MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 31 APRIL 1949 No. 4

MONEY MARKET IN MARCH

Member bank reserve positions were subject to increasing pressure in March, but borrowings from and sales of Government securities to the Federal Reserve Banks were a ready offset. During the first half of the month the member banks tended to lose reserves as nonbank investors purchased Treasury bonds and other Government securities from the Reserve Banks (through the market). These transactions were sufficiently large to offset a considerable part of the gains in reserves which came to the banks as a result of Treasury disbursements in excess of receipts. The pressure on bank reserves from security operations was felt most by the central reserve city banks in New York City and Chicago. Banks in other parts of the country were able, for the most part, to retain the increases in reserves gained from Government disbursements. In the second half of the month, pressure on the money market increased markedly. All of the banks were subject to this pressure as income tax collections rose sharply after the March 15 deadline. Consequently, the banks were in need of substantial amounts of Federal Reserve credit.

Although the Treasury's net receipts, during the first quarter of the year, have absorbed large amounts of funds from the money market, the drain on member bank reserves resulting from such transactions was much smaller than in the corresponding quarter of 1948. In the early months of last year, however, conditions in the Government security market were such that the Reserve Banks were large buyers of Treasury bonds (although they were sellers of short-term Treasury securities). This year conditions in the Government security market had so changed that the Reserve Banks were steady sellers of Treasury bonds; their assistance to the money market took the form of advances to banks secured by Government obligations and substantial purchases of short-term Government securities.

Treasury transactions during the past month included cash tax receipts amounting to approximately 4 billion dollars, the cash redemption of 1.1 billion dollars of maturing Treasury bills and certificates, withdrawals of 923 million dollars from War Loan accounts in depositary banks (concentrated in the first half of the month), and payment of 400 million dollars of interest on the public debt due on March 15. Because the bulk of taxes were not received until the second half of the month, Treasury disbursements in the first half were considerably higher than income, and thus tended to provide the member banks with additional reserves. The margin of Government disbursements over receipts was particularly wide in the last days of February and the first days of March. At that time money market conditions were especially easy, and immediately available "Federal funds" were quoted as low as 1/8 of 1 per cent, even though the Treasury redeemed, on March 1, 400 million dollars of a maturing issue of certificates of indebtedness held by the Reserve Banks, and withdrew more than that amount from War Loan accounts in depositary banks.

During the next two weeks, ended March 16, Government spending continued to exceed receipts, although the margin narrowed considerably. Other transactions contributed to the additions to member bank reserves. However, institutional investors, trust funds, and other nonbank investors were still purchasing long-term Treasury bonds (which were sold to the market by the Federal Reserve Banks) on a sizable scale, and industrial corporations and other nonbank investors were acquiring a considerable volume of Treasury bills (both direct from the Treasury on subscription and, through the market, from the Reserve Banks), thus offsetting a large part of the

CONTENTS

gain in member bank reserves. Many of the purchases of Treasury bonds by institutional investors were offset by sales of shorter-term "bank-eligible" Government securities, but the greater part of the latter was absorbed by banks, dealers, and others, and relatively few were sold to the Reserve Banks in this period. Some part of the accumulation of short-term securities by nonbank investors was temporary, representing increases in dealers' holdings, as reflected in a 281 million dollar rise in Government security dealer borrowings from the New York City weekly reporting banks in the week ended March 16.

The Government security operations of nonbank investors had their principal effect on the deposit and reserve positions of the New York City and Chicago banks, which were compelled to sell substantial amounts of Government securities in the market and to borrow from the Reserve Banks, and from other banks that had excess reserves. The rate on Federal funds consequently rose to 1 7/16 per cent, just short of the Federal Reserve Banks' discount rate. While excess reserves of the central reserve city banks rose moderately in the two weeks ended March 16, the increase reflected principally the need for temporary acquisition of excess reserves to overcome prior deficiencies in their reserves. Banks outside the two central reserve cities were able to retain their net gains of funds from Treasury operations and from other sources. They used these funds partly to reduce their borrowings; but they also added considerably to their holdings of Government securities and increased their excess reserves. Over the two-week period, Federal Reserve System loans and discounts rose 188 million dollars, while holdings of Treasury bonds and bills fell 280 and 107 million dollars, respectively, and certificate holdings increased 55 million. Excess reserves of all member banks rose 280 million, of which the central reserve city banks accounted for 130 million.

In the second half of the month the money market felt the full impact of Federal income tax payments by both individuals and corporations. These included final payments of taxes on 1948 personal incomes as well as first quarter payments on 1949 personal incomes and first quarter payments on 1948 corporate incomes. The tax receipts enabled the Treasury to suspend withdrawals from War Loan accounts in depositary banks and to retire substantial amounts of Treasury bills. Despite the bill redemptions and other disbursements, Treasury deposits with the commercial banks and the Federal Reserve Banks rose by about 400 million and 1.1 billion dollars respectively, between March 16 and 30.

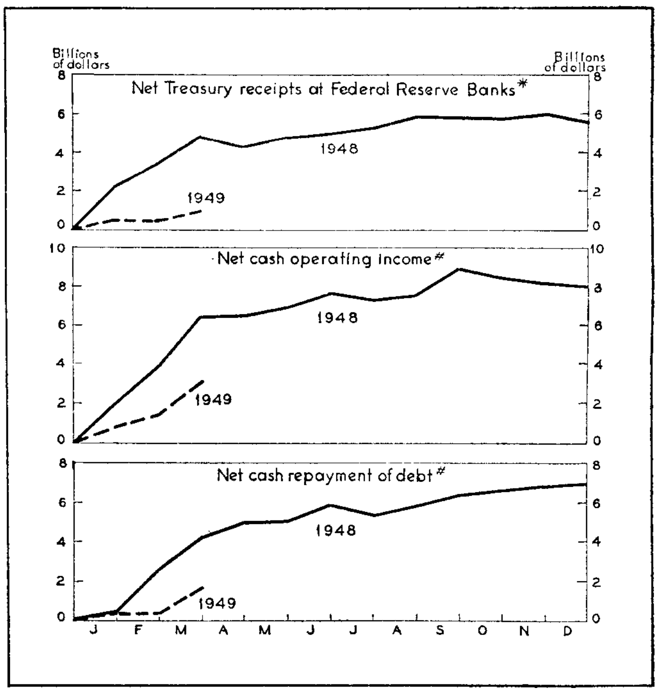
Tax receipts overshadowed all other transactions in the money market during the second half of the month and placed the reserve positions of the member banks under severe pressure. To offset this pressure the Federal Reserve Banks were ready lenders of funds and ready purchasers of substantial amounts of short-term securities. Redemptions of Treasury bills were also timed to return to the money market some of the funds taken from it through tax collections. Part of the redeemed bills were held by the Reserve Banks, but these bills were replaced by Reserve Bank purchases of bills in the market.

