

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 31

NOVEMBER 1949

No. 11

MONEY MARKET IN OCTOBER

Money market conditions were easy during a large part of the past month. Treasury transactions again were the dominating influence, as Government cash disbursements in excess of receipts from all sources provided the market with about 800 million dollars in the four weeks ended October 26. A net increase in Federal Reserve "float" during this period added about 50 million dollars to member bank reserves. Transactions for foreign official accounts absorbed 115 million dollars of reserves, and deposit growth increased the required reserves of member banks by about 180 million, but currency circulation showed little net change. Member banks were thus in a position to reduce their indebtedness and to add to their short-term investments. As a result, Reserve Bank loans and discounts declined about 180 million dollars, and Government security holdings of the Federal Reserve System fell about 450 million dollars.

During the first two weeks of October, funds were not so freely available in New York as in other parts of the country. The margin of Treasury disbursements over receipts was smaller in New York than for the country as a whole because of relatively large withdrawals from Treasury deposit accounts in the New York City banks. In addition, during the week ended October 12, banks in other parts of the country withdrew some of their funds on deposit with their New York City correspondents in order to purchase Government securities, thus causing some drain on the reserves of the local banks. During the week ended October 19, however, reserve positions of the New York City banks turned noticeably easier, chiefly as a result of a heavy inflow of funds for investment in Treasury bills and other securities, which enabled Government security brokers and dealers to repay almost 200 million dollars of their borrowings from New York City banks. In fact, in the three weeks ended October 19, dealers reduced their indebtedness to the weekly reporting member banks in the City by almost 455 million dollars (to 480 million) and liquidated substantial amounts of their Government security holdings. It was not until the third week of this period, when the securities were paid for with funds transferred from other

parts of the country, that the City banks gained reserves from the repayment of their loans to dealers. Excess reserves of the City banks rose over 200 million dollars during that week.

In the last statement week of the month (ended October 26) member bank excess reserves, both in New York and in other parts of the country, were reduced substantially, largely through investment operations. On the first day of the week, October 20, the banks, particularly the New York City banks, which used their large carry-over of excess reserves from the preceding week, made heavy purchases of the new issue of Treasury bills. These purchases resulted in a substantial reduction in the Federal Reserve System's holdings of Treasury bills, thus absorbing a large amount of reserve funds. The banks experienced further moderate losses of funds later in the week through an excess of Treasury receipts (including 400 million dollars of funds withdrawn from Government deposits in commercial banks) over Treasury disbursements, and through the usual end-of-month contraction of Federal Reserve "float". Member banks allowed their excess reserves to fall 330 million dollars to 810 million.

Throughout the month, the member banks lost reserves as a result of the accumulation of funds in the deposit accounts of foreign central banks with the Reserve Banks. The increase in such deposits was not large, but it occurred in spite of a small decrease in the monetary gold stock, which would normally result in a reduction of foreign deposits with the Reserve

CONTENTS

Money Market in October.....	121
Change in Reserve Requirements for Member Banks.....	123
The Trend of Business.....	124
United States Foreign Trade since the War.....	126
Department Store Trade.....	131

System. The gain in these official foreign deposits probably reflected in part the demand for foreign currencies which followed the devaluation of the pound sterling and of numerous other currencies.

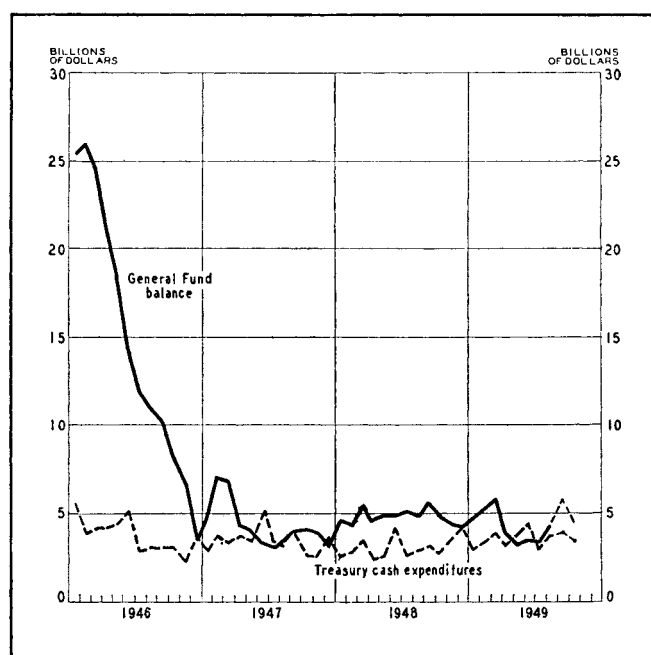
MEMBER BANK CREDIT

The seasonal upswing in commercial, industrial, and agricultural loans at the weekly reporting member banks lost momentum during October, reflecting perhaps the cumulative effects of the coal and steel strikes on other industries. The average weekly increase in business loans during the first three weeks of the past month was less than 90 million dollars, as compared with 105 million a week in September. From the low point on August 3, the loans of these banks to business and agriculture rose 820 million dollars; in the corresponding weeks of the previous year, the advance amounted to about 745 million dollars. The net increase since the end of June, however, has been smaller this year than last—less than 500 million dollars compared with more than 1 billion dollars.

Thus far the upswing in business loans has offset only part of the decline of the first seven months of the year. The data for the weekly reporting member banks show that on October 19 "commercial" loans were still 1.9 billion dollars below the total at the end of 1948. However, total loans of all types on the same date fell only 1.7 billion short of the peak reached at the end of 1948, reflecting an expansion of real estate loans (4 per cent), of loans on securities other than Government issues (20 per cent), and of all other loans, largely consumer loans (7 per cent). Loans on Government securities fell sharply during this period (by 370 million, or 34 per cent), reflecting principally liquidation during the first three weeks of October of bank indebtedness by Government security dealers. The expansion of loans on securities other than Government obligations reflects principally increased borrowings of security brokers on listed stocks. The demand for such loans has possibly been stimulated by the lowering in March of margin requirements on corporate securities listed on national security exchanges, to 50 per cent of market values.

Although the loan portfolio of the weekly reporting member banks as of October 19 was almost 7 per cent below the 1948 year-end level, monthly figures for all other banks show that their total loans have been consistently above the December 1948 total in most of the months of this year through September (latest month for which figures are available). Toward the close of the latter month, total loans of the institutions not reporting weekly were about 600 million dollars higher than at the end of 1948 while total loans of the weekly reporting banks were 1.5 billion less. Thus, the nonreporting banks have presumably suffered no contraction at all in their income from loans. Judging from figures taken from call reports, showing changes in types of loans in the first six months of 1949, the better record of the nonreporting banks

Treasury Cash Expenditures and General Fund Balance *



* Expenditures are monthly totals; the figures for the General Fund balance are end-of-month.

Source: U. S. Treasury. September and October 1949 estimated by Federal Reserve Bank of New York.

may be attributed not only to the fact that the business loans of these institutions (which comprise mainly the smaller country banks) account for a much smaller proportion of the total loan portfolio than in the case of the larger city banks, but also to the circumstance that their business loans declined less than those of the larger city banks. In addition, their real estate and all other loans rose.

Perhaps because of the continued expansion of their loans, the nonreporting banks added only moderately to their holdings of Government securities in the first nine months of the year. The weekly reporting member banks, on the other hand, made heavy net purchases of Government securities in the first nine months of the year (4.0 billion dollars), thus investing funds released by the reduction of business loans as well as the reserves freed by the lowering of legal reserve requirements.

TREASURY CASH POSITION

During recent months the Treasury has attained a very comfortable cash position despite the fact that cash operating outgo has been in excess of cash receipts. In the third quarter of this year the General Fund balance rose approximately 2.2 billion dollars to 5.7 billion on September 30, although Treasury disbursements on a cash basis during the quarter were 400 million dollars larger than income. At the end of September, the General Fund balance was the highest since the period of heavy tax receipts in March 1949. The Treasury raised only 500 million dollars (net) through offerings of marketable securities

(an increase of 800 million in Treasury bills being partly offset by redemptions of other securities), and most of the increase in the General Fund balance came from net sales of nonmarketable issues, principally Savings notes.

