# MONTHLY REVIEW

## *Of Credit and Business Conditions*

FEDERAL RESERVE BANK OF NEW YORK

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## MONEY MARKET IN JULY

During the past month the ebb and flow of funds in the money market were not as pronounced as usual. In each of the four weeks ended July 28, transactions tending to contract member bank reserves and those increasing reserve funds tended to offset each other to such an extent that the net effect on reserve positions was comparatively small. Consequently, week-to-week fluctuations in reserve balances were much narrower than in many past months.

Reserve positions were subject during this period to mild pressure from Treasury operations, which included the redemption with funds withdrawn from depositary banks of 400 million dollars of Treasury bills held by the Federal Reserve System, and the sale of more than one billion dollars of Series F and G Savings bonds in a special offering (July 1-15) to institutional investors and banks holding savings deposits. The pressure on bank reserves was heaviest, however, during the early part of the month, when the holiday demand for currency was at its peak. During subsequent weeks a substantial post-holiday return flow of currency from circulation and the resumption of Federal Reserve System purchases of Treasury bonds in fairly sizable volume eased this pressure. Federal Reserve credit, which was in relatively large demand in the week ended July 7, was subsequently reduced as the banks gained funds. Over the four weeks as a whole, Federal Reserve holdings of Government securities declined moderately; purchases of bonds and certificates were more than offset by redemptions and sales of Treasury bills.

One of the principal factors contributing to the smoothness of money market adjustments during the past month was the close balance which the Treasury maintained between its cash receipts and disbursements. War Loan deposit withdrawals, amounting to about 1½ billion dollars during the month, were limited to the excess of current disbursements, including bill redemptions, over "direct" Treasury receipts (receipts other than that portion of withheld income taxes which is now credited to War Loan accounts in depositary banks). Consequently, changes in the Treasury's balances with the Reserve Banks were not substantial in any week except the first. Over the four weeks ended July 28, Treasury expenditures exceeded receipts by a small margin. However, since approximately 400 million dollars of these disbursements were used to redeem maturing Treasury bills held by the Federal Reserve System and thus did not reach the money market, Treasury operations tended to absorb a moderate amount of reserves.

Redemption of a portion of the Treasury bill issue maturing July 1 was effected largely out of funds held with the Reserve Banks; thus Treasury operations were designed to add as little as possible to the pressure on bank reserves resulting from a 242 million dollar increase in currency in circulation in the holiday week ended July 7. This increase over the Independence Day week end was larger than that of a year previous and, although there was a rapid return flow in subsequent weeks, it appears that the volume of currency in circulation in recent weeks has been running less than 300 million dollars below the level of the corresponding period of 1947, whereas for several weeks in the spring of this year, currency outstanding had been more than 400 million dollars lower than a year previous. The relative increase in currency outstanding may reflect the effects of higher wages, prices, and retail sales.

As a result of the drain on bank reserves during the first week of the month, caused mainly by public demands for currency, member bank demands on Federal Reserve credit facilities were concentrated in that week. The banks' needs for funds were met in large part by the sale to the System of large amounts of certificates of indebtedness and by a substantial increase in borrowings from the Reserve Banks. A large part of the certificate sales and of the new borrowing originated among New York City institutions which were in need of reserves to meet an outflow of funds from New York to other parts of the country and to offset reserve deficiencies in the early part of the week. In making up for such deficiencies, central reserve New York City member banks acquired a sizable amount of excess reserves on July 7, which accounted for more than two thirds of the temporary 280 million dollar increase in excess reserves of all member banks during the week. Inasmuch as the increase in Federal Reserve System certificate holdings during the first week in July was larger than the decline in the holdings of the weekly reporting member

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banks, it appears that some of the certificates absorbed by the System in that period were sold by nonbank investors (and the nonreporting banks), probably to obtain funds with which to pay for subscriptions to F and G bonds.

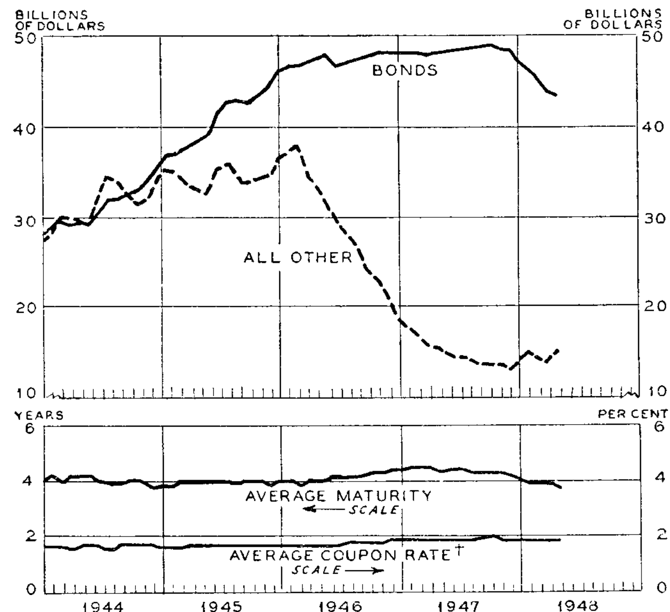
In the three weeks ended July 28, the drain on member bank reserves resulting from Treasury operations and other transactions was alleviated by the return flow of currency, by substantial Federal Reserve purchases of Treasury bonds, largely from nonbank investors, and by continued purchases on a much smaller scale of Treasury certificates from commercial banks and others. The commercial banks were thus provided with funds which enabled them to pay off earlier borrowings from the Reserve Banks and to acquire substantial amounts of outstanding bills in the open market (supplied mostly by the Reserve System). The banks were likewise enabled to acquire new bills directly from the Treasury, thus reducing allotments to the System of new issues in exchange for its holdings of maturing bills. The reduction in the System's holdings of Treasury bills, through redemptions and sales, exceeded purchases of Treasury bonds and certificates by about 320 million dollars.

