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MONEY MARKET IN JULY

In July, the balance of demand and supply forces in the Treasury security and money markets was radically changed by the American participation in the hostilities in Korea. Investors interpreted international events as tending to freeze the existing money rate structure. Demand for Treasury issues of the intermediate and longer maturities consequently broadened materially, and offerings contracted. Prices rose, and yields fell correspondingly. The Federal Reserve System, which in June and the first days of July engaged in extensive open market operations in support of the Treasury's July 1 refinancing, had no occasion to continue such operations. In fact, to meet the increased demand for Government securities, the System sold Treasury bonds on a rapidly rising scale and also sold short-term Treasury securities in periods of money market ease.

Although the return flow of currency to the banks after the Fourth of July and other money market transactions provided the banks with a sizable amount of additional reserves, the quickening demand for Treasury issues tended to tighten member bank reserve positions, as a large part of this demand could be satisfied only through Reserve System sales. Tight money market conditions in New York City resulted. They were related principally to substantial purchases of Treasury securities in New York by nonbank investors and correspondent banks in other parts of the country, indirectly from the System, which caused recurrent shortages in the reserves of the New York City banks.

GOVERNMENT SECURITY MARKET

The turn of events in the Far East was at first taken calmly by investors in U. S. Government securities without any material effects on prices or stimulating influences on trading volume. The initial response was one of caution as investors paused to appraise the longer-term implications of Korean developments, and dealers reduced their quotations temporarily. However, as investors grew more confident that the present money rate structure rather than a higher one would prevail, demand for Government obligations broadened with respect both to classes of investors and to types and maturities of issues.

With the commitment of United States forces in Korea, it became obvious that the amount and speed of defense expenditures would have to be increased substantially. Investors were convinced that, because of differences in the timing of receipts and expenditures, the Treasury would have to increase its borrowing in the market even if taxes were raised, but they also felt that the necessary financing would be carried out without a rise in interest rates. They therefore ceased selling newly issued Treasury notes, and commercial banks with idle funds made substantial purchases of short-term Treasury issues, mainly bills, in the first half of the month. Large sales of short-term securities by the Federal Reserve System were substituted for purchases of newly issued Treasury notes in support of the Treasury's financing rate. As a result of the increased demand, prices of short-term Government securities rose slightly. In the latter part of the month, however, the Reserve Banks made large purchases.

Treasury bond prices moved irregularly higher following the uncertainty of the first days of the invasion of South Korea. By the middle of July, most issues had more than recovered their early losses and risen above the previous levels. Part of the increased demand for bonds came from "professional" and speculative sources, and investment buying by pension funds and institutional investors proceeded on a sizable scale.

In anticipation of the recommendations for higher corporate and individual taxes which were made by the President in a special tax message to Congress late in the month, partially tax-exempt issues showed the largest price advances. By July 27, partially tax-exempt issues showed gains since the end of June ranging from a little less than ¼ of a point for the issue

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callable in 1953 to more than one full point for the issue having the longest maturity.

Bank-eligible issues also registered sizable increases in price, although the gains were generally much smaller than in the case of partially tax-exempt issues. Demand for these issues came principally from the commercial banks and reflected the view that the banks would not be afforded an opportunity to participate to any great extent in any new intermediate or long-term Treasury financing. Defense financing, it was believed, would most likely be effected through the issuance of long-term restricted bonds. Thus, existing bank-eligible bonds, particularly the intermediate and longer-term issues, assumed an increased scarcity value.

The demand for restricted bond issues also increased sharply, and the supply seemed to fade away just as rapidly. Professionals and speculators apparently increased their holdings. Considerable buying by customers of stock brokerage houses was reported. The Federal Reserve System, therefore, stepped up its (net) sales of long-term bonds from 6 million dollars in the week ended June 28 to an average of well over 100 million dollars weekly in the following three weeks and to 289 million in the week ended July 26; changes in prices of such issues consequently were small.

Member Bank Reserve Positions

Money market conditions were tight during a large part of the past month, reflecting the Government security operations of both banks and nonbank investors rather than ordinary money market transactions.

Early in the month, the pressure on reserve positions was related in part to the adjustments necessary to bring excess reserves to more normal working levels. On June 28, excess reserves stood at the unusually low level of 520 million dollars. In the following week, the member banks were able to raise them by 250 million dollars, despite moderate losses of reserve funds due to a large holiday outflow of currency into circulation and other transactions, which together more than offset the effects of substantial net Treasury disbursements. The increase in excess reserves was effected through large member bank sales of short-term Treasury securities, indirectly to the Reserve System. The securities sold consisted chiefly of the newly issued 13-month notes due on July 1 and August 1, 1951.

The money market turned easy in the week ended July 12, when continued large net Treasury disbursements, together with a heavy return flow of currency and a sizable expansion of Federal Reserve "float", provided the member banks with a substantial volume of additional funds. Sizable nonbank investor purchases of Government bonds from the Reserve System absorbed only a portion of these gains. Member banks added about 150 million dollars to their excess reserves and made sizable purchases of Treasury bills, largely from the Reserve System.

Conditions again tightened in the week ended July 19, and member bank reserve positions were subject to pressure through the rest of the month. The principal drain on reserves had its source in nonbank investor purchases of Treasury securities indirectly from the Reserve System and in the member banks' own security operations. Ordinary money market transactions resulted in only a moderate absorption of reserve funds. Most of the pressure occurred in the week ended July 19, in the course of which System holdings of Treasury securities declined 425 million dollars, member bank excess reserves fell 250 million, and member bank borrowing from the Reserve Banks rose 135 million dollars. The strain on reserve positions resulted not only from nonbank purchases of Treasury securities, partly financed with the proceeds of bank loans, but also from extensive purchases by the banks themselves. The latter apparently drew down their excess reserves in order to make large net purchases of Treasury issues in anticipation of gains of funds which failed to materialize.

Money market strain persisted in the remaining days of the month because of continued large nonbank investor purchases of Government bonds and because of the need for funds to repay borrowings from the Reserve Banks.

Since the brunt of the demand for Treasury securities focused on the New York market and the Federal Reserve System was the major supplier, the New York City banks bore a large part of the resultant pressure on reserve positions. Substantial losses of reserve funds early in the month (during the week ended July 5) due to a transfer of funds to other parts of the country, an outflow of currency into circulation, and net receipts into foreign government accounts with the New York Reserve Bank, as well as nonbank purchases of restricted Treasury bonds, set the tone for the New York money market for practically the entire month. In fact, the New York City institutions did not experience the easing of reserve positions that the banking system as a whole enjoyed during the week ended July 12. Although the City banks received large transfers of funds from other parts of the country in that week and the following week, they were unable to benefit from the use of these funds since out-of-town banks and others reinvested them rather rapidly in Treasury issues which were supplied in large part by the Reserve System.

Thus, the New York City banks were compelled to borrow substantial amounts of funds from the Reserve Bank for short periods of time and to sell (net) large amounts of Treasury securities. Part of these net sales were made to Government security dealers, who financed their purchases with the proceeds of loans from the New York banks, thus affording little relief to the banks' reserve positions.

COMMODITY PRICES SINCE THE KOREAN CRISIS

The outbreak of hostilities in Korea precipitated price increases for numerous products, particularly for basic commodities, at the wholesale level, and—to a more limited ex-

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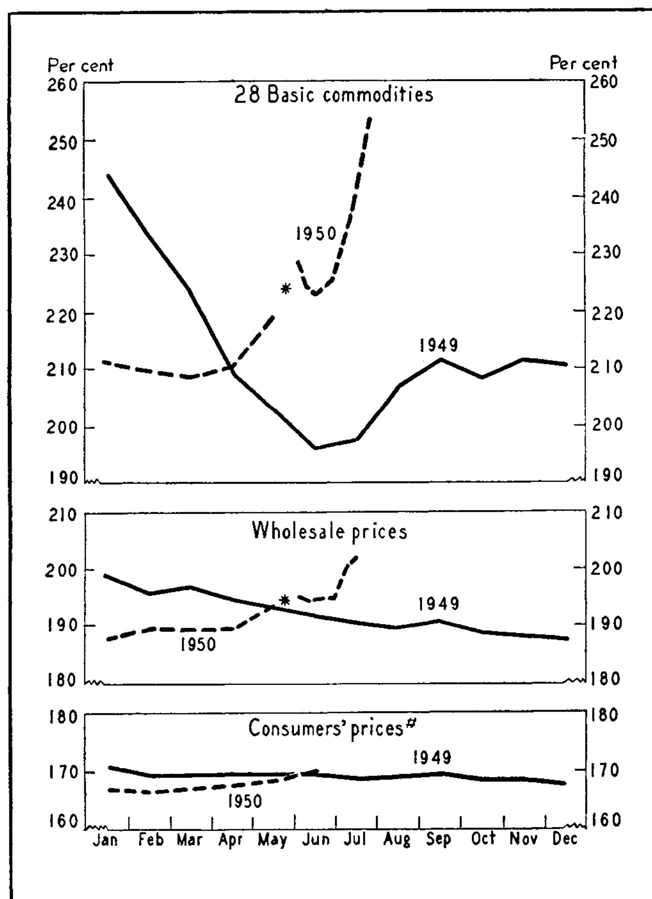
tent—in the retail stores. Many manufacturers, merchants, and consumers, anticipating that the crisis originated by the invasion of South Korea will create shortages and bring on further price increases, are apparently attempting to build up their stocks or to replace some types of goods before they normally would do so.

