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MONEY MARKET IN JUNE

Treasury operations dominated the money market during the past month and were chiefly responsible for the alternate periods of ease and tightness in the market. In the first half of June, Treasury disbursements, including interest payments on the public debt and cash redemptions of maturing securities, were substantially in excess of receipts and resulted in placing considerable amounts of additional funds at the disposal of the banks. In the latter half of the month collections of personal and corporation income taxes were in substantial volume and exceeded Government disbursements, causing a drain on the reserves of the banks and a tighter money market situation.

Commercial banks, especially in the larger cities, continued to undertake to keep their available funds rather fully employed, except for a brief period at the middle of the month when they increased their excess reserves substantially in anticipation of the large tax collections as of June 15. In the absence of active business demands for credit, they acquired large amounts of Treasury securities during the first half of the month, and continued to acquire Treasury bonds in the latter half, although they found it necessary to sell some of their short-term securities in order to offset the drain on their reserves. At times they borrowed large amounts from the Reserve Banks, temporarily, as an alternative to sales of securities, in order to maintain their reserves at the required levels.

STATEMENT OF THE FEDERAL OPEN MARKET COMMITTEE

The following statement was issued on June 28, 1949, by the Federal Open Market Committee of the Federal Reserve System:

"The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market and the confidence of investors in Government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availablity of credit should be increased."

The continued demand for medium and longer-term Government bonds reflected in part a persistent demand from savings institutions, and in part an active demand from commercial banks, apparently in anticipation of the further reduction in member bank reserve requirements at the end of June. (The statement of the Board of Governors of the Federal Reserve System concerning this reduction appears elsewhere in this *Review.*) The supply of Treasury bonds available to the market at existing prices was considerably short of the demand, and substantial amounts of bonds were supplied by the Federal Reserve System.

The sales by the Reserve System up to June 22 brought the reduction in the System's total holdings of Government securities since the end of 1948 to 4.2 billion dollars. A substantial part of the reduction was in holdings of Treasury bonds, reflecting the sharp reversal of conditions in the Government bond market since the latter part of last year. A small part of the reduction in the System's holdings of Treasury bonds was a result of exchanges of maturing bonds for Treasury certificates in June, but most of it reflected sales in response to market demands. The extent of these sales has indicated the change in investors' appraisal of the prospect for bond prices, to a considerable extent as a result of the decline in business activity. The substantial shrinkage in bank loans to business concerns has been accompanied by an increased demand from the banks for the higher yielding Government

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Termination of Consumer Credit Regulation and Reduction of Reserve Requirements

The Board of Governors of the Federal Reserve System issued the following statement on June 29, 1949:

"The authority under which the Board of Governors of the Federal Reserve System issued Regulation W, establishing minimum down payments and maximum maturities for consumer instalment credit, expires June 30, 1949 and the regulation will not be effective after that date. Notice to this effect is being sent to those who, in accordance with the regulation's provisions, have filed registration statements with a Federal Reserve Bank.

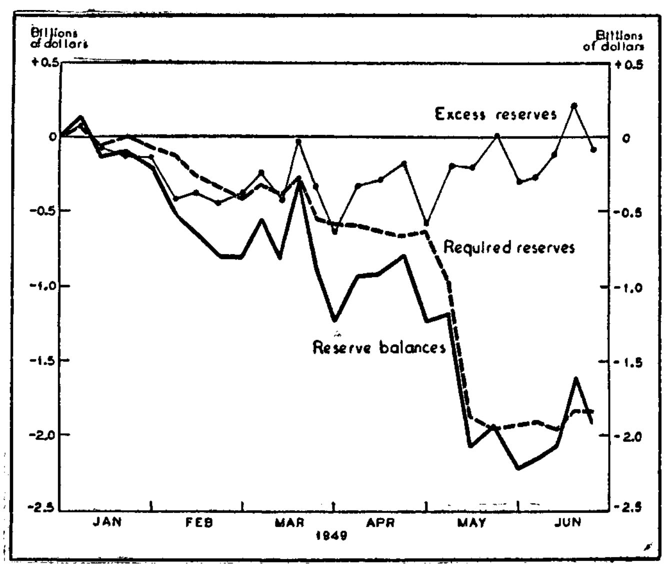
"The temporary authority granted by Congress for increased reserves likewise expires June 30 and the Board has accordingly revised the supplement to Regulation D, under which the following reserve requirements will be effective with the beginning of the next reserve period (June 30 for central reserve city and reserve city member banks and July 1 for other member banks): Against net demand deposits—24 per cent for central reserve city member banks, 20 per cent for reserve city member banks, and 14 per cent for other member banks; against time deposits—6 per cent for member banks of all classes. The changed requirements will result in a reduction of approximately $800,000,000 in required reserves".

securities, which has been accentuated by the actual and prospective reductions in member bank reserve requirements. Bank-eligible bonds to meet these demands have come partly from other investing institutions, which, in turn, have increased their demands for restricted Treasury bonds. In the absence of adequate supplies from other sources, the demands for restricted bonds have been met to a considerable extent by sales from the Federal Open Market Account. In addition, there has been a considerable demand also for the shorter-term Government securities from business corporations and other investors seeking temporary employment for funds not needed for business or other purposes, and from banks as well at times when they had surplus funds at their disposal. Most of the net reduction in the System's holdings of short-term Treasury securities, however, was a result of redemptions by the Treasury in the first few months of the year.

Thus, aside from some redemptions of maturing securities through the use by the Treasury of surplus revenues in the first quarter of the year, the reduction in the System's holdings of Government securities during the first half of 1949 has occurred mainly in response to active demands for such securities in the market, rather than as a result of aggressive selling by the System. Nevertheless, the result has been to absorb much of the excess reserves acquired by the commercial banks through such factors as the seasonal return flow of currency from circulation early in the year, a continuing though reduced inflow of gold, net foreign expenditures in this country, substantial reductions in the required reserves of member banks (both through action of the Board of Governors and as a result of the first quarter shrinkage in bank deposits), and net disbursements by the Treasury from its deposit balances in the Reserve Banks. As the accompanying chart indicates, there has been little net change in the excess reserves of member banks during the first half of the year, despite the large amount of additional reserves which became available to them, and the large reduction in their reserve requirements. The gradual upward trend in excess reserves during the second quarter of the year no more than offset the shrinkage in the first quarter. There has been some increase in the banks' holdings of secondary reserves in the form of Treasury bills and certificates, but the greater part of the funds that have become available to member banks appear to have been invested in Treasury bonds.