Toward the close of the period for subscriptions to Series F and G bonds, nonbank investors, particularly insurance companies, made preparations to pay for the new securities on July 15. To some limited extent this involved sales of their longest-term restricted Treasury bonds. These offerings increased in volume after the closing of the books of the special sale of Savings bonds, as insurance companies continued to sell Treasury bonds in order to buy new corporate and other securities bearing higher rates of interest. As prices of the longest-term restricted Treasury bonds had fallen to their support levels toward the close of June, sales of these securities were not accompanied by any further price changes. Shorter-term, restricted 2½ per cent issues, which have a shorter time to run before they become eligible for bank investment, remained above their "pegs" until the closing days of the month, when all but one issue fell to the support prices. Bank eligible bonds were also offered by some insurance companies, but the offerings were light and taken principally by out-of-town banks. Prices receded, but in most cases remained above support levels. The volume of trading in these issues was small. Near the close of the month, uncertainty in the Government market was increased by discussion of possible further steps to discourage credit expansion as an anti-inflationary measure.

## Government Security Portfolios of the Commercial Banks

Apparently the commercial banks have not participated to any great extent in the recent selling of Treasury bonds. If the trend of bond holdings of the weekly reporting member banks reflects that of all commercial banks, little change in bank holdings of Government bonds has taken place since the previous wave of liquidation was completed earlier in the year.

**Amount, Average Maturity, and Average Coupon Rate of Government Securities Held by Commercial Banks, Dec. 1943-Apr. 1948***




* Public marketable securities at par values.
† Rate of discount on Treasury bills and rate of interest paid on face value of other securities.
Source: *Treasury Bulletin.* Average maturity and coupon rate computed by Federal Reserve Bank of New York.

Changes since the end of 1943, in the public marketable bond and other marketable Government security holdings of the commercial banks that report monthly to the Treasury (comprising institutions owning 95 per cent of all commercial bank-held Government obligations), are shown in the upper panel of the accompanying chart. Government security holdings of the commercial banks, particularly bonds, rose markedly during the war years and in the early postwar period even though, after the Third War Loan drive (which ended early in October 1943), the Treasury strictly limited the amount and types of public marketable securities available to the banks. Despite these restrictions, the banks, through open market purchases, added nearly 19 billion dollars net to their Government bond portfolios between the end of 1943 and the end of February 1946, compared with an increase of 10 billion for all other types of Government marketable obligations. This was a period, therefore, in which the commercial banks reached out into the open market for the longer-term, higher yielding, Government bonds. The banks also acquired large amounts of certificates and other short-term securities just preceding and during War Loan drives, but had to dispose of substantial amounts of such securities in subsequent periods in order to maintain their reserves at required levels. In addition, there occurred some switching from short-term securities into bonds.

As a result of these extensive bond purchases, a general impression arose that the average maturity of bank portfolios of Government obligations had lengthened considerably. Actually, in spite of the increase in the proportion of bonds held and the substantial reduction of bank holdings of Treasury bills in

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this period, there was no lengthening of the average maturity of the Government security portfolios of the banks. On the average, between the end of 1943 and the end of February 1946, marketable Government obligations held by the banks had about four years to run, as shown in the lower panel of the chart. Apparently market purchases of medium and longer-term bank eligible Treasury bonds only made up for the gradual decline in the average period to maturity of previous holdings brought about by the passage of time.

After February 1946, the average maturity of Government marketable obligations held by the commercial banks began to lengthen, but this was chiefly the result of Treasury debt retirement operations rather than the result of continued large-scale bank purchases of medium and long-term bonds in the market. The end of February 1946 marked the peak of bank holdings of marketable Government securities. After that date, the Treasury began to retire maturing or called issues, first with some of the funds raised in the Victory Loan which were not needed to meet current expenses, and then from surplus tax receipts. Since at first entire issues and large parts of maturing short-dated securities which were held mainly by the banking system were redeemed, commercial bank holdings of such obligations, particularly certificates, declined markedly, but in spite of some retirement of maturing bond issues, the banks' holdings of bonds continued to rise. Between February 28, 1946 and September 30, 1947, bond holdings of the commercial banks increased 2 billion dollars, while holdings of all other Treasury marketable obligations fell 24 billion dollars. As a result, the average maturity of bank portfolios of Government obligations increased from about 3 years and 11 months at the end of February 1946 to about 4½ years in December of the same year, where it held through March 1947 before declining gradually to 4 years and 4 months at the end of September. Thus, in the 19 months that elapsed between the end of February 1946 and the end of September 1947 the average period to maturity of commercial bank portfolios of Government securities showed a net increase of 5 months.

The peak of Government bond holdings of the banks reporting to the Treasury was reached on September 30, 1947. Small net decreases were reported for October (largely because of the cash redemption of a called issue) and November. The large-scale selling of Government bonds that developed in the latter part of November did not show up in the banking figures until December, in which month bond holdings declined 1.8 billion dollars (including an exchange of a maturing bond for a note issue). In the first four months of 1948, bank bond portfolios decreased another 3.3 billion dollars, of which a considerable amount was due to an exchange of bonds for certificates, and on April 30 were 5.3 billion dollars lower than at the peak seven months previous. During the period of large-scale selling of Treasury bonds, the banks reinvested a portion of the proceeds in short-term Government obligations. But heavy pressure on bank reserves, due to a change in Treasury debt retirement policy restricting redemptions to Reserve System holdings of maturing issues, held the increase in bank holdings of all other types of marketable Treasury obligations to 1.6 billion dollars between September 30, 1947 and April 30, 1948, an amount less than was acquired through exchanges of bonds for certificates and notes.

The very large drop in bond holdings in this period resulted in shortening the average maturity of bank holdings of marketable Treasury issues by six months (from 4 years and 4 months at the beginning of the period to 3 years and 10 months). During the entire 4⅓ years under review, therefore, little net change occurred in the average maturity of Government security portfolios of the commercial banks reporting monthly to the Treasury, despite changes of large magnitude in the holdings of Treasury bonds and other types of obligations. The maximum range has been from a low of 3 years and 10 months to a high of 4 years and 6 months. Over the period as a whole, the banks have just about succeeded in preventing the lapse of time from shortening the average maturity of their holdings.