Attracted by the higher rate of interest paid on the new series of Savings notes, when held to maturity, investors have increased their purchases substantially since April of this year, and in the third quarter net sales after redemptions brought 2 billion dollars into the Treasury. Net sales reached a peak in August. Although dropping considerably in September and October, they remained higher than in the early months of the year.

The excess of Treasury cash expenditures over receipts widened during October, as current revenues fell seasonally. The balance in the General Fund consequently decreased considerably, but the Treasury's cash position still remained adequate to cover current disbursements, including voluntary cash redemptions of Treasury issues, and leave an adequate amount for requirements during the next few months. Should the Treasury's needs for funds in the remainder of the fiscal year (ending June 30, 1950) roughly approximate present expectations, it appears that the funds which the Treasury will obtain from current revenues and from further (net) sales of Savings notes and bonds, together with the accumulated General Fund balance, will be sufficient to meet needs through the first quarter of 1950, including payment of that part of a projected cash dividend of 2.8 billion dollars on the life insurance of veterans which will have been processed by the Veterans' Administration by March 31.

The major part of the recent increase in the Treasury's balances has taken the form of an increase in funds held in special depositary accounts with commercial banks, since the proceeds of the sales of Savings notes and bonds, as well as certain tax receipts, are largely deposited in such accounts. Because a large proportion of Savings note sales were made in New York, Government deposits in New York City commercial

banks rose more rapidly than elsewhere, as shown in the accompanying table. Treasury withdrawals of funds from its depositary banks are made in the form of "calls" involving fixed percentages of its deposits held in all depositaries (grouped, according to size, in Class A and Class B banks). As a result, there has been an increase in the proportion of total withdrawals payable by New York City banks. Withdrawals from Government deposit accounts in New York central reserve city member banks rose, as indicated in the table, from 18 per cent of the total withdrawals during April and May to 31 per cent during October. Thus the New York money market has supplied an increasing proportion of those Treasury disbursements which have been met with funds withdrawn from commercial banks. Similarly, the excess of Treasury disbursements over receipts has from time to time been relatively smaller in New York than in other parts of the country. An offset to this situation, however, has been the persistent inflow of funds to New York for investment in recent months.

CHANGE IN RESERVE REQUIREMENTS FOR MEMBER BANKS

Effective October 6, 1949, nine New York City member banks located in the Borough of Manhattan which had been classified as central reserve city banks were granted permission to maintain the lower reserve requirements of reserve city banks. The Board of Governors of the Federal Reserve System granted this permission under the provisions of Section 19 of the Federal Reserve Act, which authorizes the Board to permit banks in outlying sections of central reserve and reserve cities to carry reduced reserves.¹ The action taken by the Board of Governors was in the form of a ruling which read in part as follows:

"... a bank located in the Borough of Manhattan north of the downtown area as hereinafter described, and having no branch in such downtown area, will be regarded as being located in an 'outlying district' of the City of New York within the meaning of paragraph 5 of Section 19 of the Federal Reserve Act and eligible for permission to maintain the reserves required to be maintained by banks located in reserve cities. The downtown area, member banks in which would continue to be classified as central reserve city banks, is bounded by the Hudson River, the East River, Canal Street from the Hudson River to East Broadway, and Rutgers Street from East Broadway to East River."

The nine member banks affected by the Board of Governors' ruling are all relatively small. In all, they currently

**Deposits in and Withdrawals from Government Accounts in
Commercial Banks**
(Dollar amounts in millions)

1949	Deposits*			Withdrawals#		
	All commercial banks	Central reserve New York City banks†	New York as a percentage of all banks	All commercial banks	Central reserve New York City banks†	New York as a percentage of all banks
January.....	\$1,333	\$230	17	\$1,370	\$270	20
February.....	2,250	423	19	178	39	22
March.....	2,538	458	18	923	148	16
April.....	2,171	369	17	2,124	335	18
May.....	1,383	268	19	1,326	243	18
June.....	1,059	251	24	1,347	294	22
July.....	1,042	277	27	1,942	545	28
August.....	2,330	908	39	1,034	363	35
September.....	2,715	900	33	568	194	34
October.....	3,140	916	29	1,214	376	31

* Averages of Wednesday figures.

Totals for the weeks ended Wednesday.

† Figures relate to 35 central reserve city banks through August, 34 in September, and 25 in October; the reduction in the number of banks, however, affects the figures only slightly.

¹ The New York State Banking Board announced on October 6, 1949, similar reductions in reserve requirements for State banks similarly situated that are not members of the Federal Reserve System.

account for less than 2 per cent of the total demand and time deposits of all New York City member banks. The amount of reserves released by the new ruling was, therefore, proportionately small.

Reclassification of the nine banks under the authority of Section 19 of the Federal Reserve Act was the only way in which the reserve requirements of member banks which clearly do not possess the main features associated with the business of central reserve city banks could be reduced below those of "true" central reserve city banks. The present law authorizes the Board of Governors to make adjustments on a geographical basis only; under it the Board cannot alter the reserve classification of banks on an individual basis in order to take into consideration the character of their business rather than their location. The Federal Reserve Act permits changes in reserve classifications to be made only for those banks that are ". . . located in the outlying districts of a reserve city (or central reserve city) or in territory added to such a city by the extension of its corporate charter. . . ."² The changes in classification which are thus permitted can be in a downward direction only.

Many criticisms have been raised against the existing method of fixing reserve requirements because within a given area it affects all banks alike, irrespective of the size of the banks involved and of the nature of their business. Small banks doing almost exclusively a local business must, if they are located in a central reserve or reserve city, maintain reserves comparable to the reserves required of banks with large and active correspondent bank accounts. On the other hand, there are a number of instances where a large bank holding a considerable amount of deposits of other banks, and with very active deposits, is situated in a locality where it must be classified as a "country" bank, and is consequently subject to smaller reserve requirements than institutions doing a very similar type of business, but located in a locality classified as a reserve city.

² See paragraphs 4 and 5, Section 19, Federal Reserve Act.

THE TREND OF BUSINESS

The spread of industrial shutdowns resulting from the coal and steel strikes was the outstanding feature of the business situation during October. The rising tendency in production and sales which had been evident in August and September was reversed in October, while unemployment insurance claims began to increase again, after having declined since mid-July. Retail trade appeared to be adversely affected by the unemployment and uncertainty over jobs, while railway freight movements were very sharply reduced.

A survey made in mid-October by the United States Department of Commerce indicated that by November 1 approxi-

mately two million workers (including strikers) affected by the coal and steel walkouts would be without jobs. At the end of October about 380,000 bituminous coal miners were starting the seventh week of their strike, although the anthracite miners had returned to work on October 3. Soft coal had been mined at a reduced rate for several months prior to the strike, but nevertheless coal stocks were still fairly ample when the walkout started. Consequently, the coal strike had had relatively little effect on business until the last week in October. At that time, railroads with less than 25 days' supply of coal were ordered by the Interstate Commerce Commission to cut their schedules for coal-burning passenger trains by one fourth. In the steel industry, half a million basic steel workers were on strike throughout October, and after the middle of the month nearly half a million more employees of steel fabricating plants either went on strike as contracts expired or were laid off as steel supplies dwindled. Less than 10 per cent of the steel industry's basic capacity was in operation during October.

During the summer, there had been some stocking of steel by manufacturers in anticipation of a strike, but by the end of October layoffs and plant closings were increasing, as steel inventories became depleted. Production was limited in some cases by shortages of certain component parts or special types of steel, and steel warehouses were swamped with orders. During October, the automobile industry was able, through the use of its stocks, to maintain a relatively high rate of operations, assembling nearly 120,000 passenger cars and 20,000 trucks per week. It seemed likely, however, that most of the major car manufacturers would be forced to stop production by mid-November if the strike continued. Appliance and machinery manufacturers were in much the same position.

On the whole, industrial production was estimated by the Board of Governors of the Federal Reserve System to have declined 11½ per cent between September and October, equaling the low point reached at the time of the 1946 steel strike and otherwise the lowest since early 1941.

