recently for lead and tin, while prices of aluminum, brass, and copper products have also been raised. Textile prices dipped only slightly during the price break and recovered to a new postwar high; some weakening of the domestic and foreign demand for textile products was, however, indicated by the decline in prices of cotton print cloth, particularly in the secondary—or resale—market. Cotton print cloth is now more than one-third below the prices quoted six months ago. Prices in the chemicals and allied products group dropped again in May and are still close to their 1948 low. Hides and leather goods prices also show net declines, although hides have recovered a substantial share of their first quarter losses.

The impact of the February price break was centered in agricultural prices, particularly grains and livestock. While both wheat and corn prices dropped about 80 cents a bushel between the January high and the February low, corn prices soon regained nearly half of their loss; wheat prices, however, failed to recover appreciably. Spot prices for wheat at Kansas City started to decline again in mid-May, and by early June had dropped to a new low for the year. By the middle of June wheat prices were at or even slightly below the support level currently anticipated for the 1948 crop. This decline is partly seasonal, since harvesting is now under way on what is officially estimated to be the second largest wheat crop in the nation's history. Good growing weather and favorable crop prospects, both in this country and abroad, indicate a more nearly adequate supply to meet world needs than was available last year. The Department of Agriculture anticipated at the end of May a Government support price for the 1948 crops equivalent to $2.22 per bushel for No. 2 hard winter wheat at Kansas City; throughout June spot prices for this quality ranged between $2.29 and $2.21 per bushel. (The actual loan rate, announced June 29, was $2.24.)

Closing Prices for Wheat Futures at Chicago
Weekly (Friday) quotations during first half of 1948



Source: Chicago Board of Trade as reported in the *N. Y. Times.*

The effects of the prospect of a bumper crop and the Government price support program on prices of wheat for future delivery are shown in the accompanying chart. At the start of this year there was a spread of nearly 50 cents between prices of the nearest and most distant futures contracts and over 10 cents between July and December, the so-called "new crop" deliveries. By June, this spread had been virtually eliminated and all four contracts currently traded (including September, not shown on the chart) were fluctuating together within a range of a few cents, as prices were both depressed by the large crop and sustained by the prospect of Government support. Thus, no matter how favorable the supply situation may become, these prices for future delivery seem unlikely to decline very far below the level at which spot prices will be supported.

Corn prices, on the other hand, have been relatively firm in recent months. In fact, corn is now selling at a higher price per bushel than wheat, contrary to usual market relationships. Wheat ordinarily commands a higher price because of its greater nutritive value per bushel when used as feed. Currently, however, wheat prices are being depressed by the plentiful supplies from the the new crop just coming on the market, whereas supplies of corn from last year's short crop are dwindling and this year's harvest, the size of which is still uncertain, will not be available till fall. Prices for future delivery of corn still show a wide spread between the nearest and most distant delivery dates, amounting to 50 cents or more. However, the two "new crop" deliveries—December 1948 and May 1949—have moved closely together within a very narrow range, substantially below prices for deliveries from the 1947 crop.

Livestock prices fell in January and February along with grain prices and remained at the lower levels or were further depressed during the meatpacking strike, when marketings for a while proved too heavy for those packinghouses still in operation. Marketings of hogs were particularly heavy at that time because of the low supplies and high prices of feed; hog prices dropped below $21.00 per hundred pounds, the lowest level since they were decontrolled in October 1946. Since the end of the strike, hog prices have risen more than one third, while prices of steers rose $9.00 from their March low to a new postwar peak of $35.75 on June 23.

At the retail level, food prices rose further in May, more than wiping out the declines in February and March. Prices of apparel and fuel have also reached new postwar peaks, while the gradual rise in rents since the relaxation of rent controls last year has also contributed to the continuing upward movement of the index of consumers' prices.

In the past three years, price rises were concentrated in the latter half of the year; in each of these years, small gains or actual declines between January and June in basic commodity prices were followed by comparatively large gains between July and December. In the second half of 1946, of course, the removal of most price controls contributed to the sharp rise in prices of most commodities; of the 29 basic commodities for which the Bureau of Labor Statistics tabulates daily spot prices in primary markets, nearly half showed increases of more than 50 per cent in the latter half of the year and five more than doubled; only one of these basic commodities was lower in price at the end of 1946 than at midyear.

