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MONEY MARKET IN AUGUST

The dominant factors in the money market during the past month were the lowering of legal reserve requirements of member banks and the Government security operations of these banks in connection with the investment of the funds so released. The reduction in requirements, announced on August 5 by the Board of Governors of the Federal Reserve System, and made partially retroactive to August 1 for the country banks, amounted to 2 per cent on net demand and 1 per cent on time deposits for all classes of banks. The decreases were effected in instalments, between August 1 and September 1, as indicated in the text of the Board's statement reproduced on page 99 of this *Review*.

The reduction of reserve requirements was a further step in the System's policy of assuring a readily available supply of funds in the market, at low rates, to meet the needs of business and agriculture. It was the third reduction since the end of April 1949 and, by freeing 1.6 billion dollars of reserves during August (1.8 billion through September 1), it brought substantial ease, in the aggregate, to member bank reserve positions. In the New York money market, however, the purchases of Government securities, mainly new Treasury bills and certificates of indebtedness which the banks and Government security dealers made in anticipation of the receipt of funds from banks in other parts of the country, as the successive reductions in requirements became effective, brought about relatively tight conditions from time to time, and yields on short-term securities tended to rise gradually during August, instead of declining further. The rate on immediately available Federal funds fluctuated sharply between a nominal figure and 1-7/16 per cent, just short of the Federal Reserve Banks' discount rate.

The larger city banks outside New York appeared to be principal beneficiaries of the Board's action, even though there was a proportionately greater release of reserves at banks outside the reserve and central reserve cities. Not only were their requirements lowered, but as correspondents of country banks they received as deposits a substantial portion of the country banks' funds which had been freed by the lowering of the latter's reserve percentages. They were therefore able to buy substantial amounts of Treasury securities, to reduce their indebtedness to the Reserve Banks, and even to lend reserves (Federal

funds) from time to time to the New York City banks. The latter, despite the periods of alternate ease and strain on their reserve positions, also increased their Government security holdings considerably, on balance. However, the New York City banks found it necessary intermittently to borrow substantial sums from the Reserve Bank and from out-of-town commercial banks in order to retain their securities.

In the aggregate, therefore, the decline in required reserves enabled the banks to retire substantial amounts of Federal Reserve credit and to increase their holdings of liquid earning assets during August, chiefly by purchasing Government securities indirectly from the Reserve System. Net purchases of Government issues by the larger banks, as indicated by the weekly reporting member bank condition statements, exceeded the decrease in the System's holdings. A large part of the banks' demand for Treasury obligations was supplied by the market, chiefly in the form of sales of short-term securities by nonbank investors who switched into Savings notes, and by the Treasury, which increased the amount of its bill issues outstanding by 600 million dollars during the month.

GOVERNMENT SECURITY MARKET

The August 5 announcement by the Board of Governors provided a strong, though temporary, stimulus to the slow, gradual advance in intermediate and long-term Treasury bond prices which had occurred in the early days of the month. Although short-lived, the rise in prices by August 11 carried the longest-term eligible bonds nearly $\frac{3}{4}$ of a point above the August 1 quotations, with ineligible bonds making somewhat smaller gains. The volume of trading was very light,

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however, and the price changes did not reflect a firm demand for bonds. Prices consequently drifted lower until August 22 when the Treasury made known its intentions with respect to refunding the September 15 and December 15 maturities of its bond issues. The Treasury announced that it would refund the 1.3 billion dollars of September 15 bonds with a one-year, $1\frac{1}{8}$ per cent certificate ($\frac{1}{8}$ per cent below the coupon on the certificate last offered), but that it would offer a note in connection with the refunding of the 4.4 billion dollars of 2, $2\frac{1}{2}$, and $3\frac{1}{8}$ per cent bonds called for redemption on December 15, 1949. The Treasury also announced that 6.5 billion dollars of certificates of indebtedness maturing October 1 would be refunded with another certificate but did not specify the rate. The subsequent rise in intermediate and long-term bond prices was small, and the new financing announcement mainly tended to stabilize the Government bond market.

The Treasury's refinancing plans had greater significance for the market for shortest-term bonds. Bank demand for those issues increased noticeably after the Board's action lowering reserve requirements was announced, on the expectation that a security maturing in more than one year would be offered in the refunding of at least the December maturities of bonds—an expectation borne out by events.

Demand for Treasury bills and certificates was also stimulated by the month's developments in the field of credit and debt management policies, while the market supply of such issues was increased by the Treasury's action in raising the face amount of the weekly new bill issues by 100 or 200 million dollars (600 million dollars for the month as a whole) and by reductions in Reserve Bank holdings. The principal demand was for certificates of indebtedness of the longer maturities which would retain their current yields the longest. Government security dealers, as well as the banks, subscribed heavily for new Treasury bill issues, but found it difficult to sell them to ultimate investors. As a result, the average interest rate on successive new issues of bills rose gradually during the month.

MEMBER BANK RESERVE POSITIONS

Although the lowering of reserve requirements had the effect of substantially easing the reserve positions of the member banks in the aggregate, the impact of the decrease on banks in different parts of the country was uneven, reflecting chiefly differences in commercial bank policy with respect to the use of the funds so released. The larger city banks outside New York apparently benefited most from the reduction, since they gained free reserves not only through the decrease in their own requirements but also through transfers from the country banks. The latter deposited part of their "freed" funds with their correspondent banks outside New York City, and left most of the remaining funds, including funds gained through other transactions, in their accounts with the Federal Reserve Banks. Balances of out-of-town banks deposited with New York City banks showed only a small increase. Thus, in the three weeks ended August 17, the weekly reporting member

banks in 93 cities outside New York showed an increase of 367 million dollars in net deposits due to other banks, while the excess reserves of all country member banks rose substantially in the same period.

The larger out-of-town banks were consequently able to acquire large amounts of Government securities (principally short-term). In the three weeks ended August 17 Government security portfolios of the weekly reporting member banks outside New York City increased 888 million dollars, of which Treasury bills and certificates amounted to 715 million dollars. They also substantially reduced their borrowings from the Federal Reserve and other banks, and even made considerable amounts of Federal funds available to the New York City banks from time to time.

The New York City banks also benefited from the decline in legal reserve requirements. The easing of their reserve positions, however, was obscured by the development of temporary periods of money stringency which resulted chiefly from overinvestment in certificates and new Treasury bill issues in anticipation of inflows of funds from banks in other parts of the country, and from heavy temporary borrowings from the New York banks by dealers to cover payments by the latter for Treasury bills allotted to them. Thus, the rate for immediately available Federal funds fluctuated widely—from $\frac{1}{8}$ to $1\frac{7}{16}$ per cent—usually rising on days when new Treasury bill issues had to be paid for, but declining subsequently when anticipated inflows of funds materialized.

The initial effect of the Board's announcement was to ease the tightness in the New York money market prevailing in the early days of the month, and in the week ended August 10, the City banks were able to retire a large amount of Federal Reserve credit. However, the New York banks and particularly the Government security dealers subscribed heavily for the new Treasury bill issues of August 11, 18, and 25. Their allotments were substantially in excess of their holdings of the maturing issues, and large amounts of maturing bills held by the Federal Reserve Banks were redeemed for cash, despite the fact that the Treasury increased the face amount of each of the new issues by 100 or 200 million dollars. Payments for the new bills (and loans to dealers to carry such bills) involved the City banks in substantial temporary losses of reserve funds, since the expected inflows of funds from other parts of the country did not coincide, in time or amount, with the payments for bills bought on original subscription.

Thus, the New York City banks incurred a deficit in their reserves on the first days of each of the three weeks ended August 31, and during the remainder of each week they eliminated the deficit by building up excess reserves, largely with funds received from other parts of the country. They also supplemented these funds from time to time with reserves obtained through the sale of Government securities in the open market, some of which were absorbed by the Federal Reserve System, and through temporary borrowing from the Reserve Bank and out-of-town commercial banks.

Despite the temporary stringencies evident in the New York money market, the New York City banks were able, on balance, to expand their Government security holdings, since their gains through the inflow of funds from other parts of the country, the reduction in their own legal reserve ratios, and other factors, were larger than the losses from heavy subscriptions to new Treasury bills and other transactions. Thus, the Government security portfolio of the New York City weekly reporting member banks rose 333 million dollars in the four weeks ended August 24.