The following table summarizes the principal factors that have affected the reserve positions of member banks since the end of 1948. In the first quarter of 1949, the seasonal reduction of more than 900 million dollars in the volume of currency in circulation and the reduction of about 675 million in required reserves of member banks (which resulted chiefly from the shrinkage in deposits incident to the heavy first quarter tax collections) were the principal factors tending to add to the excess reserves of the banks. After deducting some increase in Treasury deposits in the Reserve Banks and other minor factors, there was a net release to member banks of nearly 1.2 billion dollars of reserves during the first quarter. This was more than offset, however, by a reduction of over 1.7 billion dollars in the amount of Federal Reserve credit outstanding, so that excess reserves declined by more than 500 million dollars. In the second quarter, there was comparatively little net change in the amount of currency in circulation, but Treasury transactions resulted in net disbursements from deposit balances in the Reserve Banks of nearly 1.2

Net Changes in Reserve Balances of All Member Banks
(Cumulated weekly from Dec. 29, 1948 through June 22, 1949)



billion dollars, and foreign account transactions added more than 300 million dollars to the reserves of the banks. In addition, required reserves of member banks showed a further decline of nearly 1.2 billion dollars as a result of the action of the Board of Governors in reducing, early in May, the percentages of reserves which member banks are required to maintain against their deposits. Altogether, there was a net release during this period (March 30 to June 22) of over 2.7 billion dollars of reserves. The reduction in Federal Reserve credit outstanding in this period was less than 2.3 billion dollars, so that excess reserves of member banks showed an increase of about 450 million dollars. Further additions to the banks' excess reserves resulted from the lowering at the end of June of the percentages of reserves which member banks (chiefly reserve city and "country" banks) are required to maintain against their deposits. It is estimated that this latest change released more than 800 million dollars of reserves.

Net Changes in Factors Affecting Member Bank Reserves
(In millions of dollars; (+) or (—) indicates effect on excess reserves)

Item	Dec. 29, 1948 to Mar. 30, 1949	Mar. 30, 1949 to June 22, 1949	Dec. 29, 1948 to June 22, 1949
Factors other than Federal Reserve credit			
Foreign account transactions*	− 5	+ 327	+ 322
Decrease in money in circulation	+ 922	+ 58	+ 980
Treasury transactions†	− 380	+1,191	+ 811
Reduction in required reserves	+ 677	+1,163	+1,840
All other	− 21	− 16	− 37
Total	+1,193	+2,723	+3,916
Total Federal Reserve credit	−1,735	−2,265	−4,000
Excess reserves	− 542	+ 458	− 84

* Including net changes in monetary gold stock as well as changes in foreign deposits with the Federal Reserve Banks.
† Net changes in Treasury deposits with the Federal Reserve Banks and in Treasury cash, less change in Treasury currency.

Member Bank Reserve Positions in June

Treasury cash disbursements were substantially in excess of receipts in the first half of June and this excess considerably eased the reserve positions of the banks and, consequently, the money market. To the usually heavy current operating expenditures of the Treasury in the last month of the fiscal year were added large interest payments due June 15 on the public debt and redemptions of unexchanged bonds maturing on the same date, as well as some redemptions of certificates of indebtedness and of Savings notes which matured on the first of the month.

Member banks tended to gain reserves also from other transactions, including a decline in money in circulation, disbursements from foreign accounts with the Reserve Banks, and a modest increase in Federal Reserve "float." As offsets to these gains were small, member bank reserve positions tended to be extremely easy. This condition was most marked on June 15, when the Treasury's disbursements, including interest on the public debt, brought its balances with the Reserve Banks down to 9 million dollars, despite the fact that the Treasury had obtained funds temporarily from the Reserve System through the sale to the Federal Reserve Banks of 220 million dollars of special certificates of indebtedness.

Heavy quarterly income tax collections after the middle of the month enabled the Treasury to increase its deposits in the Reserve Banks by nearly 500 million dollars, as well as to redeem the special certificates it had sold to the Reserve Banks in the week ended June 22. The bulk of Federal income tax payments were received in this week, and caused a heavy drain on bank reserves. Toward the close of the month, even after tax collections had tapered off, money market conditions remained comparatively tight, reflecting a month-end reduction of Federal Reserve float and an increase of currency in circulation.

The ease in the money market in the first half of the month led to an active demand for both short and long-term Government securities on the part of the commercial banks. Total holdings of the weekly reporting member banks rose 832 million dollars in the two weeks ended June 15. A substantial portion of this demand was met by Government security dealers, whose borrowings from the banks dropped sharply in the week ended June 8. A part was met by nonbank investors, who sold intermediate and long-term eligible Treasury bonds and invested the proceeds in corporate securities or in restricted Treasury bonds purchased through the market from the Federal Reserve System and other sources. System sales in the market of unrestricted bonds and of short-term Treasury securities also provided a substantial portion of the supplies of securities sought by the commercial banks. Despite the large increase in the banks' holdings of Government securities, excess reserve balances rose 460 million dollars in the two weeks ended June 15; the banks did not invest all their gains of reserves (a large part of which occurred on the last day of the period), since they expected to lose considerable amounts of reserves almost immediately through tax collections.

Because a considerable proportion of the Treasury's marketable securities are held or traded in New York, the City banks benefited particularly from the large Treasury disbursements in connection with debt retirement and interest payments. As a consequence, the increase in excess reserves during the first half of June was divided almost evenly between the banks in New York City and the rest of the country.

The comparatively high level of excess reserves enabled the banks to meet part of their heavy losses in the succeeding two weeks of tight money market conditions. Nevertheless, the banks found it necessary to sell sizable amounts of securities indirectly to the Reserve System and to borrow large amounts from the Reserve Banks for short periods during the latter half of the month. Most of the strain on reserve positions in this period was felt in the week ended June 22, when tax payments were heaviest and member bank borrowings rose over 530 million dollars.

The New York City banks bore the brunt of the pressure, for in addition to a large loss of reserves from Treasury operations, they experienced heavy withdrawals of funds by banks and others, presumably in connection with income tax payments in other parts of the country. As a result, the New York City institutions found it necessary to adjust their reserve positions by borrowing from the Reserve Bank, especially toward the close of the week ended June 22, and by selling sizable amounts of Government securities in the market, some of which were taken up by the Reserve System.

THE SECURITY MARKETS

The current business readjustment has had varying repercussions in the different sections of the security markets during recent months. Declining production, employment, and income, and lower commodity prices have been accompanied by advances in prices of high-grade bonds and by a weakening of low-grade bonds and stocks. Security flotations have continued in very large volume.