Similarly, during the latter half of 1947 cotton was the only commodity to decline in price, while the closely administered prices of silk, copper, and lead remained unchanged, and all other selected basic commodities advanced. The sharp rise in prices in that period was led by farm products, reflecting crop failures abroad and the short corn crop here. But prices of industrial products also rose, owing to the combined effects of strong demand and higher costs.

The contrast in price behavior during the first half of 1946, 1947, and 1948 with that in the latter half of 1946 and 1947 is shown in the accompanying table. In each case, prices of basic commodities showed a general tendency to remain relatively stable or to decline. (The stability of prices in the first half of 1946 was, of course, due to the existence of price controls.) In the past six months only four of the 29 commodities advanced more than 10 per cent, while quotations for almost half showed net declines despite the upward movement in most prices during the past three months.

This pattern of "stair-steps" in the price movement probably reflects several independent factors, such as the slackening of demand for some nondurable goods during the first half of each of the last two years, the cumulative effect of annual wage increases (and attendant labor disputes) which are usually concentrated in the second quarter, and the effect on purchasing power of sizable surpluses of Federal tax collections over disbursements during the first half of the year. In addition there were the special factors, previously mentioned, of abandonment of price controls in 1946 and short crops in 1947 which greatly influenced the course of prices in the latter half of both years.

Changes in Spot Primary Market Prices of 29 Selected Basic Commodities

Change	Number of commodities				
	1946		1947		1948
	First half	Second half	First half	Second half	First half*
Increase of 25 per cent or more	2	21	3	8	
Increase of 15 to 25 per cent	5	3	4	9	2
Increase of 5 to 15 per cent	5	3	9	5	5
Increase or decrease of less than 5 per cent	17	1	3	7	9
Decrease of 5 to 15 per cent		1	3		5
Decrease of 15 to 25 per cent			4		4
Decrease of 25 per cent or more			3		4

* Through June 28.
Source: Computed from U. S. Bureau of Labor Statistics data by the Federal Reserve Bank of New York.

The question naturally arises as to whether the last half of 1948 will repeat the pattern of 1946 and 1947. As pointed out above, in some commodity groups the resumption of the upward price movements has occurred this year earlier than in previous years. The rapidly widening third round of wage increases evidently is having widespread effects on prices of industrial products. Leading automobile manufacturers have already raised prices to compensate for higher labor costs, and electrical machinery, farm equipment, chemicals, and petroleum products have also been advanced in price by major producers. Even the Federal and municipal governments have announced increases in postal rates and transit fares following pay increases to their employees. In some instances, however, manufacturers are experiencing difficulties in passing their increased costs along to consumers, and have resumed production of lower priced lines, notably in the apparel and automobile tire industries.

Of major importance will be the developments in the coal and steel industries. The terms of the recent wage pact for bituminous coal miners are expected to make a rise in coal prices almost inevitable. At the time the United States Steel Corporation announced its decision to lower prices of some products and to refuse a third-round wage increase, it stated that "If . . . costs should continue to advance, then in fairness to our employees and to our stockholders we will have to consider at some later date the adequacy of both wages and steel prices under then existing conditions." Since that announcement was made, pig iron, coke, and steel scrap prices have advanced and a temporary increase in freight rates has gone into effect. At the same time third-round wage demands are being made on the railroads, while some second-round demands still remain unsettled. A rise in the basic industrial costs of coal, steel, and freight would affect the price structure of many industries as it did in 1947.