The pressure on the reserve positions of the New York City banks was further increased by large-scale transfers of commercial funds to other parts of the country, as corporations and others paid taxes in the interior with New York funds, and as correspondent banks made large withdrawals from their deposits with the City banks. At the same time there were continued large nonbank investor purchases of long-term ineligible Treasury bonds and, to a lesser extent, of other Government securities, which came out of the portfolio of the Federal Reserve Banks, but many purchases involved sales of other securities and a series of switching operations, the end result of which was offerings of short-term securities to the Reserve System.

Treasury Operations

Although the operations of the Treasury imposed a heavy drain on member bank reserves during the past quarter, the impact on the money market was much less pronounced than in the corresponding months of 1948, as illustrated in the accompanying chart. The impact this year, measured in dollar

Impact of Treasury Operations on the Money Market
(Net changes in the major factors cumulated monthly from Dec. 31, 1947 and from Dec. 31, 1948)



* Includes funds used to redeem Government securities held by Federal Reserve Banks as well as net increase in Treasury deposits in Reserve Banks. March 1949 estimated.
\# February 1949 preliminary, March 1949 estimated.
Source: U. S. Treasury Department, Board of Governors of the Federal Reserve System, and estimates by the Federal Reserve Bank of New York.

terms by the sum of Treasury cash redemptions of Federal Reserve-held Government securities and the increase in the Treasury's deposits with the Federal Reserve Banks, is estimated at under one-fourth the burden on bank reserves in the first quarter of last year (1.1 billion against 4.8 billion dollars).

The Treasury's withdrawal of a much smaller volume of funds from the money market, this year, was a reflection of the change in its cash position, as determined chiefly by the reduction in personal income tax rates voted by Congress in 1948, and by increased disbursements for defense, foreign aid, and other purposes. Cash operating income of the Treasury in the first three months of 1949, amounting to roughly 13 billion dollars, was 1½ to 2 billion dollars less than in the same period last year, while the cash operating outgo in the first quarter of 1949, at 10 billion dollars, was 1 to 1½ billion larger than in the corresponding quarter of 1948. Thus, the net cash operating income was about 3 billion dollars, or about half that of the first quarter of 1948. And, instead of a large surplus of income over expenditures (as in 1948), the Treasury can now look forward only to an approximate balance between cash income and outgo for the calendar year 1949 as a whole.

Out of its smaller net receipts during the first quarter of 1949, the Treasury built up its accounts in depositary commercial banks by about 1 billion dollars, approximately the same amount as in the first quarter of 1948. In proportion to net income, the funds available for debt retirement in the first quarter of this year were considerably smaller than a year ago. Net cash repayment of debt in the first three months of 1949 was 1¾ billion dollars, or 42 per cent of the amount (4.2 billion) retired in the first quarter of 1948. In retiring public debt, a portion of the Treasury's net receipts was returned to the money market, inasmuch as 1.1 billion dollars of the redeemed securities were held by the public (including the commercial banks). About 600 million dollars of the net flow of taxes to the Treasury was used in the cash retirement of Government obligations held by the Reserve Banks and consequently was not returned to the money market. However, repayment of Federal Reserve-owned debt during the past quarter was 3.1 billion dollars less than in January-March of last year. Likewise the absorption of bank reserves resulting from an increase in the Treasury's balances with the Reserve Banks was much smaller—550 million dollars in the first quarter of 1949 compared with 1.1 billion in the first quarter of 1948.

BANKING DEVELOPMENTS IN THE SECOND DISTRICT

The Bank Relations Department of this bank maintains a staff of special representatives who are constantly traveling through the Second Federal Reserve District, calling upon the banks and discussing with them, among other things, business and credit conditions in their local areas. The following article summarizes some of the information obtained by our Bank Relations representatives during the quarter ended February 28, 1949, in the course of their visits to banks in 30 counties—20 in New York State, 9 in New Jersey, and one (Fairfield County) in Connecticut. This is a field report on the views of bankers in certain areas and does not necessarily describe conditions throughout the Second District.

There have been only moderate changes in recent months in the loan totals of the banks visited. The bankers stated that there was a steady demand for most types of credit, but that applications were being carefully screened, with the result that the number of applications rejected was running well in excess of the number approved. There was a somewhat diminished activity in consumer credit loans early in the year. This was attributed to the restrictions imposed under Regulation W and to anticipation on the part of the public that prices would decline.

The demand for mortgage loans has declined somewhat since the turn of the year because of the seasonal slackening in home building construction. Mortgage loan accounts, however, have held close to the high levels prevailing at the year end and in some banks new loans have equaled or exceeded amortization and satisfaction payments. Most banks now require the borrower, as a condition of favorable consideration of his application, to make a substantial down payment on the property purchased, whether or not the loan is to be Government insured. Prospects for an increased demand for mortgage financing in the coming months are considered good.

The bankers interviewed by our representatives reported that loan collections had not so far presented any serious problem, but that they were having to devote more time to servicing their loans in order to keep the size and number of delinquencies down to a minimum.

Investment accounts of the banks visited have been relatively inactive during the past few months and short and medium-term U. S. Government issues still make up the bulk of their securities portfolios.

Deposits in the three-month period ended February 28 showed mixed trends but moved in a narrow range and the slight changes up or down applied in many instances to only one class of deposits, demand or time. In sections where commercial banks were in competition with savings institutions paying a higher rate of interest, some loss of time deposits was reported. The trend of deposits in the savings institutions in the same areas has continued steadily upward in recent months, although not so rapidly as previously. Concern was expressed by some bankers whose time deposits have been adversely affected by the transfer of some of this business to savings institutions offering a higher rate of interest, usually 1½ or 2 per cent, as compared with rates of ½ or 1 per cent paid by the commercial banks. The drift of time deposits from commercial banks, however, has not yet caused serious consideration to be given by most banks to an increase in the rates currently paid. On the other hand, there is a decided trend toward a 2 per cent rate among those savings institutions which have been paying a lower rate.

CANADA'S IMPROVED EXCHANGE POSITION

Canada's international economic position, which a year or so ago was regarded with serious concern,[1] has markedly improved as a result of two major developments since November 1947, when the drain on Canada's gold and United States dollar reserves assumed dangerous proportions. The first of these two developments was the restoration by Canada of various direct controls; the second was the commencement of ECA offshore purchases.