The response of the security markets to less active industrial and trade conditions has been in accordance with past experience. Declining prices and employment have made consumers cautious in their spending, and accumulations of savings in savings institutions have been maintained at a high level. At the same time, reduced business working capital requirements have resulted in a substantial decrease in borrowing from the banks, although new corporate security offerings have remained large. The demand for high-grade bonds, both new and outstanding issues, has risen, and bond prices during the first half of this year reached the highest levels since 1947. The advance might well have been more pronounced but for the extensive sales of Government bonds by the Federal Reserve System which helped to meet demands in the market. On the other hand, the prospect of reduced corporate earnings caused stock prices to fall somewhat below the trading range of the past two years for a brief period in June. The reduction in margin requirements from 75 to 50 per cent on March 30 apparently has had little effect upon the course of stock prices, although the volume of credit extended by brokers against security collateral rose 130 million dollars, or about 25 per cent, between the end of March and the end of May.

Other factors also have influenced the security markets. The reduction of member bank reserve requirements and the continuation of the Treasury's policy of refunding maturing bond issues with short-term securities have been stimulants to the high-grade bond market. On the other hand, foreign developments continued to be an obstacle to active investment in risk securities. Probably of more immediate consequence in the market for equities was the relatively large volume of new public utility stocks offered, which may have had a depressing effect on the prices of other shares, particularly the industrial and railroad issues, since many investors are believed to have shifted some of their holdings from such types of securities to the public utility issues.

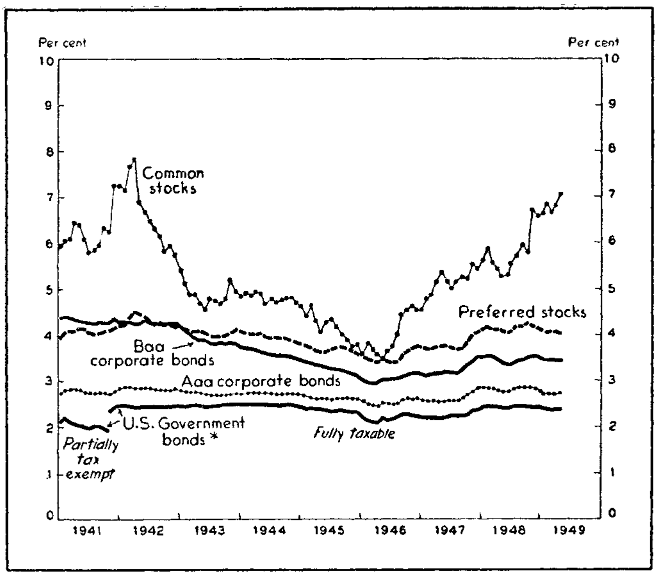
Stock Market

Despite cumulative evidence of a slowing down of the pace of business, stock prices receded only moderately in the first five months of the year. Standard and Poor's weekly price index of 416 stocks declined from a high of 122.1 early in January to 115.9 on May 25, a decrease of 5 per cent. It was not until June that the rate of decline accelerated, and stock prices fell below the range of fluctuation which had persisted since September 1946. On June 15 the index was down to 110.7 compared with the previous postwar low of 112.4 which had been reached in February 1948. Some part of this decline was, however, subsequently recovered. The volume of trading, which had averaged less than 900,000 shares a day in the first five months of the year, rose in June above the million-share level on the days when prices declined most rapidly and amounted to 1,340,000 shares on June 13, simultaneously with a new postwar low for stock quotations. However, trading never reached a volume that would indicate general liquidation by the public.

The decline in stock prices since the beginning of the year has been an extension of the trend during the last six months of 1948. The total decline over this twelve-month period amounted to 19 per cent. During the decline, and particularly beginning in November 1948, the volume of shares which had been sold short and had not yet been covered by purchases (i.e., the short interest) rose by nearly 700,000 shares to about 1,630,000 shares on May 13, the highest short interest since February 1933. A month later, on June 15, the short interest stood at 1,610,000 shares. The decline in prices in the past twelve months has raised the yield on 200 leading common stocks to over 7 per cent. (At that level, based on the current income tax law, the rate of return after taxes is over 4 per cent for married investors in the $25,000 income tax bracket.)

During the past six months, the shares of durable goods manufacturers (notably steels, automobile parts, rail equipments, nonferrous metals, and agricultural machinery) led the decline in prices. Stocks of the more stable industries, such as the public utilities, foods, retail stores, tobaccos, drugs, and the personal and instalment finance companies, tended to resist the decline and even to advance. But during the first half of

Yields on Long-term Bonds and Stocks
(January 1941-May 1949)



* Fifteen years and over.
Source: U. S. Government bonds, Treasury Department; 15 high-grade noncallable preferred stocks, Standard & Poor's Corporation; Aaa corporate bonds, Baa corporate bonds, and 200 common stocks, Moody's Investors Service.

June, even these stocks, with the exception of a few drug and utility issues, fell off in price.

The decline in stock prices to a new postwar low on June 13 reduced the Dow-Jones averages of industrial stock prices to a level 24 per cent below the May 1946 peak of 212.5. However, changes in the Dow-Jones averages (and in other representative stock price indicators) have not fully reflected the extent of the reaction of the market as a whole, and particularly of the lower-priced issues, since the "averages" are usually composed of the better grades of common stocks. A special tabulation of the percentage changes in the prices of *all* shares listed on the New York Stock Exchange between May 29, 1946 (the postwar peak) and June 6, 1949 (the cut-off date of the tabulation which was made by the Research Department of this bank) shows this to be the case. As shown in the accompanying table, most issues, particularly the lower-priced stocks, have declined much more rapidly than the averages. For the Dow-Jones composite average of 65 stocks, the drop was 26 per cent. Stocks in the two lower-priced groups (stocks which on May 29, 1946 sold under \$10 and between \$10 and \$25) declined almost 50 per cent.[1] Those selling between \$25 and \$50 and between \$50 and \$100 declined, on the average, about 40 per cent.[1] About 55 per cent of the 900 issues declined 40 per cent or more, and 40 per cent fell 50 per cent or more. In interpreting these data, however, it should be remembered that low-priced

[1] These figures are unweighted averages of the percentage declines of the prices of several hundred issues

Average Price Decline of All Common Stocks Listed on the New York Stock Exchange, May 29, 1946-June 6, 1949

By price class

Price class*	Number of issues	Percentage decline
Under \$10	29	49.0
\$10—25	201	49.9
\$25—50	365	42.1
\$50—100	251	40.1
\$100 and over	54	23.9
Total	900	—

By rate of decline

Percentage decline	Number of issues	Per cent of total
Under 40	402	45
40—50	137	15
50 and over	361	40
Total	900	100

* Based on prices as of May 29, 1946.
Source: Compiled by the Federal Reserve Bank of New York from stock quotations published in the *New York Times*.

shares rose more rapidly in the period prior to the spring of 1946, and that they ordinarily tend to experience wider price swings than the higher-priced stocks.