This upward pressure on prices comes at a time when the markets are already under pressure from a high rate of industrial and construction activity. Wholesale prices had started to move upward in April after having remained stable for nearly six months (from October through March). Between the beginning of April and the first week in June, the weekly index of wholesale prices had advanced 3.6 per cent. It then appeared for a while that the upward price trend was leveling off. Between June 1 and the start of hostilities in Korea, the net declines among the primary commodity prices reported daily by the Bureau of Labor Statistics were about as numerous as the net advances, and throughout June the weekly wholesale price index remained relatively unchanged. But with the beginning of hostilities, prices began to rise again.

Price Indexes, 1949 and 1950
(1935-39 average=100 per cent)



* Monthly indexes through May 1950; thereafter weekly for wholesale prices (through July 18), Tuesday dates for 28 basic commodities (through July 25).
# Monthly indexes throughout; latest figure is for June 1950.
Source: U. S. Bureau of Labor Statistics; 28 basic commodities and wholesale prices converted to a 1935-39 base by the Federal Reserve Bank of New York.

During the first month of fighting, the weekly index of wholesale prices advanced 4 per cent. An average increase of about 7 per cent in prices of farm products and foods accounts for the greater part of the increase occurring in the wholesale price index since the current crisis began. The recent increases, however, return the level of primary prices only to about where it stood in November 1948 and it is still considerably (16 per cent) below the postwar peak reached in late 1947. The general wholesale price index, which had declined less from its postwar peak, is also back to its November 1948 level, but is only 4 per cent below the postwar peak, attained in mid-1948.

As shown in the accompanying chart, the current wave of price rises has been paced by the basic commodities, which are the most sensitive and traditionally experience the widest fluctuations. On July 28, all major groups in the daily basic commodity price index of the U. S. Bureau of Labor Statistics reached new highs for this year. These increases came at a time when most of the basic commodities had already made significant advances earlier this year. Between their lows for 1950, which were reached in the first quarter, and June 23 (just before the Korean invasion) their advances ranged from 7 per cent to 10 per cent, but within the first month after fighting began in Korea they advanced from 9 to 17 per cent further. The combined index for the basic commodities rose 8 per cent from its low of 1950 to June 23, and its subsequent advance was 15 per cent. Domestic farm products, however, had advanced further prior to the North Korean attack than they have in the period that has elapsed since June 23. From its 1950 low to June 23 this group advanced 10 per cent whereas its subsequent increase was 9 per cent. The largest gain for the period following the outbreak of hostilities was experienced by the group of imported commodities. Its index advanced 17 per cent during this period, after an increase of only 7 per cent from its 1950 low to June 23. This undoubtedly reflects the fear that such commodities as tin, rubber, coffee, cocoa, wool, and sugar might be in short supply if hostilities are prolonged or intensified. For the domestic group the comparable advances were 8 per cent in the earlier period and 13 per cent since the Korean conflict began.

Of the 29 spot primary market prices of basic commodities that make up these "sensitive" indexes,[1] only three (flaxseed, barley, and steel scrap at Philadelphia) are lower than they were on June 23. The prices of 3 commodities—coffee, rubber, and wool tops—have reached new postwar peaks. So far 18 commodities have risen 5 per cent or more since June 23 and, of these, 8 have advanced more than 20 per cent. The extent to which these commodities had risen prior to the North Korean aggression can be seen from the fact that nearly half

[1] The B.L.S. has officially titled its index "Daily Index of Spot Primary Market Prices of 28 Commodities." The index, however, is composed of 29 price quotations for 27 commodities. Steel scrap, priced at both Philadelphia and Chicago, is considered two commodities, whereas winter wheat at Kansas City and spring wheat at Minneapolis are considered as one commodity, in order not to give undue weight to farm products.

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Recent Changes in Spot Prices of Selected Basic Commodities

Commodity	Unit	Price in dollars, July 28, 1950	Percentage change		
			Postwar peak to 1950 low	1950 low to June 23	June 23 to July 28
Domestic farm products					
Hogs	cwt.	24.875	−50	+29	+23
Cotton	lb.	.390	−22	+10	+15
Steers	cwt.	31.125	−25	+ 6	+ 6
Wheat, winter	bu.	2.215	−32	0	+ 5
Corn	bu.	1.560	−54	+18	+ 3
Foodstuffs					
Cocoa	lb.	.382	−59	+48	+18
Coffee	lb.	.550	*	+ 6	+13
Sugar	lb.	.062	−13	+ 6	+ 7
Butter	lb.	.601	−33	+ 1	0
Metals					
Tin	lb.	.948	−28	+ 3	+24
Lead	lb.	.120	−51	+10	+ 4
Zinc	lb.	.157	−42	+50	0
Copper	lb.	.224	−21	+22	0
Steel scrap (Philadelphia)	ton	33.000	−50	+53	− 4
Other industrial materials					
Rubber	lb.	.490	*	+57	+74
Print cloth	yd.	.195	−52	+13	+28
Wool tops	lb.	2.280	*	+15	+14

* Postwar peak reached subsequent to 1950 low.
Source: Computed by the Federal Reserve Bank of New York from data of the U. S. Bureau of Labor Statistics.

experienced larger increases from their respective lows for 1950 to June 23 than in the subsequent period. Furthermore, there were 19 increases of 5 per cent or more in the period prior to the North Korean attack, and of these 19 increases 7 were greater than 20 per cent.

Farm products, which are generally very responsive to changes in supply and demand conditions, undoubtedly would have risen further had it not been for the large stocks of most basic farm products, which preclude the development of any shortages in the near future. This is true despite the fact that the outlook generally is for smaller production this year in wheat and in cotton, because of reductions in acreage ordered by the Department of Agriculture and because of unfavorable weather conditions. Carryovers from previous crops will help provide more than ample supplies of most commodities to meet this year's domestic consumption and exports. However, substantial quantities of these stocks are held by the Commodity Credit Corporation in its price-support inventories, and there is still room for further price increases, especially for wheat and corn, before these CCC-held commodities can be made available to the market unless legal restrictions on sales are changed by Congress. The CCC cannot now "sell any basic agricultural commodity or storable nonbasic commodity at less than 5 per cent above the current support price for such a commodity plus a reasonable carrying charge." The market prices for most of the commodities owned by the Government, except cotton, are still below the minimum levels at which they can be sold under the present law.

The restraining influence that the large farm surpluses are having on price rises can more readily be seen in the variations in price increases that have taken place for individual foodstuffs. Price increases for the major grains, of which large surpluses are held in storage, have been relatively small. Winter wheat has risen 5 per cent since June 23, corn and rye have each advanced 3 per cent, while barley and oats are down 1 per cent and 8 per cent, respectively. This year's harvest of wheat, plus the amount available from previous crops (a third above the 1949 carryover), are about twice the annual domestic consumption of 700 million bushels and will be more than enough to meet export demands for the present season, estimated to be from 225 million to 250 million bushels. Rye supplies are greater this year than last and appear sufficient to meet both domestic and export needs. The corn crop (as it now appears) is expected to exceed 3 billion bushels, which is about 21 per cent larger than the amount recommended by the Department of Agriculture prior to the current emergency, under an acreage allotment program aimed at cutting down the existing surplus. This will probably be the sixth largest corn crop of record and, taken in conjunction with the already large carryover (10 per cent more than last year's record high), would indicate that adequate supplies will be available as feed for the projected high level of livestock population. This year's oat crop should also prove to be a better-than-average crop and will further supplement feed supplies. The amount of barley on hand is only four fifths of the 1949 stocks but this carryover is larger than in most years. Butter offers another example of the dampening of price increases by the existence of large surpluses. The price of butter did not advance at all until the fourth week of hostilities and then it was up by only 0.3 per cent. The Commodity Credit Corporation has about 185 million pounds of butter in storage. In the case of perishable products the CCC may sell at any price it sees fit, but only when there is danger that these products will deteriorate. The threat of competition from oleomargarine, however, may also be a contributing factor in restraining price increases for butter.