Not only has there been little change in the average maturity of bank holdings of public marketable securities, but the average rate of interest (and discount in the case of Treasury bills) on the face or par value of such holdings likewise has not shown much change. Between the end of 1943 and the end of February 1946 (as indicated in the lower panel of the chart), the average rate paid on bank-held Government securities fluctuated in a narrow range from a high of 1.68 per cent to a low of 1.60 per cent. Apparently shifts from bills (yielding ⅜ of 1 per cent at that time) into ⅞ per cent certificates, together with purchases of bonds, just about offset the effects of exchanges of maturing or called, higher coupon issues for low interest-bearing obligations. Consequently the net cost to the Treasury per dollar of bank-held debt remained unchanged in this period. Thereafter, however, it began to rise and reached a peak of 1.95 per cent in September 1947. This advance in the average rate reflects a combination of developments: a large reduction of bank holdings of short-term obligations chiefly as a result of Treasury redemptions, continued but moderate purchases of bonds, and beginning in July 1947 an increase in the rates paid by the Treasury on new bill and certificate issues. After September 1947, the average rate on bank holdings of Government debt declined slightly to 1.91 per cent (April 1948), reflecting substantial sales of bonds and an increase in short-term security holdings.

While, therefore, the average interest rate on bank-held debt began to rise in March 1946, there was no important change until July 1947 and subsequent months, when rates on new issues of bills and certificates were gradually raised. However, total interest payments of the Treasury to the banks have declined substantially because of the sharp reduction in bank portfolios and the change in the composition of the banks' Government security holdings. The average yield to the banks is, of course, lower than the average coupon (or discount) rate, since large amounts of Government obligations, principally bonds, have been acquired by the banks in the open market at prices well above par.

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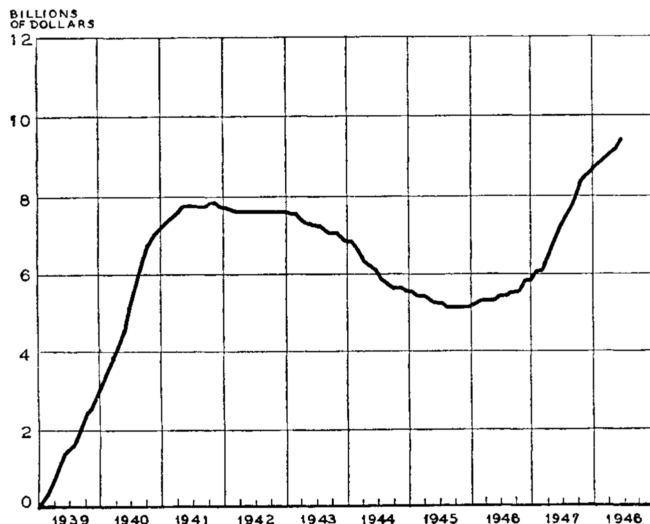
## GOLD INFLOWS AND MEMBER BANK RESERVES

The rate of inflow of gold into the United States, which had begun to show signs of tapering off earlier this year, increased again in May and June. Despite the slowing down in February, March, and April, the gold stock of this country increased 778 million dollars in the six months ended June 30. Imports were over one billion dollars, but some of the incoming gold was placed under earmark for foreign accounts for later use.

**Cumulated Net Gold Imports and Net Releases from Earmarked Stocks, 1939-48***
**(Cumulated monthly from January 1, 1939)**




* Decline denotes net export or increase in earmarked gold. May and June 1948 preliminary.

Since increases in the gold stock have been the main source of gains in member bank reserves during the postwar period, an analysis of the causes and origins of gold movements to this country is of interest with respect, not only to the international situation, but also to domestic monetary developments.

The main cause of the postwar movement of gold to the United States has been the widespread shortages of goods which the war left in its wake almost everywhere. Some of these shortages were the direct result of wholesale destruction of production facilities and of the shifting of men and machines from peacetime production to war production. Other scarcities of goods arose from the cutting off during the war of certain countries outside the battle area from their normal sources of supply. After the end of the hostilities both groups of countries turned to the United States for their peacetime needs.

In addition to using the dollar proceeds of their own exports, the substantial amounts of dollars obtained from the U. S. Treasury, either directly — through the various credits and foreign aid programs of our Government — or indirectly through the International Bank and the Monetary Fund, and (in some cases) dollars which they had accumulated before or during the war or which they derived from the sale of dollar securities

**Foreign Account Expenditures Affecting Member Bank Reserves by Sources, Six-month Periods January 1946-June 1948**
**(In millions of dollars; increase or decrease (−) in member bank reserves)**

| Six months ended | Gold | | | Dollar balances |
|---|---|---|---|---|
| | Net import | Reduction in earmarkings with Federal Reserve Bank* | Total | Reduction in amount held with Federal Reserve System |
| June 1946 | 257 | − 44 | 213 | 358 |
| December 1946 | 55 | 412 | 467 | − 3 |
| June 1947 | 531 | 965 | 1,496 | 161 |
| December 1947 | 1,335 | 92 | 1,427 | − 45 |
| June 1948 | 1,058*p* | −262 | 796 | − 13 |

*p* Preliminary.
* Excludes gold held for international account and gold pledged as collateral for loans.
Source: Board of Governors of the Federal Reserve System and Department of Commerce release *United States Gold and Silver Movements in June, 1948.*

requisitioned from their nationals, foreign countries have drawn on their gold reserves in order to help finance the large volume of their postwar imports. To the extent that the dollar balances of foreign countries had been accumulated at the Federal Reserve Banks, reductions of those balances have had an immediate effect on the reserve position of American commercial banks. Balances held by foreign central banks and governments with the Federal Reserve Banks at the end of 1945 amounted to about 900 million dollars. In the first half of 1946 a sizable decline in these balances was more important than gold sales as a source of additional bank reserves. To the extent that foreign countries' dollar balances were already held with commercial banks at the end of the war, they of course did not represent a potential source of additional member bank reserves.