Bond Market

Reflecting reduced business demands for funds and a well sustained supply of funds available for investment, prices of Treasury bonds and of high and medium-grade corporate bonds rose moderately (yields declined) early in the year and remained firm during the subsequent months; prices rose further late in June. For most bond issues the rise in prices started shortly after the national elections in November, which resulted in an abrupt change of expectations with respect to future fiscal and monetary policies and a tendency of investors to change their plans accordingly.

However, the major factor in the rise of bond prices was commercial bank demand for intermediate and long-term Treasury bonds. The slackened pace of business transactions, resulting in substantial repayments of business borrowings from the banks and also in Federal Reserve action further to increase the availability of bank credit through a reduction in member bank legal reserve requirements and other measures, brought the banks into the bond market to bolster their earnings. Bank purchases of eligible Treasury issues have made funds available for reinvestment in other Treasury bonds as well as in corporate and municipal bonds, thus tending to increase the demand for all types of long-term bonds.

Part of the decline in business loans may be attributed to sales of new corporate securities in the capital market for the purpose of repaying bank loans. Sales of such issues, therefore, have tended indirectly to stimulate purchases of Government bonds by the banks, and thus to maintain a firm bond market in which corporations could continue to sell long-term securities for further refundings of their indebtedness to the banks.

Most of the decline in bond yields occurred between November 1948 and February 1949, and the decrease was small until the closing days of June. From the peak early in November to mid-June, the return on long-term Government bonds fell by 3 per cent (from an average of 2.45 to 2.37 per cent), as compared with a 6 per cent decline for the two highest grades of corporate bonds and lesser declines for the third and fourth grades. The fourth-grade bonds failed to show the weakness usually associated with such issues during past periods of decline in business activity and stock prices, but lower-grade bond prices fell and their yields rose in keeping with the decrease in stock prices. The decline in high-grade municipal bond yields was somewhat more pronounced (8 per cent in this period), but was also much more irregular, reflecting from time to time the pressure of the large volume of new municipal security offerings on prices of outstanding issues. Toward the close of June, Treasury and corporate bond prices had recovered to levels prevailing in early November 1947.

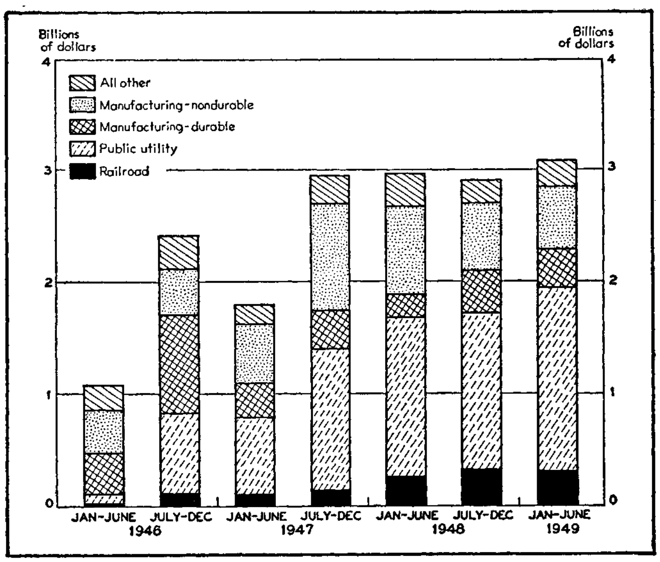
The real strength in the bond market was evidenced most clearly in the decline in yields offered on new corporate issues, which receded more rapidly than did the yields on seasoned bonds. Thus, the premium rate (over the yield on outstanding bonds) that issuers paid on new offerings to assure favorable investor reception narrowed perceptibly during the first half of 1949. In the fourth quarter of 1948, the yields on new corporate bonds had averaged 9 per cent above those on outstanding issues, as measured by Moody's average yields on new and outstanding bonds. This differential fell to 5 per cent in the first quarter of 1949, to 3 per cent in April, and to 2 per cent in May. Strength in the new issue market came principally as a result of the insurance companies' buying of publicly offered issues as they worked off their commitments to purchase securities directly from issuers.

New Issues

The volume of new corporate security issues held up surprisingly well during the first half of 1949 in view of the declining volume of production and trade. The volume of refunding securities remained small, but flotations for new capital amounted to an estimated 3.2 billion dollars, rising to a new all-time record, slightly above the level for the first half of 1948 and about a fourth above the total for the second half of that year. Principally responsible for this large volume was the need to finance heavy corporate capital expenditures during the first half of 1949. Moreover, a considerable amount of the proceeds of new issues was used (partly or entirely) to repay bank loans. In most cases these issues replaced bank loans which had originally been incurred for the purpose of financing capital disbursements pending the sale of new security issues, and thus may be classified as new money issues. However, some of the proceeds of security issues used for the repayment of bank loans apparently represented the conversion of borrowings of working capital into more permanent form. This development points up a desire of business concerns to reduce their current liabilities during uncertain times. In the case of a few of the finance companies which had expanded their bank borrowings heavily to finance purchases of instalment and other consumer paper, sales of new securities were for the purpose of bringing the companies' short-term borrowing into better alignment with their long-term debt and net worth.

The capital market absorbed fairly smoothly most of the corporate offerings, particularly in the second quarter of this year. In that quarter, as already noted, the demand for publicly offered bond issues strengthened as life insurance companies actively entered the market for such securities. Prices of new bond issues were bid up and dealer inventories were virtually cleared of the few issues that had tended to be "sticky" earlier in the year, when the life insurance companies had been busy meeting their commitments to purchase securities privately. On the surface it may appear rather surprising that the insurance companies should have participated more actively in the public issues market this year, since the total volume of new corporate issues has remained practically unchanged from the first half-year's volume in 1948 and since the life insurance companies' additions to their mortgage holdings have been considerably greater during the past six months than in the same months of 1948. The answer apparently lies in the

Corporate Security Flotations for New Capital by Industries
(Semiannual totals, 1946 - first half of 1949)



Source: *Commercial and Financial Chronicle* data classified by industries by the Board of Governors of the Federal Reserve System. May and June 1949 estimated by the Federal Reserve Bank of New York.

changes that took place in the types of issues floated and in the channels through which they were offered. During the first six months of this year, total "private placements" amounted to about 920 million dollars or 29 per cent of all corporate offerings, whereas in the same months of 1948, privately placed issues amounted to 1.3 billion dollars or about two fifths of all corporate offerings. About two thirds of the total flotations during the first half of 1949 came in the second quarter, and most of the second quarter's issues were public utility securities offered at competitive bidding to investment bankers or directly to stockholders, and so were predominantly public issues. Thus, in the second quarter, the volume of privately placed securities fell to 25 per cent of the total offerings, from 40 per cent in the first quarter.