In the Second District, the strikes affected business conditions during October much less than in other major manufacturing areas, because such a large proportion of this District's production consists of nondurable goods. The portion of this District most seriously affected was the Buffalo area, where over 20,000 workers were on strike at steel mills. In Syracuse, Bridgeport, and Northeastern New Jersey also, some steel and aluminum plants were closed. In the New York City metropolitan area, however, the immediate effects were minor, although a prolonged coal strike would affect utilities and lack of steel would interrupt many heavy construction projects in this area.

The influence of the coal and steel strikes will be felt for some time after agreements are reached between the unions and the companies. The creeping industrial paralysis generated

by the coal and steel strikes will not end immediately with the settlement of the disputes. Steel mills are expected to require as much as two or three weeks to restore operations to their prestrike level. Subsequently, demand will be intensified by the considerable need for filling distribution pipelines and restoring minimum working inventories.

An important consideration in evaluating the eventual effects of the strikes is that to the extent that the welfare plans which may be agreed upon are company-financed, industrial workers' income will not be increased immediately, while production costs will be increased by the amount of any such contributions. Moreover, the purchasing power currently being lost by strikers is not likely to be offset by wage increases.

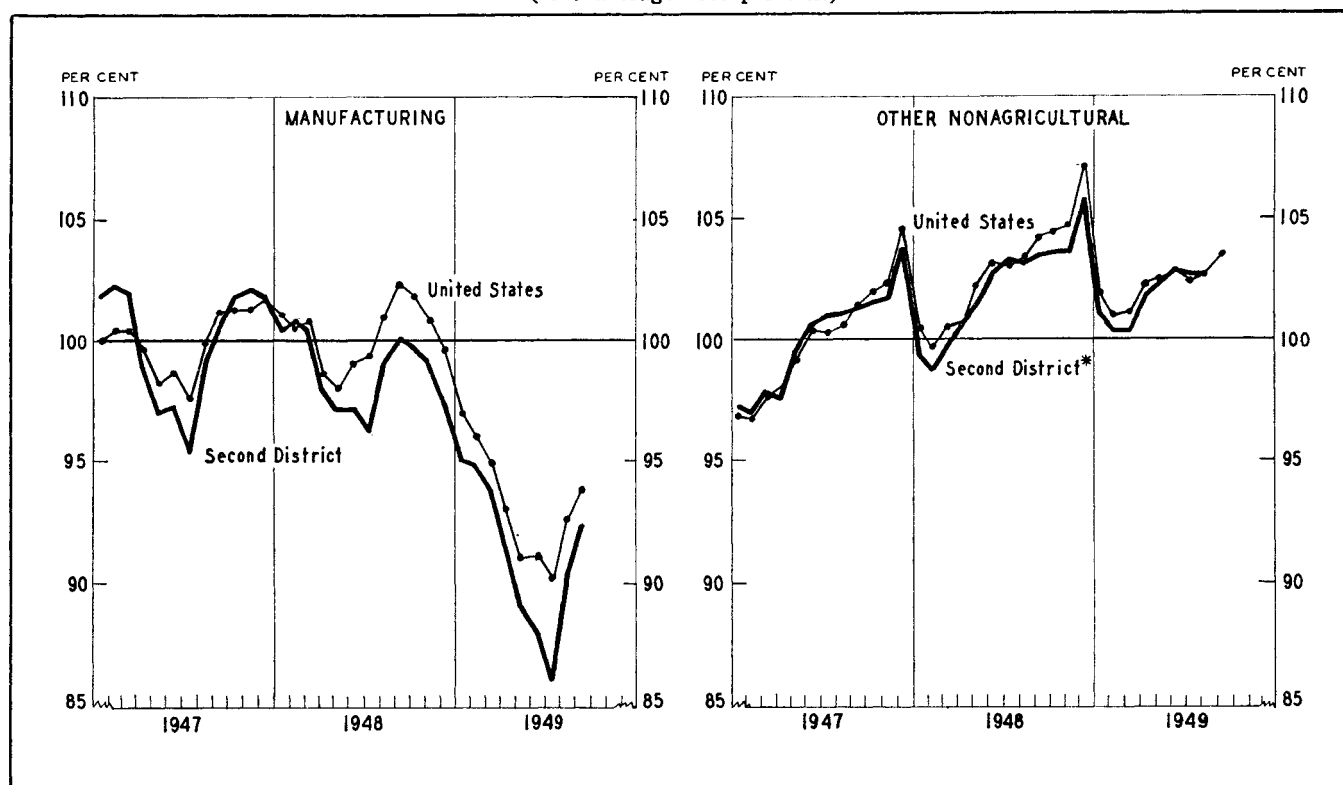
Until the economic picture was disrupted by strikes, it had appeared that a definite turn towards business recovery was under way. Employment, output, and orders showed marked improvement in many lines during August and September. Recovery was most pronounced in the nondurable goods lines, and appeared to be primarily the result of increased buying following a period of inventory adjustment. During the spring, processors and distributors in general had bought less than they sold and thereby had accounted for much of the decline in production. By July, excess stocks had been largely worked

off, and buying was then increased to cover current needs. In a few cases, stocks had been cut too sharply and were inadequate to meet the seasonal rise in demand. Consequently, buying was intensified and a shortage of goods for immediate delivery resulted, particularly in certain textile and apparel lines where producers were unprepared for the influx of orders.

Apparel firms in this area, many of which had been closed for vacation or seasonal slack periods in July, sharply increased employment during August and September as a result of this greater than seasonal rise in business. By mid-October, however, unemployment in the needle trades was rising again, as the restocking pressure eased and the season passed its peak. In September, the apparel industry was the only major New York State industry to show an increase over September 1948. All types of apparel firms shared in the advance, although quite a number of marginal firms are reported to have been eliminated this year. Activity in the dress industry rose particularly sharply. The women's garment industry is expected by trade sources to produce nearly as many units during the fall season as it did last year, but total dollar volume is likely to be lower because of price reductions.

Other nondurable goods industries in New York State, particularly those producing food products, textiles, paper, and

Nonagricultural Employment in the Second District and in the United States, 1947 to September 1949
(1947 average=100 per cent)



* Latest month available is August 1949.

Source: United States, U. S. Bureau of Labor Statistics; Second District, computed by the Federal Reserve Bank of New York from data furnished by the Departments of Labor of the States of New York, New Jersey, and Connecticut.

leather products, increased employment between July and September. On the whole, nondurable goods factories in this State employed 13 per cent more workers in September 1949 than in July, compared with a gain of only 5 per cent in the rest of the United States. Durable goods employment in New York increased slightly between August and September for the first time this year, but was still 12 per cent lower than a year earlier. The number of workers rose in the electrical machinery and metal products industries, but at shipyards and glass factories employment was lower.

As the accompanying chart shows, the decline in employment this year has been centered in manufacturing, both in this District and in the country as a whole, while other types of nonagricultural employment have been generally well maintained. Factory employment in the Second Federal Reserve District reached its postwar peak much earlier, and subsequently declined further, than in the rest of the country. Second District manufacturers employed more workers in February 1947 than in any other month since the end of the war, but in the country as a whole the postwar peak was not reached for another year and a half. The early peak in this area reflected primarily the predominance of consumers' nondurable goods manufacturing in the Second District; having few reconversion problems, these firms expanded output and employment rapidly after the war. The marked spring and fall seasonal peaks in manufacturing employment in this District, characteristic of the apparel industry, have been successively lower for each season since the spring of 1947. In the country as a whole, factory employment averaged somewhat higher in 1948 than in 1947, but in the Second District the reverse was true. Reflecting in part the more pronounced seasonal fluctuations in the Second District, factory employment in the District showed a sharper decline between September 1948 and July 1949, and a more marked recovery between July and September of this year, than in the country as a whole.