Aggregate foreign spending affecting bank reserves (from gold and dollars held with the Reserve Banks) slackened in the second half of 1946. The Treasury spent about half a billion dollars more on international account than in the preceding six months, while our net exports declined somewhat. In the first six months of 1947, however, net exports of this country rose sharply in quantity and even more so in value, partly as a result of price increases. Substantially enlarged payments to foreign countries by our Government failed to close the financial gap. As a result foreign countries drew heavily on their reserves through gold sales to this country and through further reductions in their dollar balances with the Reserve System.

Some contraction in foreign purchases of goods from the United States was effected in the last half of 1947. Since, however, Treasury payments to foreign countries decreased somewhat, sales of gold to this country remained close to the high rate of the preceding period. A further reduction in the quantity and value of United States net exports occurred in the first half of 1948. The slackening of gold sales to this country during the period reflected this development and occurred despite a further reduction in international payments by the Treasury.

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### Sources of Gold Sales

In the early postwar period some of the liberated countries of Western Europe, notably France, were the heaviest sellers of gold to the United States, but in 1946 and the first half of 1947 large amounts of gold were sold by other countries. A large part of the sales were from gold held under earmark at this bank for foreign countries. At the end of 1945 total unpledged earmarked gold for foreign accounts amounted to nearly 4.2 billion dollars, but at the end of 1946 the amount had been reduced to about 3.8 billion, and at the end of 1947 to less than 2.8 billion.

An important factor in the 1946 reduction in earmarked gold, however, was the repatriation of Argentine holdings. Gold exports to that country largely offset imports from other countries in the latter half of 1946 and account in part for the low rate of net imports in that period. Sales of gold in the United States by other countries were nearly as great as in the first half, including South African gold which began to reach this country in fairly sizable volume.

Gold was imported from South Africa and Canada at a greatly accelerated rate in the first half of 1947; as in the previous period, most of the gold imports came from these two countries (although not necessarily for their accounts exclusively). Exports of gold to Argentina dwindled to a negligible amount in the first half of 1947 and were later reversed, as that country found it necessary to draw heavily on gold reserves for the payment of its imports from this country. Western European countries also drew heavily on their gold reserves to meet their commitments.

To pay for their heavy purchases of goods in the United States in the second half of 1947, our former allies, as well as the ex-neutrals, exported gold to this country in substantial volume. Chief among the exporting countries were the United Kingdom and Argentina, with amounts of nearly 490 million dollars and 350 million dollars, respectively. France, Canada, and South Africa each exported amounts of between 115 and 165 million. Some of these shipments, however, were made to rebuild holdings of earmarked gold here. (Exports of the respective countries were greater than the decline in their gold reserves.) Other countries continued to draw upon their earmarked accounts, which declined further.

**Gold Movements to and from the United States**
**Six-month Periods January 1946-June 1948**
**(In millions of dollars)**

| Country | Net import or net export (−) Six months ended | | | | |
|---|---|---|---|---|---|
| | June 1946 | Dec. 1946 | June 1947 | Dec. 1947 | June 1948*p* |
| Argentina | — | −134 | − 21 | 357 | 46 |
| Other Latin American countries | 7 | − 4 | − 5 | 9 | − 39 |
| United Kingdom | — | — | − 1 | 490 | 810 |
| France | — | — | — | 163 | — |
| Other Western European countries* | — | — | — | 28 | 135 |
| Canada | 290 | 54 | 289 | 157 | − 71 |
| South Africa | 3 | 115 | 297 | 114 | 200 |
| All other countries | − 43 | 24 | − 28 | 17 | − 23 |
| Total imports from all countries | 257 | 55 | 531 | 1,335 | 1,058 |

*p* Preliminary. * Belgium, Netherlands, and Sweden.
Source: Board of Governors of the Federal Reserve System and Department of Commerce release *United States Gold and Silver Movements in June, 1948.*

During the first six months of this year the United Kingdom was the largest source of our gold imports; its gold shipments to the United States jumped to 810 million dollars. Other Western European countries also shipped a fairly sizable amount of gold to this country during the period. Some of these shipments were used to enlarge unpledged earmarked accounts, which increased about 260 million dollars.

It seems likely that the importance of gold shipments and sales of earmarked gold as a source of bank reserves here will again tend to diminish, in part as a result of import restrictions which several countries have imposed recently. The successful efforts of various countries to cut down their purchases of American goods have already resulted in a diminished rate of use of gold to settle accounts in the United States in a number of cases. Furthermore, as the European Recovery Program gets under way and a greater share of this country's net exports are financed through funds supplied by the Treasury, a further decline, perhaps to the level of gold production in the Western world outside the United States, may well occur, especially since the gold holdings of certain individual countries have already been reduced to minimum levels.

## TREASURY FINANCING DURING THE FISCAL YEAR 1948

During the fiscal year ended June 30, the Treasury was able for the second year since the end of the war to effect a substantial reduction in the public debt. Nearly 6 billion dollars of Government securities were retired, leaving 252.3 billion outstanding on June 30. At its peak on February 28, 1946, the direct Federal debt had amounted to 279.2 billion dollars.

As in the preceding fiscal year, the retirement of public marketable issues exceeded the net reduction in debt. The Treasury was able to pay off more than 8 billion of marketable issues by using over 7 billion dollars of its net cash income and some 900 million dollars of funds borrowed from the public through the sale of nonmarketable issues, mainly the investment series Treasury bonds. The net sales of Savings bonds, amounting to 1.4 billion dollars, were largely offset by net redemptions of Savings notes and certain minor nonmarketable issues and by a small amount of net market purchases of Government securities by trust funds and other agencies. During November 1947, when the commercial banks and other private investors became net sellers of Government securities, several of the Government agencies began to buy marketable issues. In the preceding months of the fiscal year they had sold about 1 billion dollars of Government securities; subsequent purchases were somewhat larger. The funds for these purchases were obtained from the Treasury through the redemption of special issues held by the agencies involved. (Conversely, re-