In the first half of 1949, public utility corporations, particularly electric and gas utilities, floated 1.7 billion dollars of securities for new capital, and their offerings accounted for about 53 per cent of total new flotations, as against 47 per cent in the corresponding period of 1948. The increase in the proportion (and amount) of such issues reflected the large capital expansion program of the utilities industry. Flotations of new railroad securities, mostly equipment trust issues, amounted during the past six months to about 325 million dollars, about 65 million more than in the corresponding period of last year. New security offerings in the industrial group showed a small decrease.

Financing through stock issues during the first half of 1949 amounted to about 555 million dollars or 17 per cent of total corporate financing. New equity security offerings in this period were 10 per cent below the total for the corresponding half of last year but about 75 per cent larger than the flotations of the second six months of 1948. An increasing proportion took the form of common stocks. The bulk of the stock flotations were for new capital purposes. While most of the large volume of new utility issues took the form of bonds, public utility corporations (again principally the electric and gas companies) were able to float a comparatively substantial volume of common and preferred stocks in the first half of the year, although slightly higher yields had to be offered to investors to assure their sale. The recent reduction of margin requirements to 25 per cent on new security issues offered to stockholders has tended to facilitate the sale of these and other stock issues. Nevertheless, the market became increasingly unfavorable to new stock issues, and in the latter half of June one or two issues were withdrawn pending an improvement in market conditions. Public utility shares (both new capital and refunding) totaled about 330 million dollars in the six months ended June 30, 1949, or 59 per cent of all new corporate stock issues, as compared with 221 million in the corresponding period of 1948. Stock offerings of other classes of corporations fell sharply.

The comparatively favorable reception of new gas and electric utility stocks reflects the improving earnings position of the industry in recent months resulting from a combination of two factors. The first has been the decline in prices of the materials and supplies purchased by the utilities, whose selling prices are, of course, relatively stable. The second has been the decreased operating costs that have been achieved through the installation of new equipment, not only because of the greater efficiency of this new capacity but also because the new facilities have enabled the utilities to retire high-cost, obsolete equipment.

States and municipalities have continued to float new securities in large volume. In the first six months of this year, approximately 1.4 billion dollars of new "municipal" issues were offered in the capital market, an amount only about 200 million less than in the corresponding period of 1948, when a number of large veterans' bonus issues were floated. From time to time, the market gave evidence of difficulty in absorbing this large volume of securities at the yields offered, particularly in May, when the volume of unsold securities on dealers' "shelves" reached a record high of close to 180 million dollars. Fairly sharp price declines were necessary to move these issues, and toward the middle of June dealer inventories had been reduced to 136 million dollars. This reduction in the supply of securities overhanging the market was considerably aided on May 25 by the withdrawal, prior to offering, of an issue of 54 million dollars by the Port of New York Authority, and by the completion in the early part of June of the distribution of some relatively large new issues at attractive yields. Municipal bond men expect to offer more new issues in the second half of this year than in the first, and new financing is climbing steadily. New issues in May were the highest on record for that month. For June they were also the highest on record, except for June 1948. And voters throughout the country are approving issuance of increasing amounts of bonds. The monthly total of such approvals, after reaching 62 million dollars in May, will show a substantial jump for June, when North Carolina voters alone approved 200 million dollars of rural road bonds and a 25 million dollar school bond issue. If Congress passes the long-range low-cost housing and slum clearance bill this year, the market will eventually be called upon to absorb a further large volume of new municipal obligations; however, offerings of bonds to finance this program are not expected in large volume for a year or two.

BANKING DEVELOPMENTS IN THE SECOND DISTRICT

In the three months' period ended May 31, 1949, representatives of the Federal Reserve Bank of New York called on banks in fifty-five counties in the Second Federal Reserve District. They talked to hundreds of bankers in the various parts of the District outside New York City and Buffalo. The following is a summary of their impressions of current trends in business conditions and bank policies, gathered in the course of these visits.

General business conditions in this area have taken an unfavorable turn in this period which has been reflected in reduced industrial activity and employment. Many industrial communities have been adversely affected by layoffs or by a reduction of working hours. Retail sales volume has been affected to some extent by diminished incomes, and resistance to high prices has been common.

The decline in business activity, however, has been far from uniform, varying with the degree of diversification and the type of industry in the individual areas. In some of the larger communities, retail trade was reported to be 5 to 15 per cent below 1948 levels, and in many other places it was characterized as "spotty". Some comment was heard with respect to slower collections of retail accounts. A few instances of high inventories were cited and it was assumed that liquidation of such inventories would involve some losses. Generally speaking, however, the inventory position at the retail and wholesale level appears to be under control.

In the agricultural areas, conditions vary but, on the whole, are still fairly stable. Lower feed costs and higher spring yields are said to have largely offset the drop in the price of milk.

In the residential real estate field, there are further signs of softening of activity and values. There has been little evidence of the usual sharp seasonal upturn in building. Most builders are working on a limited number of units and on a hand-to-mouth basis, but some fairly substantial apartment house and garden-type multiple dwelling projects are in progress in New York City and in the suburban areas. Houses priced for sale at more than $10,000 are moving very slowly, and in several localities it is reported that homes in the $20,000-$40,000 class, built last fall, still remain unsold despite fairly substantial reductions in the asking price in some cases. Mortgage delinquencies have increased somewhat, although not alarmingly, and collection requires more effort, particularly in those areas where a considerable amount of industrial unemployment has developed.

In the agricultural areas, as a result of seasonal borrowings, most banks have shown an upswing in their loan totals in recent months. Generally speaking, however, the seasonal increase has been in somewhat smaller amounts than last year. Loans to farmers have been largely for the purchase of seed, farm equipment, and other production needs. Among the dairy farmers who predominate in much of the Second District the demand for credit this spring has varied widely between localities and among banks. In some localities the dairy farmers are still actively purchasing farm equipment, much of it readily available for the first time in many years. There has been also some borrowing of a fairly steady nature for the replacement of dairy herds, but some of the banks have been cautious about lending to their customers for the purchase of cows at high prices in the face of falling milk prices. In the potato farming areas, the acreage restriction features of the price support program have acted to reduce somewhat the credit needs of the farmers. On the other hand, there are indications that farmers who have not borrowed in recent years are now seeking loans. Generally speaking, most banks in the agricultural areas seem disposed to continue to take care of the legitimate credit needs of their customers.