Price increases have been generally more pronounced in the case of those foodstuffs of which large surpluses are not available. However, since adequate supplies even of these foodstuffs are available, at least part of the price increases may be attributed to anticipatory buying. Hog prices on July 28 were 23 per cent above their June 23 level, but steers were up only 6 per cent. Seasonal increases in livestock prices had been under way, even before the Korean crisis, on the basis of supply and demand factors. By June 23, hog prices were 29 per cent above their 1950 low and steers 6 per cent. The smaller advance for steers can be attributed to the fact that their prices have been maintained at relatively high levels. Increased military purchases and sustained high-level consumer demand indicate that seasonal declines in meat prices will be smaller than usual this fall. Fats and oils, which experienced larger declines from postwar peaks than other foodstuffs, have rebounded sharply. In the month that has elapsed since the North Korean invasion, cottonseed oil has jumped 27 per cent and lard 47 per cent.

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Of the four principal imported farm products—cocoa, coffee, wool tops, and sugar—the first three have advanced very significantly, whereas for sugar the increase has not been so pronounced. Cocoa was up 18 per cent, wool tops 14 per cent, and coffee 13 per cent, while sugar rose only 7 per cent. Here again the variations in the availability of supplies apparently explain the differences in price increases. Supplies of sugar are more than ample, especially since the Department of Agriculture has contracted to purchase 600,000 extra tons of raw sugar from Cuba. This will provide the United States with the largest supply ever available in any single calendar year.

The advance in cotton prices has been one of the most striking for domestic commodities, and it is affecting the entire textile market. This rise began in early June and was accelerated by the developments in Korea, but the main impetus came when the Department of Agriculture announced that a smaller cotton crop was in prospect for 1950-51 than had previously been expected. The report of the Department of Agriculture indicates that acreage this year is 31 per cent below that of last year. As a result of the reduced acreage and crop damage, private sources estimate that the new crop will yield only some 10 million bales compared with more than 16 million bales last year. Consumption ("disappearance") in the 1949-50 crop year was about 14 million bales, and, if consumption in the crop year beginning August 1 is of the same magnitude, stocks on hand (7.3 million bales) will be substantially reduced. When the announcement of the Department of Agriculture was first made, many sellers of gray goods, yarns, knit goods, and other finished goods withdrew from the market entirely, in order to await further price developments or to prepare price increases. Some manufacturers have since returned to the market but with substantially higher prices. There are reports of eager buying even at these higher prices, but the volume of sales has been below the recent high pace. The mills are said to be solidly booked through the third quarter of 1950. Many have substantial fourth-quarter bookings and a few have small amounts of business into the second quarter of 1951. To date (July 28) on the spot market, the price of cotton has increased 15 per cent since June 23 and print cloth prices 28 per cent.

Although nonferrous metal prices for future delivery have advanced sharply, spot prices of the major nonferrous metals, other than tin, have remained rather steady, consistent with their past tendency to lag behind other commodity prices. Tin, for which the United States is dependent exclusively on overseas sources, has moved upward rapidly since the war scare. On July 28 its spot price was 94.8 cents per pound, which was 24 per cent above its quotation on June 23. Smelters raised the price of lead 1 cent to 12 cents a pound on July 12 and 13, thus canceling out the reduction made in late June. Supplies of lead have been very plentiful despite fairly high consumption. Prices of magnesium, quicksilver, and platinum have also increased in recent weeks. Aluminum, copper, and zinc still remain in tight supply and are being allocated by most producers, and the supply may become even tighter if the Government speeds up its stockpiling of these metals. Since July 1, imports of copper have been largely held up or placed under bond, pending Congressional approval of the proposed suspension of the 2 cents per pound tariff which was reimposed on that date.

Although the steel industry achieved the greatest six months' output in its history during the first half of 1950, demand for steel continues in excess of supply. Of course, demand will become even greater should the economy convert to war production to any large extent. There has not been any official increase in basic prices, but prices for some "extras" have been raised. Even over a month ago there were many reports that the "gray market" in steel and costly "conversion" deals had been revived. At the present time individual steel companies are maintaining informal and voluntary allocation programs, but this may soon give way to mandatory controls as requested by President Truman.

So far, the advances in retail prices have been scattered and not nearly so widespread as in primary markets. Many of the increases are attributable, for the greater part, to the rise in raw material prices and in other costs which took place prior to the war scare. Prices to consumers generally lag behind wholesale prices (see the accompanying chart), and the current increases in the primary markets will not be fully reflected in sales to consumers for some time. In some cases, however, retailers have marked up their inventories immediately as a result of unusual increases in consumer demand.

Even before the Korean war, consumers' prices were rising. Between May 15 and June 15, the Bureau of Labor Statistics index of consumers' prices showed the largest increase (0.9 per cent) of any month in almost two years and came within 2.5 per cent of its postwar peak. A 2.1 per cent increase in food prices between May and June was largely responsible for this advance. Rent and utility costs were up only slightly, the miscellaneous group remained unchanged, and house furnishings and apparel prices declined fractionally. The Bureau of Labor Statistics expects that the index for July 15 will show a further rise.

Further price increases for most commodities, especially agricultural products, will depend to a very large degree on the extent to which consumers engage in "scare" buying and distributors take advantage of the temporary scarcities thus created. The Bureau of Agricultural Economics has issued a report in support of President Truman's statement that the nation's food supply is adequate to meet the increased demands of the armed forces as well as civilian requirements. The report states that with the continued high production of food expected this year, the availability of large stocks of storable foods, and declining food exports, the supplies of food available for civilians in this country should continue to run at the same high level as in the past two years. As employment and

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consumer incomes rise with the impact of an accelerated defense program, consumer demand will increase and cause an upward pressure on prices if not offset by increased savings or taxes. The Bureau of Agricultural Economics, however, estimates that in the next five months food prices are not likely to go more than 3 or 4 per cent above the July level which already reflects some increases.

TURNOVER IN BANK DEPOSITS

In the past year of expanding national income, the rate at which demand deposits subject to check circulated through the economy reached new high levels since the middle thirties. Thus, in May 1950 the annual rate at which deposits were used at weekly reporting member banks in New York City (almost 31 times after seasonal adjustment) reached a new peak since March 1937.[1] The June turnover was also at the highest rate for any June since 1936. Among the member banks in the 93 other weekly reporting cities, demand deposits turned over at the rate of 20 times a year, the highest June figure since 1937 with the exception of June 1941, when the rate was also 20. As compared with June 1949, utilization of demand accounts in June 1950 by depositors of the weekly reporting member banks was 3 per cent more frequent in New York City and 8 per cent more frequent in the 93 other cities. As is evident from the accompanying chart, demand deposits are more active in New York than in other cities owing to the larger proportion of financial deposit accounts in the City. Such accounts, which reflect the transactions of the national security markets, are more active than commercial and other types of accounts.

The gain in deposit activity during the past year has been more rapid than the increase in the volume of demand deposits subject to check, reflecting the increase in business activity. The upturn in deposit velocity probably is partly the result of a shift of relatively idle or low-velocity deposits into more active hands. As shown in this *Review* last month, there has been during the year a sizable shift in the ownership of Government securities from the commercial and Federal Reserve Banks to nonbank investors. On the other hand, the commercial banks have used reserve funds, released through this shift, to extend additional loans to builders, home owners, consumers, and security traders, and the funds thus have probably become more active than they were in the hands of their previous owners.