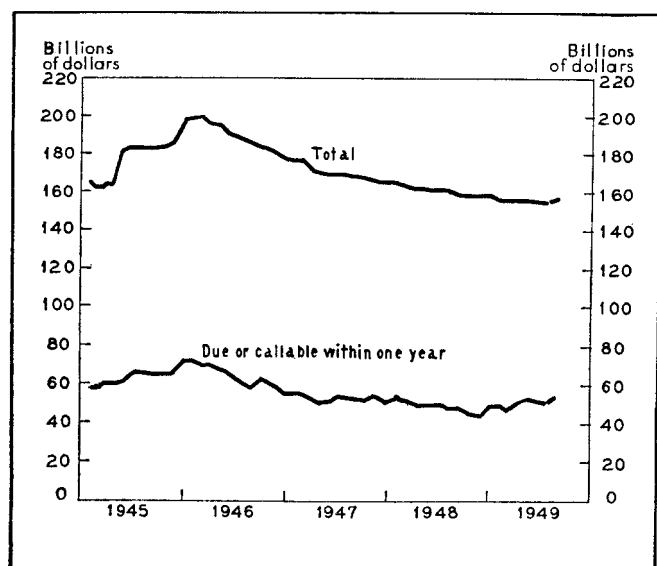
TREASURY FINANCING

Declining revenues and the maintenance of disbursements at a high or slowly increasing level have caused sizable Treasury deficits in recent months. Although expanded sales of Savings notes and smaller net sales of Savings bonds have provided substantial amounts of funds, the excess of expenditures has been or promises to be too large to be financed solely through nonmarketable issues. By the end of July, the Treasury's general fund balance had fallen to 3.3 billion dollars (from 5.1 billion a year previous). In the past month the Treasury resumed new financing in the open market for the first time since the Victory Loan drive toward the close of 1945, raising 600 million dollars through increasing the weekly offerings of new bill issues.

The resumption of new open market financing this past month also marks the first increase in the Treasury's marketable debt since early 1946. As illustrated in the accompanying chart, up to last month the Treasury had been able to make steady reductions in its marketable debt since early 1946—first, during 1946, through retirement of securities out of the surplus proceeds of the Victory Loan drive, and since then out of surplus revenues and net sales of nonmarketable securities.

Total marketable debt was reduced from a peak of almost 200 billion dollars at the end of February 1946 to a low point of 155 billion at the end of July 1949. The reduction in the

Marketable Debt of the U. S. Treasury



Source: 1945-July 1949, U. S. Treasury; August 1949 estimated by the Federal Reserve Bank of New York.

Treasury's floating debt (marketable issues due or callable within one year) was, however, smaller than the net retirement of the total marketable debt, since the Treasury followed the practice of refunding most maturing or called bond issues with certificates of indebtedness maturing in one year. Thus, the floating debt declined 18 billion dollars between February 1946 and July 1949, while the total marketable debt was reduced by 45 billion.

The resumption of open market financing through bill issues in August brought an increase in the Treasury's short-term indebtedness. If it were coupled with a continuation of the policy of refunding bonds with certificates of indebtedness, this new financing through bills would result in a very rapid expansion of the floating debt and increasing congestion of maturities during the next three years. The Treasury's decision, announced four months in advance, to offer a note (which will have a maturity of more than one year) in connection with the refunding of the 4.4 billion dollars of bonds called for redemption December 15, 1949 constitutes a departure from previous policy. It is a step in the direction of a better scheduling of maturities, keeping the floating debt within readily manageable proportions, facilitating the task of refunding weekly and quarterly maturities of bills and certificates, and adding to the stability of the market.

REDUCTION IN RESERVE REQUIREMENTS

In a statement released for publication August 5, 1949, the Board of Governors of the Federal Reserve System announced a reduction of reserve requirements of member banks effective as to member banks not in reserve and central reserve cities in instalments from August 1, 1949, and effective as to member banks in reserve and central reserve cities in instalments commencing at the opening of business on August 11, 1949. The full text of the Board's statement follows:

The Board of Governors has reduced by 2 per cent of net demand deposits and 1 per cent of time deposits the amount of reserves required to be maintained by member banks of the Federal Reserve System. The reduction, which will amount to approximately \$1.8 billion, will become effective as follows:

On net demand deposits

<i>Central reserve city banks</i>	<i>Reserve city banks</i>	<i>Effective</i>
From 24 to 23½ per cent	From 20 to 19½ per cent	August 11, 1949
From 23½ to 23 per cent	From 19½ to 19 per cent	August 18, 1949
From 23 to 22½ per cent	From 19 to 18½ per cent	August 25, 1949
From 22½ to 22 per cent	From 18½ to 18 per cent	September 1, 1949
	<i>Non-reserve city banks</i>	
	From 14 to 13 per cent	August 1, 1949
	From 13 to 12 per cent	August 16, 1949

On time deposits

<i>Central reserve and reserve city banks</i>	From 6 to 5 per cent	August 11, 1949
<i>Non-reserve city banks</i>	From 6 to 5 per cent	August 16, 1949

The effect of these decreases will be to lower the reserve requirements of banks in central reserve cities by approximately \$500 million, of banks in reserve cities by approximately \$675 million, and of banks in non-reserve cities by approximately \$625 million.

In announcing this action, Mr. McCabe, Chairman of the Board of Governors of the Federal Reserve System, stated that it was taken after full discussion by the Board and the Federal Open Market Committee of the coordination of policies with respect to reserve requirements, open market operations, and other system credit instruments, with primary regard to the general credit and business situation and the maintenance of orderly conditions in the Government security market.

FEDERAL RESERVE FLOAT

One of the factors which influence the level of member bank reserves at any given time is "Federal Reserve float." While the gain or loss of reserves through Federal Reserve float is not ordinarily great over an extended period of time, the impact of short-run fluctuations in float (particularly in recent years) on member bank reserves is far from negligible. The amount of Federal Reserve float has been fluctuating since 1943 within a range considerably higher than that of earlier years, but has shown some decline since the middle of 1948. While fluctuations in float may cause weekly changes in total Federal Reserve credit outstanding of more than 100 million dollars, it is difficult to make accurate projections of the direction and magnitude of such changes. These movements of Federal Reserve float, which are closely watched by money market analysts, have been the subject of careful studies by the Research Department of this bank.

Federal Reserve float does not appear as such in the statements of condition of the Federal Reserve Banks. It is a computed item used mainly in analyzing changes in member bank reserves. Federal Reserve float is equal to the difference between the "uncollected items" on the assets side of a Federal Reserve Bank statement and the "deferred availability items" on the liabilities side. In the weekly analysis of Federal Reserve credit which the Board of Governors of the Federal Reserve System releases, float is the chief component of "other Federal Reserve credit."

The existence of Federal Reserve float arises from the fact that the Federal Reserve Banks, which clear and collect a very considerable proportion of all checks written in this country, give credit to the banks which make use of its facilities, not for individual items as they are actually collected, but rather automatically for whole groups of items according to a time schedule which is based on the broad geographical areas where the items are collectible. Each Federal Reserve Bank and branch has its own schedule indicating when deferred availability items (as a rule checks collectible out of town) will be credited to the reserve balance of the bank that deposits them for collection. Each schedule indicates how many calendar (or, in a few cases, business) days must elapse before the proceeds of items drawn on banks located in each Federal Reserve Bank or branch city will automatically become available to the depositing bank. Similarly, items drawn on banks in other localities are classified by States (or parts of States) according to the number of business days after which credit is automatically given to the depositing bank, irrespective of whether the individual items have been actually collected or not.¹

¹ At present, the Federal Reserve Bank of New York gives credit one calendar day after receipt on out-of-town items payable in certain Federal Reserve Bank cities or branch cities (including Buffalo), two calendar days after receipt on items payable in all other Federal Reserve Bank cities or branch cities, two *business* days after receipt on items payable in certain Eastern States (other than in Federal Reserve Bank or branch cities), and three business days after receipt on all other out-of-town items. (For items payable at certain New York City or Northern New Jersey banks, immediate credit is given.)

Obviously, some points within a given collection territory may have particularly bad transportation connections so that, while the overwhelming majority of items drawn on points in that area can normally be collected within the time stipulated, some items can not. As the deferred availability schedules are based on the normal experience for the bulk of the volume handled in each area, the largest part of the Federal Reserve float results from the fact that in each State some proportion of checks can not be collected within the time specified in the official schedule.²

While the bulk of the float arises from lags in the clearing of deferred availability items, a not inconsiderable proportion is related to the delayed collection of immediate-credit items. In all Federal Reserve Districts, immediate credit is given for local city checks because normally such checks are collectible on the same day, but in some cases payment is actually not received before the following day (because of early clearing hours, train delays, overburdening of the Federal Reserve Bank staffs, or for other reasons).