Immediately after the war, the Canadian Government had rescinded most of its direct controls over foreign trade. When, however, the foreign exchange crisis developed in the autumn of 1947, Canada restored certain price controls and adopted a series of emergency measures to curb imports from the United States and stimulate exports to hard currency countries. These steps achieved prompt and important results. Not only did Canada's imports from the United States decline by 8 per cent from 1,951 million (Canadian) dollars in 1947 to 1,797 million in 1948, but—more important and striking—Canada's exports to the United States increased by 42 per cent from 1,061 million dollars to 1,508 million. As a consequence, Canada's U. S. dollar deficit on trade account dropped sharply, from 890 million dollars in 1947 to 289 million in 1948. The position with respect to invisible balance-of-payments items also improved, with the result that Canada's total current-account deficit with the United States fell by 65 per cent, from 1,135 million dollars in 1947 to 401 million in 1948.

The 1948 deficit with the United States was more than offset by a surplus of 854 million with the rest of the world. Indeed, the favorable balance of 453 million dollars with the world as a whole was the largest ever achieved by Canada in a peacetime year. Under conditions of full exchange convertibility Canada would therefore now have few grounds for worry.

Under the circumstances that prevailed prior to the enactment of the European Recovery Program, however, the bulk of the nondollar foreign exchange receipts of Canada could not be converted into the required United States dollars, and the export surplus therefore could be used in only relatively small part to cover the deficit with the United States. Consequently, instead of building up gold and United States dollar balances, Canada was losing its hard currency reserves at the same time that it was augmenting its claims on soft currency countries.

It was in regard to this triangular trade problem that the ECA "offshore" purchases supplied the decisive remedy. By providing the European participants in the ERP with United States dollars for offshore purchases, the Economic Cooperation Administration enabled them to pay for their imports from Canada with United States dollars to the extent of 454 million dollars.[2] The rest of the Canadian trade surplus in 1948 was financed by Canadian credits (although on a much smaller scale than in 1947) and, to a relatively minor extent, by the gold or foreign exchange reserves of the deficit countries. The accompanying table shows how Canada's deficit with the United States and its surplus with other countries were financed in 1947 and 1948.

Primarily as a result of the reimposition of direct controls and the ECA offshore purchases, Canada was able not merely to halt the decline of its gold and United States dollar reserves

[1] For an analysis of Canada's difficult U. S. dollar position at that time, see "Canada's International Economic Position" in the April 1948 number of this *Review*.

[2] According to the Seventh Report for the Public Advisory Board of the ECA.

Canada's International Transactions
(In millions of Canadian dollars)

	All countries		United States		United Kingdom and sterling area		Other ERP countries*		Other countries	
	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948
Current account balance of payments, including relief	85	472	−1,135	−401	874	617	281	242	65	14
Financed by: Official contributions of Canadian Government	38	19	—	—	—	—	7	13	31	6
Net postwar loans of Canadian Government	563	126	—	—	423	52	116	51	24	23
Other capital movements†	227	−169	246	−127	− 54	− 32	44	2	− 9	−12
Receipts of convertible exchange	—	—	− 638	−770	505	597	114	176	19	− 3
Change in official reserves	−743	+496	− 743	+496	—	—	—	—	—	—

* Austria, Belgium-Luxembourg, Denmark, France, Greece, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey, the Western German Zones, and the dependent overseas territories of certain of these countries.
† Including balancing item of errors and omissions.
Note: 1948 figures are provisional.
Source: Dominion Bureau of Statistics; *The Canadian Balance of International Payments:* Preliminary Statement 1947 and Preliminary Statement 1948.

but actually to increase them from 502 million dollars on December 31, 1947 to 998 million a year later.[3]

It would thus appear that Canada has overcome, for the time being at least, its balance-of-payments difficulties. The Canadian Government has, in fact, already reoriented its policy in the direction of "normalcy" by relaxing many import restrictions. Since, however, the structure of Canada's foreign trade is essentially the same as before the war and during the first postwar years, it is all the more evident that the strengthening of the balance-of-payments position has been due not to any basic realignment of the country's international accounts, but primarily to transient emergency measures. Even the reimposed direct controls, effective though they were, could not by themselves solve the problem; in the absence of the dollar receipts from ECA offshore purchases and the 150 million dollar loan from the United States, Canada's gold and United States dollar reserves would actually have declined during 1948 by about 100 million dollars. Cessation of ECA offshore purchases in Canada would confront Canada once more with difficulties almost as complex as those which it faced toward the end of 1947.

While a complete suspension of offshore purchases by ECA in the near future is most unlikely, an early curtailment of such purchases is quite possible. So far as industrial finished products and raw materials are concerned, much will depend on business conditions in the United States. Should United States supplies significantly exceed domestic demand and current exports, the ECA may feel compelled to direct all ERP dollars for these products to United States producers, thus increasing this country's exports at the expense of Canada and other ERP supply sources. With respect to foodstuffs, the prospects are even more uncertain. It will be recalled that the Economic Cooperation Act contains an explicit injunction that if any agricultural commodity is declared surplus in the United States, appropriations for the European Recovery Program may not be used for purchases of that commodity outside the United States. Should the present favorable prospects for the 1949 wheat crop in the United States materialize and wheat be declared surplus, the effect obviously would be detrimental to the Canadian dollar position, since over one half of the dollars that accrued to Canada in 1948 under the offshore purchases program were spent on Canadian bread grains.

It is probable that a way will be found to meet this particular problem if it should actually arise, but the long-run outlook for the Canadian balance of payments remains somewhat obscure. That outlook depends essentially on the international economic position of the United Kingdom. Clearly, if sterling were made fully convertible, Canada would no longer face any foreign exchange difficulties, since the balance-of-payments surplus with the United Kingdom would suffice to cover the deficit with the United States. It is far from certain, however, that dollar convertibility of sterling can be counted on within the next few years.

[3] This 496 million dollar increase includes 150 million dollars borrowed in the United States in 1948.

SURVEY OF OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS

The distribution by ownership groups of the demand deposits of individuals, partnerships, and corporations (except banks) held by all commercial banks in the Second Federal Reserve District was resurveyed as of January 1949, as part of the annual study conducted nationally by the Federal Reserve System. Based upon reports from 120 member banks in the Second District that analyzed their larger accounts, the total volume of business and personal demand deposits as of January 1949 is estimated at 20.8 billion dollars, a decrease of 0.9 billion dollars, or 4.3 per cent, since January 1948. The past year's decline, which is the first annual drop to occur since 1936-37, erased almost half of the postwar rise in business and personal demand deposits. It left the January 1949 level 1.0 billion dollars, or 5.1 per cent, higher than the level of July 1945, which roughly coincides with the end of the war.