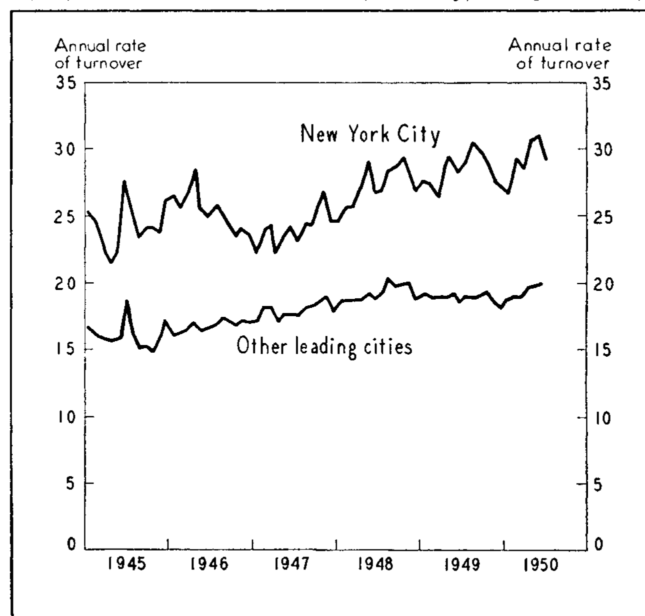
Toward the close of the war in 1945 it was feared that an inflationary expansion of the velocity of money would take place with the return of peace as consumers and business men bid for scarce goods. Actually, however, the subsequent expansion of deposit turnover, in 1946-48, was held within moderate proportions.

While the increasing turnover of demand deposits in

[1] Turnover is measured by the ratio of bank debits to demand deposits subject to check, exclusive of Government and interbank deposits.

Turnover of Demand Deposits at Member Banks in Leading Cities*

(Adjusted for seasonal variation; monthly, 1945-June 1950)



* Based on the ratio between debits to demand deposit accounts and demand deposits (except interbank and Government), of the weekly reporting member banks. Beginning July 1946, data are based on a revised list of weekly reporting banks.

Source: Board of Governors of the Federal Reserve System; adjusted for seasonal variation by the Federal Reserve Bank of New York.

1946-48 and in the first half of 1950 was in part the result of a growing volume of goods available for consumption, any further increase in deposit velocity is likely to be indicative of inflationary conditions, in view of the facts that the economy is now operating at close to capacity and that a rearmament program is about to be undertaken.

DIRECT SECURITY PURCHASES FROM THE TREASURY BY THE FEDERAL RESERVE BANKS

On June 30, 1950, the Reserve System's temporary authorization to purchase directly from the Treasury up to 5 billion dollars of direct or fully guaranteed Government securities was extended by Congress for another two years. The renewal of this authority, the use of which is exercised under arrangements between the Reserve System and the Treasury, will enable the Treasury, until July 1, 1952, to sell special certificates of indebtedness directly to the Federal Reserve Banks for the purpose of smoothing out the impact of large Treasury transactions on the banking system at quarterly tax dates. This type of operation was resorted to quite regularly during the twenties and during the Second World War; in fact, from June 1942 to December 1945, special certificates were employed 53 times, with an average daily amount of 377 million dollars. The maximum amount outstanding at any one time was 1.3 billion dollars. Since the end of the war, however, special certificates have been used on only four occasions, as the Treasury's debt retirement program from 1946 to 1949 made such operations

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unnecessary and the System's task of money market management was handled more conveniently without their use.

The occasional use of special certificates to finance Treasury expenditures for very short periods has proved beneficial to both the Federal Reserve System and the Treasury in carrying out their respective functions. It has helped to minimize short-run fluctuations in member bank reserve positions, as well as to maintain an orderly market for Government securities. The Treasury, for its part, has been able to maintain a somewhat smaller average working balance with a consequent saving in interest cost.

Primarily, the special certificate of indebtedness has been used to offset the effects of short-term fluctuations in receipts and expenditures on the Treasury's total cash needs. During the year these fluctuations result, at times, in a net accumulation of funds and, at other times, in a net drain of funds. There is a wide seasonal divergence between receipts and expenditures, since the larger part of tax revenues is collected during the first half of the year. Strong intramonthly fluctuations are superimposed on these seasonal movements of longer duration, especially in quarterly tax months. In quarterly months, large disbursements for interest on the public debt, and to some extent for the cash redemption of maturing securities, are made during the first half of the month; often the concentration is actually on the fifteenth. Revenues from taxes are due on the fifteenth, but do not start to become available in large volume until a few days after the middle of the month because of the time consumed in processing and collection. The Treasurer's balance, therefore, tends to be drawn down during the first half of a month; in the second half, as tax checks are collected, the balance tends to increase rapidly. Without the alternative of special certificate financing with the Reserve Banks, the Treasury would have to maintain large enough balances with the commercial banks and the Federal Reserve Banks during the first half of the month to cover its disbursements on the fifteenth with an ample margin. These balances would then increase (temporarily) in the second half. A succession of these developments over the year would result in the carrying of higher average balances than necessary. The temporary financing by the Reserve Banks permits the Treasury to anticipate tax receipts so that the effect of seasonal short-term fluctuations in receipts and expenditures on its balance is minimized.

Many of the seasonal fluctuations in Treasury receipts and expenditures are reflected directly in the Treasury's balance with the Reserve Banks and, therefore, directly affect the size and fluctuation of member bank reserves. So long as expenditures in any given period exceed receipts, the Treasury can withdraw funds from its Tax and Loan Accounts with commercial banks[1] to stabilize its balances with the Reserve Banks and thus neutralize the effect of its operations on aggregate bank reserves. However, in periods when ordinary receipts exceed expenditures bank reserves are drained away. In the second half of income tax months, the drain on bank reserves is often considerable. The sale of a special certificate to the Reserve Banks at the middle of the month (and the simultaneous disbursement of these funds by the Treasury) provides the banks with a cushion of extra reserves which the banks have learned to hold against their prospective losses in the latter half. Without temporary borrowing from the Reserve Banks, the reserves of the banking system could not so readily be prepared for the tax drain and the pressure on the banks would not be alleviated until Government expenditures again exceeded receipts after the tax period.

Supplying the banks with reserve funds before a tax collection period is often preferable to returning funds to them after tax collections are over. Reserve gains received during the first half of a quarterly tax month are generally assumed by the banks to be temporary. As such, these gains are held in the most liquid forms, to a large extent in excess reserves, and are used to cover losses in the second half of the month. Reserve gains received after the losses from tax collections have been met, on the other hand, are more likely to be invested in a more permanent type of asset, including loans and longer-term Government securities. After the gains have been invested in either of these forms, it is more difficult for the System to offset them should it wish to do so.

The System's present authority to purchase securities directly from the Treasury was first obtained under special wartime legislation enacted in 1942. At the time, the authority was intended to be granted only for the duration of the war, but since the Treasury's financial needs continued to be large during the postwar period, the legislation has been extended several times. In earlier years the Federal Reserve Banks made direct purchases of special certificates, usually of one-day maturity, under section 14b of the original Federal Reserve Act. This section authorized the purchase of Government securities by the Reserve Banks, but failed to specify how they should be made; consequently it was construed as permitting direct purchases from the Treasury. Between 1935 and 1942 no special certificates were purchased because the Banking Act of 1935 stipulated that all Government security purchases and sales by the Reserve Banks must be made in the open market.[2] The restoration of the direct purchase authority under Title IV of the Second War Powers Act in 1942 was designed to meet any transitory difficulties that might be experienced in Treasury financing during the war period.

During the First World War and afterward until 1933, this bank, and occasionally the other Reserve Banks, often made purchases of Treasury special certificates of indebtedness to reduce the frequency of withdrawals from War Loan deposit accounts in the commercial banks. After the war this type of financing was limited largely to tax period arrangements of

[1] See "Banking of Federal Taxes" in the January 1950 issue of this *Review*.

[2] During these years Treasury bills maturing in the tax collection period were issued. The redemption of these securities was useful in offsetting the banks' losses from tax revenues.

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the sort described above. At the same time, in order to absorb the excess member bank reserves resulting from Treasury disbursements of the proceeds of the special certificate and to provide the banks with a means of employing the funds temporarily, the Reserve Banks sold other Government securities to member banks under repurchase agreements. By the terms of these agreements, the Government securities sold from the Reserve Banks' portfolios just before the middle of a month in which tax payments were due were repurchased as the banks lost reserves through income tax collections. The use of repurchase agreements was ended in 1926, however, since several Reserve Banks felt that sales of high-yield Government securities against the purchase of low-yield special certificates resulted in a loss of earnings.