It is readily apparent that the level of float is primarily determined by the relationship of the time intervals set forth in the Federal Reserve collection schedules to the actual speed of collection of the checks that are cleared. In order to keep this relationship reasonably stable, the individual Reserve Banks revise their time schedules from time to time so as to take account of increases in the rapidity of transportation, improvements in the efficiency of handling items in transit, and other factors which tend to make collections more rapid. From 1916 to 1928, the deferred availability schedule of the New York Reserve Bank involved delays up to eight calendar days (in the case of items drawn on country banks in some Far Western States). The improvement of the transportation and check handling arrangements has permitted so considerable a shortening of collection schedules that California country items, for example, are now credited by the New York Reserve Bank three business days after their receipt.

By crediting member bank accounts before the actual collection process is completed, the Federal Reserve System actually adds to member bank reserves. The amount of such credit was relatively small (averaging less than 10 million dollars) in the years immediately preceding 1939, when the deferred availability schedules were revised sharply throughout the Federal Reserve System, but has been much greater in recent years (averaging over 400 million dollars).

Most short-run fluctuations in the amount of float result from factors beyond the control of the Federal Reserve authorities. In general, whenever there is an increase in the volume of checks written—either for seasonal reasons or because general business is expanding—more deferred credit is given by the Reserve Banks as the volume of checks in the process of collection rises, and float consequently increases. Conversely, when the volume of check payments contracts, float declines.

² On the other hand, in some cases checks can be collected earlier than specified in the schedules, thus giving rise to a "negative float"; the amounts involved, however, are very small.

Thus changes in the size of float may reflect fluctuations in levels of production, income, and trade.

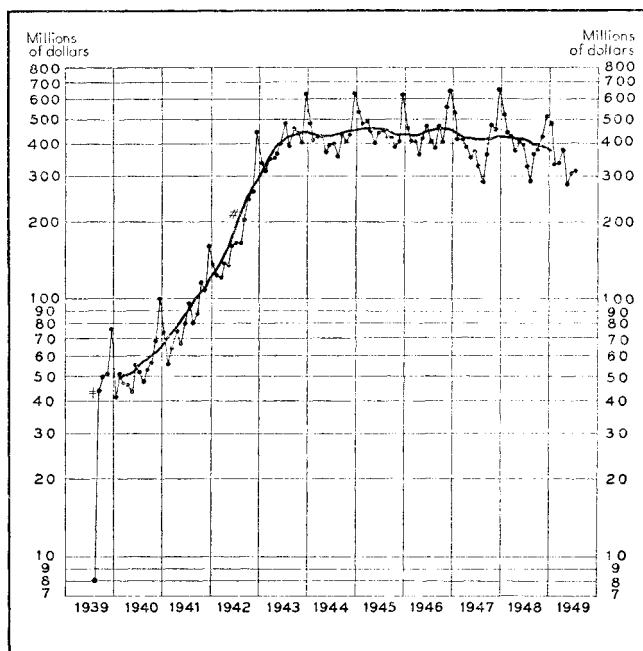
Another important influence in determining the volume of float is significant changes in the interregional movement of goods and services. For instance, if the deferred availability time schedules are relatively more favorable to the banks (i.e., relatively short) for checks that must be collected from a long distance, any increase in the relative volume of long-distance payments will be an upward influence upon the level of float. Also any delays in collection due to temporary transportation difficulties are compounded as the average distances involved become greater.

The rapidity and regularity of the transportation system are important as both a short-term and a long-term influence on the amount of float. Over a period of years, as transportation becomes more efficient and rapid, the disparity between the time taken for the collection of checks and the credit periods stipulated in the schedules becomes less and float tends to decrease. However, any considerable increase in the speed of transportation for the bulk of items collected is followed by a shortening of the time schedules. For instance, after collections by air shipment were started in June of 1946, a number of the Reserve Banks shortened their schedules considerably to compensate for the increased speed of collection thus made possible. In the short run, delays caused by adverse weather conditions, an exceptional overloading of postal, transportation, and other facilities (as customarily occurs in the few weeks before Christmas), and various other factors, tend to enlarge float. Atmospheric conditions have become especially important, now that most long-distance collections are made by air freight or express, and a sharp increase in float occurs after any severe storm covering a large area of the country.

Bill-paying patterns of individuals and businesses, resulting from custom or law, also find some reflection in the movements of float. The link between payment patterns and float can be most clearly seen in day-to-day changes in the volume of collection items and of float. The number of checks received daily for collection by the Federal Reserve Banks varies substantially in the course of a month or a week. In large part this is because many businesses and individuals tend to write more checks on or near certain days of each month or week, and because many payments (business or personal) become due only monthly or quarterly (rents or income taxes, for instance). As a result, regular intraweekly or intramonthly movements in float may be observed. Levels of float tend to be higher towards the end of each week, and there are distinct peaks near the beginning and middle of most months.

Changes in the level of float may also result from Saturday bank closings, holidays, and the like. However, these influences are of little importance except on a day-to-day basis. In general, any delay by the banking institutions in processing checks will increase float. Such delays might result from an attempt to avoid overtime payments to clerical staffs during rush periods, inadequate facilities for handling checks in transit, etc.

Federal Reserve Float, August 1939-July 1949*



* Monthly averages of working day figures. Plotted on ratio scale to show proportionate changes.

Twelve months' moving average, centered.

‡ Maximum three day deferred availability adopted September 1, 1939.

The influence of almost all these factors—changes in business activity or location, rapidity of transportation, bill-paying patterns, and revisions in the time schedules—may be observed by examining the movements of float since late in 1939, when time schedules of Federal Reserve Banks were substantially shortened. A considerable jump in the average amounts of float immediately followed. As shown by the moving average in the accompanying chart, the float, with seasonal movements eliminated, rose steadily and rapidly between early 1940 and the fall of 1943, then leveled off, and from 1944 until late in 1948 fluctuated between approximately 390 million dollars and 460 million dollars. With seasonal changes included, the fluctuations were much greater, ranging between 280 and 650 million dollars.

Part of the more than eightfold increase in float during the defense and early war period (1940-1943) may be attributed directly to the greatly increased business activity, and to the rise in prices which accompanied it. The value of all checks (exclusive of Treasury checks) handled by the Federal Reserve System approximately doubled, likewise reflecting the increase in national income and product. However, a major part of the 1940-1943 expansion in float must be explained in terms of other factors. The relocation of industry and population before 1944 had the effect of increasing the proportion of out-of-town collections, and this resulted in a strong upward influence on the level of float. Southern and western regions of the country received a more than proportionate share of the new industrial plants built at that time, and population shifts to those areas took place. The construction by large corporations of war plants far from home offices appears to have

involved a considerable number of checks collectible only from a long distance. The collection problem was further accentuated by the migration of military and civilian personnel throughout the country during that period.

Transportation delays during the early war period, combined with the strain on collection facilities caused by the increased physical volume of checks handled (especially when the large amounts of Treasury checks are considered), also tended to slow collections and, consequently, to increase float.

Since early in 1944, there has been no further expansion of float despite a continued rise (in monetary terms) of national product and income. While the number and value of checks handled by the Federal Reserve Banks have become larger, reflecting the further rise in national income, other factors which tend to contract the level of float seem to have offset the upward pressure from this source.

Transportation conditions improved towards the close of the war and continued to do so afterward, and the rapid decrease in the physical volume of Treasury checks after the war relieved the Reserve Banks of a considerable amount of strain upon their facilities. Although the time schedules were shortened (very considerably in some cases), the speeding up of collections by air shipment may have, on balance, been a downward influence on float. Finally, the use of check routing symbols, which the Federal Reserve System inaugurated in June 1945 with the cooperation of the American Bankers Association, has facilitated the speedy handling of checks. Between late 1943 and the recent shortening of time schedules by several Reserve Banks and branches, the increased efficiency of check collection has almost offset the upward influence on float of the increasing amounts of checks entering the Federal Reserve Banks, so that, aside from short-run fluctuations, the amount of Federal Reserve credit extended in the form of float has remained relatively steady.

EARNINGS AND EXPENSES OF SECOND DISTRICT MEMBER BANKS

An analysis of the reports of selected member banks in the Second District indicates that aggregate net profits of the larger banks, those with deposits of more than 5 million dollars, registered rather substantial gains in the first half of 1949 over the first six months of 1948, while the smaller banks of the District, in the aggregate, recorded only nominal gains or suffered actual declines. As shown in the accompanying table, the central reserve New York City banks and the largest size group of banks in the Second District outside New York City, both increased their net profits 17 per cent over last year's level, owing primarily to a much smaller volume of charges this year for the accumulation of reserves for bad debt losses on loans. The group of out-of-town banks with deposits of 5 to 20 million dollars recorded the largest half-year gain in net profits over 1948 in the District, a rise of 34 per cent, owing to a comparatively large increase in net current earnings, a heavier volume of profits than last year on securities sold or redeemed, and a sharp decline in the volume of actual net losses and charge-offs. In the smaller banks of the District, a substantial increase in actual net losses and charge-offs on loans, together with a rise in expenses that was somewhat greater than in the case of the larger banks, accounted for the less favorable results compared with 1948.