The cause of the decline in deposits during the year ended January 1949 was the utilization by the Treasury of its cash surplus to retire Government debt held by the banking system. Specifically, the excess of Treasury collections from depositors (in payment of taxes and for purchases of nonmarketable securities), over the return flow of funds to depositors through normal Treasury expenditures, was used chiefly to redeem Government securities owned by the Reserve Banks and the commercial banks, and was thus permanently removed from the outstanding money supply. The effect of this Treasury policy upon deposits was counterbalanced, to a great extent, by deposit increases arising from commercial bank loans to businesses and individuals, nonbank sales of marketable Government securities to the Reserve System, and the continued inflow of gold from abroad. In 1946 and 1947 these commercial bank loans and the inflow of gold from abroad had been large enough in conjunction with lesser Treasury cash surpluses to cause the deposit balances to increase.

As can readily be seen in the accompanying table, all of the various classes of depositors showed declines in balances between January 1948 and January 1949, except for trust funds of banks, which rose moderately. The largest percentage decline (12.0 per cent) was in the deposits of insurance companies, and this decline occurred despite large additions to the deposits of such concerns from sales of Government securities during the year. Business and personal demand deposits of foreigners also were drawn down substantially (8.4 per cent), probably as a partial reflection of the continued need

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

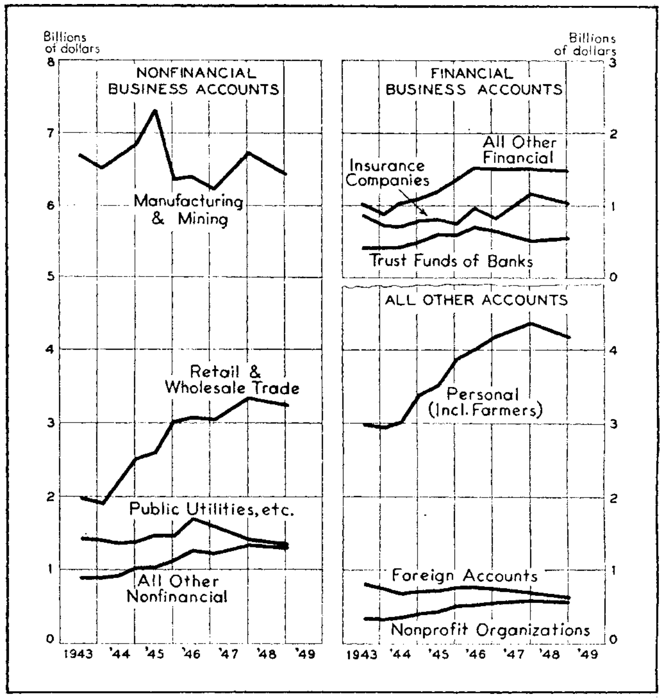
Type of owner	Dollar balance Jan. 1949	January 1948 to January 1949		July 1945 to January 1949	
		Dollar change	Per cent change	Dollar change	Per cent change
Manufacturing and mining	6,425	−300	− 4.5	− 887	−12.1
Public utilities, transportation, and communications	1,345	− 79	− 5.5	− 125	− 8.5
Retail and wholesale trade and dealers in commodities	3,245	−113	− 3.4	+ 625	+23.9
All other nonfinancial business, including construction and services	1,316	− 38	− 2.8	+ 280	+27.0
Total nonfinancial	12,331	−530	− 4.1	− 107	− 0.9
Insurance companies	1,034	−141	−12.0	+ 221	+27.2
Trust funds of banks	552	+ 39	+ 7.6	− 56	− 8.2
All other financial business*	1,471	− 32	− 2.1	+ 267	+22.2
Total financial	3,057	−134	− 4.2	+ 432	+16.5
Nonprofit organizations	574	− 16	− 2.7	+ 138	+31.7
Personal (including farmers)	4,171	−201	− 4.6	+ 647	+18.4
Foreign accounts	623	− 57	− 8.4	− 98	−13.6
Total demand deposits of individuals, partnerships, and corporations	20,756	−938	− 4.3	+1,012	+ 5.1

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

by foreigners for dollar balances to make payments against their excess of imports from the United States. All other deposit groups showed declines ranging from 2.1 per cent in the case of financial concerns other than insurance companies and trust funds of banks, to 5.5 per cent in the case of balances owned by public utilities. The latter, because of their current expansion of facilities, are apparently finding it necessary to draw to some extent upon available cash resources, in addition to using a record volume of funds from the capital markets.

The smallest banks in the District—both those with total deposits of less than one million dollars, and those with deposits between 1 and 10 million dollars—had small over-all deposit increases, amounting to 0.8 per cent and 3.0 per cent, respectively. The larger size groups of banks, on the other hand, all sustained deposit declines. The decline amounted to 5.3 per cent in the group of banks with deposits of 10 to 100 million dollars, to 7.4 per cent in the 100 to 500 million group, and to 4.7 per cent in the banks with deposits in excess of 500 million. The deposit gains in the smaller banks reflect the proportionately greater growth in the loans of those banks than in the loans of the larger banks of this District. In the two smallest groups of banks, deposits of retail and wholesale trade, nonprofit institutions, and insurance firms continued to increase, whereas in the larger banks such accounts declined. Personal accounts of farmers showed declines in the banks having deposits of less than 1 million dollars, but rose in the banks with total deposits of 1 to 10 million dollars. Personal accounts other than those of farmers declined in all groups of banks, but to a lesser extent in the smaller banks.

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



* Figures are semiannual from July 1943 to February 1947 and annual as of each January thereafter.

The accompanying chart shows the fluctuations in deposit balances of the various ownership groups since the surveys were first undertaken in July 1943. It is noteworthy that the two types of accounts (personal accounts, and wholesale and retail trade accounts) in which two thirds of the war and postwar increases in deposits accumulated have turned downward. In the year ended January 1949, personal accounts definitely reversed their persistent rise and the accounts of wholesale and retail trade experienced their first year-to-year decline. Of interest also is the fact that balances of manufacturing and mining concerns, public utilities, and foreign accounts are lower today than when the series began. In the manufacturing, mining, and public utility accounts, balances are generally confined to their function as a necessary part of working capital. Consequently, except for increases to meet the needs of a rising price level, accumulations occur only when the conversion of income to plant, equipment, inventories, or temporary investments is slowed down or interrupted. Reductions in these balances, on the other hand, may reflect temporary withdrawals from working capital or an economy in the holding of deposit balances, stimulated by higher interest rates or greater efficiency.

MEMBER BANK EARNINGS IN 1948

Net profits after all charges but before dividend payments averaged 7.0 per cent of total capital accounts in 1948 for all member banks in the Second Federal Reserve District compared with 8.1 per cent in 1947 and the all-time peak of 11.6 per cent in the closing year of the war.[1] The reduction in 1948 net profits resulted entirely from charges against earnings for the creation or enlargement of reserves for bad debt losses on loans, as permitted by a Treasury ruling in December 1947. While the initial effect of accumulating such reserves is to reduce net profits, their use over a period of years will tend to smooth out the cyclical fluctuations arising from loan losses, by raising the level of net profits in lean years and lowering it in prosperous times.