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**Government Financing, Fiscal Years 1947 and 1948**
**(In billions of dollars)**

| Source of funds and change in debt | 1947 | 1948 |
|---|---|---|
| Cash income | 46.6 | 47.6 |
| Cash outgo | 39.0# | 38.6 |
| Net cash income* | − 7.6# | − 9.0 |
| Change in General Fund* | −10.9 | + 1.6 |
| Cash repayment of debt* | −18.6 | − 7.3 |
| *Government corporation debt* | *− 0.4* | *+ 0.1* |
| *Direct cash borrowing* | *−18.2* | *− 7.4* |
| *Nonmarketable* | *+ 2.9* | *+ 0.9* |
| *Marketable* | *−21.1* | *− 8.3* |
| Direct noncash borrowing | + 7.1 | + 1.4 |
| Direct cash borrowing (above) | −18.2 | − 7.4 |
| Direct public debt | −11.1 | − 6.0 |

Note: Because of rounding, figures do not necessarily add to totals.
* The minus signs indicate the use of funds for debt repayment.
# Does not include a cash payment of nearly 1 billion dollars to the International Monetary Fund made from the Stabilization Fund.
Source: *Daily Statement of the United States Treasury* and *Treasury Bulletin*. Partly estimated by the Federal Reserve Bank of New York.

ceipts from market sales are invested in special issues and thus automatically become available to the Treasury.) Public borrowing by Government corporations also provided a small amount for the retirement of Treasury marketable debt.

The retirement of marketable issues during the past year was considerably less than the 21 billion dollars retired in the fiscal year 1947, when nearly 11 billion dollars of surplus funds (raised during the Victory Loan drive in the fiscal year 1946) was available in the General Fund. The net cash income of the Treasury was greater than in fiscal 1947. This increase was, however, about offset by a lower level of receipts from net sales of Savings bonds and notes, and also by the absence of sizable net receipts from market sales of Government securities by trust funds and other Government agencies such as occurred in the previous year. The latter transactions were made to meet the strong demand for Government securities in the market at that time. An amount almost equivalent to the sum that became available to the Treasury in fiscal year 1947 through the transfer of funds from the Stabilization Fund, for which noninterest-bearing notes were issued to the International Monetary Fund, was raised in the past fiscal year by the public sale of the investment series bonds last fall. The major part of the decline in Savings bonds net sales during the past year reflected a substantial drop in net sales of Series G bonds. Whereas net sales of Series E bonds were negligible in fiscal 1947, last year they provided some 350 million dollars, as the decline in redemptions was greater than the slight decline in sales.

Nearly 5 billion of the market issues retired during fiscal 1948 were held by the Federal Reserve Banks. Commercial banks held more than 600 million and other investors nearly 2.8 billion. In the preceding fiscal year, Federal Reserve holdings redeemed had been only slightly higher; retirements of Government securities held by commercial banks and by other investors had been considerably larger, however, amounting to 8.4 billion and 7.2 billion, respectively.

Since the middle of the fiscal year 1947 practically all of the redemptions of securities held by the Reserve system and the commercial banks have been made with funds withdrawn from the nonbanking public.

The net decline in the public debt, amounting to 6 billion dollars, was less than the net cash repayment of debt during the fiscal year. The new special securities issued to the trust funds, together with the increase in the redemption value of Savings bonds arising from the addition of accrued interest, more than offset the redemption of Armed Forces Leave Bonds and of noninterest-bearing notes held by both the International Bank and Monetary Fund. At the end of June, the gross public debt amounted to 252.3 billion dollars, while the guaranteed debt not held by the Treasury was less than 100 million. The balance in the General Fund exceeded 4.9 billion dollars, an increase of 1.6 billion over a year previous.

The Treasury's ability to retire marketable issues and to exert pressure on the reserves of the banking system thus arose mainly from the cash surplus, which amounted to 9.0 billion dollars (compared with a nominal budget surplus of 5.4 billion). Net cash receipts from sales of nonmarketable debt were relatively minor and showed a sizable reduction from the previous year (even after excluding the one-time receipt of funds from the Stabilization Fund in that year).

The cash surplus indicates directly the impact of the Treasury's current operations on the private sector of our economy. The difference between the cash surplus and the more commonly quoted budget surplus is largely a matter of accounting. The budget figures include certain intra-Governmental items (mainly receipts of interest and earnings and repayments of capital stock from partially-owned Government corporations, and noncash expenditures such as transfers and payments of interest to trust accounts), and noncash payments to the public made in the form of securities, such as the Armed Forces Leave Bonds. On the other hand, they omit trust account receipts from and payments to the public as well as cash outlays for the redemption of the securities issued previously to cover an expenditure made by the Government. The transfer of 3 billion dollars to the Foreign Economic Cooperation Trust Fund[1] affected the budget surplus, but it will not affect the cash surplus until the funds are actually paid out. The budget surplus this past year reached a record of 5.4 billion dollars, even after allowing for this 3 billion dollar transfer. In the fiscal year 1947 the budget surplus amounted to less than 800 million dollars (although the cash surplus was 7.6 billion).

The rise in net cash income in the fiscal year 1948 was due almost entirely to a 1 billion dollar rise in total cash receipts. Withheld and other individual income taxes at 21.0 billion dollars were 1.4 billion higher than in 1947, while corporation

[1] This fund was established on June 28 to give effect to section 114 (f) (the Millikin amendment) of the Economic Cooperation Act of 1948, which required that the sum of 3 billion dollars be transferred to a trust fund and "considered as expended during the fiscal year 1948, for the purpose of reporting governmental expenditures."

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taxes amounted to 10.1 billion, an increase of nearly 450 million dollars. Employment taxes and miscellaneous internal revenue increased 350 million and 250 million, respectively. Part of these increases was offset by a decline in miscellaneous receipts, reflecting a falling off in sales of surplus property. Customs collections also showed a slight decline. Trust account cash receipts were practically unchanged.