Employment in other nonagricultural industries has, on the whole, remained consistently above the 1947 level so far this year, in both the Second District and in the United States as a whole. There has been a fairly close correspondence between the changes in such employment nationally and in the District, and in recent months employment in these lines in both areas has been two or three per cent above the 1947 average and only slightly below the corresponding months of 1948. Construction and government employment has risen substantially above the 1947 level, while transportation and public utilities have been employing about 3 per cent fewer workers than in 1947, in both this District and the country as a whole. The rise in financial employment in New York State (3 per cent above the 1947 average) was markedly less than in New Jersey (11 per cent) and in the country as a whole (9 per cent). Wholesale and retail trade in these areas employed about the same number as in 1947.

The over-all level of consumers' expenditures held up better than business in general during the recent decline, indicating that it was the reduction in buying by business, rather than by consumers, that caused the recession. While retail sales declined in most lines, a rise in the volume of automobile sales offset in large part the declines elsewhere. In a survey of 40 different types of independent retail stores in New York City, the U. S. Department of Commerce reported that motor vehicle dealers were the only retailers to report a higher dollar volume of sales in the first eight months of 1949 than in the corresponding period of 1948. According to this report, department stores in New York City showed a 9 per cent decline in dollar volume, apparel sales were down 8 per cent, food stores sold 5 per cent less, and sales losses in other lines ranged up to 22 per cent. But a 14 per cent year-to-year gain in motor vehicle sales cut the over-all decline in New York City retail sales for the first eight months of this year to 6 per cent. Despite some decline in consumers' prices this year, this drop in the dollar volume of sales indicates a slightly lower unit volume in most lines. One consequence of these declining sales and of the expiration of Federal Reserve consumer credit regulations has been a competitive loosening of credit terms.

UNITED STATES FOREIGN TRADE SINCE THE WAR

Although it is too early to appraise the effects of the recent currency devaluations on the foreign trade of the United States, a review of our postwar trade at this time appears desirable in any event because of the light it can throw on the relationships between foreign and domestic economic trends since the war. Such an analysis will also be an essential basis for any estimate of the effects of foreign currency devaluations on our trade. The devaluing countries accounted in 1948 for 62 per cent of our exports and 51 per cent of our imports.

The value of both exports and imports of the United States since the war has reached levels unprecedented in the history of our foreign trade. Exports reached their all-time peak in 1947, when they totaled 14.4 billion dollars.¹ Imports were at their highest in 1948, when they amounted to 7.1 billion dollars. The enormous postwar rise in the value of our exports was caused in part by the upsurge in the foreign demand for American foodstuffs, raw materials, capital equipment, and consumers' manufactured goods, which of course resulted in turn from the destruction and wearing out of production facilities abroad during the war and from the absence of alternative sources of supplies. In part the rise in the dollar volume of United States exports was also due to the inflationary rise of prices in this country, which lifted the average price of our exports to twice

¹ Including Army Civilian Supply shipments, the total of 1947 exports was 15.3 billion dollars. However, A.C.S. shipments have been included in the foreign trade statistics only since 1948.

the 1936-38 level. Exports receded somewhat to 12.7 billion dollars in 1948, but rose again to an annual rate of 13.4 billion in the first six months of 1949.²

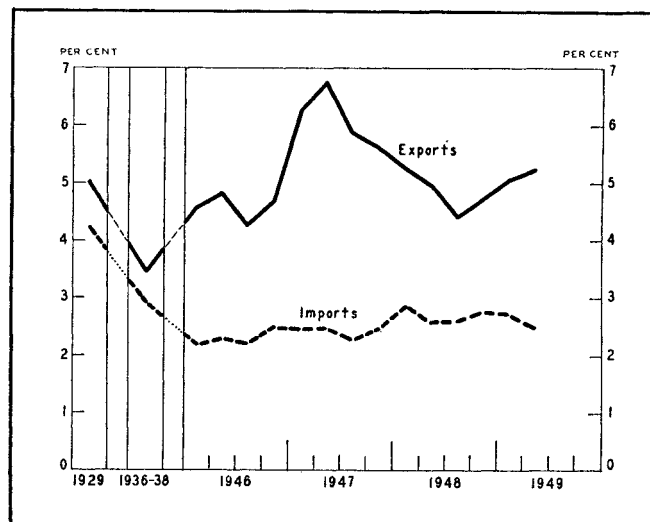
Reflecting the extremely large volume of exports, the United States export surplus from the beginning of 1946 to June 1949 has ranged, on an annual basis, between 4.8 and 8.7 billion dollars. This trade surplus, together with a substantial surplus on service accounts, was financed in part by loans and grants of the United States Government under various aid programs (UNRRA, Army relief, post-UNRRA aid, Greek-Turkish aid, Interim Aid, and the European Recovery Program) and under special loan agreements (especially the Treasury loan to the United Kingdom, and the Export-Import Bank loans to France), by disbursements of the International Bank for Reconstruction and Development and the International Monetary Fund, and (to a smaller but appreciable extent) by an outflow of private American capital. The sums forthcoming from these sources, however, proved insufficient, and almost all foreign countries had in addition to draw on their dollar and gold reserves, which in many instances were progressively depleted.

Despite its extent, the postwar outflow of American goods was not an abnormally large drain on our physical or (so far as it was financed by this country) financial resources. Only in the peak year 1947 did the value of our exports amount to substantially more than one twentieth of our gross national product. In the other postwar years the proportion ranged between 4.6 and 5.1 per cent, as indicated by Chart 1.

Since the war, imports have been not only larger than ever before in value, but also very high in physical volume compared with the inter-war period. Nevertheless, they have been below normal if the ratio of imports to gross national product that prevailed in the twenties is considered indicative of the normal American import demand at a high level of business activity. Between 1922 and 1929, this ratio was always in excess of 4 per cent; in 1946, 1947, and 1948, however, it amounted to 2.3, 2.4, and 2.7 per cent, respectively, and in the first six months of 1949 it was 2.6 per cent. These postwar ratios, it is true, do not compare unfavorably with the import ratios of the thirties, which for the most part fluctuated between 2.3 and 2.9 per cent. But it is clear that our postwar imports have been abnormally low for a period of exceedingly high business activity in this country. The failure of imports to recover more rapidly during the early postwar years was attributed to the supply difficulties of foreign producers. More recently, the lag in our imports was ascribed in part to the fact that some foreign countries had priced themselves out of the American market. To some extent, however, the low level of our imports in terms of national income must also be regarded

² These figures include Army Civilian Supply shipments, which are not shown separately in the foreign trade statistics for 1948 and 1949.

Chart I
United States Exports and Imports as a Percentage of
Gross National Product



Source: Computed from U. S. Department of Commerce figures by Federal Reserve Bank of New York.

as the result of structural changes in the American import market which may be hard to overcome merely by price adjustments like those expected from the recent devaluations.

CHANGES IN THE GEOGRAPHICAL PATTERN OF TRADE

The postwar expansion of exports has not been evenly distributed among the various foreign areas. As was to be expected (and as shown in Table 1 and Chart II), the largest absolute increases in exports occurred in our trade with the countries which participate in the European Recovery Program. On the average this group of countries has been obtaining each quarter 900 million dollars' worth of goods more than before the war. Exports to most other areas also increased substantially. Shipments to the Latin American republics in 1947 and early 1948 were 700 million to 800 million dollars higher per quarter than before the war; more recently they have declined somewhat, partly because of the partial satisfaction of the wartime backlog of demand for American goods, and partly because of the tightening of import and exchange controls in countries whose gold and dollar reserves have declined. Our postwar exports to Canada (including Newfoundland) and to the "rest of the world,"³ have in each instance been approximately 400 million dollars larger per quarter than before the war.

More important than the absolute gains, however, have been the relative increases. In terms of the latter, the order of the various markets for our exports is quite different. Exports to the "rest of the world" in 1948 were seven times as high as

³ Asia, Africa, and Oceania (other than sterling area countries) and the French and Dutch possessions in the Western Hemisphere.

