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Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN AUGUST

Decisions in the fields of monetary policy and debt management, reached and announced by the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Treasury, were the principal developments affecting the money market during the past month.

The text of the statement released by the Board of Governors and the Federal Open Market Committee is reproduced below. In furtherance of the policy envisaged by this statement, and as evidence of the will of the Federal Reserve System to resist supplying additional reserve funds to the market through System advances and security purchases, the upward pressure of interest rates, which had been apparent in the market for some time, was allowed to express itself.

INCREASE IN DISCOUNT RATES OF THE FEDERAL RESERVE BANK OF NEW YORK

OPEN MARKET POLICY

The following is the text of a statement approved by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee on August 18, 1950:

"The Board of Governors of the Federal Reserve System today approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½ per cent to 1¾ per cent, effective at the opening of business Monday, August 21.

"Within the past six weeks loans and holdings of corporate and municipal securities have expanded by $1½ billion at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.

"The Board is also prepared to request the Congress for additional authority should that prove necessary.

"Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential."

Simultaneously with the Federal Reserve announcement, the Treasury announced a short-term refunding of a very large amount (13½ billion dollars) of securities maturing September 15 and October 1 at terms (1¼ per cent for 13 months) slightly less attractive than were then available on outstanding issues of comparable and related maturities. The contradiction between the System and Treasury decisions was reconciled, in so far as the immediate refunding operations are concerned, by the System's readiness to purchase freely the maturing issues involved in the Treasury's refunding offering, and its parallel action in making offsetting sales of other securities (which were facilitated as the yields on these other securities moved into a range consistent with market demand). Money market conditions remained on the tight side throughout most of the month. The System's net purchases of the maturing issues did not result in easing member bank reserve positions, except for a few days, as substantial cash redemptions of System-held maturing Treasury bills and other transactions absorbed large amounts of member bank reserves.

MONETARY AND DEBT MANAGEMENT POLICY DEVELOPMENTS

The action of the Board of Governors of the Federal Reserve System on August 18 in approving the increase in this bank's discount rate from 1½ to 1¾ per cent was taken in order to aid in restraining the recent marked expansion of bank credit,

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as explained in the official statement. To a considerable extent, moreover, the rise in the discount rate accorded official recognition of existing conditions in the money market. By August 24, similar increases had been approved for all the other Reserve Banks. Prior to the change in the member bank borrowing rate, immediately available Federal funds had on several occasions been exchanged at 1½ per cent, equal to the prevailing discount rate. Government security dealers in some instances had experienced difficulty in carrying short-term Government securities; there were occasions on which dealers had had to pay as high as 1⅝ per cent for call money.

Open market money rates reacted rapidly to the advance in the discount rate, with the rate on various maturities of bankers' acceptances and commercial paper rising ¼ of 1 per cent while the rate on call loans on stock exchange collateral was also raised ¼ of 1 per cent to 1¾ per cent by several New York banks. At least one bank posted an increase of about ⅛ of 1 per cent on call loans to Government security dealers and brokers, but the increase was not general among the City banks. There was also a rise in yields on short-term Government securities, which, except for Treasury bills, had been under considerable pressure during the first part of the month because of tight money market conditions; the called and maturing issues among these were taken at par or better by the Reserve System. The average discount on new Treasury bills rose from 1.173 per cent for the issue dated August 17 to 1.247 per cent for the issue of August 24 and 1.285 per cent for the August 31 issue.

The Treasury refinancing is to consist of two new issues of 13-month, 1¼ per cent notes maturing October 15 and November 1, 1951, respectively, in exchange for 1.2 billion dollars of 2½ per cent partially tax-exempt bonds and 4.9 billion of 2 per cent taxable bonds, both called for redemption September 15, and 1.2 billion dollars of 1⅛ per cent certificates of indebtedness maturing on the same date, and for another issue of 1⅛ per cent certificates maturing October 1 in the amount of 6.2 billion dollars. Since outstanding Treasury obligations of comparable maturity became available after August 18 at prices providing appreciably higher yields than the coupon carried by the new securities, commercial banks and other investors carried out a large proportion of their own refunding in advance of the offering date and sold large amounts of the called and maturing issues indirectly to the Reserve System. The very scope of these operations, however, created a reinvestment problem for the sellers and led to large offsetting purchases of Treasury bills, longest maturity certificates, notes, and bonds of all but the shortest maturities, most of which came from the System's portfolio.

In addition to its refunding, the Treasury announced for the first ten days of October, November, and December an offer of F and G bonds to institutional investors (and banks holding savings deposits or issuing time certificates of deposit) over and above the usual quotas. The net creation of Federal Reserve credit (if any) resulting from the System's purchases of the maturing September and October issues may be offset, in part, through such additional purchases by nonbank investors.