Each of the groups of banks shown in the table transferred a smaller volume of funds to the reserve account for bad debt losses on loans in the first half of 1949 than a year ago. In the group of banks with deposits of 5 to 20 million dollars, accumulations in other valuation reserves on loans and on securities (which are not deductible according to a formula for income tax purposes) were sufficient to increase total transfers to reserves by about one fifth. In many banks, and especially in

Percentage Changes in Earnings and Expenses of Selected Second District Member Banks
First Six Months of 1949 Compared with the First Six Months of 1948

Item	New York City banks	Sample banks located outside New York City Deposit size			
	Central reserve	Over \$20,000,000	\$5,000,000 to \$20,000,000	\$2,000,000 to \$5,000,000	Under \$2,000,000
Number of banks	35	35	25	25	15
Interest on United States Government obligations.....	-10.7	- 2.3	- 2.9	- 6.0	- 6.6
Interest and dividends on other securities.....	- 2.1	+ 2.5	+ 9.8	+ 3.3	+ 3.2
Interest and discount on loans.....	+15.2	+ 8.8	+ 11.8	+ 12.7	+ 14.6
Service charges on deposit accounts.....	+ 9.1	+24.3	+ 15.0	+ 18.6	+ 10.6
Other current income.....	+ 3.1	+ 5.0	- 8.0	- 10.7	+ 0.7
Total current operating earnings.....	+ 2.5	+ 4.9	+ 5.2	+ 4.4	+ 5.6
Salaries and wages—officers and employees.....	+ 2.3	+ 5.4	+ 6.7	+ 7.6	+ 6.6
Interest on time and savings deposits.....	+ 0.1	+ 2.6	- 1.2	- 0.4	+ 6.7
All other current expenses.....	+ 3.5	+ 2.4	+ 2.2	+ 2.4	+ 6.1
Total current operating expenses.....	+ 2.7	+ 3.7	+ 3.2	+ 3.9	+ 6.4
Net current operating earnings, before income taxes.....	+ 2.2	+ 7.8	+ 9.5	+ 5.6	+ 4.1
Profits on securities sold.....	-44.9	-41.4	+155.4	- 35.1	- 83.6
Net losses and charge-offs (actual).....	- 1.3	+ 2.2	- 86.5	+104.2	+264.9
Net additions to reserves*.....	-88.1	-46.4	+ 19.9	- 26.3	- 33.9
Taxes on net income.....	+16.6	+16.7	+ 1.9	- 1.3	+ 19.2
Net profits.....	+16.9	+17.2	+ 33.6	+ 1.0	- 14.6
Dividends paid.....	+ 1.0	- 2.7	- 0.9	+ 3.8	- 3.1
Retained earnings.....	+60.6	+38.9	+ 50.3	- 0.1	- 16.9

* Includes net additions to reserves for bad debt losses on loans, other valuation reserves on loans, and valuation reserves on securities.

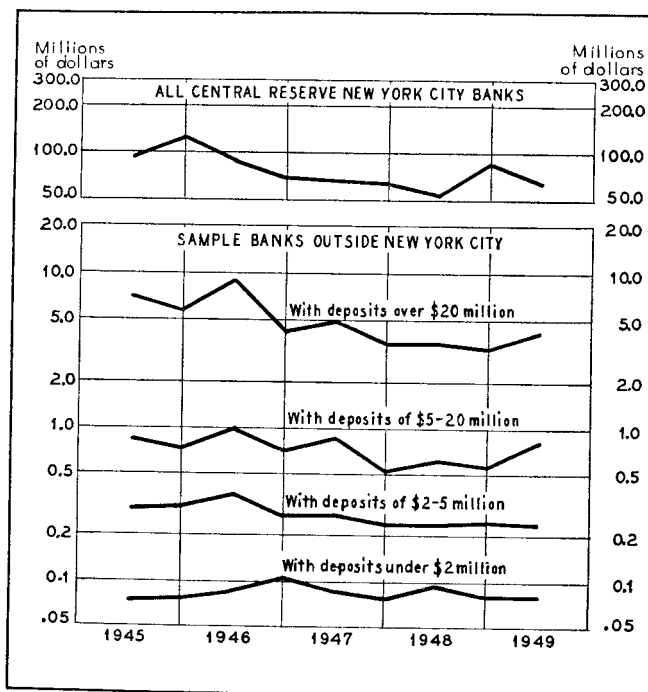
the large New York City banks, the drop in additions to the volume of bad debt reserves compared with the first half of 1948 reflects the fact that this year the reserve accumulations do not include, as they did in 1948, a large volume applicable to the previous year. Also, many banks are probably deferring this year's reserve accumulations until the year end, when their profit position and loan losses relative to outstanding loans will be fully known for 1949.

Gains in total current earnings in the first half of 1949 occurred in all groups of Second District banks and ranged from 2.5 per cent in the New York City banks to 5.6 per cent in the smallest banks outside the City. As during most of the postwar period, the rise in interest and discount on loans and in service charges on deposit accounts was greater than the decline in interest received on holdings of United States Government securities. Also, except in New York City, a greater volume of interest and dividends on other securities was a factor bolstering total current operating earnings. The decline in income from Government securities in most instances paralleled reductions in average holdings of such securities. In all groups of banks, however, the rise in interest and discount earned on loans exceeded the increase in the average volume of loans outstanding. In New York City it was about double the latter increase, indicating the higher level of interest rates prevailing this year. Increases in service charges on deposit accounts have tapered off considerably compared with the increases which occurred between the first six months of 1947 and 1948. The current rise in New York City, 9.1 per cent, compares with a rise of 46.6 per cent between the first halves of 1947 and 1948, and in the three smallest groups of banks outside the City the current increases are approximately one-third less than those occurring a year ago.

Total current expenses increased proportionately less in the New York City banks than in the other groups of Second District banks. Nevertheless, the rise was sufficient to absorb the greater part of the City banks' increase in total current operating income, and to confine the increase in net current operating earnings before taxes to 2.2 per cent, also the lowest for any group of banks in the District. The smaller rise in City bank expenses reflected a smaller increase in total payrolls. Average employment in the City banks during the first half of 1949 was slightly below last year's level and the small rise in total payrolls thus arose entirely from higher salary levels. In the banks outside the City, where the rise in total payroll expense was much larger, both average employment and salary levels were higher than a year ago.

Net additions to net current earnings before income taxes—in the form of profits on securities sold or redeemed—were generally substantially below a year ago, except in the 5 to 20 million dollar banks outside New York City. Actual net losses and charge-offs were, on the whole, little changed from last year's level in the case of the New York City banks and the largest banks outside New York City. The 5 to 20 million dollar group, however, had sharply lower losses and charge-offs than a year ago and the two groups of smallest size banks

Net Profits of Various Deposit Size Groups of Second District Member Banks by Semiannual Periods*



* Plotted on ratio scale to show proportionate changes.

both sustained substantially greater losses and charge-offs. These small banks, currently and in the postwar period as a whole, have shown the largest percentage growth in loan volume, and the current increase in losses and charge-offs is probably a reflection of the greater risk entailed in that growth.

Dividend payments showed only minor changes from the level in effect a year ago and the volume of earnings added to capital funds increased substantially except in the two groups of smallest size banks.

The accompanying chart, which is drawn to show rates of change and thus to facilitate comparison between the various groups of banks, shows the trend of semiannual net profits from the first half of 1945 through the first half of 1949 for the central reserve New York City banks and for the sample member banks in the Second District outside New York City. Except in the smallest banks, where fluctuations in operating earnings were the dominant influence, the high points of net profits between 1945 and the close of 1947 coincided with the peak volumes of profits on securities sold and recoveries of previously charged-off securities, while the sharp declines following the peaks were brought about by the evaporation of such security profits or recoveries. Since December 1947 the trend of net profits has been affected to a large extent by fluctuations in the volume of transfers to reserves, with the steady growth in net current operating earnings providing an upward bias. In the two smallest size groups of banks, however, in which reserve transfers have influenced the profit level least, a rising volume of net charge-offs on loans has provided another offset to the growth in operating earnings, and profits have tended to level out.