Analysis of the reports for individual member banks shows that 434 banks, or 56 per cent of all member banks in the District, had set up reserves for bad debt losses on loans at the end of 1948. On the average (for all member banks), transfers to reserves for bad debt losses on loans in 1948 were 4.5 per cent of total earnings, recoveries and transfers from other valuation reserves on loans were 0.3 per cent of total earnings, and actually realized loan losses were only 0.6 per cent. Relative to total outstanding loans, actually realized loan losses represented only a negligible fraction, while reserves for bad debt losses accumulated through December 31, 1948, averaged 0.9 per cent of outstanding loans, and other valuation reserves against loan losses accounted for an additional 0.4 per cent. The analysis of individual banks by size indicated that the proportionate number of banks setting up reserves for bad debt losses on loans increased with the size of the banks, probably because of the greater risk of loss accompanying a larger loan portfolio. An additional factor which appears to have entered into the decision whether or not to set up bad debt reserves, especially in the smaller banks of the District, was the ratio of the loan portfolio to total assets. Banks with a small ratio of loans to total assets were less apt to set up bad debt reserves than were banks with a larger ratio.

The dollar volume of total (gross) earnings increased to record levels in 1948. The ratio of total earnings to total assets rose to 2.66 per cent from 2.46 per cent in 1947, but remained substantially below the 3.3 per cent return achieved in 1941. The rise over 1947 reflected the increased volume of loans, which for most banks are high income assets, and the reduced holdings of lower income-producing United States Government securities. Generally, the smaller banks recorded the widest gains in total earnings during 1948, because their loans expanded more, proportionately, than the loans of the larger banks. The divergence in trend between loans and Government security holdings has been in progress since the close of the war but the ratio of loans to total assets still remains about one-seventh lower than in 1941. Although actual loan volumes and loan incomes were at all-time record levels in 1948, they did not completely reattain the prewar relationship to other bank assets and income, owing to the vast wartime expansion in total assets. Service charges on deposit accounts rose from 6.1 per cent of total earnings in 1947 to 6.6 per cent in 1948. Despite the almost continuous yearly rise in the dollar volume of such charges during the past decade, they were still slightly less in 1948 relative to total earnings than they had been in 1941.

Among the expense items, the amounts paid for salaries and wages increased at most banks and, except at the larger New York City banks, rose proportionately more than total earnings. For all member banks in the District, salary and wage payments increased from 29.2 per cent of total earnings in 1947 to 30.0 per cent in 1948, but still represented a slightly smaller proportion of total earnings than they did in 1941. The growth in interest payments on time deposits in 1948 lagged behind the increase in total earnings, and the share of total earnings paid out in this form was not only moderately less than in 1947 but also less than in either 1941 or 1945. Largely reflecting the effect of deductions from taxable income for setting up bad debt reserves on loans, the

Selected Average Operating Ratios of All Member Banks
Second Federal Reserve District

	1941	1945	1947	1948
Number of banks	772	805	792	779
Percentage of total capital accounts				
Net current earnings before income taxes	7.1	9.4	10.9	11.2
Profits before income taxes	†	14.0	11.4	9.3*
Net profits	5.5	11.6	8.1	7.0*
Cash dividends declared	1.9	2.1	2.2	2.2
Percentage of total earnings				
Interest on U. S. Government securities	31.1	49.2	40.5	34.5
Interest and dividends on other securities		8.0	6.6	6.5
Earnings on loans	52.7	28.8	40.3	46.0
Service charges on deposit accounts	7.2	6.4	6.1	6.6
Other current earnings	9.0	7.6	6.5	6.4
Total earnings	100.0	100.0	100.0	100.0
Salaries and wages	30.5	28.4	29.2	30.0
Interest on time deposits	16.2	16.4	15.8	14.7
Other current expenses	24.2	24.8	23.6	23.9
Total expenses	70.9	69.6	68.6	68.6
Net current earnings before income taxes	29.1	30.4	31.4	31.4
Net recoveries and profits (or losses –)	– 5.1	15.5	1.8	– 4.6*
Taxes on net income	3.5	7.8	9.4	6.5*
Net profits	20.5	38.1	23.8	20.3*
Percentage of total assets				
U. S. Government securities	36.5	61.3	53.2	47.6
Other securities		6.1	6.7	7.6
Loans	33.0	13.0	21.1	25.7
Cash assets	27.2	18.4	17.9	18.1
Total earnings	3.3	2.09	2.46	2.66

† Not available.

* These ratios were affected in 1948 by transfers to reserves for bad debt losses on loans.

[1] These rates of return, as well as the other ratios in the accompanying table, are arithmetical averages of ratios for individual banks. They are part of a more detailed analysis (Circular No. 3427 entitled, "Operating Ratios of Member Banks in the Second Federal Reserve District"), which is available upon request from the Research Department, Financial Statistics Division.

average rate of income tax to total earnings declined by nearly one third from 9.4 per cent of total earnings in 1947 to 6.5 per cent in 1948.

Net current earnings before income taxes showed a slight dollar increase over 1947 in about two thirds of the member banks in the District. Relative to total earnings, however, net current earnings before taxes remained unchanged at 31.4 per cent, indicating that the average growth in expenses was equal to the average growth in total earnings. Relative to capital accounts, net current earnings before income taxes increased slightly.

Dividend payments were maintained at the conservative levels of recent years at most of the member banks of the District, and averaged about one third of the amount available for distribution. In relation to capital accounts, dividend payments remained unchanged at 2.2 per cent. Retained earnings, while substantial, showed a further diminution, and the growth in capital accounts was at a lower rate than in any of the previous three years.

RETAIL CREDIT SURVEY FOR 1948

The results of a preliminary tabulation of the returns from this bank's annual retail credit survey are shown in an accompanying table. Over 800 Second District stores with annual sales of approximately 1½ billion dollars have so far cooperated in this survey, which covers the nine principal types of credit-granting stores.

In general, sales of stores in consumers' durable goods lines other than jewelry showed over-all increases in 1948, while men's and women's apparel stores and jewelry stores registered declines from 1947. In nearly every type of store, cash sales lagged behind credit sales during 1948, hardware stores being the sole exception. All types of stores showed gains in instalment sales, and in many instances the increases were quite sizable. The data reflect not only the greater availability of consumers' goods, but also the increasing tendency for customers to resort to credit, in some cases merely for the sake of convenience, but more generally because of the pressure of high living costs and the drawing down of liquid assets. In two major types of outlets, furniture stores and automobile tire and accessory shops, the rise in total sales between 1947 and 1948 was made possible by an increase in credit sales which more than offset a decline in cash transactions; furniture stores, in particular, showed a drop of 11 per cent in cash sales, a rise of 8 per cent in credit sales, and a 4 per cent increase in total dollar volume.