Beginning in 1927, participations in the special one-day certificates were sold to member banks in the New York money market in lieu of sales of other securities under repurchase agreements. The entire transaction in each instance was handled by the Federal Reserve Bank of New York. Although the Reserve Banks continued to hold part of each issue, the major portion was placed with member banks. Special certificates continued to be sold to member banks on a participation basis until 1933, when the Treasury suspended the use of this form of temporary borrowing. The practice of selling participations in the issues was not resumed by the System when its authority to make direct purchases was reinstated at the beginning of the Second World War.

Aside from its use in income tax periods, the principal purpose of the Reserve Banks' authority to purchase Government securities directly from the Treasury up to some specified maximum amount has been to provide an arrangement whereby the Reserve Banks could assist the Treasury temporarily in meeting some unforeseeable and urgent need for funds, pending the financing of the expenditures through Treasury sales of securities in the market. So far, this emergency "stand-by" function has not been used and actual use of the authority has been confined to that of a money market instrument. The amount of direct Treasury borrowing has seldom been more than a small fraction of the 5 billion dollar maximum authorized.

TREASURY FINANCING IN THE FISCAL YEAR 1950

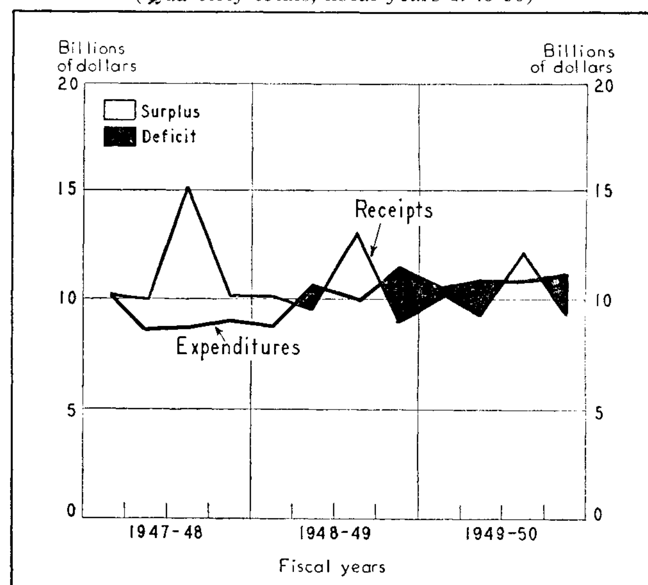
After showing a cash surplus for three years, the Treasury recorded during the fiscal year ended June 30, 1950 a cash operating deficit of about 2.2 billion dollars. Since in the fiscal year ended June 30, 1949 the Treasury had had a cash surplus of 1.1 billion dollars, the deterioration in the net balance of cash receipts and outlays in fiscal 1950 amounted to some 3.3 billion dollars.

The change from a cash surplus to a cash deficit reflected mainly larger cash disbursements by the trust accounts, arising from the payment of the special dividend to veterans by the National Service Life Insurance Fund and from an increase in unemployment compensation payments. To a lesser extent, it reflected a decline in cash receipts in the budget accounts, resulting from lower levels of corporate profits and personal income payments. The increase in net cash outlays from these operations amounted to 4.6 billion dollars, but this rise was partly offset by a decline in cash expenditures in the budget accounts and by an increase in trust account cash receipts. Budget cash expenditures declined because substantial reductions in international aid and veterans' benefits under the "GI bill" were only partly offset by increased spending on other accounts, largely for normal peacetime activities. The higher trust account receipts reflected mainly the increase on January 1, 1950 in the tax rate for old-age insurance from 1 to 1½ per cent on both employers and employees.

The special dividend to veterans, amounting to 2.6 billion dollars within the fiscal year, was largely a nonrecurring expenditure in that it covered accumulations for eight years, whereas later payments are to be made on an annual basis. Other highly variable activities included the so-called "automatic adjusters" to economic conditions, the combined effect of which was to add some 5.3 billion to net cash outgo. This amount included a 1.2 billion reduction in income and profits taxes, over 2.0 billion in payments of unemployment compensation, more than 1.7 billion in outlays for farm price supports, and some 350 million dollars in net home mortgage purchases by Government agencies.

The impact of the cash deficit on the Treasury's financial position varied considerably in the course of the fiscal year. In the first half (July-December 1949), the deficit amounted to 1.9 billion dollars. The Treasury was able to finance this

Federal Cash Receipts and Expenditures
(Quarterly totals, fiscal years 1948-50)



Source: U. S. Treasury Department; June 1950 estimated by the Federal Reserve Bank of New York.

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cash deficit and also to build up its balance in the General Fund by 1.2 billion with funds raised mainly from net sales of some 2.8 billion dollars of Savings notes. In addition, for the first time since the fall of 1945, funds were raised in the market through new Treasury bill sales. Such sales were, however, only slightly greater than the amount paid out to investors for the unexchanged portion of maturing securities. Additional money came from small net sales (270 million) of Savings bonds. Other small debt transactions about offset one another. The bulk of the Savings notes were sold in July and August, following the easing of market rates and the release of funds to the money market through a reduction in member bank reserve requirements. After November, interest rates tended to rise and the relative attractiveness of Savings notes declined.

In the third quarter of the fiscal year (January-March), normally the peak period for tax collections, cash receipts exceeded cash payments to the public by nearly 1.5 billion dollars. Net sales of Savings notes and bonds almost covered the attrition (the unexchanged portion) on maturing or called marketable issues and other minor debt transactions. Thus the balance in the General Fund increased another 1.4 billion dollars to reach some 6.1 billion dollars, which was the highest month-end level since March 1947.

In the last (April-June) quarter of the fiscal year 1950, disbursements exceeded receipts by some 1.8 billion dollars. In order to replenish its balance in anticipation of large net outlays in July and August, the Treasury again borrowed in the market on new bill issues. Beginning with the April 13 issue, 100 million more than the maturing issue of bills was sold each week. By the end of June a total of 1.2 billion of new money had thus been raised. Net sales of Savings notes and bonds again provided enough funds to offset the attrition on exchanged marketable issues and other minor debt operations. Consequently, by the end of the year, the Treasury had a balance of some 5.5 billion dollars in the General Fund.

The net cash outlay of 2.2 billion dollars in fiscal 1950 was less than half of the 4.8 billion expected in January when the President submitted his *Budget Message for Fiscal 1951.* Cash expenditures, at 43.2 billion, were some 3.4 billion dollars lower than anticipated, a decline which much more than offset the drop in receipts to a level 700 million below the expected income. It was mainly in the items of national defense (down 1.1 billion dollars) and international aid and finance (down 1.1 billion dollars) that expenditures were less than anticipated. Government corporations and the Veterans' Administration each spent around 300 million less than had been expected, while other activities were some 600 million less. Defense spending was held close to the level of such outlays in fiscal 1949, whereas expenditures for international aid declined substantially, and more than had been anticipated, from the preceding year's level. Expenditures by Government corporations were lower than had been expected in January, owing to increased sales of mortgages by both the Federal National Mortgage Association and the Home Owners' Loan Corporation.

The decline of about 700 million dollars in cash receipts occurred almost entirely in income tax receipts, reflecting mainly lower individual income tax revenue and to a lesser extent lower corporate tax revenue than could be anticipated from the existing estimates of personal income and corporate profits. In the first nine months of the fiscal year, receipts from individuals were substantially lower than had been expected. In the last quarter of the year, however, receipts from withheld taxes increased above expectations in line with the rise in total wage and salary payments, and this increase partly offset the earlier decline.

Budget Accounts

The budgetary deficit, representing the difference between budget receipts and budget expenditures, amounted in the fiscal year 1950 to 3.1 billion dollars. This was some 1.3 billion dollars larger than the deficit in the preceding year. The increase arose largely from a decline in receipts, reflecting lower levels of profits and personal income. Expenditures increased only some 100 million dollars.

Budgetary receipts in fiscal 1950, at 37.0 billion dollars, were some 1.2 billion smaller than in fiscal 1949. Receipts from income and profits taxes, at 28.3 billion, declined 1.2 billion dollars, with corporate tax receipts accounting for nearly three fifths of this drop. Corporate taxes in fiscal 1950 were collected partly on the peak profits of calendar 1948 and partly on the substantially lower 1949 profits. Lower farm income probably accounts for much of the decline in individual tax receipts, which took place largely in the receipts from non-withheld taxes. Miscellaneous receipts, at 1.4 billion dollars, also declined some 700 million dollars, reflecting mainly smaller sales of surplus property, the disposal of which has been about completed.