Table I
United States Exports and Imports by Major Areas†
(In millions of dollars)

Quarterly total	Total		ERP countries*		Other Europe		Other sterling area#		Canada and New Foundland		Latin America (20 republics)		Rest of world	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1936-38†	742	622	285	156	31	29	123	126	116	88	121	136	66	88
1946 January-March	2,284	1,096	836	143	291	52	148	219	270	190	433	410	306	82
April-June	2,485	1,181	849	175	258	48	176	177	300	212	498	445	375	125
July-September	2,352	1,230	766	166	214	40	169	215	394	238	489	426	321	147
October-December	2,620	1,402	831	198	103	50	208	226	469	270	680	479	329	180
1947 January-March	3,586	1,412	1,267	173	130	36	353	270	481	249	931	529	425	154
April-June	3,943	1,449	1,321	166	159	45	441	254	585	274	1,026	557	412	154
July-September	3,411	1,323	1,175	161	84	56	386	198	512	279	900	495	355	135
October-December	3,490	1,549	1,089	198	92	46	389	242	533	323	1,001	569	385	171
1948 January-March	3,315	1,810	1,141	235	84	46	303	302	431	336	858	652	498	240
April-June	3,237	1,710	1,059	232	33	48	345	273	501	364	841	584	458	209
July-September	2,937	1,729	968	228	38	48	304	248	493	420	681	530	454	256
October-December	3,162	1,874	1,017	274	39	42	319	254	521	473	778	572	489	259
1949 January-March	3,324	1,791	1,119	250	40	33	300	263	471	280	782	625	612	240
April-June	3,357	1,602	1,169	190	45	32	320	237	571	382	686	548	566	214

† Exports, including re-exports, and general imports.

* Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey, and United Kingdom.

All sterling area countries which are not ERP countries.

† Quarterly average.

Source: U. S. Department of Commerce, *U. S. Foreign Trade—Trade by Country*.

before the war in value, and in the first six months of 1949 more than eight times as high. Purchases of American goods by Latin American countries after the war recorded a sixfold rise; exports to Canada were four times as large. Exports to ERP countries, however, were only three times prewar despite large-scale United States aid, and shipments to the "other" sterling area countries (i.e., other than the United Kingdom, Ireland, and Iceland, which are included in the ERP group of countries), two and one-half times prewar. Primarily because of large UNRRA shipments, deliveries to the European countries not participating in the European Recovery Program were eight times larger in early 1946 than before the war. Since the beginning of the Marshall plan, however, total shipments to such countries have fallen to the prewar level, measured by value; in terms of physical volume, they have declined to only about half of prewar.

The variation in the rates of increase of our exports to various regions has resulted, of course, in appreciable changes since the war in the relative importance of the various regions as markets for American goods. The share of Europe in United States exports has fallen from the prewar level of 43 per cent to about 35 per cent, and that of the "other" sterling area from 17 per cent to about 10 per cent. Canada now absorbs the same proportion (15 per cent) of the total as before the war. Latin America and the "rest of the world", on the other hand, have gained in relative importance. Before the war, Latin America absorbed only one sixth of our exports; in 1948 the proportion had risen to one fourth. The "rest of the world" accounted for 9 per cent of our total exports before the war and 15 per cent after the war.

It is not yet clear whether these various shifts in our export trade are permanent, or whether they are only a temporary

result of the dislocations wrought by the war. Their current significance lies rather in their effects on areas which in the past had net dollar surpluses with the United States and thus supplemented the dollar earnings of Europe. Our exports to those areas have risen so much that their former dollar surpluses have been converted into dollar deficits, and this in turn has complicated the problem of Europe's "dollar shortage."

The rather uneven distribution of the threefold expansion of American imports since the war has been another major source of the balance-of-payments difficulties that most of the Western European countries, the members of the sterling area, and some Latin American countries are experiencing. The Western European countries, whose purchases from the United States have expanded by the largest amount, have increased their sales to the United States by a smaller amount than any other major group of countries except "other Europe". American imports from ERP countries reached their prewar value as early as 1946 and continued to expand until the end of 1948, but they have fallen off fairly sharply in 1949. In the second quarter of this year, the aggregate value of our imports from the ERP countries was only 23 per cent above the 1936-38 level, although the dollar prices of such imports probably average about twice the prewar level. Our imports from the Western Hemisphere, on the other hand, have risen approximately fourfold, thus providing the dollars to pay for most of our increased exports to this region. While our exports to Latin American countries have declined somewhat in 1949, imports from that area have remained only slightly below the record levels of last year.

The failure of Western Europe to sell more in the United States has almost halved the share of the ERP countries in total American imports. Before the war one fourth of such

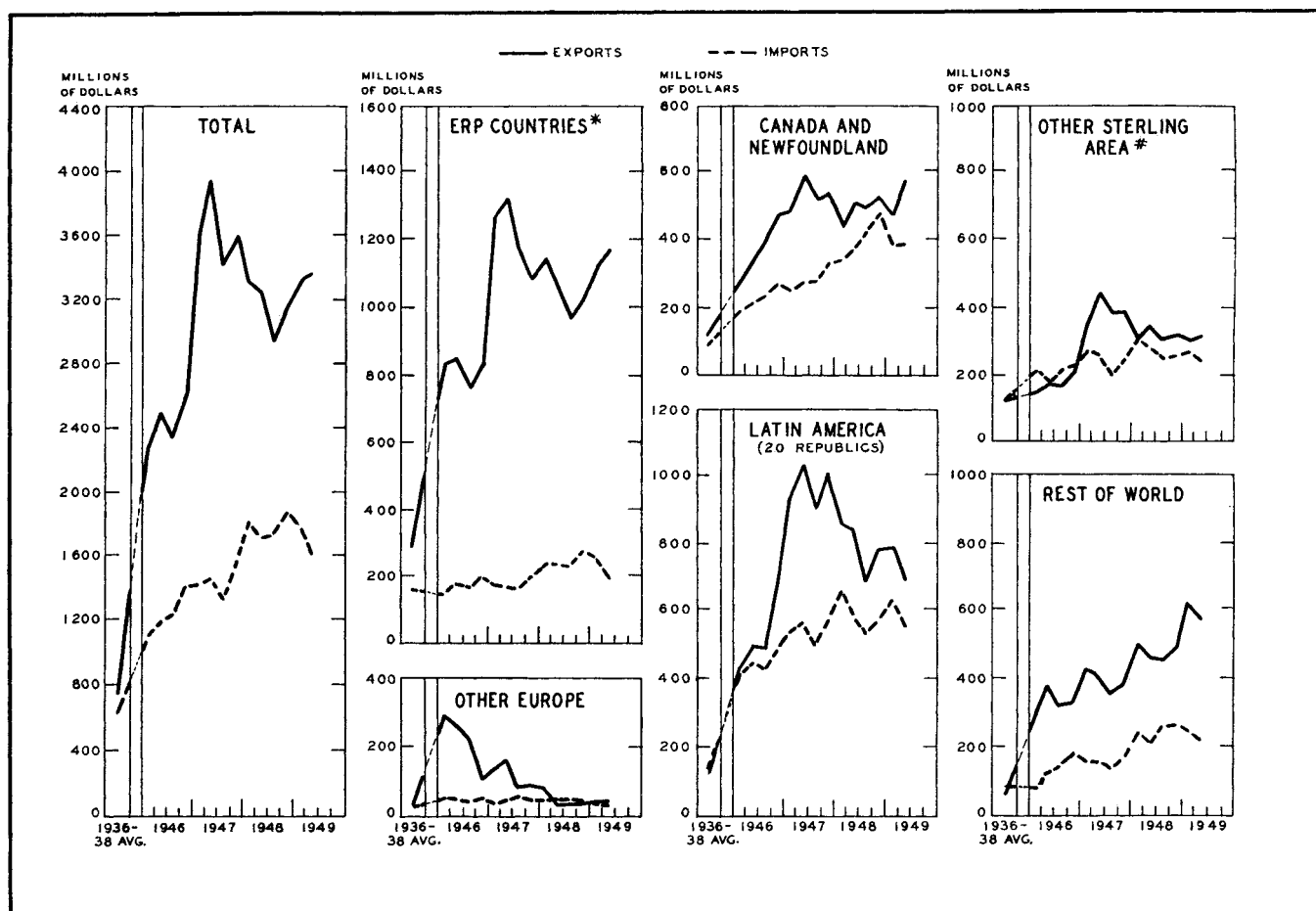
imports were recorded as coming from the countries now participating in the ERP; in 1949, only 13 per cent came from those countries. American purchases from the "other" sterling area similarly shrank from 20 to 15 per cent of our total imports. Canada and the Latin American republics, on the other hand, recorded net gains, their shares in our total imports rising from 14 to 22 per cent and from 22 to 35 per cent, respectively.