THE NEW INTRA-EUROPEAN PAYMENTS PLAN

After lengthy negotiation, the Council of the Organization for European Economic Cooperation reached agreement in Paris on July 1, 1949 upon the major provisions of a new intra-European payments plan for the year ending June 30, 1950, to replace the 1948-49 payments plan which expired at the end of last June. These agreed provisions have been subsequently approved in principle by the Economic Cooperation Administration in Washington and the OEEC is now engaged in the detailed drafting of the new payments plan.

Like its predecessor,¹ the new plan is designed to provide financing of the debit and credit balances that may be expected to develop in the trade of each European Recovery Program country with the other participants in the program. In the absence of such financing, each of the ERP participants would be forced to cover its debit balances with gold or dollars or, lacking these, to seek a bilateral balancing of its commerce with every other member, with the probable consequence of a severe contraction in the over-all volume of trade. This was the situation that developed in 1947 as the intra-European creditor nations became increasingly reluctant to extend further credits to their debtors while the debtor countries became more and more unwilling or unable to finance their import surpluses by payment of gold and dollars. The growing paralysis of intra-European trade in turn accentuated the reliance of Western Europe upon United States financial assistance.

With the inauguration of the European Recovery Program in April 1948, the ECA and the OEEC accordingly sought to devise some effective means of reviving trade among the ERP participants, which before the war had accounted for 51 per cent of their total exports and 31 per cent of their total imports. The first method developed was the so-called "offshore purchase" technique under which the ECA provided the debtor countries in intra-European trade with the dollars required to pay for their deficits with the other participants.

The offshore purchase method suffered from various defects, however,² and on October 16, 1948 it was replaced by the first intra-European payments plan, the basic principles of which are being largely retained in the new plan now being drafted by the OEEC. The central feature of both the old and the new payments plan is the financing of intra-European trade balances by means of ECA allotments of so-called "conditional" dollars *directly* to the creditor countries, who in turn undertake to extend equivalent grants, the so-called "drawing rights", to their intra-European debtors. The schedule of drawing rights and the corresponding schedule of conditional dollar allotments for 1949-50 are now being prepared by the OEEC on the basis of the credit or debit balances expected to develop during the twelve-month period in the trade of each ERP participant with the other members. Thus, after securing the

approval of all of the member countries concerned, the OEEC may determine that the United Kingdom, for example, should extend drawing rights of a given amount in its own currency to France, Greece, Austria, and various other countries with which the British are expected to run an export surplus during 1949-50. ECA will then proceed to earmark an equal amount out of the total dollar allocation to the United Kingdom as "conditional" aid, i.e., aid granted conditionally upon fulfillment by the United Kingdom of its commitments to grant drawing rights on itself.

Effective operation of the payments plan obviously calls for a certain measure of flexibility in the drawing rights and conditional aid allotments. Without provision for modification of the drawing rights and conditional aid grants, trade would be rigidly confined within the initial, and perhaps faulty, estimates of trade balances and drawing right requirements. Furthermore, the creditors might fail to provide full value against their drawing right commitments.

In an effort to provide an element of flexibility, the first payments plan provided that under circumstances of *force majeure* or proof by the debtor that despite every reasonable effort he had been unable to use his drawing rights upon the original creditor, a "transfer of drawing rights" might take place. The OEEC and ECA were to arrange for this transfer by making the rights spendable in some other creditor country, and by simultaneously taking the conditional aid corresponding to these rights away from the former creditor and giving it to the new creditor. The conditions, however, governing this "transferability of drawing rights" proved so constraining as to render the relevant provision of the first payments plan inoperative.

Dissatisfaction with the nontransferability (in practice) of drawing rights under the old plan gave rise to a variety of proposals designed to liberalize the transfer provisions of the new payments agreement for 1949-50. During the recent OEEC discussions of the new plan, perhaps the most controversial proposal was one urging that the drawing rights (and the corresponding conditional aid) should be made freely transferable at the option of the country receiving the drawing rights. This proposal would have permitted Austria, for example, to use drawing rights originally received from the United Kingdom to finance purchases in Belgium. In effect, this proposal would have allowed the debtor countries to "shop around" with their drawing rights in order to obtain essential goods at the lowest possible prices. It was even suggested that a debtor country should be allowed to spend its drawing rights in the United States as well as in any ERP country. The adoption of this proposal would have rendered the drawing rights not only transferable within Western Europe but, in effect, also convertible into dollars.

Such unrestricted transferability of the drawing rights would no doubt have provided full scope for the day-to-day correction during 1949-50 of mistaken forecasts of trade balances and drawing rights requirements which might be made during

¹ Described and analyzed in the November 1948 issue of this *Review*.

² *Ibid.*

the period of advance planning early in the fiscal year. Moreover, the bargaining position of the debtor countries vis-a-vis their creditors would have been greatly strengthened—perhaps excessively so, as some of the OEEC delegates contended. But probably the most significant argument advanced in support of both transferability (switches among European creditors) and convertibility (switches into dollars) of the drawing rights was that the intra-European creditor nations would be forced to compete more vigorously with one another in order not to lose the conditional dollar aid initially allotted to them. In the case of convertibility of the drawing rights, the creditor nations would have been forced into competition with United States suppliers as well. Such enhanced competition, it was argued, would in turn force cost economies and the other major correctives required to improve the international competitive position of Western European exporters, with resultant salutary effects upon their dollar earnings.

On the other hand, the United Kingdom representatives contended that unrestricted transferability and competition for conditional dollar aid would probably incite such a scramble for dollars as to produce a contraction rather than an expansion of trade. It was argued that the creditor nations might seek to maximize their intra-European surpluses in order to insure that their European debtors, by remaining short of the creditor currencies, would not be tempted to seek transfers of drawing rights. Such a maximization of intra-European surpluses would more likely be achieved, it was argued, by imposition of new import restrictions than by concession of lower export prices. Furthermore, automatic transferability might seriously handicap negotiation of an appropriate pattern of drawing rights for 1949-50. Since automatic transferability would force the creditor nations to regard their drawing right commitments as potential losses of dollar aid, the creditor nations would probably try to reduce their drawing right commitments as much as possible in order to minimize the "conditional" share of their dollar allocations. Finally, the British representatives urged that transfers of conditional aid among European creditors, at the discretion of the debtor countries, might cause certain creditor nations to suffer losses of dollars that were urgently required to cover their deficits with the Western Hemisphere, while other participating countries might succeed in accumulating ECA dollars in excess of their requirements. In the case of the United Kingdom, it was alleged, the dollar import program could not be satisfactorily planned without the assurance of a fixed amount of dollar aid.

On July 1, the Council of the OEEC reached agreement upon a compromise arrangement providing that 25 per cent of the drawing rights might be unconditionally transferred at the option of the recipients of the drawing rights. Transfers within this limitation are to be automatically accompanied by equivalent transfers of conditional aid. Thus, if the United Kingdom should agree to extend 20 million dollars' equivalent in drawing rights to Greece, the latter could, if it so desired, spend 25 per cent, or 5 million dollars,

of these rights for purchases in Belgium rather than in the United Kingdom. In such an event, the ECA would transfer to Belgium 5 million of the conditional dollar aid originally allocated to the United Kingdom.

The transferability of drawing rights was further limited by stipulating that the total drawing rights to be transferred to (i. e., spent in) Belgium was not to exceed 40 million dollars. Belgium is generally regarded as the creditor country most likely to be the beneficiary of transfers of drawing rights and conditional aid. Although transferability of the drawing rights thus remains fairly closely circumscribed, the new transfer provisions should nevertheless provide adequate margin for correction of erroneous trade estimates while also strengthening the bargaining position of the debtor countries. It is by no means clear, however, that the new plan will intensify competition among the creditor countries to the point of forcing significant reductions of costs and prices.

A second major innovation of the new payments plan is the special provision made for financing the Belgian export surplus. Belgium occupies a very special position among the ERP participants in that its export surplus on intra-European account has come to exceed its Western Hemisphere deficit by a very considerable margin. During the year ended June 30, 1949, the gross drawing rights extended by Belgium amounted to 218.5 million dollars, whereas the Belgian surplus in intra-European trade in the course of the year rose well above that figure. As a consequence, a number of the ERP participants—and particularly the United Kingdom—were forced to cover their Belgian franc deficits by payment in gold and dollars.

Under the new plan, the dollar allocation covering Belgium's Western Hemisphere deficit, and the corresponding drawing rights extended by Belgium, will be supplemented by a special ECA allocation of 112.5 million dollars and by Belgium's grant of additional drawing rights for an equivalent sum. In recognition of this favorable treatment of its dollar problem, Belgium will also make available to several debtor countries, out of its own funds, long-term loans in Belgian francs aggregating the equivalent of 87.5 million dollars. Thus, very sizable means are provided for covering the deficits of the other participating countries with Belgium, with consequent hope for relief from the gold and dollar transfers that proved necessary during 1948-49.