Despite the continued increase in the relative importance of credit sales during the past two years, however, all of the various types of stores surveyed, except jewelry, sold proportionately more for cash than in 1941. A larger proportion of total sales (in comparison with 1941 ratios) was made on instalment terms in the women's apparel, hardware, and jewelry stores, but in the major consumers' durable goods lines, instalment sales still had not regained their 1941 proportion of total sales.

Changes in Sales and Receivables of Credit-Granting Retail Stores in the Second Federal Reserve District, 1947 to 1948*

Type of credit-granting store	Number of stores	Percentage change, 1947 to 1948						
		Retail sales				Accounts receivable		
		Total	Cash	Charge account	Instalment	Total	Charge account	Instalment
Automobile	129	+17	+13	+28	+37	+28	+27	#
Household appliance	108	+ 9	+ 4	+ 5	+17	+40	+ 9	+51
Department	89	+ 5	+ 1	+ 9	+27	+ 6	+ 5	+ 7
Furniture	153	+ 4	−11	+ 6	+ 9	+22	+ 4	+23
Automobile tire and accessory	82	+ 2	− 4	+ 2	+35	+24	+ 9	+81
Hardware	26	+ 1	+ 4	− 3	+26	+18	+18	+16
Women's apparel	85	− 1	− 5	+ 3	+ 4	+ 1	+ 1	+ 2
Men's clothing	54	− 3	−13	+10	+74	+ 7	+ 2	+80
Jewelry	93	− 5	−11	− 6	+ 1	+ 7	0	+10
All types	819	+ 6	+ 2	+ 8	+18	+ 9†	+ 4†	+16†

* Sales figures are based on annual totals; accounts receivable on end-of-year data. All data are preliminary.
\# Figure omitted because of smallness of reporting sample.
† Unweighted average.

DEPARTMENT STORE TRADE

According to preliminary information, March sales of Second District department stores this year, measured in dollars, appear to have been more than 10 per cent below those of March 1948. Seasonally adjusted, they may actually have been less in value than in March 1946, and were certainly less in physical volume. Only about half of the decline in dollar volume compared with March 1948 can be attributed to the lateness of Easter this year.

Although sales had also shown some lag in January and February, retailers were able during those months to avoid inventory accumulations. Seasonally adjusted stocks at the end of February, as valued at retail prices, were 5 per cent smaller than at the beginning of the year. Outstanding orders changed little during February, but were more than one-third below the amount reported a year ago.

Department Store Credit

The rise in the value of total department store sales in this District during 1948 reflected almost exclusively an expansion of credit sales. Whereas cash sales were about the same as in 1947 (and in 1946 as well), instalment sales were fully one-fourth greater than in 1947 and charge account sales were about one-tenth greater. Gains for both types of credit sales were smaller than in the year before, however, particularly in the last quarter of 1948, when retail sales in general were slowing down. Instalment sales in the fourth quarter of 1948 made about one fifth of the year-to-year increase they had made during the same quarter a year earlier. The rate of gain for charge sales in the same interval was about one-third that of a year earlier.

The conspicuous slackening in the rise of instalment sales during the fall and winter months of 1948 reflected at first a narrowed year-to-year percentage increase in housefurnishings sales and later, in December, an actual year-to-year decline in sales of appliances, floor coverings, bedding, and radios. These are, however, comparisons with a period of exceptionally large sales in the hard lines. During the intervening year, consumers who could afford the current prices, or whose needs were urgent, purchased large quantities of housefurnishings. The more expensive durable goods, which came on the market slowly because of greater difficulties in reconversion, have apparently entered a period of adjustment comparable to that which many of the smaller, more easily produced durable items (nonautomatic toasters, table model radios, etc.) experienced as early as 1947. Prices of the heavier durable commodities are now apparently being scaled down in order to reach the normal demand arising from replacement needs, the development of new housing, and the increase in the number of new families.

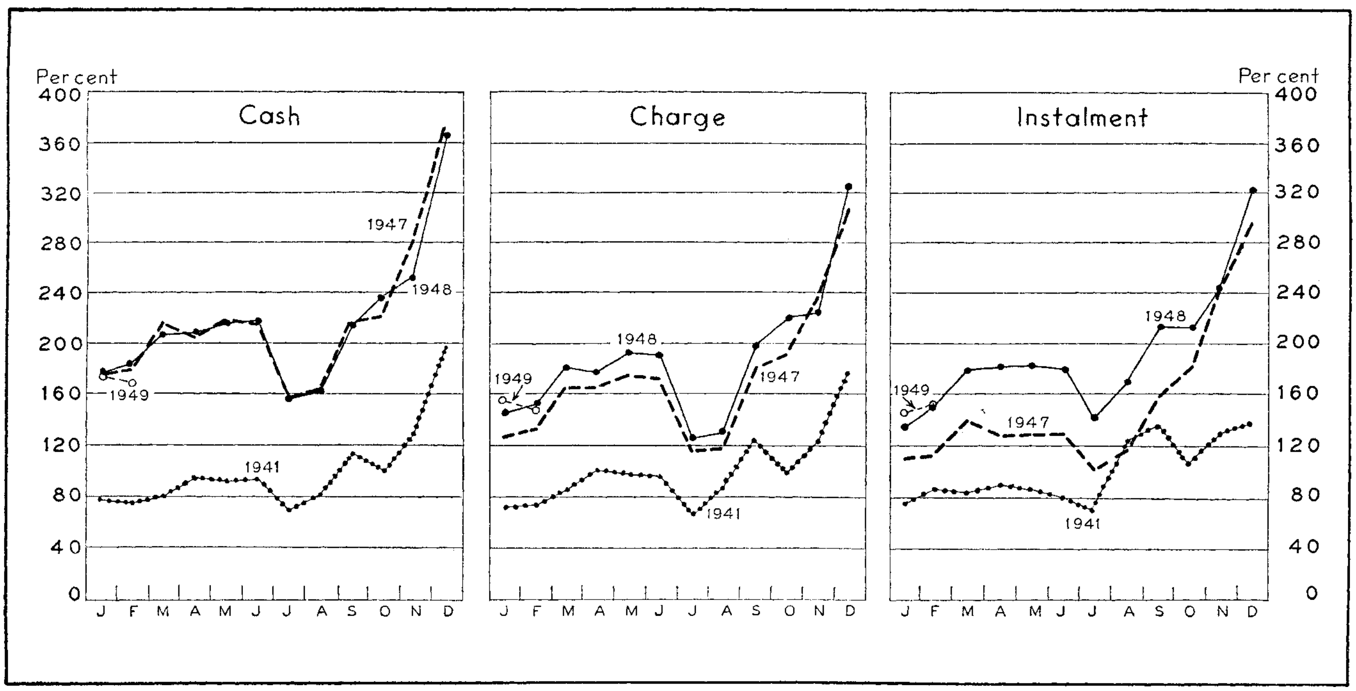
Thus, it would appear that normal market readjustments, coinciding in many lines with the reimposition of Regulation W, produced changes in the sales volume of department stores which considerably exceed any direct restraint upon sales traceable to the Regulation itself. It may be also noted that the growth of revolving credit plans—for financing soft goods purchases on an instalment basis that is not subject to Regulation W in its present form—tends to reduce the importance in aggregate department store instalment sales of the "big-ticket" durable items. Although total sales fell behind those of the preceding year in both January and February of 1949, instalment sales, as the accompanying chart shows, nevertheless made some year-to-year increase. In February, instalment sales were 1 per cent larger than one year previous, while cash and charge account sales lagged by 8 and 2 per cent, respectively.