These declines in receipts were partly offset by a reduction in the amount of refunds paid in fiscal 1950 as compared with the preceding year, when refunds had been swollen by payments arising out of the Revenue Act of 1948. Miscellaneous internal revenue and customs, at 8.7 billion dollars, yielded the Treasury the same amount as in fiscal 1949. A 400 million dollar increase in employment tax receipts to 2.9 billion dollars reflected higher contributions for old-age insurance under the increased tax rate in effect since January 1, 1950, but these contributions are deducted from budget receipts and transferred to trust accounts, and thus the increase did not reduce the budgetary deficit.

While total budget expenditures, at 40.2 billion dollars, increased only slightly over those of fiscal 1949, substantial changes occurred in the various expenditure programs. Spending for national defense, the largest single category, at nearly 12.4 billion dollars, was slightly higher than in fiscal 1949. International aid and finance, at nearly 4.6 billion dollars, was

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about 1.5 billion dollars lower than in the preceding year. Also, the various veterans' benefits and pensions, requiring 6.5 billion dollars, were some 400 million less than in fiscal 1949 as a decline in benefits under the "GI bill" more than offset an increase in transfers to cover the Government's share of the costs of the National Service Life Insurance Fund. On the other hand, the Treasury's interest payments, at nearly 5.8 billion, rose some 400 million dollars, owing partly to the increase in debt and partly to the inclusion of uncollected interest as a result of a shift in the method of reporting interest to a checks-issued basis. (In previous years interest payments had been reported only as the checks were cashed.) Outlays by Government corporations were some 300 million higher than in fiscal 1949. The Commodity Credit Corporation spent for the support of farm prices some 1.7 billion dollars, net, or about 100 million more than was spent in fiscal 1949. The Export-Import Bank increased its loan outlays by some 40 million, whereas in fiscal 1949 it had received net repayments of 60 million dollars. The Reconstruction Finance Corporation spent nearly 600 million dollars, or about 275 million more than in fiscal 1949, as secondary purchases of guaranteed mortgages were stepped up (although less than expected) by its subsidiary, the Federal National Mortgage Association; however, much of this net rise in RFC spending was offset by larger mortgage resales by the Home Owners' Loan Corporation. Other budgetary activities increased some 1.1 billion dollars, reaching a total of around 8.9 billion.

Budget expenditures included some 3.2 billion in noncash payments to trust funds and Government agencies and in net accruals on Savings bonds. This was nearly 700 million dollars more than in fiscal 1949. A large nonrecurring transfer (400 million) was made to the National Service Life Insurance trust fund to cover an increase in the estimate of the costs of war casualties which are paid by the Federal Government. On the whole, cash outlays for veterans' benefits and pensions were around 800 million dollars lower than in fiscal 1949. In addition, larger transfers and employee contributions (both noncash) than in fiscal 1949 were made to the Civil Service Retirement Fund, while redemptions of noncash securities (mainly Armed Forces Leave Bonds and noninterest-bearing notes previously issued to the International Monetary Fund and Bank) were about 100 million lower in fiscal 1950. The cash outlays for these redemptions are offset against noncash items. Thus, cash outlays in the budget accounts, at nearly 37 billion, were over 500 million dollars lower than in fiscal 1949.

Also, during the year the International Monetary Fund returned 262 million of the United States' cash subscription in exchange for U. S. Government noninterest-bearing notes. This transaction had no effect on total budgetary expenditures, but it was absorbed into Treasury accounts by increasing noncash expenditures and correspondingly reducing cash outlays for international aid.

Government Financing, Fiscal Years 1949 and 1950
(In billions of dollars)

Source of funds and change in debt	1949	1950
Cash income	41.6	41.0
Cash outgo	40.6	43.2
Net cash income (−) or outgo (+)*	− 1.1	+ 2.2
Changes in General Fund*	− 1.5	+ 2.0
Cash redemptions (−) or borrowings (+)	− 2.5	+ 4.2
Government corporation debt#	− 0.2	†
Direct public debt	− 2.3	+ 4.2
Nonmarketable	+ 2.9	+ 4.0
Marketable	− 5.2	+ 0.2
Attrition	− 2.0	− 1.8
Scheduled borrowing (+) or repayment (−)	− 3.2	+ 2.0
Direct noncash borrowing	+ 2.9	+ 0.3
Direct cash borrowing	− 2.3	+ 4.2
Direct public debt	+ 0.5	+ 4.6
Balance in the General Fund, June 30	3.5	5.5

* The minus signs indicate the use of a surplus or current balance for retiring debt; the plus signs show the use of borrowed funds to cover a deficit or increase the balance.
\# Includes a small amount of market purchases of Treasury securities by Government corporations and trust funds.
† Less than 50 million dollars.
Note: Because of rounding, figures do not necessarily add to totals.
Source: *Daily Statement of the United States Treasury* and *Treasury Bulletin*. Partly estimated by the Federal Reserve Bank of New York.

Change in Public Debt

The direct public debt increased nearly 4.6 billion dollars in fiscal 1950, as against only 500 million dollars in fiscal 1949. Some 4.0 billion dollars was raised by net sales of nonmarketable issues to the public, while only 200 million was borrowed, net, in the market. Noncash borrowing, mainly from the net accrual of interest on Savings bonds, added some 300 million to the public debt.

Net sales of Savings bonds (at issue prices) during the past fiscal year provided the Treasury with only 730 million dollars. This was considerably less than had been received in the preceding year, even after eliminating the funds raised in the special sale of Series F and G bonds in July 1948. In that year, net sales amounted to 2.4 billion, about half of which consisted of the special sale. Another 3.6 billion was raised in fiscal 1950 through the net sale of Savings notes. Sales of these issues soared in the first two months of the fiscal year and, while sales fell off in the subsequent months, they nevertheless remained at fairly high levels. Also, redemptions were somewhat lower than in previous postwar years. Other nonmarketable issues were redeemed, net, to the extent of nearly 300 million dollars; the Postal Savings System alone redeemed 150 million of the special issues it holds in order to meet net withdrawals by depositors, while another 100 million was accounted for by the redemption of the Second Series Depositary Bonds, which the Treasury called when it changed the system for collecting withheld income taxes and old-age insurance contributions at the beginning of January.[1]

For the first time since the Victory Loan, the Treasury reentered the market for new money in fiscal 1950. Various

[1] For a description of the new system, see "Banking of Federal Taxes" in this bank's *Monthly Review* for January 1950.

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types of securities were offered for maturing or called issues during the fiscal year as the Treasury shifted its policy from reliance mainly on new issues of 12-month certificates to greater emphasis on note issues of varying maturities. In the early part of the year interest rates eased, but a gradual rise took place subsequently.

At the beginning of the fiscal year, the July 1, 1949, 1⅛ per cent certificate was refunded into a certificate bearing 1¼ per cent, the rate which had been established in late summer of the preceding year when a tightening of credit terms was deemed desirable to stem the inflationary forces still prevailing at that time. After this exchange, the rate on new bill issues dropped, reflecting the progressive relaxation of reserve requirements and the temporary curtailment of sales of Government securities by the Federal Reserve System as part of its program to retard the decline in economic activity by increasing the availability of credit. The average yield on new issues of Treasury bills declined as low as 0.923 per cent in July 1949 compared with 1.158 per cent for the issue of June 30, 1949, and did not rise much above 1 per cent through August. It was during these months that the Treasury reentered the market for new money by increasing its offerings of new bills and also raised substantial sums from the sales of Savings notes which were made on the initiative of investors. In line with the lower bill rates, the Treasury announced on August 22 that it would lower the certificate rate to 1⅛ per cent on the new issue offered in exchange for the called 2 per cent bonds due September 15. Another issue of 1⅛ per cent certificates was made on October 1 in exchange for the maturing 1¼ per cent certificates. On November 30 the Treasury announced a similar exchange for the 1¼ per cent certificates maturing January 1 and at the same time offered an issue of 1⅜ per cent 4¼-year notes in exchange for nearly 4.9 billion dollars of maturing and called issues due on December 15. The latter offer appeared to be in line with the lower rates, since the preceding 1⅜ per cent notes (issued on September 15, 1948, when the 1¼ certificate rate was adopted) ran for only 18½ months.