At the same time, however, this solution of the Belgian export surplus problem points up one of the basic difficulties standing in the way of a satisfactory system of intra-European payments: the continued existence of very large surpluses and deficits in the intra-European trade of some of the participating countries. For the time being, the payments plan bridges these gaps by means of drawing rights, which, however, are in turn entirely dependent upon the artificial support of ECA dollar allocations. But, in the long run, heavy deficits on intra-European trade account can be financed only if the debtor countries can earn corresponding surpluses of dollars or other hard currencies outside Europe.

AGRICULTURE IN 1949

Total farm output in the United States in 1949 promises to be approximately as great as in the record-breaking year of 1948. The output of livestock and livestock products, particularly poultry and eggs, is expected to increase this year, offsetting a decline in crops harvested. The U. S. Bureau of Agricultural Economics estimated recently that aggregate 1949 crops, while about 5 per cent smaller than last year's record total, would still be 44 per cent above the 1935-39 average. With prices received by farmers during the first seven months of 1949 averaging about 12 per cent below those in the same period last year, gross farm income has declined substantially. Although quantities marketed have been slightly greater this year, farm expenses have declined less rapidly than the prices of farm products, so that net farm income appears to have declined somewhat more than 10 per cent thus far in 1949.

Another year of bumper harvests of both food and feed grains seems assured. Unfavorable weather and disease have reduced the wheat crop more than 200 million bushels from the levels expected earlier, but it is still likely to be the fourth largest on record. This year's anticipated harvest of 1,132 million bushels marks the sixth consecutive wheat crop of more than one billion bushels. Only the extremely high post-war demand for grain exports has prevented the accumulation of unmanageable surpluses, since peacetime domestic demand has averaged in the neighborhood of 700 million bushels per year. In the four years since the end of the war, a total of more than 1.8 billion bushels of wheat have been shipped abroad, or an average of 450 million bushels per year—over ten times the rate which prevailed in the decade before the war. At its present size, the 1949 wheat crop will just about equal the anticipated domestic consumption of 685 million bushels plus exports (including military procurement) of 450 million. If unfavorable conditions had not caused a decline in yield this year, it is likely that some type of marketing controls would have been adopted for the 1950 crop, since stocks on hand at the start of the crop year (July 1, 1949) were 300 million bushels. As it is, acreage allotments have been announced by the Department of Agriculture, but the more drastic marketing quotas have not been imposed.

Feed supplies in the 1949-50 crop year are expected to be the greatest on record, both in the aggregate and per animal unit. The corn crop will be close to last year's record, and will probably total more than 3.5 billion bushels. In both food grains and feed crops the bumper harvests are raising a storage problem. The Government has encouraged the construction of additional storage facilities and has liberalized its loan requirements to permit advancing of funds at 75 per cent of the regular loan rate on grain stored on the ground or in temporary shelter for not more than 90 days. Nevertheless, since the new crop came on the market, wheat prices have remained consistently below this year's support price of \$2.21 per bushel at Kansas City. Presumably the level of market prices reflects distress sales of wheat for which storage space could not readily be found, although earlier fears of an acute

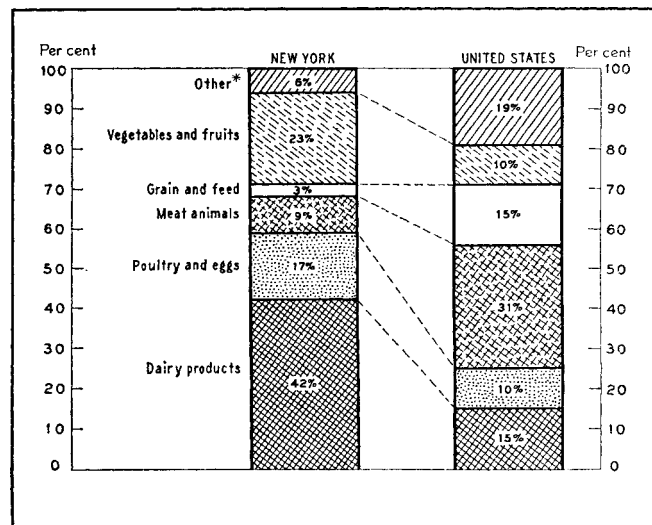
shortage of storage space did not materialize. The support price to farmers is expected to average \$1.95 per bushel on the farm in 1949-50, the decrease from last year's \$2.00 support level on the farm reflecting the decline in average prices paid by farmers.

The quantity of livestock coming to market this fall and winter is expected to exceed the 1948 levels, largely as a result of the greater number of pigs being raised. The pig crop this spring was 15 per cent greater than in 1948 and is expected to reach the market in September and October. The greater supplies of meat available are expected to reduce prices somewhat, particularly for pork, and hog prices may be supported by the Government for the first time since the end of the war. While the abundant supplies of feed may reduce the quantity of beef cattle marketed this fall (since they are likely to be held for further fattening), the supply in the winter and spring should be correspondingly increased.

In the country as a whole, food grains, feed crops, and meat animals account for nearly half of the total cash income from farm marketings. Cotton, tobacco, and oil-bearing crops—the production of which is negligible in this District—account for another one seventh of total United States farm marketings. In New York State, however, as the accompanying chart indicates, only one eighth of gross farm income is produced by grain, feed, and meat animals. Nearly three fifths of New York's cash farm income in 1948 was derived from dairy products, poultry, and eggs, while another quarter of the total came from fruits and vegetables. The high proportion of the products of this State which is sold more or less directly to the consumer reflects in part this area's proximity to the large metropolitan markets.

The dairy industry has been favorably affected by the decline in feed prices from last year's high levels. In 1947 and early 1948 the price relationships of dairy products and feeds had been particularly unfavorable, but since then prices of feed

Percentage Distribution of Cash Income from Farm Marketings, New York State and the United States, 1948



* Includes cotton, tobacco, oil-bearing crops, and other farm crops.
Source: U. S. Bureau of Agricultural Economics.

Table I
Production of Selected Agricultural Commodities in the Second Federal Reserve District and in the United States

Commodity*	Second District		United States		Second District as a percentage of United States, 1949
	Percentage change 1949 from		Percentage change 1949 from		
	1948	1938-47 average	1948	1938-47 average	
Wheat.....	- 2	+61	-12	+14	1
Cotton.....	-	-	+	+31	0
Eggs#.....	+ 2	+30	+	+14	7
Corn.....	- 5	+ 8	- 3	+26	1
Tobacco.....	-	-	+ 2	+18	+
Potatoes.....	-39	-23	-19	- 8	8
Oats.....	-23	-10	-12	+ 6	2
Hay.....	-25	-16	- 2	- 3	6
Apples#.....	+65	+26	+45	+15	17

* Commodities ranked according to value of United States marketings in 1948.
New York and New Jersey used to represent Second District.
† Less than 0.5 per cent.
Source: Computed from data of U. S. Bureau of Agricultural Economics and Board of Governors of the Federal Reserve System; 1949 figures are based on the crop report for August 1, except eggs which are estimated from the first seven months' production.

have receded relatively more sharply than those of dairy products. The volume of milk received at New York State milk plants in the first seven months of this year was nearly 10 per cent higher than in the corresponding months of 1948. The number of milk cows on farms in this State has been increasing and is now somewhat greater than a year ago, whereas in the rest of the country the number declined in July to the lowest level for that month since 1930. On August 1, however, pastures in New York State were furnishing only about half the normal amount of feed and in most of the State their condition has been reported as "very poor" or "severe drought" compared with last year's "good to excellent". At the same time, the hay crop was about one-fourth less than in 1948, so that feeding of grain and concentrates to cows was the highest in many years.

New York State egg production in the first seven months of 1949 has been about the same as in 1948, but substantially above the average for the preceding ten years. As in the case of milk, the relationship between egg and feed prices has become much more favorable this year. Egg prices in July were practically the same as last year, but poultry feed prices were down about one fifth. Increased laying flocks are anticipated in the fall, and egg production is also likely to increase more than seasonally.

The weather has been generally favorable for fruits in this area. The apple crop in New York State is the largest in ten years, and New Jersey's is the largest since 1942. Pears and peaches are also well above last year, but the grape and cherry crops are down about one fourth from 1948. Truck crops were affected by the dry weather and high temperatures in June and early July and are expected to be smaller than in 1948. Not only was the acreage of potatoes planted this year smaller than in 1948 (in large part because of Government acreage allotments), but the yield per acre has also decreased, causing a drop of nearly two fifths in production in this District (as against one fifth in the country as a whole). Potato prices are being supported by the Government at only 60 per cent of parity this year, compared with 90 per cent in 1948.