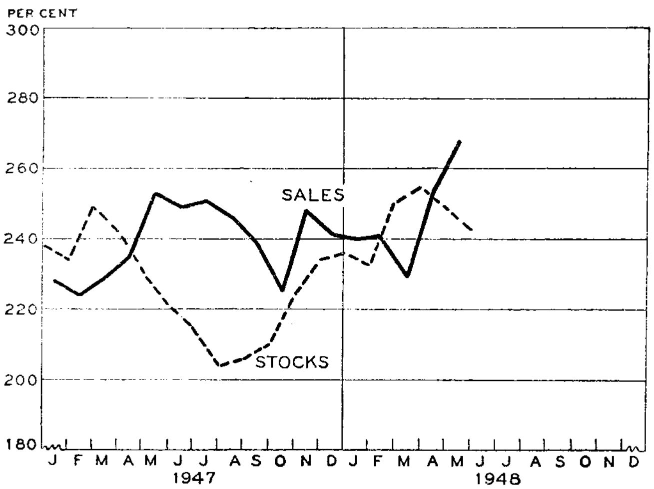
On the other hand, if this year's crops here and abroad prove to be as large as current conditions suggest, one of the major factors in the price rise of the latter half of 1947 presumably will not recur this year. Nevertheless, the U. S. Department of Agriculture predicts that, with a continuing high level of economic activity in prospect, no sharp decline in retail food prices is likely during 1948. For many farm products, the Government's price support policy sets a limit on any declines. Some seasonal declines will probably occur, however, in periods when marketings are heaviest. It is also estimated that meat prices may advance further above current high levels during the summer and early fall because of reduced supplies (the spring pig crop, while larger than expected, was the smallest since 1941), and increased prices are also likely for dairy products, eggs, and turkeys.

DEPARTMENT STORE TRADE

The daily average rate of sales in Second District department stores during June is estimated to have declined somewhat more than seasonally from the record high of May. Preliminary information indicates, however, that seasonally adjusted sales were nevertheless at least 10 per cent above the average dollar volume of the first quarter of the year, despite unfavorable shopping weather during a large part of June. The fact that there was an additional shopping day in June this year contributed to a rather substantial gain in total sales over June 1947.

The seasonally adjusted retail book-value of department store stocks was at a record amount at the end of March, when it was 155 per cent above the 1935-39 average value. During the following two months, however, stocks declined somewhat, as the chart shows, in part as a result of the sharp, contraseasonal increase in sales reported for April and May. At the end of May 1948 department store stocks were 5 per cent below the March peak, but were 10 per cent above the rather low level of May 1947.

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



The dollar volume of outstanding orders on the books of stores which report such information was at the end of May practically unchanged from the amount of the year before. The 6 per cent increase over last year in new orders placed by these stores during May was the same as the increase in both daily average sales and receipts of merchandise. During this spring, merchandise has been coming into stores at about the prewar rate, in relation to current sales, in contrast to the spring of 1947 when merchandise receipts were low relative to sales as the stores endeavored to reduce their inventories.

Merchandise Receipts as a Percentage of Sales Second District Department Stores*

	1940	1947	1948
March	118	108	125
April	97	84	93
May	100	95	100
Three months' weighted average	105	96	106

* For a group of stores whose sales in 1947 accounted for about 55 per cent of estimated total District department store sales.

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

Locality	Net sales		Stocks on hand
	May 1948	Jan. through May 1948	May 31, 1948
Department stores, Second District	+ 2	+ 5	+10
New York City	+ 1	+ 4	+ 8
Northern New Jersey	+ 6	+ 5	+13
Newark	+ 4	+ 5	+ 9
Westchester County	+ 2	+ 3	+11
Fairfield County	−10	− 1	+11
Bridgeport	−13	− 3	+ 9
Lower Hudson River Valley	+ 5	+ 9	+20
Poughkeepsie	+ 4	+10	+18
Upper Hudson River Valley	+ 3	+ 6	+17
Albany	+ 1	+ 2	+20
Schenectady	+ 7	+10	+11
Central New York State	0	+ 6	+21
Mohawk River Valley	+ 3	+ 8	+27
Utica	+ 2	+ 7	+24
Syracuse	− 1	+ 5	+18
Northern New York State	+12	+16	—
Southern New York State	+ 7	+10	+20
Binghamton	+ 7	+11	+17
Elmira	+ 8	+12	+35
Western New York State	+ 2	+ 9	+ 9
Buffalo	+ 1	+ 9	+ 7
Niagara Falls	+ 2	+ 5	− 7
Rochester	+ 3	+ 9	+14
Apparel stores (chiefly New York City)	− 6	− 1	+ 1