In the resort areas also, loans have shown a seasonal increase but have not reached their usual levels as bankers have followed more cautious lending policies. Elsewhere in the District outside New York City the trend is mixed and recent changes in the loan totals of many of the banks have been relatively small in amount. Such increases as have been reported were usually concentrated in the mortgage account or in personal and consumer credit loans, although banks generally did not liberalize their terms to the extent permitted by the April modification of Regulation W, except with respect to new automobiles.

Banks generally continue to be cautious in their mortgage lending policies; they are endeavoring to maintain rather than to expand their mortgage accounts. Some have discontinued making mortgage loans, either because they are at or close to their legal limit or because of a tightened real estate appraisal policy. Savings banks are still looking for good mortgages, however, and FHA insured loans still command a premium. Construction money is apparently still available in amounts sufficient to take care of the reduced building activity although, here again, lending policies appear to be more selective.

Only a few banks report an increase in commercial loans. Declines in business loans have been heavily concentrated in New York City banks and are attributed primarily to inventory adjustments and to a reported reluctance on the part of many businesses to make new commitments for expansion at this time. Inventory adjustments are continuing, but are not assuming major proportions. Reports of difficulty with loan collections are becoming more common and there are indications that the amount of past-due paper is increasing. Bankers and businessmen seem to be pursuing a policy of watchful waiting in the belief that there will be a pick-up when prices become stabilized.

Investment portfolios in most banks have shown relatively little change in recent months. In the nonagricultural areas, funds freed by the recent reduction in reserve requirements have found their way into Government bond portfolios. In the agricultural and resort areas, lower reserve requirements have enabled banks to reduce their normal seasonal borrowings, or to reduce the amount of short-term Government securities which they normally sell or redeem at maturity to be able to take care of seasonal needs of their customers.

The trend of deposits in recent months appears to follow no uniform pattern. Banks located in the agricultural and resort areas report the usual seasonal decline in demand as well as time deposits. This downward movement in some of the banks is said to have started earlier and to have been more rapid than usual. In other areas visited, particularly where local industry has not experienced any material recession, demand deposits continue to rise. Time deposit totals in most banks are holding about even or showing small gains. Deposits in the savings banks that pay 2 per cent interest have risen more steadily than have time deposits in other banks, but there has been little evidence of any substantial transfer of savings deposits from commercial banks paying lower rates to savings banks. Among the savings banks the shift to the 2 per cent rate continues. The commercial banks, however, with but one or two exceptions, show little inclination to change the rates which they are paying currently.

The average banker in this District looks for a continuance of the current decline in business activity and a further shrinkage in loan volume. He continues to be apprehensive of declining deposits and continued high costs. He feels, however, that the current recession will not broaden and deepen into a severe business contraction. He believes that this is a good time to be just a little more cautious in his investment and lending policies. Nevertheless, while not aggressively soliciting new loan business, he is taking care of the reasonable requirements of his customers and is not averse to taking on some good new loan business.

DEPARTMENT STORE TRADE

Sales in Second District department stores during June continued substantially below last year's figures. According to preliminary information, dollar volume was off about 8 to 10 per cent, compared with an average decline of 6 per cent for the preceding 5 months. However, this year-to-year comparison is affected by the fact that trade in June of last year was exceptionally good, having been maintained at the record level reached in May 1948. On a seasonally adjusted basis, this June's sales were probably only slightly less than in May, if at all.

Business in the Albany-Schenectady, Buffalo, and Westchester areas ran contrary to the over-all District trend in the first 5 months of this year (see table, page 82). In April (latest month available), manufacturing payrolls in the Albany-Schenectady area were less than 1 per cent and in Buffalo no more than 3 per cent below those of April 1948, in contrast to an 8 per cent drop for New York State as a whole.

Gross Transactions and Net Dollar Sales, New York City Department and Apparel Stores, January-May 1949
(Percentage change from preceding year)

Month	Department stores		Apparel stores	
	Transactions	Sales	Transactions	Sales
January	−6.2	− 5.6	− 5.4	− 3.6
February	−4.6	− 7.1	− 6.9	−12.0
March	−6.9	−10.3	−12.0	−14.2
April	+2.1	− 3.0	+12.4	+ 6.7
May	−4.4	−10.0	+ 0.8	− 9.1
Five-month total	−4.0	− 7.3	− 2.1	− 6.4

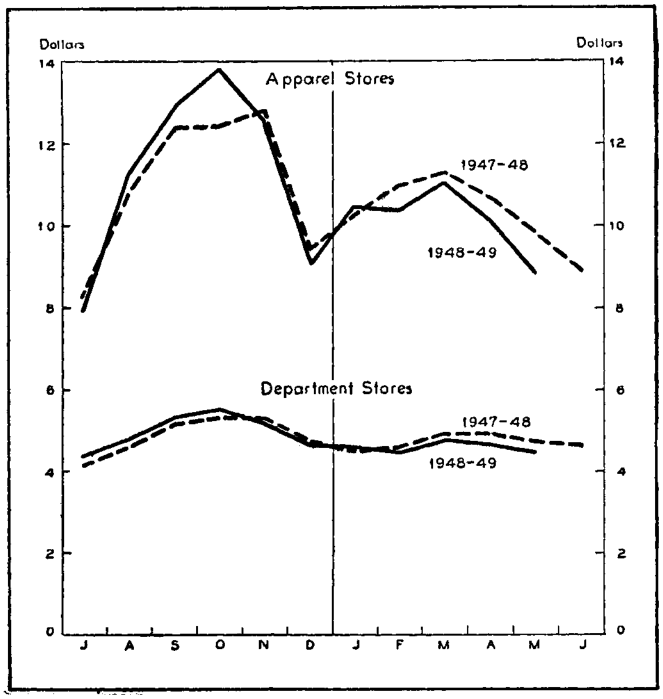
Department store stocks in this District, as valued at current retail prices and adjusted for the usual seasonal changes, declined during May from 230 per cent of the 1935-39 average to 224 per cent. In the 12 months ended May 31, 1949, the decline in the value of stocks aggregated 8 per cent. In no major locality were stocks on May 31 of this year greater than one year previous.