Table II
Average Prices Received by Farmers in New York State and in the United States for Selected Agricultural Commodities

Commodity	New York State			United States		
	July 15, 1949	Percentage change July 15, 1949 from		July 15, 1949	Percentage change July 15, 1949 from	
		July 15, 1948	July 15, 1947		July 15, 1948	July 15, 1947
Milk (cwt.).....	\$ 4.15	-19	+ 1	\$ 3.72	-24	- 4
Eggs (doz.).....	.605	- 4	+ 3	.453	- 1	- 1
Beef cattle (cwt.).....	17.60	-21	+ 7	20.00	-21	+ 3
Hogs (cwt.).....	19.70	-21	-14	19.30	-23	-12
Chickens (lb.).....	.294	-23	-14	.243	-24	-14
Potatoes (bu.).....	1.50	-17	- 3	1.55	- 5	- 8
Wheat (bu.).....	1.75	-20	-30	1.82	-10	-15
Corn (bu.).....	1.42	-34	-32	1.25	-38	-38
Apples (bu.).....	2.50	+92	-23	2.32	+ 9	-21

Source: U. S. Bureau of Agricultural Economics.

As shown in Table I, output of this country's four major field crops—wheat, cotton, corn, and tobacco—is still well above the long-term average despite the moderate decline in the wheat and corn crops from 1948 levels. Other crops and livestock and poultry are also being produced at generally high levels. The acreage of principal crops for harvest this year is the largest since 1932, while at the same time yields per acre in most cases have been lifted well above the long-term average, despite unfavorable weather in many sections, by the use of more fertilizer, insecticides, and weed-killing chemicals, as well as the increasing use of improved varieties of crops, such as hybrid corn. Composite yields per acre in 1949 are estimated to be 41 per cent above the 1923-32 (pre-drought) average, and higher than any other year except 1948. With the easing of the extraordinary war and postwar demands, the problem of farm surpluses in this country is likely to become increasingly pressing. As noted earlier, the normal domestic consumption of wheat is substantially less than the average amount that has been harvested in recent years, and the same has likewise been true of corn and cotton. The decline in prices, shown in Table II, largely reflects the continuing abundant supply and the tapering off in demand for most farm products. Even prices for livestock, poultry, and dairy products are now well below last year's high level.

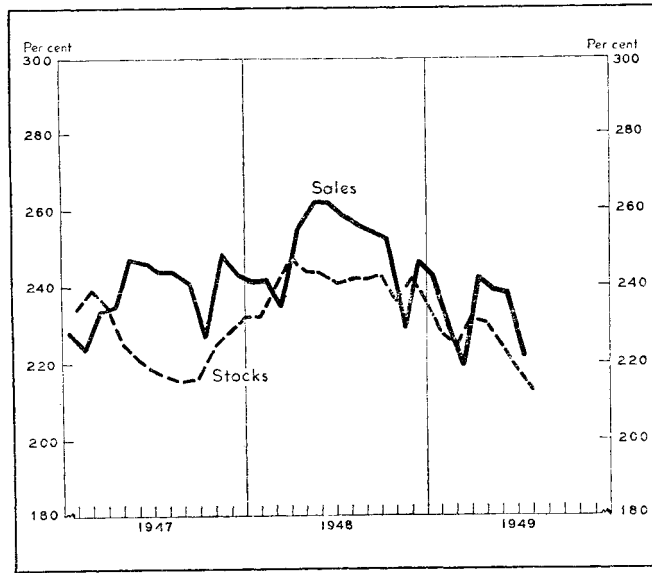
DEPARTMENT STORE TRADE

During August, sales at Second District department stores improved more than seasonally. A modest daily average gain of about 4 per cent from July would have been in line with normal seasonal tendencies; but the rise in sales may actually have amounted to 9 or 10 per cent, judging by preliminary information. As a result, this bank's adjusted index of District sales is expected to be better than 230 per cent of the 1935-39 average, in contrast to 222 per cent for July. Compared with last year, however, there was a drop of 5 to 6 per cent on a calendar month basis. Since August this year had one more shopping day than last year, the daily average loss in sales from a year ago was about 9 per cent.

During the week ended August 27, Second District department stores registered an actual gain in sales, amounting to

Indexes of Department Store Sales and Stocks
Second Federal Reserve District

(Adjusted for seasonal variation, 1935-39 average=100 per cent)



at least 6 per cent. This was the first year-to-year sales increase in 19 weeks. It must be noted, however, that during the corresponding week of last year a severe heat wave held customers away from the stores. This year, the week's weather was more favorable to business, especially since it had been preceded by several weeks of hot weather which had no doubt caused some deferment of purchases.

As the accompanying chart shows, changes in sales and stocks have continued to be almost parallel. Divergent trends occurred only during the shelf-clearing period in mid-1947 prior to the exceptional changes in styles. However, the same *proportionate* reduction in stocks as in sales means a *greater actual* reduction in stocks, since stocks are usually equal to 2 to 3 months' sales.

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

Locality	Net sales		Stocks on hand July 31, 1949
	July 1949	'an. through July 1949	
Department stores, Second District....	-17	- 8	-12
New York City.....	-18	- 9	-13
Northern New Jersey.....	-19	- 8	-10
Newark.....	-21	- 9	- 9
Westchester County.....	- 6	+ 4	+ 4
Fairfield County.....	-21	- 9	- 3
Bridgeport.....	-22	-11	- 4
Lower Hudson River Valley.....	-11	- 6	-10
Poughkeepsie.....	-11	- 4	-12
Upper Hudson River Valley.....	-21	- 3	-15
Albany.....	-23	- 3	-22
Schenectady.....	-17	- 2	- 5
Central New York State.....	-15	- 8	-11
Mohawk River Valley.....	-19	-10	-14
Utica.....	-19	- 8	-15
Syracuse.....	-13	- 7	- 8
Northern New York State.....	- 5	- 7	-19
Southern New York State.....	-19	- 9	-10
Binghamton.....	-19	- 8	- 9
Elmira.....	-18	- 9	-16
Western New York State.....	-14	- 4	-14
Buffalo.....	-13	- 1	-16
Niagara Falls.....	-18	- 4	-23
Rochester.....	-17	- 8	- 8
Apparel stores (chiefly New York City).....	-21	- 8	-11

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

Item	1948	1949		
	July	May	June	July
Sales (average daily), unadjusted.....	181	230	224	155
Sales (average daily), seasonally adjusted.....	259	239	238	222
Stocks, unadjusted.....	216 ^r	227	206	189
Stocks, seasonally adjusted.....	243 ^r	224	218	213

^r Revised.

Relative to 1935-39 averages, however, stocks have moved at a somewhat lower level than sales. A seasonally adjusted stock level at the end of July of 213 per cent of the base period average compares with a sales level during that month of 222 per cent.

The usual July expansion in ordering for fall and early winter delivery brought outstanding orders of the group of large cooperating stores in this District (on July 31) to the customary high for the year to date. However, the value of goods on order was about one-third less than on July 31 of last year. Reflecting the stores' policy of maintaining commitments as short as possible, outstanding orders since the end of October 1948 have consistently been only 75 per cent or less of the previous year's dollar volume. Thus, the value of incoming merchandise during July 1949 dropped more than 30 per cent below last July's receipts to a 5-year low. Receipts during July were no more than 68 per cent of sales, compared with 82 per cent last year, and 74 per cent in July 1940.

Indexes of Business

Index	1948	1949		
	July	May	June	July
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	186	174	169	162 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	247	253	256	255 ^p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	201	179	169 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	337	333 ^r	332	328 ^p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	159 ^r	145	145	144 ^p
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	122	110 ^p	108 ^p	105 ^p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	360	329 ^p		
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	284	251 ^p	248 ^p	241 ^p
Personal income*#, 1935-39 = 100..... (Department of Commerce)	313	310	311 ^p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	191	198 ^p		
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	174	169	170	169
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	97	107	103	105
Outside New York City.....	91	89	86	88

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

† Revised beginning January 1942.

‡ 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, August 30, 1949)

INDUSTRIAL production declined further in July but increased in the early part of August. Prices of basic commodities advanced, while the average of all wholesale commodity prices showed little change. Department store sales declined in July and early August. Construction activity continued at a high level.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production declined in July to 162 per cent of the 1935-39 average. This compares with 169 in June and with 186 in July 1948. The July decline reflected in part the effects of plant-wide vacations, mainly in nondurable lines, which are not currently allowed for in the Board's index. According to preliminary indications, industrial production in August may be close to the June rate.