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

Item	1947	1948		
	May	March	April	May
Sales (average daily), unadjusted	237	234	237	252
Sales (average daily), seasonally adjusted*	253	229	255	268
Stocks, unadjusted	224	254	251	247
Stocks, seasonally adjusted	221	255	249	243

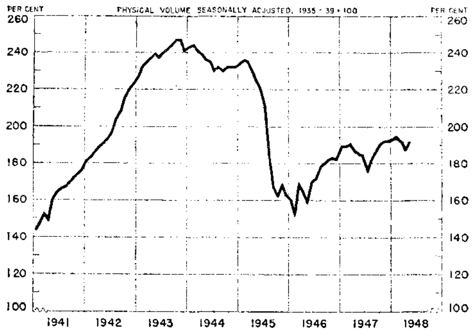
* Seasonal adjustment factors for 1945-48 revised; available upon request from Research Department, Domestic Research Division.

Indexes of Business

Index	1947	1948		
	May	March	April	May
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	185	192	188	192*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	224	245	244	247*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	201	183	180*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	300	327	334*p*	
Factory employment†				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	154	160	156	155*p*
New York State, 1935-39 = 100 (*N.Y.S. Div. of Place. and Unemp. Ins.*)	127	130	125	123*p*
Factory payrolls†				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	319	358	347*p*	
New York State, 1935-39 = 100 (*N.Y.S. Div. of Place. and Unemp. Ins.*)	269	299	280	277*p*
Personal income*, 1935-39 = 100 (*Department of Commerce*)	278*r*	304	305*p*	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	173	184	185*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	156	167	169	171*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	85	92	99	105
Outside New York City	83	87	88	90

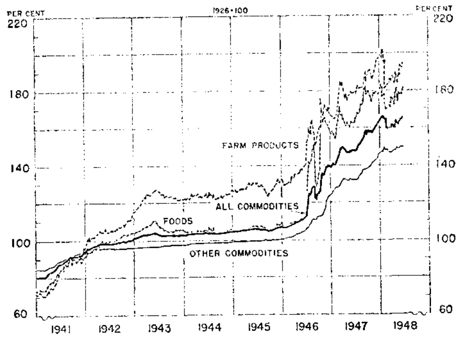
* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Revised beginning January 1946.
‡ A monthly release showing the 15 component indexes of hourly and weekly earnings computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, together with information on component series, sources, and weights, and reprints of articles describing the indexes may also be procured from the Research Department, Domestic Research Division.

INDUSTRIAL PRODUCTION



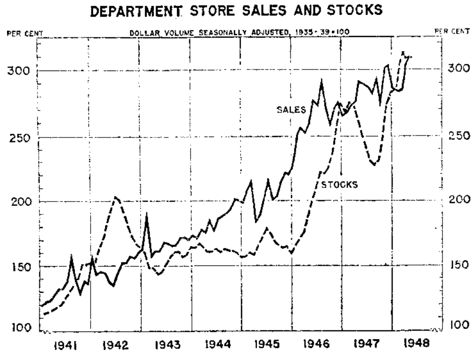
Federal Reserve index. Monthly figures; latest figure shown is for May.

WHOLESALE PRICES



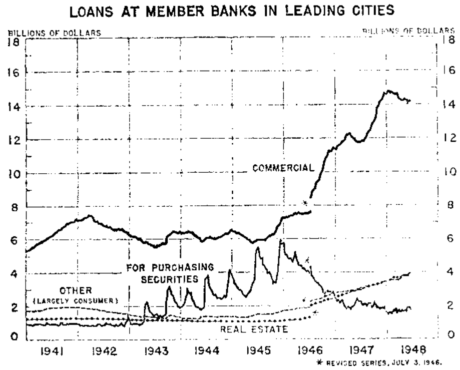
Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended June 19.

DEPARTMENT STORE SALES AND STOCKS



Federal Reserve indexes. Monthly figures; latest figure for sales is May, latest for stocks is April.

LOANS AT MEMBER BANKS IN LEADING CITIES



Excludes loans to banks. Wednesday figures; latest shown are for June 16.

National Summary of Business Conditions

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

INDUSTRIAL output and department store sales increased in May and were maintained at advanced levels in the early part of June. The general level of wholesale commodity prices rose further in June, reflecting chiefly sharp increases in livestock. Substantial advances were announced in prices of automobiles and some other industrial products.