Cash expenditures, at 38.6 billion dollars, were only 400 million less than in the fiscal year 1947. Expenditures for national defense, at 11.3 billion dollars, were some 3.6 billion lower than in the previous year, but this reduction was partly offset by cash payments of nearly 1.5 billion for the redemption of Armed Forces Leave Bonds. Refunds, amounting to 2.3 billion, were also lower (750 million) than in fiscal 1947, when substantial corporate income and profits tax refunds arising out of the adjustment of wartime tax liabilities were made. Cash spending for Veterans' services and benefits, at 6.3 billion, was only slightly lower. Interest payments remained practically unchanged at 3.9 billion. Expenditures for international affairs and finance amounting to 4.9 billion, however, were some 1.8 billion higher than in fiscal 1947. Other cash budget items rose slightly to 5.1 billion. Trust account expenditures declined some 400 million dollars to nearly 2.9 billion. The "clearing account" involved an addition to expenditures, whereas in the preceding year the adjustment in the account had reduced them. Thus the reductions in expenditures shown in the individual categories were almost offset by the redemption of Armed Forces Leave Bonds, the rise in the clearing account, and the increase in spending for foreign aid.

The recent reduction in taxes resulted in an estimated loss of revenue of only around 600 million dollars in fiscal 1948. The real impact of the tax reduction will be felt during the current fiscal year, but if personal income continues to rise some of the estimated 4.8 billion annual loss will be offset. The anticipated reduction in receipts, combined with an expected increase in cash expenditures, indicates that a considerable reduction in the cash surplus will occur in the current fiscal year. As a result, the Treasury's power to withdraw funds from the public (and the banks) for debt retirement, and thereby to impose further restraint on bank reserves and bank lending, will be considerably curtailed.

## DEPARTMENT STORE TRADE

According to preliminary estimates, daily average sales at Second District department stores during July declined somewhat more than seasonally, following a slight decline during the previous month as well. However, seasonally adjusted July sales were apparently still within 3 per cent of the record volume of May. Daily average sales during July probably did not show so large an increase over last year as had been shown during the previous three months.

The seasonally adjusted retail value of Second District department store inventories declined further during June. Stores apparently adjusted their inventories in view of the relative easiness of soft goods lines generally and of most durable lines handled by department stores. This bank's seasonally adjusted index of department store stocks (1935-39 average equals 100 per cent) stood at 237 at the end of June 1948; the seasonally adjusted index of daily average sales, however, was 265 for June (and 268 for May). The fact that stocks at the end of June were 10 per cent greater in value than they were a year ago results mainly from comparison with an exceptionally low level of stocks (relative to sales).

Outstanding orders of a group of the larger stores at the end of June were, dollarwise, 2 per cent lower than a year ago. It may be noted that in every month since January 1948, the ratio of outstanding orders to sales[1] for the group of stores which report comparable data has been below that of the same period of 1947. The ratio was 1.08 for June of this year, against 1.21 last year. However, the dollar volume of new orders placed by these same stores during June was 5 per cent greater than in June 1947, in line with the increase in sales between the two periods, and outstanding orders at the end of the month showed a sharp seasonal increase.

### Recent Trends in Department Store Credit

Credit sales at Second District department stores since early 1947 have expanded more rapidly than total sales of these

[1] Outstanding orders at end of month divided by sales during month.

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

| Locality | Net sales | | Stocks on hand June 30, 1948 |
|---|---|---|---|
| | June 1948 | Jan. through June 1948 | |
| Department stores, Second District | +11 | + 6 | +10 |
| New York City | +11 | + 5 | + 8 |
| Northern New Jersey | +13 | + 7 | +12 |
| Newark | +11 | + 6 | + 9 |
| Westchester County | +10 | + 4 | + 3 |
| Fairfield County | + 1 | − 1 | +14 |
| Bridgeport | − 1 | − 3 | +13 |
| Lower Hudson River Valley | +11 | + 9 | +22 |
| Poughkeepsie | +13 | +11 | +24 |
| Upper Hudson River Valley | +11 | + 7 | +19 |
| Albany | +13 | + 4 | +23 |
| Schenectady | + 7 | + 9 | + 8 |
| Central New York State | + 8 | + 6 | +19 |
| Mohawk River Valley | +12 | + 9 | +26 |
| Utica | +13 | + 8 | +22 |
| Syracuse | + 6 | + 5 | +14 |
| Northern New York State | +21 | +17 | — |
| Southern New York State | +12 | +10 | +19 |
| Binghamton | +14 | +12 | +17 |
| Elmira | +13 | +12 | +33 |
| Western New York State | +11 | + 9 | +11 |
| Buffalo | + 7 | + 9 | + 9 |
| Niagara Falls | +10 | + 6 | + 5 |
| Rochester | +19 | +11 | +15 |
| Apparel stores (chiefly New York City) | + 6 | 0 | + 2 |

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

| Item | 1947 | 1948 | | |
|---|---|---|---|---|
| | June | April | May | June |
| Sales (average daily), unadjusted | 231 | 237 | 252 | 246 |
| Sales (average daily), seasonally adjusted* | 249 | 255 | 268 | 265 |
| Stocks, unadjusted | 206 | 251 | 247 | 228 |
| Stocks, seasonally adjusted | 215 | 249 | 243 | 237 |