Activity in durable goods industries showed a further substantial decline in July, mainly because of another sharp cut in steel output, a further decline in activity in machinery industries, and a reduction in lumber output. In August, steel production has been scheduled at about 83 per cent of capacity as compared with the actual rates of 71 per cent in July and 82 per cent in June. While refinery output of most nonferrous metals was reduced further in July, shipments to fabricators advanced. Automobile production in July and during most of August has been at an exceptionally high level, exceeding earlier record rates reached in 1929.

Among nondurable goods activity was reduced at cotton textile, paper, and paperboard mills during July, but appears to have increased in August. Deliveries of rayon to textile mills showed a large further gain in July, and petroleum refining activity increased slightly.

Minerals output was reduced considerably further in July, reflecting substantially curtailed operations at coal mines, and

smaller volume of output of crude petroleum and metals. In the early part of August coal production increased somewhat.

EMPLOYMENT

Employment in nonagricultural establishments in July was slightly below the level of the preceding two months, after allowances for the usual seasonal changes, and 1.6 million below the high level of July 1948.

CONSTRUCTION

Value of construction contracts awarded in July, according to the F. W. Dodge Corporation, was the same as in June and slightly below the value in July 1948. Further increases in awards for public construction from June to July offset declines in private building awards. The number of new housing units started in July, as estimated by the Bureau of Labor Statistics, was 96,000, compared with 100,000 in June and 95,000 in July 1948.

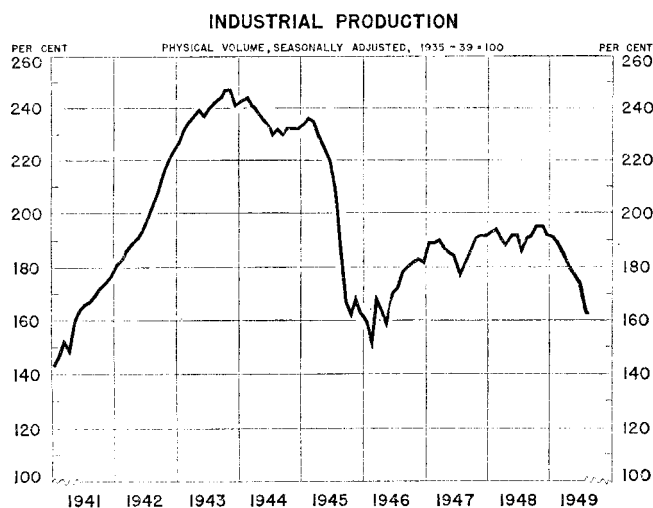
DISTRIBUTION

Value of department store sales declined slightly in July, after allowance for usual seasonal changes. The Board's adjusted index is estimated at 280 per cent of the 1935-39 average, as compared with 285 in June and 311 in July 1948. Owing in part to the effects of exceptionally hot weather, sales during the first two weeks of August showed much less than the usual seasonal rise, but in the third week sales rose considerably.

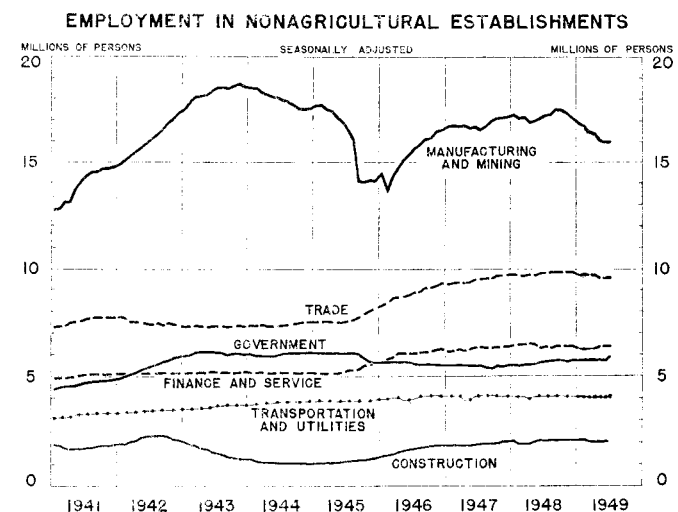
Rail shipments of most classes of freight declined further in July and continued in August substantially below the levels of other recent years. Grain shipments in July, however, were the largest on record.

COMMODITY PRICES

Prices of basic commodities advanced from the early part of July to mid-August. The principal increases over this period were for cottonseed oil, cocoa, and numerous industrial ma-



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



Bureau of Labor Statistics' estimates adjusted for seasonal variation by Federal Reserve. Proprietors and domestic servants are excluded. Midmonth figures; latest shown are for July.

materials including nonferrous metals, steel scrap, and cotton cloth. Prices of agricultural products generally declined and prices of worsted fabrics and some other finished manufactured goods were reduced over this period.

The average level of consumers' prices decreased 0.6 per cent in July as a result mainly of a reduction in food prices and further slight declines in apparel and housefurnishings.

AGRICULTURE

Total crop production, according to the August 1 official forecast, is expected to be 5 per cent below last year's record volume but above any earlier year. The wheat harvest was indicated to be 12 per cent smaller, mainly because of crop deterioration in June and July, while fractionally smaller corn and cotton crops were forecast.

Marketings of meat animals in July and August have been substantially above the reduced level of last year.

BANK CREDIT

On August 5 the Board of Governors announced a schedule of reductions in member bank reserve requirements extend-

ing through September 1 which will release a total of approximately 1.8 billion dollars of member bank reserves. During the first three weeks of August, banks used a large part of the funds released to purchase short-term Government securities from the Federal Reserve, continuing a trend noted in July. Excess reserves of member banks also increased.

Business loans at member banks in leading cities increased slightly in the first half of August. This rise followed a moderate decline in July which brought the total contraction in business loans since the first of the year to nearly 2.7 billion dollars.

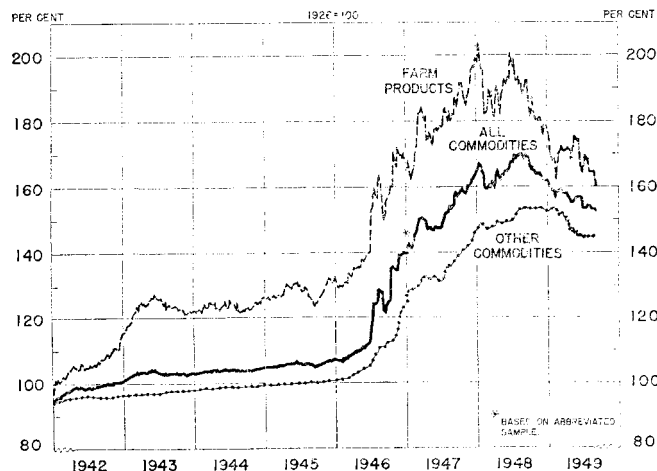
Treasury deposits at banks increased substantially in August, reflecting large sales of savings notes and additions to weekly offerings of Treasury bills. Other deposits, which had increased in July, declined somewhat in the first half of August.

SECURITY MARKETS

Prices of Treasury bonds moved within a narrow range in the first three weeks of August. On August 22 the Treasury announced the offering of 1 $\frac{1}{8}$ per cent one-year certificates to refund the 2 per cent bonds called for September 15.

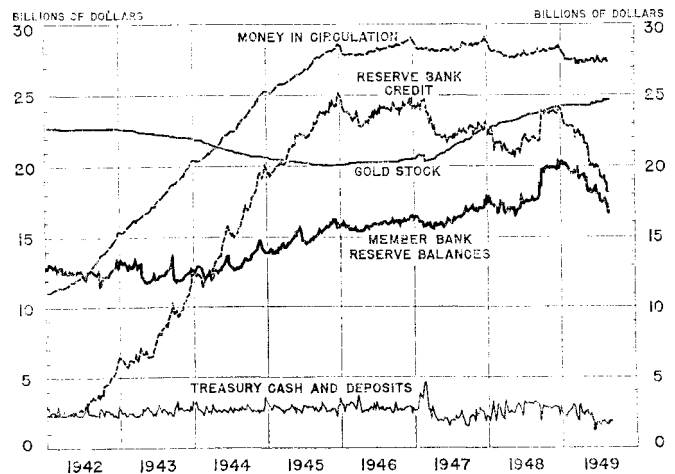
Prices of corporate bonds advanced further while prices of common stocks fluctuated within a narrow range.

WHOLESALE COMMODITY PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended August 23.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures; latest shown are for August 24.