Despite the relatively better showing of credit sales since the middle of 1946, cash sales have continued to represent an abnormally large proportion of total sales in relation to prewar experience. In 1948 they accounted for 64 per cent of the total, as compared with 60 per cent in 1941. Thus, the rise in the use of department store credit over the past two and one-half years represents a trend toward the return of prewar relationships.

Departmental Distribution of 1948 Sales

The alterations in the pattern of sales by type of merchandise which accompanied the relatively modest rise of total department store sales in calendar 1948 were less pronounced than the shifts observed in 1947, and variations in year-to-year percentage changes in sales among the different departments

Indexes of Department Store Sales by Type of Transaction, Second Federal Reserve District, 1941 and 1947-49*
(1941 average daily sales=100 per cent)



* Data only for stores reporting sales by type of transaction; their total sales in 1948 accounted for about 70 per cent of estimated total District department store sales. February 1949 preliminary.

were correspondingly reduced.[1] Basement store sales again registered a larger increase than main store sales, as the table shows, and hence accounted for a somewhat larger proportion of the total sales than in 1947. The most significant gains in the basement store were made in women's lines, particularly in dresses and intimate apparel. All major men's lines showed some gain in the basement, whereas both clothing and furnishings registered declines in the larger volume upstairs store.

In the main store, housefurnishings generally made the best improvement, but gains of 15 per cent for furniture and bedding, 12 per cent for domestic floor coverings, and 10 per cent for the television, radio, and phonograph department may be contrasted with a decline of 12 per cent for appliances. Among women's ready-to-wear lines, coats and suits showed the most substantial improvement. The fur department was the only major apparel line in which sales in 1948 were less than in 1947. Sales of accessories as a whole were on the same level as during the preceding year, as gains in hosiery, millinery, and other departments about offset the declines in such departments as neckwear and scarfs, and gloves.

[1] A detailed distribution on a fiscal year basis will be available in the near future, upon request to the Research Department, Domestic Research Division.

Sales at Second District Department Stores by Major Departmental Groups, 1947-48

Group	Percentage distribution of sales		Percentage change in sales 1947 to 1948
	1947	1948	
Total store	100.0	100.0	+4
Main store	*87.6*	*87.2*	*+3*
Women's wear	33.4	33.2	+3
Men's wear	8.5	8.2	−1
Housefurnishings	24.1	24.9	+7
All other	21.6	20.9	*
Basement store	*10.1*	*10.4*	*+7*
Women's wear	5.3	5.6	+10
Men's wear	1.7	1.7	+2
All other	3.1	3.1	+3
Nonmerchandise	*2.3*	*2.4*	*+8*

* Decrease of less than 1 per cent.

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

Item	1948		1949	
	Feb.	Dec.	Jan.	Feb.
Sales (average daily), unadjusted	203*r*	414	194	192
Sales (average daily), seasonally adjusted*	242*r*	247	243	229
Stocks, unadjusted	234*r*	215	201	218
Stocks, seasonally adjusted	241*r*	236	228	224

r Revised.

* Seasonal adjustment factors for 1942-48 revised; available upon request from the Research Department, Domestic Research Division.

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

Locality	Net sales		Stocks on hand Feb. 28, 1949
	Feb. 1949	Jan. through Feb. 1949	
Department stores, Second District	−5	−4	−7
New York City	−6	−6	−7
Northern New Jersey	−5	−3	−10
Newark	−7	−6	−12
Westchester County	+12	+17	−1
Fairfield County	−9	−3	−8
Bridgeport	−10	−5	−10
Lower Hudson River Valley	+8	+5	−9
Poughkeepsie	+15	+9	−9
Upper Hudson River Valley	+7	+8	−10
Albany	+9	+12	−13
Schenectady	+7	+5	−5
Central New York State	−16	−10	−1
Mohawk River Valley	−3	−2	−6
Utica	−2	+1	−2
Syracuse	−21	−13	+2
Northern New York State	−7	−9	—
Southern New York State	−5	−2	−4
Binghamton	−3	+1	−3
Elmira	−9	−7	−4
Western New York State	0	0	−7
Buffalo	+3	+3	−11
Niagara Falls	+5	+4	−18
Rochester	−5	−4	+4
Apparel stores (chiefly New York City)	−12	−8	−9

Indexes of Business

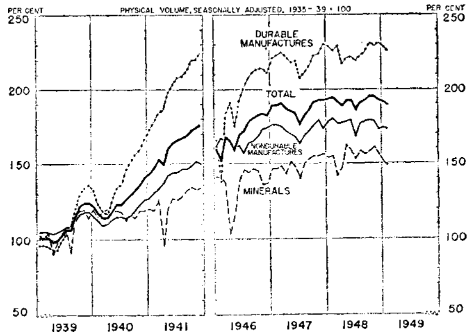
Index	1948		1949	
	Feb.	Dec.	Jan.	Feb.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	194	192	191	189*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	247	257	262	262*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	209	186	177*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	325*r*	343*r*	328	328*p*
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	160	159	155	153*p*
New York State, 1935-39 = 100 (*N. Y. S. Div. of Place. and Unemp. Ins.*)	131	124	120	120*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	354	378	363*p*	
New York State, 1935-39 = 100 (*N. Y. S. Div. of Place. and Unemp. Ins.*)	301	298	288	286*p*
Personal income*, 1935-39 = 100 (*Department of Commerce*)	301*r*	322	322*p*	
Composite index of wages and salaries*†, 1939 = 100 (*Federal Reserve Bank of New York*)	185*r*	196	197*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	168	171	171	169
Velocity of demand deposits*#, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	92	95	99	98
Outside New York City	87	87	89	87

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

† A monthly release showing the 15 component indexes of hourly and weekly earnings in nonagricultural industries computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, may also be procured from the Research Department, Domestic Research Division.