However, a moderate firming of the money market had been permitted by the Reserve System in view of the pronounced improvement in business and financial conditions in the autumn months, and it soon became evident that a higher rate would be necessary to maintain private interest in new Treasury issues on subsequent exchanges. The bill rate had risen to 1.102, on the average, in December. On January 16, the Treasury announced it would offer 1¼ per cent 20-month notes in exchange for the 1¼ per cent certificates maturing on February 1. In March, 16-month 1¼ per cent notes were issued in exchange for a certificate issue and 1½ per cent 5-year notes were offered in exchange for two other maturing issues (of 2 per cent bonds and 1⅜ per cent 18½-month notes). A further slight firming of rates was evident in the progressively shorter maturities for the 1¼ per cent notes issued on April 1 and June 1, which ran for 15 months and 13 months, respectively. The rate on new bills rose further, and after the Treasury reentered the market for new money in April it ranged from 1.160 per cent to as high as 1.179 per cent.

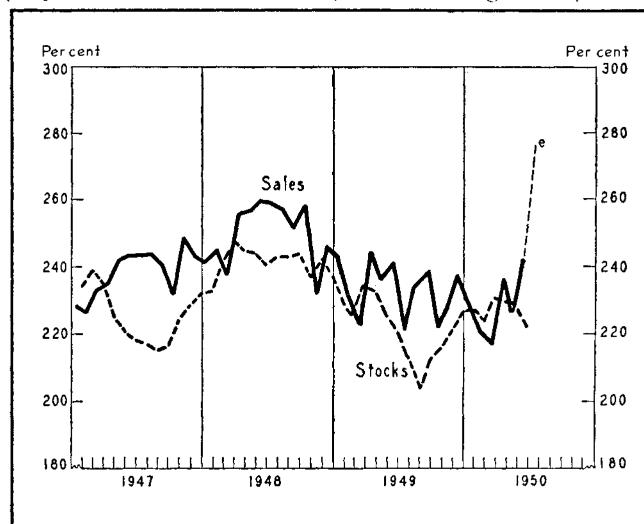
In all, nearly 2.0 billion dollars in new money was raised by increasing the weekly bill issues. An initial 800 million dollars was raised in August and September, while the remainder was borrowed on the weekly issues from April 13 to June 29. However, during the year the Treasury paid out some 1.8 billion dollars to those investors who did not accept the new issues offered in exchange for some 40.7 billion of matured or called securities other than bills. Thus, the net increase in marketable debt was less than 200 million, compared with a net reduction of 5.2 billion in fiscal 1949.

Noncash borrowing by the Government increased only some 300 million dollars in fiscal 1950. The increase in the redemption value of Savings bonds arising from the net accrual of interest amounted to nearly 570 million dollars and the net increase in noninterest-bearing notes issued to the International Monetary Fund added around 207 million dollars to the public debt. However, these increases were partly offset by the net redemption of some 300 million dollars of special issues by the trust funds and Government corporations and of smaller amounts of Armed Forces Leave Bonds by veterans and of noninterest-bearing notes by the International Bank.

DEPARTMENT STORE TRADE

Department store sales in the Second District in recent weeks have surged upward on a wave of consumer buying that is, for this time of the year, of unusual magnitude. The unadjusted index of weekly department store sales for New

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



e July 1950 estimated.

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York City, for example, reached a level of 193 on July 29, 1950, 31 percentage points higher than the index of 162 registered for the week ended August 3, 1946, the previous all-time high for the last week in July.

No doubt a goodly portion of the current increase in shopping is the direct result of the international crisis in the Far East. There are, however, three other factors which must be considered in any analysis of the present sales picture. First, some of the department stores in this District, particularly in New York City, were closed on July 3, and were not reopened until July 5; many shoppers therefore postponed their buying until later in the month. Second, July of last year was at the trough of the general business recession and seasonally adjusted department store sales in this District were at the lowest July level in three years. Third, and most important, unusually intensive store-wide promotions were launched during the week ended July 15 and continued, in some instances, until the end of the month.

So far as "scare" buying is concerned, such buying in the department stores of this District (and of the Northeastern United States as a whole) did not follow the pattern set by the rest of the country and its timing and scope differed particularly from those in the Southwest and the Far West. From the start of the Korean conflict, on June 25, to July 8 department store sales in New York City, for example, were 1 per cent behind those of the corresponding period a year ago, while such cities as Houston, Texas, and Seattle, Washington, had increases of about 24 and 13 per cent, respectively. The year-to-year increase of 14 per cent in dollar sales at New York City stores during the following week (considerably less than the 25 per cent increase for the United States as a whole) was almost entirely due to promotions. It was not until the President's message to the Congress, on Wednesday, July 19, requesting partial economic and military mobilization, that consumers in this District reacted strongly to the potential scope of developments growing out of the events in Korea. For the week ended July 22, some stores reported year-to-year sales increases of up to 500 per cent in such lines as domestics, blankets, and hosiery. The durable goods (furniture and major household appliances, in particular) also received a major share of the panicky shoppers' interest. Some stores are reported to be "rationing" sales of certain items (e.g., nylon hosiery) for which an unreasonably heavy demand has developed, by declining to fill individual orders for excessive amounts.

As the chart shows, department store stocks in this District have declined steadily since March of this year. In sharp contrast to the downward trend in inventories, which at the end of June were 209 per cent of the 1935-39 average, the index of seasonally adjusted sales in June 1950 reached 242, the highest level in fourteen months, and the July index, according to preliminary information, is likely to be about 276; this would be the highest seasonally adjusted sales level ever recorded for this District.

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

Item	1949	1950		
	June	April	May	June
Sales (average daily), unadjusted	228r	225	221	230
Sales (average daily), seasonally adjusted	240r	235	226	242
Stocks, unadjusted	208r	237	231	209
Stocks, seasonally adjusted	220r	230	228	222

r Revised.

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

Locality	Net sales		Stocks on hand June 30, 1950
	June 1950	Jan. through June 1950	
Department stores, Second District	+1	−3	+1
New York City	−1	−4	+1
Northern New Jersey	+4	−1	+3
Newark	+2	−2	+4
Westchester County	+5	−1	−1
Fairfield County	0	−1	−4
Bridgeport	+1	0	−4
Lower Hudson River Valley	+4	−3	−4
Poughkeepsie	+4	−4	−2
Upper Hudson River Valley	+2	−5	−1
Albany	+1	−7	−6
Schenectady	−1	−7	+2
Central New York State	+6	0	−1
Mohawk River Valley	+5	+1	0
Utica	+2	0	+8
Syracuse	+7	−1	−1
Northern New York State	+2	−2	−5
Southern New York State	+7	−3	−4
Binghamton	+5	−4	−4
Elmira	+13	+1	−4
Western New York State	+1	−3	+5
Buffalo	−1	−5	+4
Niagara Falls	+3	+1	−2
Rochester	+2	−1	+9
Apparel stores (chiefly New York City)	+2	−5	−4

Indexes of Business

Index	1949	1950		
	June	April	May	June
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	169	190	195	199p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	256	284	284	289
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	169	189	174p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	331	344	351	362p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	138	142	145	147p
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	108p	113p	112p	113p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	316	337	349p	362e
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	248p	266p	269p	272p
Personal income*#, 1935-39 = 100 (*Department of Commerce*)	300	312	311p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	200	205	206p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	170	167	169	170
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	103	111	112	105
Outside New York City	86	92	93	93

* Adjusted for seasonal variation. p Preliminary.
e Estimated by the Board of Governors of the Federal Reserve System.
\# Revised beginning January 1946.
‡ 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.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, July 25, 1950)

Industrial production and construction activity increased further in June to new peacetime peaks. Following the outbreak of hostilities in Korea near the end of the month, buying showed a marked upsurge and commodity prices generally rose considerably in both wholesale and retail markets. Common stock prices declined sharply for a time. Prices of U. S. Government securities generally showed little change. Bank credit continued to expand. On July 19 a large-scale Federal program was proposed for expanding defense production and curbing inflationary developments.

Industrial Production

The Board's production index rose another 4 points in June to 199. Although output of steel and some other basic materials had been at or close to capacity levels in May, continued strong demands resulted in further increases in production of most major groups of manufactures and minerals in June. In early July output declined temporarily owing to holiday and vacation influences.