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

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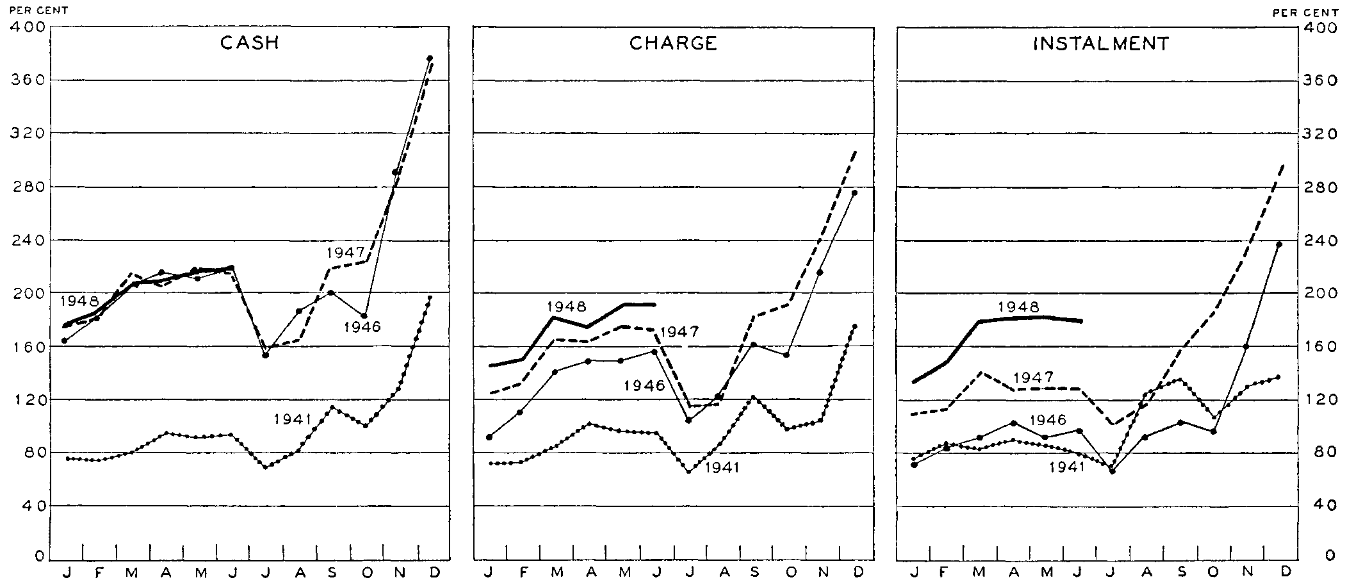
**Indexes of Department Store Sales by Type of Transaction, Second Federal Reserve District, 1941 and 1946-48***
**(1941 average daily sales = 100 per cent)**




* Data only for stores reporting sales by type of transaction; their total sales in 1947 accounted for about 70 per cent of estimated total District department store sales. June 1948 preliminary.

stores. As the accompanying chart shows, cash sales during the 18-month period ended June 1948 were about the same as during the corresponding months of 1946, in sharp contrast to the continued rise of credit sales. Nevertheless, toward the end of the period shown, cash sales continued to represent a somewhat larger proportion of total sales than they did in 1941, a year of marked increase of consumer credit sales. If the current pattern of changes in sales by type of transaction persists, cash sales may soon account for a proportion of total sales no larger than in 1941.

Of the two types of credit sales, instalment sales have consistently made the greater advances in the last year and a half. However, charge account sales began to show regular gains from the preceding year as early as in the second quarter of 1944, whereas instalment sales began to mark such advances only a year and a half later. The recent growth of instalment sales has accompanied — and in all likelihood has aided — the more than average sales gains made by durable household goods (noted in previous issues of this *Review*). Consumers' durable goods are normally among the higher priced commodities sold by department stores. Their sales, and hence instalment sales, usually advance sharply when incomes are increasing and credit is more easily obtained. Charge account sales also tend to rise somewhat more rapidly than cash sales in a period of growing consumer income. To some extent, the recent rapid growth of both categories of credit sales toward their prewar proportions of total sales has been stimulated by the active promotion of credit facilities by the stores.

**Department Store Sales by Type of Transaction**
**Second Federal Reserve District**
**(Percentage change from corresponding quarter of preceding year, daily average basis)**

| Quarter | Cash | Charge | Instalment | Total |
|---|---|---|---|---|
| 1947 I | + 4 | +23 | +46 | +10 |
| II | − 1 | +12 | +32 | + 4 |
| III | 0 | + 7 | +44 | + 4 |
| IV | + 4 | +14 | +47 | + 9 |
| 1948 I | − 1 | +13 | +28 | + 5 |
| II | + 1 | + 9 | +40 | + 6 |

**Indexes of Business**

| Index | 1947 June | 1948 April | 1948 May | 1948 June |
|---|---|---|---|---|
| Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*) | 184 | 188 | 191 | 192*p* |
| Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*) | 222 | 244 | 247 | 246*p* |
| Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*) | 209 | 182 | 210*p* | |
| Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*) | 302 | 337 | 329 | 332*p* |
| Factory employment | | | | |
| United States†, 1939 = 100 (*Bureau of Labor Statistics*) | 155 | 156 | 155 | 157*p* |
| New York State, 1935-39 = 100 (*N.Y.S. Div. of Place. and Unemp. Ins.*) | 125 | 125 | 123 | 123*p* |
| Factory payrolls | | | | |
| United States†, 1939 = 100 (*Bureau of Labor Statistics*) | 327 | 347 | 346*p* | |
| New York State, 1935-39 = 100 (*N. Y. S. Div. of Place. and Unemp. Ins.*) | 270 | 280 | 277 | 283*p* |
| Personal income*#, 1935-39 = 100 (*Department of Commerce*) | 280 | 302 | 303*p* | |
| Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*) | 175*r* | 186 | 187*p* | |
| Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*) | 157 | 169 | 171 | 172*p* |
| Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*) | | | | |
| New York City | 90 | 99 | 105 | 98 |
| Outside New York City | 83 | 88 | 90 | 88 |

* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Revised beginning January 1946. # Revised beginning January 1944.
‡ 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.