Despite the gradual liquidation of stocks, the value of new orders placed during May by a group of the larger stores was practically one-fourth less than in the preceding May, and, for the first time in 1949, less than in the corresponding month of 1947 as well. On May 31 of this year, the reporting group of stores were carrying a dollar volume of outstanding orders fully 40 per cent less than one year before. The dollar amount of incoming merchandise during the month of May was about 20 per cent less than in 1948, and also less than for the same month of 1947.

There are some indications that the decline in the physical volume of sales has been smaller than the loss in dollar volume. During the first five months of 1949, the dollar volume of sales in a group of the large New York City department stores declined 7 per cent from the level of the corresponding period a year ago, but the number of transactions, measured by the number of separate sales checks written, declined 4 per cent only. The amount of the average sales check was 3 per cent below last year's average amount. Similarly, dollar sales in a group of the large New York City apparel stores declined 6 per cent while the number of transactions declined 2 per cent only; the drop in the average sales check for this group of stores was 4 per cent. Up to the fall of 1948, the amount of the average transaction had been larger than a year earlier in the case of both department and apparel stores. The subsequent drop from year-ago levels seems to have been gaining momentum in both cases.

To a certain extent, the decline in the average sales check represents factors other than price cuts. Thus, a certain amount of "trading down" may have taken place. Also, with incomes and prices declining, consumers are likely to limit their purchases, and consequently the number of multiple-item checks may have been smaller than a year ago. In any case, the decline in the amount of the average transaction has been

Estimated Value of Average Sales Check of New York City Department and Apparel Stores*
(July 1947-May 1949)



* Computed by dividing net dollar sales by gross number of transactions. Because transactions are reported gross whereas sales are reported net after deductions for returned merchandise, etc., the chart understates somewhat the net value per sale.

larger than the estimated drop in prices applicable to the two types of stores.

The chart clearly shows the greater magnitude of the average sale in apparel stores. Although one might expect that department stores, because of sales of "big ticket" housefurnishings and appliances, would show a larger average sale, the very large number of low-priced items in certain departments has a more than offsetting influence. In neither type of store was there a clear-cut relation between the individual store's total sales and the average size of its transactions.

The much greater seasonal variation in the average size of apparel store sales shown on the chart reflects a more pronounced emphasis on style merchandise in these specialty stores. Women tend to concentrate their purchases of the more expensive garments and accessories in the periods following the new showings which take place at the beginning of the spring and fall apparel seasons. In department stores, offsetting sales patterns for other types of goods produce a more even seasonal pattern.

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

Item	1948	1949		
	May	March	April	May
Sales (average daily), unadjusted	252	209	237	230
Sales (average daily), seasonally adjusted	262	220	242	239
Stocks, unadjusted	248r	238	237	227
Stocks, seasonally adjusted	244r	232	230	224

r Revised.

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

Locality	Net sales		Stocks on hand May 31, 1949
	May 1949	Jan. through May 1949	
Department stores, Second District	−9	−6	−8
New York City	−10	−7	−9
Northern New Jersey	−10	−6	−6
Newark	−12	−7	−8
Westchester County	+3	+8	−2
Fairfield County	−14	−7	−3
Bridgeport	−16	−9	−4
Lower Hudson River Valley	−7	−6	−6
Poughkeepsie	−7	−2	−7
Upper Hudson River Valley	−4	+1	−13
Albany	−5	+3	−17
Schenectady	−4	+1	−7
Central New York State	−5	−6	−6
Mohawk River Valley	−11	−7	−8
Utica	−9	−4	−6
Syracuse	−3	−6	−4
Northern New York State	−2	−8	−15
Southern New York State	−9	−7	−10
Binghamton	−12	−7	−10
Elmira	−7	−8	−12
Western New York State	−4	−2	−5
Buffalo	−1	+1	−6
Niagara Falls	+6	−1	−7
Rochester	−7	−5	−3
Apparel stores (chiefly New York City)	−9	−6	−16

Indexes of Business

Index	1948	1949		
	May	March	April	May
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	192	184	179	174p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	247	256	256	253p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	210	163	181p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	330r	330r	333	332p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	156	151	148	144p
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	123	118p	113p	110p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	347	350	337p	
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	277	279p	258p	251p
Personal income*, 1935-39 = 100 (*Department of Commerce*)	305r	313	312p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	187	197	197p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	171	170	170	169
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	105	95	103	107
Outside New York City	90	88	88	89

* 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.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, June 28, 1949)

Production at factories and mines declined further in May and June. Construction activity increased somewhat and employment in most other lines was maintained. Prices of industrial commodities continued downward and prices of farm products and foods declined in June following some advance in May. Department store sales were maintained at relatively high levels.

Industrial Production

The Board's seasonally adjusted index of industrial production declined 5 points in May to 174 per cent of the 1935-39 average and, according to present indications, may show a similar decrease in June. The May decline reflected mainly a further substantial reduction in activity in industries manufacturing durable goods. Output of nondurable goods and of minerals, which earlier had declined more than output of durable goods, showed only slight decreases in May.

Activity in the iron and steel, machinery, and nonferrous metals industries showed marked declines in May, reflecting a reduced volume of orders. Steel production averaged 93 per cent of capacity and since then has declined further to a scheduled rate of 84 per cent of capacity during the week beginning June 20, as compared with the peak of 103 in March. Machinery production has declined about one fifth since the end of last year. Output of passenger cars was temporarily curtailed in May as a result of a major work stoppage, but by mid-June increased to new record postwar rates. Activity in most other industries manufacturing durable goods declined slightly in May.

Activity in the cotton and rayon industries decreased further. Output of wool textiles, however, increased from the exceptionally low April rate, which was about 40 per cent below peak postwar levels. Cotton consumption in May was at the lowest rate since 1939. Petroleum refining activity showed a slight gain in May, and newsprint consumption rose further to a new record rate. Activity in most other nondurable goods industries showed little change.

Minerals output was slightly smaller in May. Activity at nonferrous metal mines was substantially curtailed and iron ore output, after allowance for seasonal changes, was slightly below the exceptionally high April level. Crude petroleum production showed little change. Coal output increased somewhat in May, but has been curtailed sharply in June.