CHANGES IN COMMODITY COMPOSITION

These postwar changes in the regional distribution of American trade went hand in hand with changes in its commodity composition. The share of finished manufactured goods in the aggregate value of American exports, which had been rising for many decades, expanded even further after the war, increasing from 49 per cent before the war to 58 per cent in 1947. Since then, exports of industrial products have declined somewhat, largely because the boom in textile exports came

to an end with the expansion or restoration of textile manufacturing abroad, and because the sales of merchant vessels from war surplus stocks fell off. Exports of investment goods, such as iron and steel mill products, electrical equipment, and industrial machinery, stayed at their record levels of 1947. Exports of agricultural machinery, limited immediately after the war by supply difficulties, later expanded considerably and are still rising, while shipments of cars and trucks have apparently passed their postwar peak. Among raw material exports, shipments of coal, which exceeded 600 million dollars in 1947, have fallen somewhat due to the curtailment of shipments to Europe, but they are still considerably above their prewar level. Although the physical volume of cotton and tobacco exports failed to rise in the postwar years above their prewar levels, their aggregate value increased substantially because of high prices. Cotton exports were considerably aided by transactions of the Commodity Credit Corporation with Germany and Japan.

Chart II
United States Exports and Imports by Major Areas
(Quarterly totals)



* See footnote to Table I.

See footnote to Table I.

Source: U. S. Department of Commerce, *United States Foreign Trade—Trade by Country*.

The largest postwar percentage increases were recorded in food exports, which rose eight to ten times, from the prewar annual average of 300 million dollars to close to 3 billion dollars in 1947 and to 2.6 billion in 1948. During the first six months of this year, approximately the same annual rate of food exports prevailed as in 1948. The postwar increase in food exports was concentrated primarily in wheat and wheat flour, which by weight were eight times as large as in the last prewar years (when, however, exports were abnormally low because of the 1936 drought), and by value were 20 times the prewar amount.

The postwar changes in the commodity composition of imports were less pronounced than those in exports, but nevertheless very substantial shifts occurred among the various categories. The United States became for the first time a net importer of petroleum and petroleum products, although in value terms exports in this category still exceed imports because

of the higher values of the finished products which are exported. Imports of nonferrous ores were, in aggregate value, below the prewar level until the end of 1948, but have expanded sharply in 1949, as have tin and copper. Imports of wool and burlap, which rose sharply in 1948, fell off in the first six months of 1949, reportedly in anticipation of the sterling and rupee devaluations. Imports of crude rubber rose steadily after the end of the war; by 1946 they had exceeded their prewar aggregate value, and by 1947 their prewar volume. However, they undoubtedly were adversely affected by the competition of synthetic rubber, particularly since the price of synthetic rubber tends to set an effective ceiling on the price of crude. Food imports tripled in value after the war, primarily because we now buy annually almost one billion pounds more of coffee than before the war, at prices roughly three times as high. Imports of sugar and cocoa are at approximately their prewar volume, but their value exceeds the prewar figure severalfold. Imports of alcoholic beverages, which constitute an important part of imports from Europe, have remained close to the prewar level, in both volume and value.

Imports of finished manufactures in the past two years, measured by value, have been almost three times as large as before the war. This surprising increase reflected an apparently permanent rise in imports of newsprint, and a very large expansion of imports in the "machinery and vehicles" category. The latter is largely accounted for by presumably temporary increases in imports of Canadian agricultural machinery and European motor vehicles. The failure of Western European countries to regain their former share in the greatly expanded American consumers' goods market is apparent in the figures of textile imports. The value of the latter stayed below the prewar figure until 1947, and although it rose further in 1948, it declined again in 1949. Measured by quantity, textile imports throughout the postwar period have remained very much below the prewar level.

As to the outlook for the immediate future, several months will have to elapse before there can be any clear evidence that the recent currency devaluations are making themselves felt through an expansion of United States imports and a decline of United States exports; nor is it clear whether the impact is likely to be greater upon imports or upon exports. The devaluations apparently came too late to cause increased imports for the Christmas season. In any event, no drastic and rapid changes in short order should be expected. Although the competitive position of foreign producers in many lines of merchandise has undoubtedly been improved by devaluation, they still have to face the arduous task of winning or regaining a larger share of the American market through improved marketing and merchandising. Their ability to earn more dollars will largely determine also the future of American exports, the larger share of which even now is being paid for through

Table II
United States Exports and Imports by
Major Commodity Groups
(In millions of dollars)

Commodity groups and selected commodities	1936-38 average	1946	1947	1948	1949*
DOMESTIC EXPORTS					
Crude materials.....	669	1,417	1,596	1,489	2,030
Cotton, unmanufactured.....	313	537	416	503	1,039
Tobacco, unmanufactured.....	142	352	271	215	184
Coal.....	56	302	622	479	385
Semimanufactures.....	519	894	1,777	1,367	1,542
Iron and steel semimanufactures.....	148	235	436	316	407
Foodstuffs.....	306	2,172	2,944	2,582	2,522
Wheat and wheat flour.....	62	610	899	1,394	1,159
Fruits and vegetables.....	100	296	279	269	213
Meat products.....	43	434	227	129	168
Finished manufactures.....	1,431	5,019	8,661	7,058	6,971
Agricultural machinery.....	65	158	318	382	480
Industrial machinery.....	227	842	1,337	1,249	1,426
Electrical machinery and apparatus.....	105	304	563	491	468
Iron and steel mill manufactures.....	199	447	825	650	838
Passenger automobiles.....	113	123	335	280	231
Trucks and bus-es.....	76	231	445	352	272
Textile manufactures.....	87	731	1,375	844	739
Merchant vessels.....	1	126	628	255	150
Total.....	2,925	9,501	14,978	12,497	13,065
IMPORTS FOR CONSUMPTION					
Crude materials.....	760	1,700	1,744	2,147	1,907
Crude petroleum.....	19	102	162	283	341
Nonferrous ores.....	156	61	101	152	274
Crude rubber.....	179	234	323	313	263
Wool, unmanufactured.....	57	289	209	307	193
Undressed furs.....	65	232	121	158	104
Tobacco, unmanufactured.....	33	86	91	78	74
Oilseeds.....	28	53	139	151	92
Jute and jute butts.....	7	12	11	26	43
Semimanufactures.....	503	929	1,244	1,632	1,460
Tin.....	75	19	43	104	132
Copper.....	36	78	144	178	199
Gas and fuel oil.....	20	56	85	126	114
Fertilizers.....	37	21	32	43	57
Woodpulp.....	101	135	257	272	181
Foodstuffs.....	720	1,318	1,672	2,003	2,046
Coffee.....	141	470	600	696	731
Cocoa and cocoa beans.....	35	56	152	193	161
Meat products.....	32	17	23	90	57
Cane sugar.....	152	196	410	313	419
Alcoholic beverages.....	69	85	65	83	76
Finished manufactures.....	478	845	983	1,309	1,279
Newsprint.....	107	241	343	413	218
Machinery and vehicles.....	21	44	67	154	162
Burlap.....	35	77	109	131	112
Other textile manufactures.....	110	102	94	156	138
Total.....	2,461	4,793	5,642	7,091	6,693

* Annual rate based on January-June 1949.

Source: U. S. Department of Commerce, *U. S. Foreign Trade-Trade by Commodity*.

shipments to this country. With ERP aid scheduled to end in 1952, intensive sales efforts of foreign sellers may thus be the determining factor in the long-run level of both American exports and American imports. However, the lowering of import duties by the United States through the Geneva Trade Agreements of 1947, supplemented by the American concessions granted recently in Annecy, and our promised review and simplification of customs practices, should also be of appreciable help in maintaining the level of our trade with the outside world.