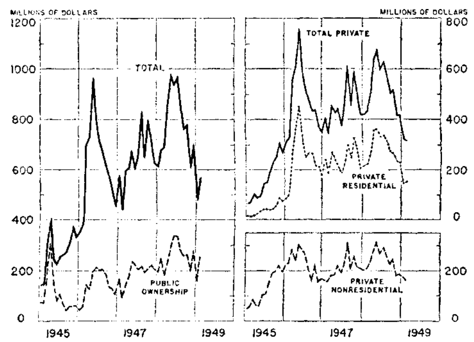
Seasonal adjustment factors for 1942-48 revised; available upon request from the Research Department, Financial Statistics Division.

INDUSTRIAL PRODUCTION



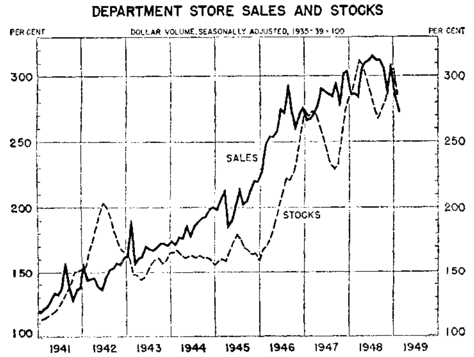
Federal Reserve indexes. Monthly figures; latest shown are for February.

CONSTRUCTION CONTRACTS AWARDED



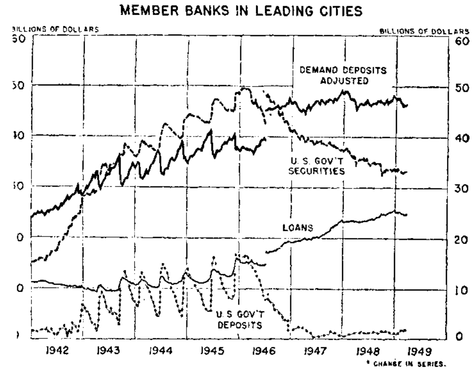
F. W. Dodge Corporation data for 37 Eastern States. Monthly figures; latest shown are for February.

DEPARTMENT STORE SALES AND STOCKS



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

MEMBER BANKS IN LEADING CITIES



Wednesday figures; latest shown are for March 16.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, March 25, 1949)

OUTPUT and employment in industry declined somewhat further in February and were slightly below the levels of a year ago. Value of department store sales in February and the early part of March continued substantially below earlier advanced levels. Wholesale prices of meats and livestock advanced moderately from mid-February to mid-March, while prices of numerous other commodities declined somewhat further.

Industrial Production

Industrial production, according to preliminary figures for the Board's seasonally adjusted index, was 189 per cent of the 1935-39 average in February, down 2 points from January and 6 points from the peak last autumn. A further decline is indicated for March, reflecting sharp curtailment in the output of coal, and also reductions in output of some other products including petroleum and rayon.

In February output of durable goods was down slightly, reflecting further declines in output of machinery—mainly electrical machinery—and of lumber, furniture, and stone, clay and glass products. Steel production, however, advanced further to a record rate of 101.2 per cent of capacity and was maintained at about this rate in March. In the automotive industry, activity declined slightly in February, but with the completion of model changeovers showed a small gain during the first three weeks in March.

Nondurable goods production also declined somewhat in February, petroleum refining operations were reduced, and small declines occurred in activity in the rayon textiles, chemicals, rubber products, and paper industries. Output at cotton textile mills and most other nondurable goods industries showed little change from January levels.

Minerals production declined moderately in February and was sharply reduced in March. Crude petroleum output was lowered further in February to a rate approximately equal to that in the same month a year ago, and was reduced substantially in March. Coal production continued to decline in February and the early part of March, reflecting large accumulation of stocks and reduced demand, and was sharply curtailed beginning March 14 as the result of a work stoppage affecting most mines east of the Mississippi. Output at copper mines increased substantially in February following a settlement of a prolonged strike at the mines of a leading producer.

Employment

Employment in nonagricultural establishments, as reported by the Bureau of Labor Statistics, declined more than seasonally in February and was 300,000 or one per cent less than in February 1948. The decline from January reflected mainly further reductions in manufacturing, construction, and railroad transportation. The number of persons unemployed increased by 550,000 to 3,200,000 according to Census Bureau estimates.

Construction

Value of contract awards in February, according to the F. W. Dodge Corporation, was about one-sixth larger than in January, reflecting increases in publicly-financed construction. Awards for privately-financed activity showed little change from the sharply reduced level reached in January. Total awards in January and February were 19 per cent smaller than in the same months last year.

Distribution

Department store sales declined further in February after allowance for usual seasonal changes. The Board's adjusted index was 273 per cent of the 1935-39 average as compared with 287 in January and 286 a year ago. Sales during the first three weeks in March were 11 per cent below the corresponding period of 1948, owing in part to the later date of Easter this year.

Shipments of railroad revenue freight in February and the first half of March declined somewhat further and were 10 per cent below the level of a year ago. Loadings of coal, forest products, and merchandise in less than carload lots were sharply reduced, as compared with a year ago, and there were less marked declines in miscellaneous freight and livestock shipments. Loadings of grain, coke, and ore were above year ago levels.

Commodity Prices

The average level of wholesale prices, as measured by the all-commodity index of the Bureau of Labor Statistics, was unchanged from mid-February to mid-March. Reflecting in part a seasonal reduction in supplies, prices of meats and livestock rose somewhat, but prices of a wide range of industrial commodities declined. Prices of steel scrap and nonferrous metals scrap showed further marked decreases. Refined lead and zinc prices were lowered and there were reductions also in prices of various metal products, such as storage batteries and household appliances.

The consumers' price index declined 1 per cent in February reflecting further decreases in retail prices of food, apparel, and housefurnishings. The February level was 169 per cent of the 1935-39 average, as compared with the high point of 174.5 reached last summer.

Bank Credit

Federal Reserve holdings of Government securities declined sharply during the first half of March, reflecting principally sales of Treasury bonds and retirement of certificates held by the Reserve Banks. The effect of these sales in absorbing bank reserves was largely offset by a substantial decline in Treasury deposits at the Reserve Banks. After the middle of March, seasonally large income tax payments caused the shift of a substantial volume of funds from private deposit accounts at commercial banks to Treasury balances at the Reserve Banks. Federal Reserve sales of bonds continued and, although the System purchased large amounts of short-term securities, bank reserves declined.

Business loans were reduced somewhat further at reporting banks in leading cities during February and the first half of March. Demand deposits of businesses and individuals declined substantially, reflecting tax payments, repayment of bank loans, and net purchases by nonbank investors of Government securities from the banking system.