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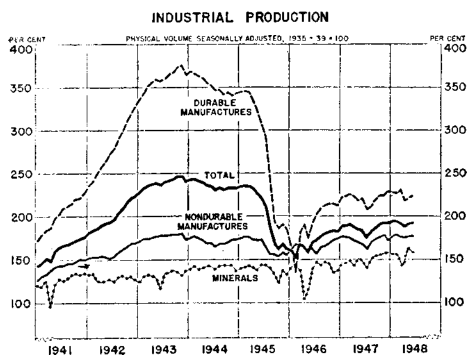
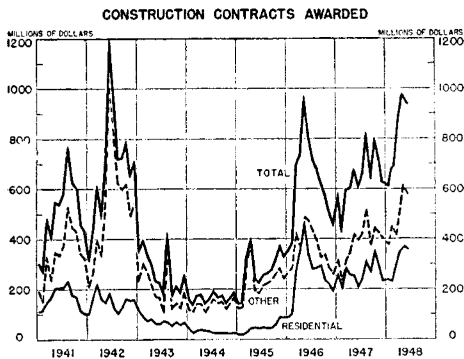
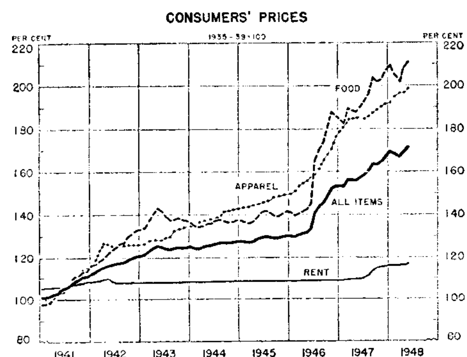


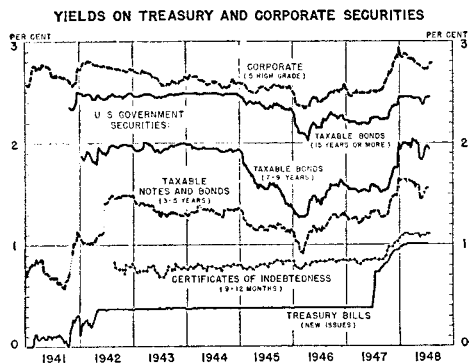
**Federal Reserve indexes. Monthly figures; latest shown are for June.**



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



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



**Weekly averages of daily figures compiled by Federal Reserve from data reported by U. S. Treasury Department; latest shown are for week ended July 17.**

## National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, July 24, 1948)

TOTAL output at factories and mines showed little change in June and the early part of July after allowance for seasonal influences. Department store sales were at record levels for this season. Prices of meats and steel increased sharply in July, while cotton and grains declined.

### Industrial Production

Industrial production in June continued close to the May level, and the Board's seasonally adjusted index was 192 per cent of the 1935-39 average as compared with 191 in May and 188 in April, when output was reduced by a strike at bituminous coal mines.

Output of durable goods increased further in June, reflecting mainly larger production of automobiles following settlement of an industrial dispute at the plants of a leading producer. Activity in the automobile industry reached earlier postwar peak rates in the first half of July.

Steel production in June continued at the May rate. Ouput of open hearth steel was slightly smaller, while electric steel production increased further by 5 per cent to a new record level, exceeding the wartime peak. Output of nonferrous metals was reduced somewhat owing largely to a curtailment of aluminum production during the Columbia River floods.

Production of nondurable goods in June continued at a seasonally adjusted level of 178 per cent of the 1935-39 average. This level has prevailed, with slight variations, since the beginning of the year. Cotton consumption and paperboard production declined somewhat in June. Meat production, however, increased substantially following the end of a labor dispute which had curtailed packing operations since the middle of March. Activity in most other nondurable goods industries was maintained at the May rate or advanced slightly.

Minerals output declined 2 per cent from the exceptionally high May rate, as bituminous coal output was reduced owing to the beginning of the miners' 10-day holiday on June 28. Crude petroleum production continued to advance.

### Construction

About 93,500 dwelling units were started in June, according to preliminary estimates of the Bureau of Labor Statistics. This number was somewhat smaller than the postwar high of 97,000 in May, but still considerably larger than the 77,000 units started in June 1947. Dollar volume of all new construction put in place, according to joint estimates of the Departments of Commerce and Labor, continued to increase in June and reached a record amount of 1,600 million dollars.

### Distribution

Value of department store sales showed about the usual seasonal decline in June and the first half of July. The Board's adjusted index remained around a record level of 310 per cent of the 1935-39 average, which was about 7 per cent higher than in the corresponding period a year ago.

Rail shipments of grain and forest products were in substantially larger volume in June, while loadings of most other classes of freight declined somewhat from the May rate after allowance for seasonal changes. Total loadings in the first half of July were above the same period a year ago, reflecting mainly a larger volume of coal shipments.

### Agriculture

Production of crops this year, as indicated by July 1 conditions, will be substantially larger than in 1947 and in record volume. The most important increase is forecast for corn, output of which is expected to be about 40 per cent larger than last year's drought-damaged crop. Estimated wheat production, although smaller than last year's crop of 1.4 billion bushels, would still be the second largest crop on record. Cotton acreage is officially estimated to be up 10 per cent from last year. Marketings of livestock have expanded following the end of the packing strike but the volume has remained 5 to 10 per cent below year-ago levels.

### Commodity Prices

The general wholesale price level rose further in July, reflecting sharp increases in prices of meats and steel products. Meat and livestock prices in mid-July were about 25 per cent higher than a year ago. Prices of most other farm products and foods continued to show little change or declined in July. Cotton and grain prices were somewhat below year-ago levels.

Prices of most iron and steel products were raised by 10 per cent or more in July. Coal prices were also advanced, while prices of petroleum products eased and prices of cotton goods declined somewhat further.

### Bank Credit

Quarterly income tax payments by businesses and individuals during the last half of June substantially increased Treasury deposits at Reserve Banks and reduced commercial bank reserves and deposits. Banks met the drain on reserve funds largely through sales of Government securities to the Reserve Banks and through reductions in their excess reserves. During the first three weeks of July, reserves at banks increased somewhat. The Treasury drew down its balances to retire bills. Federal Reserve Bank holdings of bills were thereby reduced, but the System made net market purchases of Government securities in approximately equal volume and thereby supplied banks with additional reserves.

Commercial and industrial loans increased moderately in banks in leading cities during June and the first half of July. Consumer and real estate loans continued to expand. Banks reduced further their holdings of Government securities.

### Security Markets

Common stock prices declined sharply in the third week of July, following four weeks of relatively little change. A substantial portion of the mid-March to mid-June gain in prices was lost.

Prices of Government bonds changed little in the first three weeks of July, following some decline in June, but prices of corporate bonds declined further.

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