DEPARTMENT STORE TRADE

Unlike August and September sales, which showed a more-than-seasonal rise, October sales at Second District department stores fell below seasonal expectations. They were only slightly greater than in September and, according to a preliminary estimate, the dollar volume of sales was fully 10 to 12 per cent less than in October 1948. Unusually warm weather undoubtedly was a deterrent to consumer shopping, particularly for outerwear and other fall and winter lines in which business is usually brisk by mid-October, but other factors were probably also present.

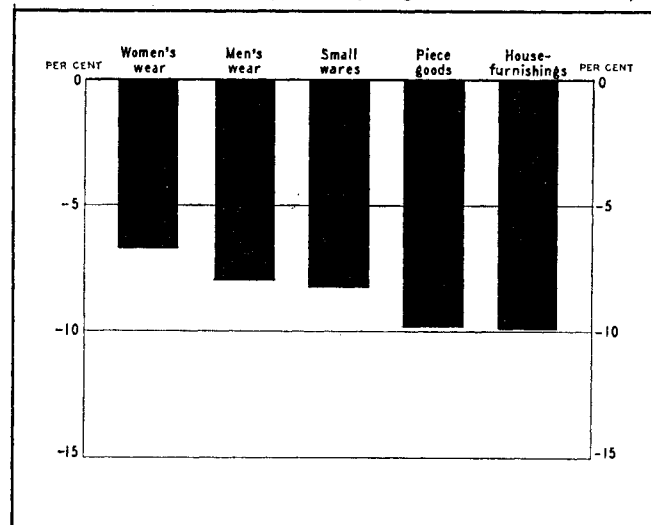
RECENT INVENTORY POLICY

Marking a reversal of the inventory curtailment policy in effect since the end of the Easter season, during September the stores increased the dollar volume of their stocks by about twice the usual percentage. Stocks had reached an exceptionally low level by the end of August, possibly so low in some departments as to cause a loss of sales owing to inadequate selections. Whereas at the end of August the retail value of stocks had been 16 per cent less than one year previous, by the end of September the year-to-year decrease was reduced to 12 per cent. However, this left stocks still fairly low relative to sales, which during September ran only 5 per cent less than a year earlier (and for the entire January-September period only 7 per cent less than a year previous). Housefurnishings stocks were particularly low, 19 per cent less than on September 30, 1948, while women's wear and men's wear stocks were down by 10 and 8 per cent, respectively.

During the last week or two of August, and continuing through September, the stores considerably accelerated their rate of ordering from wholesalers and manufacturers. Several similar spurts in the last year or two appeared to involve mainly the seizing of promotional opportunities. The most recent spurt, however, was largely a matter of rebuilding basic inventories closer to the rate of consumer spending.

The dollar amount of new orders placed during September was more than 25 per cent greater than in the corresponding month last year. It was much greater proportionately to sales, notwithstanding the relatively favorable sales volume recorded

Department Store Sales by Type of Merchandise
Second Federal Reserve District
(Percentage decreases, January-September 1948 to 1949)



in September. Because of the usual lag between orders and deliveries, outstanding orders expanded sharply; by September 30 they were within 9 per cent of the year-ago amount, in contrast to gaps of 25 to 45 per cent earlier this year.

SALES TRENDS IN MAJOR DEPARTMENTS

While their sales have lagged from year-ago levels, Second District department stores have maintained a fair degree of "internal" sales stability. Individual departments have shown the usual considerable dispersion in sales volume trends, but the sales of major departmental groups have shown, through September, a fairly uniform rate of change from last year's levels. This situation is in contrast to that of previous years, when the emergence of radically altered styles and the filling of the backlog demand for durables led to very wide variations in year-to-year changes in sales among the major types of merchandise. Thus, while the various clothing lines during the first 9 months of 1949 showed considerable disparities (for example, millinery gained 4 per cent and hosiery lost 10 per cent), aggregate clothing and closely related accessories, both women's and men's, showed much the same drop in sales as small wares, piece goods, and housefurnishings.¹ As the accompanying chart shows, declines for the 9-month period January-September ranged from 7 per cent in the case of women's wear to roughly 10 per cent for housefurnishings, a spread of only 3 percentage points. (The range for the five groups in the corresponding period of 1948 as compared with 1947 was from a decline of about one per cent to a gain of approximately 11 per cent.)

¹ This discussion is confined to main store sales, which account for about 90 per cent of total sales. The addition of basement store sales would not materially affect the conclusions, however.

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

Locality	Net sales		Stocks on hand Sept. 30, 1949
	September 1949	Jan. through Sept. 1949	
Department stores, Second District....	- 5	- 7	-12
New York City.....	- 6	- 8	-13
Northern New Jersey.....	- 2	- 7	- 8
Newark.....	- 4	- 8	- 7
Westchester County.....	+ 4	+ 5	- 2
Fairfield County.....	- 8	- 9	-14
Bridgeport.....	- 9	-10	-14
Lower Hudson River Valley.....	- 3	- 5	-11
Poughkeepsie.....	- 4	- 4	-12
Upper Hudson River Valley.....	- 7	- 4	-15
Albany.....	-14	- 6	-21
Schenectady.....	- 4	- 2	- 8
Central New York State.....	- 2	- 7	-12
Mohawk River Valley.....	-10	-10	-18
Utica.....	- 8	- 9	-20
Syracuse.....	+ 1	- 6	- 7
Northern New York State.....	- 8	- 6	-22
Southern New York State.....	-12	- 9	-16
Binghamton.....	-13	- 9	-17
Elmira.....	- 7	- 9	-15
Western New York State.....	- 5	- 4	-13
Buffalo.....	- 3	- 2	-10
Niagara Falls.....	-15	- 6	-20
Rochester.....	- 7	- 8	-15
Apparel stores (chiefly New York City).....	-11	- 9	-10

In recent months, one outstanding exception to the general lag in sales has been the radio-television department, in which third-quarter sales recorded a gain of more than 25 per cent, after having shared the over-all lag during the first half of the year. Summer promotion of television sets played a large role in the outstanding performance of this department. New models at lower prices have been continuously entering and hence widening the market, while credit terms have been liberalized. Major household appliances, on the other hand, have not been in great demand, and in the July-September period sales dropped 35 to 40 per cent below July-September 1948. Furniture sales decreased by 11 per cent over the same interval.

In ready-to-wear departments, men's wear registered a better performance than women's in the July-September period. In contrast to an 8 per cent decrease for men's wear, women's wear sales lagged by 11 per cent, apparel lagging substantially more than accessories. The large volume dress and coat-and-suit departments had sales losses of 11 and 12 per cent, respectively.

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

Item	1948	1949		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted.....	257	155	171	243
Sales (average daily), seasonally adjusted..	254	222	234	241
Stocks, unadjusted.....	257 ^r	189	204	225
Stocks, seasonally adjusted.....	244 ^r	213	204	213

^r Revised.

Indexes of Business

Index	1948	1949		
	Sept.	July	August	Sept.
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	192	161 ^r	170	172 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	252	255	258	255 ^p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	201	156	155 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	340	328	329 ^p	
Factory employment United States#, 1939 = 100..... (Bureau of Labor Statistics)	159	137	141	144 ^p
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	128	106 ^p	113 ^p	118 ^p
Factory payrolls United States#, 1939 = 100..... (Bureau of Labor Statistics)	367	313	323 ^p	
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	306	247 ^p	264 ^p	283 ^p
Personal income*, 1935-39 = 100..... (Department of Commerce)	315	306	308 ^p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	194	199 ^p	199 ^p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	175	169	169	170
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	104	105	110	106
Outside New York City.....	93	88	89	89

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

Revised beginning January 1941.

† 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, October 28, 1949)

INDUSTRIAL production and employment increased somewhat further in September but, as a result of industrial disputes, were curtailed sharply in October. Department store sales were below seasonal expectations from mid-September to the third week of October. Wholesale commodity price movements were mixed, with only a small decline in the average level. Construction activity continued at high levels. Stock prices advanced moderately and bond prices held firm.