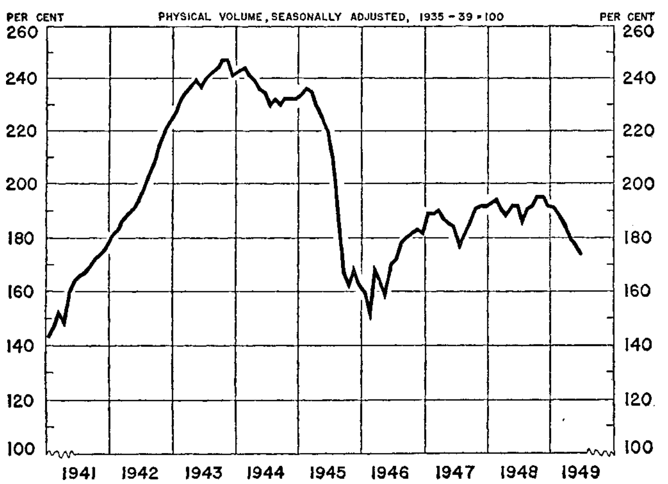
Construction

Value of construction contracts awarded, according to the F. W. Dodge Corporation, rose slightly in May reflecting further increases in awards for public construction. Private awards were slightly smaller than in April and continued considerably below a year ago. The number of new housing units started increased further in May and was close to the peak level of 100,000 units a year ago, according to estimates of the Department of Labor.

Distribution

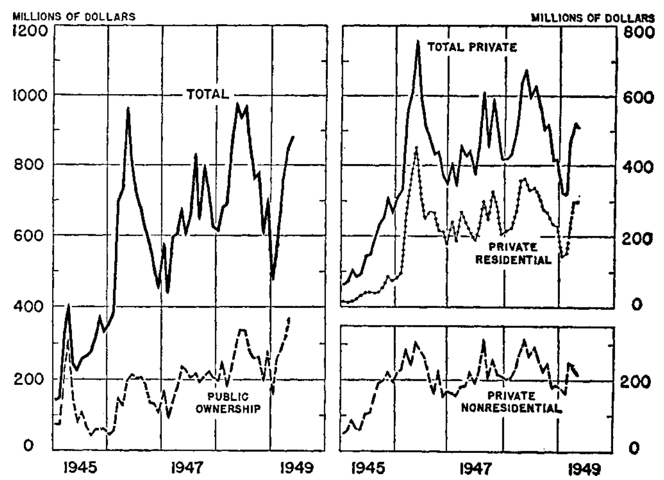
Value of department store sales in May showed little change from April, after allowance is made for the usual seasonal fluctuation. Sales in the first half of June were 7 per cent

INDUSTRIAL PRODUCTION



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

CONSTRUCTION CONTRACTS AWARDED



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

below the high level of the corresponding period in 1948, reflecting in part lower retail prices for apparel and housefurnishings.

Shipments of railroad freight declined in May and early June, reflecting mainly a marked reduction in loadings of miscellaneous products. Total carloadings, after allowance for seasonal changes, have declined about 12 per cent since last autumn.

Commodity Prices

The general level of wholesale commodity prices declined 2 per cent from the middle of May to the third week of June. Meat and livestock prices showed small net change, as decreases in mid-June followed advances in the latter part of May. Cash wheat prices declined about 10 per cent as marketings of another large crop commenced. Prices of industrial commodities, especially textiles, paper, metals, and building materials, continued downward from May to June.

In May retail prices of most groups of consumers' goods were somewhat lower than in April. The B.L.S. index for all items, including rents and other services, was 169.2 as compared with 169.7 in April and the recent low point of 169.0 in February.

Bank Credit

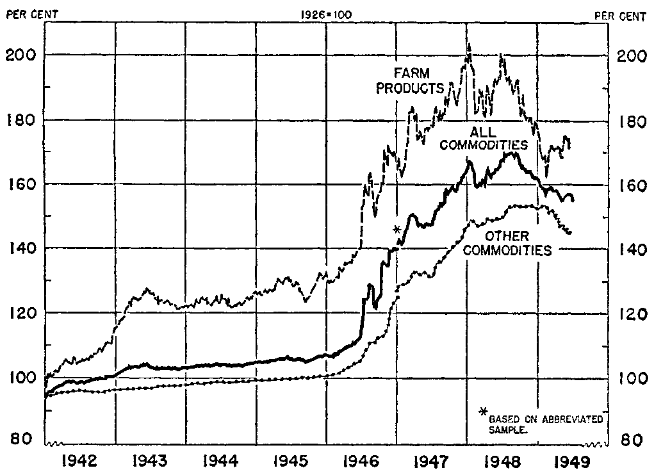
Business loans at banks in leading cities declined substantially during May and by somewhat smaller amounts during the first half of June. Real estate and consumer loans increased slightly. Banks purchased about 2 billion dollars of Government securities of both long and short maturities, in part out of reserve funds released by the reduction in reserve requirements effective in early May.

Treasury expenditures were considerably greater than receipts in the first half of June, and Treasury deposits at the Reserve Banks declined substantially. This supplied banks with reserve funds and banks bought Government securities from the Federal Reserve System and increased their excess reserve balances. Subsequently banks lost reserve funds as Treasury balances at the Reserve Banks were built up by quarterly income tax payments. Reserve System holdings of Government bonds declined further during June.

Security Markets

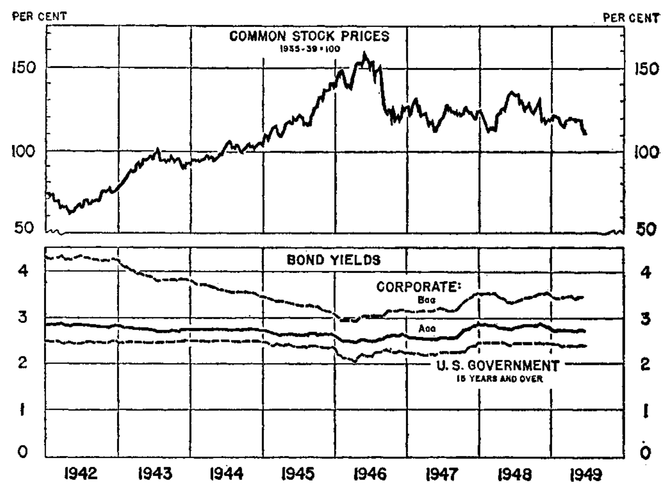
Common stock prices decreased about 9 per cent, with a moderate volume of trading, in the four weeks ended June 13 and recovered part of the decline in the following 10 days. Prices of high-grade corporate bonds changed little.

WHOLESALE COMMODITY PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended June 14.

SECURITY MARKETS



Common stock prices, Standard & Poor's Corporation; corporate bond yields, Moody's Investors Service; U. S. Government bond yields, U. S. Treasury Department. Weekly figures; latest shown are for week ended June 18.