Production of durable goods increased substantially further in June, mainly because of gains in the automobile and machinery industries. Automobile assembly, which had been at a new record rate in May, increased 23 per cent further in June, and activity in machinery industries continued the marked rise which began in early spring. Steel production was maintained in June at the capacity level reached in April. Refinery output of nonferrous metals expanded considerably further, but supplies available, after increased takings for Government stockpiles, continued substantially below industry demands. Mine production of copper and iron ore also expanded.

Output of nondurable goods increased somewhat further in June, reflecting mainly continued gains in rayon and woolen textiles, paper, petroleum, rubber and chemical products. Tire production was at a new record, and a substantial expansion in output of synthetic rubber was initiated. Activity at cotton mills declined somewhat.

Construction

Value of construction contracts awarded in June was maintained at the spring peak level reflecting continued expansion in awards for public work which offset further small declines in private awards. The number of housing units started in June was maintained at the record May level and for the first half of the year totaled 687,000 units, as compared with 449,000 units started during the first half of 1949.

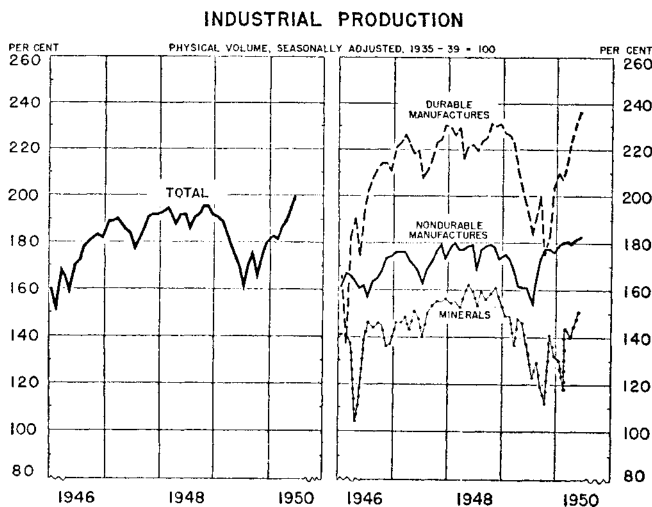
Employment

Employment in nonagricultural establishments rose by about 300 thousand persons in June, after allowance for seasonal changes. About one half of this increase occurred in industries producing durable manufactures; there were also gains in employment in construction and transportation activities.

Agriculture

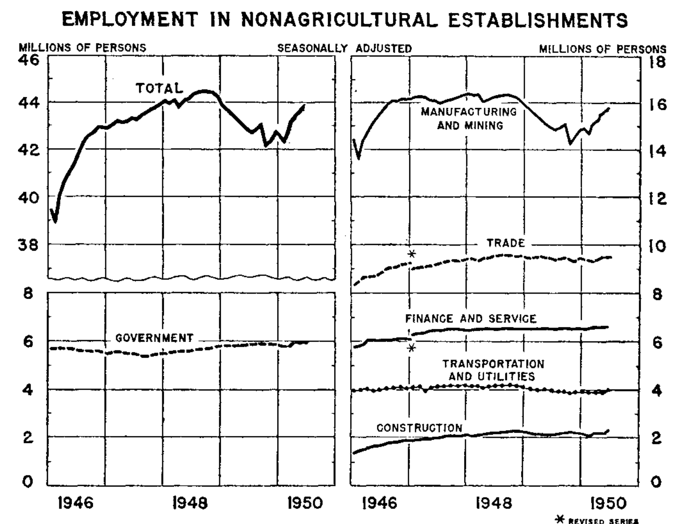
Total crop production this year, according to July 1 estimates, is expected to be 6 per cent less than last year when stocks increased and exports were somewhat larger. Consider-

INDUSTRIAL PRODUCTION



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

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS



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

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ably smaller cotton and wheat crops are in prospect, but feed crops may approach last year's large harvest. Marketings of meat animals recently have been in about the same seasonally low volume as a year ago, while production of milk and eggs has been larger.

Distribution

Consumer buying increased considerably beginning in the latter part of June, influenced largely by international developments. Sales at department stores in mid-July were 24 per cent larger than in the corresponding period a year ago; sales in the preceding 2 weeks were 9 per cent larger. New automobile sales increased further and the volume was limited only by the supply available. Anticipatory buying was also evident for various other durable and semidurable goods and such foodstuffs as coffee and sugar. Distributors' stocks of most consumer goods, except passenger cars, had previously been rising following the recovery in production last summer.

Commodity Prices

Wholesale prices have generally risen considerably during the past 4 weeks, following earlier marked advances in April and May. The sharpest increases have been in prices of farm and food products, particularly livestock, meats, imported foodstuffs, and cotton. Cotton prices on July 21 were about one-fourth above the Federal loan level.

Prices of most industrial materials have advanced further in recent weeks, with especially marked increases in building materials, textiles, rubber, and tin. Prices of most metals have been maintained at earlier advanced levels.

Prices of some additional finished industrial products have been advanced during this period, and with retail food prices increasing sharply, a substantial further rise is indicated in the level of consumers' prices.

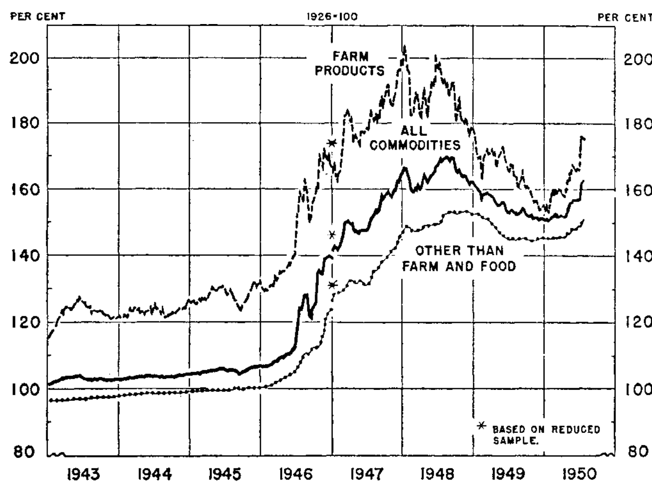
Bank Credit

Loans to real estate owners and consumers and holdings of corporate and municipal securities showed further substantial increases at banks in leading cities during June and the first half of July. Loans to businesses also expanded. Holdings of U. S. Government securities fluctuated considerably but declined somewhat over the period.

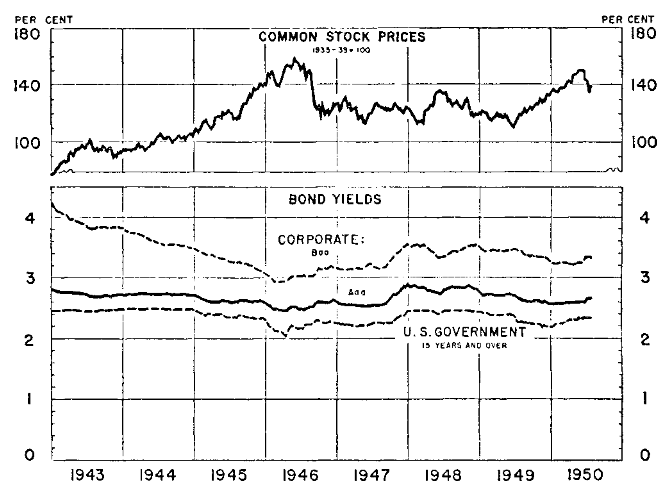
Treasury deposits at the Reserve Banks which had been built up through tax payments in the latter part of June were drawn down during the first three reporting weeks of July, supplying reserve funds to member banks. These funds were absorbed by reduction in Federal Reserve holdings of U. S. Government securities. The System continued to sell Treasury bonds and also sold bills and certificates, and these sales were offset in part by purchases of notes.

Security Markets

Common stock prices fell 13 per cent from the latter part of June to the middle of July, reflecting developments in Korea, but recovered part of the decline during the third week. Demand for U. S. Government securities broadened throughout this period. With virtually no change in prices of long-term Treasury bonds, a moderate decline in the prices of high-grade corporate obligations resulted in some widening of the narrow spread between yields of these securities.



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended July 18.



Stock prices, Standard & Poor's Corporation; corporate bond yields, Moody's Investors Service; U. S. Government bond yields, U. S. Treasury Department. Weekly figures; latest shown are for week ended July 22.

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