INDUSTRIAL PRODUCTION

Production of manufactures advanced further in September while output of minerals declined 8 per cent. The Board's seasonally adjusted total index was 172 per cent of the 1935-39 average as compared with 170 in August. The index is expected to decline about 20 points in October largely as a result of the steel strike.

Activity in durable goods industries rose about 2 per cent in September, reflecting mainly increases in output of consumers' durable goods and of metal building materials and equipment. Activity in the machinery industries rose 4 per cent in September, after declining steadily over the preceding 8 months with a total reduction of 22 per cent in that period. With work stoppages at most plants, steel production was curtailed to 9 per cent of capacity beginning October 1, compared with 83 per cent in September.

Output of nondurable goods rose about 3 per cent further in September and was at the highest rate since February. Most of the gain represented continued very large increases at textile and paper mills, in part reflecting seasonal influences. Cotton consumption expanded 14 per cent and September deliveries of rayon to textile mills advanced to a new record rate. Paper-board output increased 10 per cent and was also at a new peak rate. Petroleum refinery activity increased somewhat further.

Output of most other nondurable goods was maintained in large volume.

Minerals output has declined sharply since the middle of September mainly as a result of work stoppages at most coal mines. Output of iron ore declined more than seasonally in September and in October has dropped sharply as a result of the steel labor dispute. Crude petroleum production, on the other hand, has advanced in September and early October.

CONSTRUCTION

Total value of construction contracts awarded increased substantially in September reflecting largely a further sharp expansion in residential contracts to a new record rate. Awards for public construction declined seasonally, following a marked drop in August, but the value of public work done has been maintained at a high level reflecting the large volume of awards earlier this year.

EMPLOYMENT

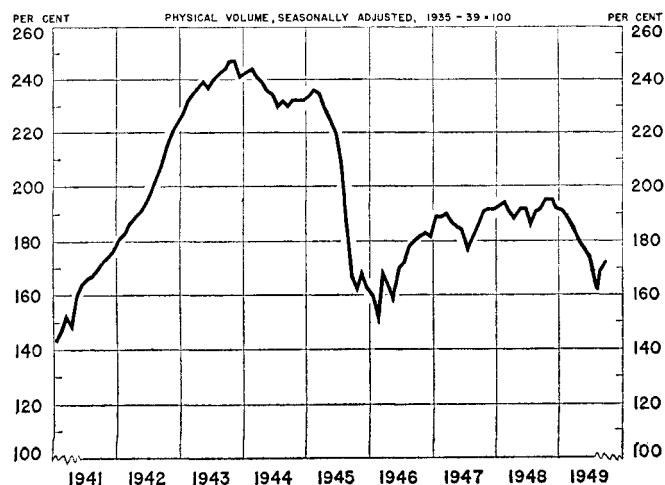
Employment in nonagricultural establishments increased somewhat more than seasonally from mid-August to mid-September, but subsequently declined as a result of work stoppages.

DISTRIBUTION

Department store sales did not show the usual seasonal increase from the middle of September to the third week of October. Value of sales during the second half of September was 8 per cent smaller than in the corresponding period a year ago and during the first three weeks of October sales were 13 per cent below a year ago. Department store sales had averaged about 6 per cent lower than last year during the first eight months.

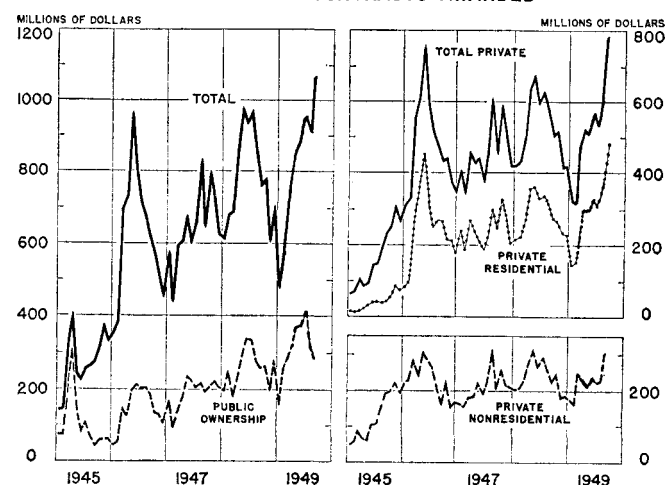
Shipments of railroad revenue freight in the first half of September continued at a level about 20 per cent below the

INDUSTRIAL PRODUCTION



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

CONSTRUCTION CONTRACTS AWARDED



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

same period a year ago. Since the middle of September, however, freight carloadings have dropped sharply, mainly as a result of curtailed shipments of coal, iron ore, and steel products, and in the week ended October 22 were 36 per cent smaller than in the corresponding week of 1948.

COMMODITY PRICES

The general level of wholesale commodity prices decreased somewhat from mid-September to the third week of October. Prices of hogs and pork showed marked seasonal declines and reductions also occurred in some other farm products and foods. Cattle prices, however, advanced and coffee prices rose sharply. Imported materials generally were lower in the third week of October than in mid-September before many foreign currencies were devalued, while prices of some domestic industrial products such as cotton goods and tires were higher.

BANK CREDIT

Business loans at banks in leading cities expanded in Sep-

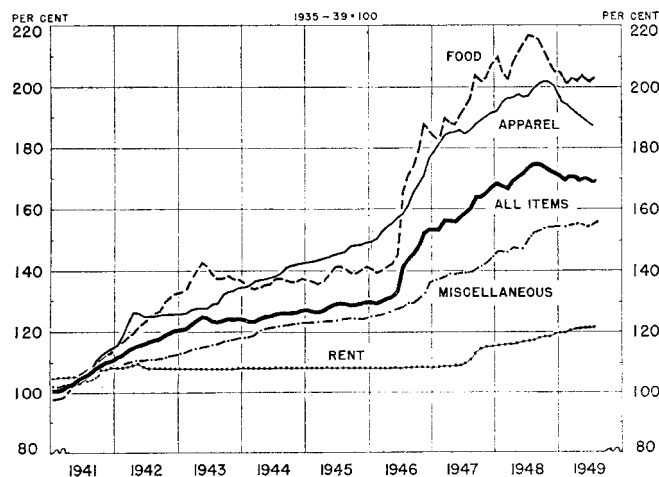
tember and the first three weeks of October in response to a seasonal rise in credit demand. Loans to consumers and real estate owners and holdings of U. S. Government and corporate and municipal securities also increased.

Treasury deposits at Reserve Banks, which were large at the end of September, were drawn down in the first three weeks of October, supplying banks with a substantial volume of reserve funds. Federal Reserve holdings of Government securities and member bank borrowings at Reserve Banks declined somewhat and member bank excess reserves increased moderately.

SECURITY MARKETS

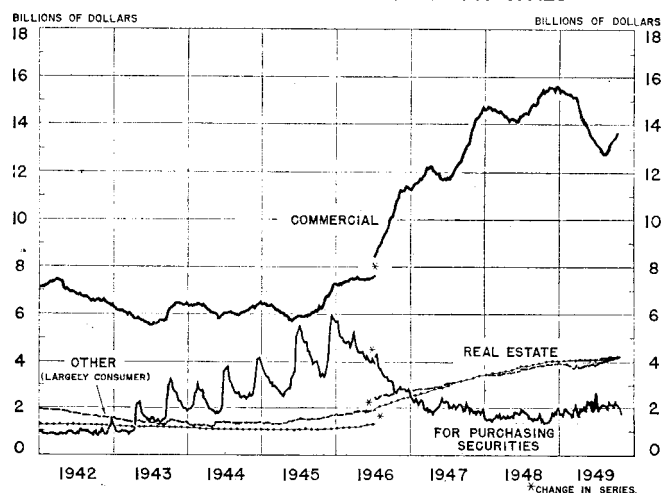
Common stock prices increased somewhat in the first three weeks of October to a new high for the year. Prices of Government securities and high-grade corporate bonds showed little change. The volume of new corporate security issues was small in September and October.

CONSUMERS' PRICES



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

LOANS AT MEMBER BANKS IN LEADING CITIES



Excludes loans to banks. Wednesday figures; latest shown are for October 19.