Industrial Production

The Board's seasonally adjusted index of industrial production advanced 4 points in May to a level of 192 per cent of the 1935-39 average, which was close to the record peacetime rate prevailing in the first quarter before output was curtailed by work stoppages at coal mines.

Production of durable goods in May was above the April rate but below first quarter levels. Production of iron and steel increased sharply as coal supplies were restored. Output of nonferrous metals and of stone, clay, and glass products was maintained at the high rate of recent months. Production of most other durable goods, however, declined further in May. Activity in the automobile industry was substantially curtailed as a result of steel shortages and a labor dispute at plants of a major producer, and the number of cars and trucks finished in May was about one-fifth below the first quarter average.

Output in most nondurable goods industries in May was maintained at the April level or advanced somewhat. Petroleum refinery operations increased further; output of gasoline and fuel oil was 16 per cent larger than in May of last year. Coke production recovered from the curtailment in April resulting from reduced coal supplies. Meat production showed a slight gain in May reflecting settlement of a labor dispute at major packing establishments on May 21. Activity at cotton textile and paperboard mills and at printing establishments was maintained at the April rate.

Minerals output rose to a new high level in May, owing mainly to a sharp increase in bituminous coal output and to a further rise in crude petroleum production to a new record level. Production of iron ore was maintained in exceptionally large volume.

Construction

Value of construction contracts awarded in May, as reported by the F. W. Dodge Corporation, increased further to a new postwar peak more than 10 per cent above April and slightly above the previous high in May 1946. The increase reflected mainly large gains in awards for public works and for educational and hospital buildings. Value of awards for commercial structures increased further in May to the highest level in more than two years. Private residential awards also continued to increase. The number of new dwelling units started, according to the Bureau of Labor Statistics, was 97,000 as compared with 90,000 in April and 73,000 in May 1947.

Distribution

Value of department store sales rose to a new high in May, after allowance for seasonal changes. The Board's adjusted index for the month is estimated to be 308 per cent of the 1935-39 average as compared with 304 in April and an average of 284 for the first quarter. Sales in the first half of June continued near this advanced level.

Loadings of railroad revenue freight in May and the first half of June were in substantially larger volume than in the preceding two months, mainly because of a sharp rise in coal shipments. Grain shipments showed a marked further gain during this period, reflecting chiefly an unusually early movement of the new wheat crop. Total freight carloadings in May and early June were at about the same level as during this period a year ago.

Commodity Prices

The general level of wholesale commodity prices advanced further in June to about the peak reached in January. The rise reflected chiefly sharp increases in livestock prices following settlement of the meat packing strike. Prices of most other farm products and foods showed little change.

Prices of industrial materials continued to show mixed changes in June with further declines reported for cotton goods and some other items and marked increases in secondary aluminum, tin, and wool. Prices of automobiles and various other manufactured products were raised.

The consumers' price index increased .7 per cent in May, reflecting mainly further advances in retail prices of meat. Retail prices of most other groups of items showed little change or increased slightly.

Bank Credit

Substantial Treasury cash payments in excess of receipts during late May and the first half of June reduced Treasury balances at Reserve Banks by about 600 million dollars and increased the reserves of commercial banks. A large gold inflow also supplied banks with reserve funds, offset in part by a currency outflow over the Memorial Day holiday.

Effective June 11, the Board of Governors increased reserve requirements against net demand deposits at central reserve city banks from 22 to 24 per cent. These banks sold Government securities to the Reserve Banks as needed to meet the resulting increase of about 500 million dollars in their required reserves. An increase in Treasury deposits resulting from tax payments after the middle of June exercised a drain on bank reserves and caused additional sales of Government securities to the Federal Reserve.

Real estate and consumer loans continued to increase at banks in leading cities during May and the first two weeks of June. Commercial loans were maintained at about the volume outstanding in the last half of April.

Security Markets

Common stock prices advanced somewhat further from the middle of May to the third week of June, and trading remained relatively active.

The Treasury announced on June 10 increases in purchase limits for F and G bonds bought by savings institutions, during the period July 1-15. Prices of marketable Government bonds, which had risen during May, declined in June.