Investors who had been anticipating a Treasury offer of intermediate-term securities reacted to the financing announcement by purchasing higher-yielding, longer-term Treasury notes and medium and long-term eligible and ineligible bonds. Prices of the eligible bond issues reacted almost immediately, with increases for intermediate and long maturities ranging up to one quarter of a point for the September 2½'s of 1967-72. Prices of restricted bonds at first showed little response to the Treasury's refinancing, but subsequently advanced as much as 14/32's for the longest-term issue. The gain in both eligible and restricted bonds was shortlived, however, and as the volume of exchanges of securities between the commercial banks and the System receded, prices lost most of their gains. In fact, except for the longer maturities of partially tax-exempt and restricted taxable issues, prices eventually fell below the levels prevailing at the time of the refunding announcement.

Member Bank Reserve Positions

Money market conditions were tight during the greater part of the month. The strain on reserves was carried over from the preceding month, with the member banks in need of reserve funds in order to retire slightly over 300 million dollars owed to the Reserve Banks early in August. These additional funds, however, were not readily forthcoming. In the first two statement weeks of the month, ended August 16, continued System sales of restricted Treasury bonds and such routine money market transactions as net receipts into Treasury and foreign deposit accounts with the Reserve Banks, together with a moderate increase in required reserves, combined to absorb substantial amounts of banking funds. Transactions furnishing the banks with reserve funds, notably an increase in Federal Reserve "float" and a moderate decrease in currency in circulation, provided only a partial offset. Despite their reserve losses, the member banks managed to reduce their borrowings from the Reserve Banks by about 195 million dollars in this period, to 106 million on August 16. They obtained the needed funds through sizable sales of short-term Treasury securities to the Federal Reserve System and by drawing down their excess reserves.

The money market remained tight during most of the remainder of the month despite the heavy Reserve System purchases of called and maturing Government securities, since a large part of the funds which the banks gained from these operations was used to purchase other Treasury issues at more favorable yields, largely from the Reserve Banks. Thus, in the week ended August 23, the Federal Reserve System added to its portfolio 597 million dollars of certificates and 844 million of short-term bonds, mainly the "rights" to the new notes, and sold (net) 536 million of Treasury bills, 567 million of notes, and 95 million of long-term bonds. On balance, these operations added 243 million dollars to bank reserves, but most of the gains from this

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source and from considerable net Treasury expenditures in excess of receipts were absorbed by a sharp contraction of Federal Reserve "float," and an increase in the volume of required reserves. During this week the United States gold stock declined 151 million dollars, the largest decline for a number of years, with the exception of the week (ended February 26, 1947) in which the Government paid its subscription to the International Monetary Fund. Since most of this decline reflected foreign purchases of gold with funds already accumulated in the Reserve Banks, it had only a moderate immediate effect on the money market.

Although the rate of open market operations diminished during the rest of the month, the System's market purchases still exceeded sales. The increase in its portfolio during the week ended August 30, however, was only about 7 million dollars, the offset to the net security purchases being a substantial Reserve System redemption for cash of Treasury bills maturing on August 24. Similar System redemptions of the Treasury bill issue maturing August 31, a month-end and preholiday expansion of currency in circulation, and other transactions absorbing reserves tended to maintain pressure on member bank reserve positions. This pressure was reflected mainly in a substantial decline in member bank excess reserves.

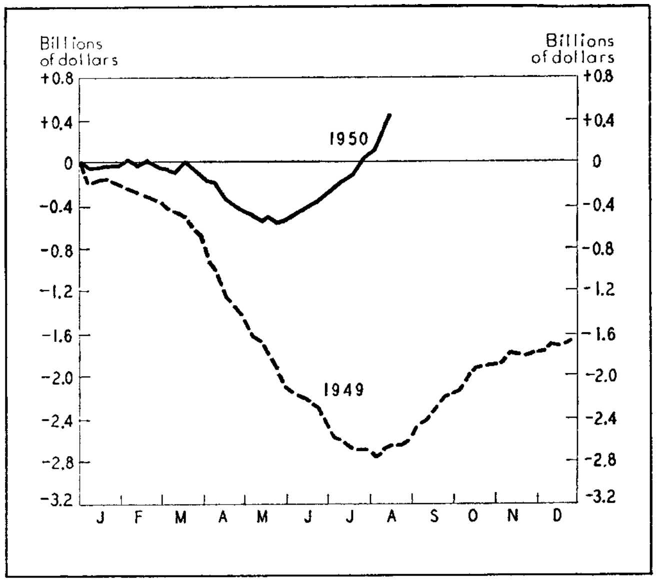
A large part of the strain on member bank reserves during the first half of the month was centered in New York City banks. While this was due in part to a sizable outflow of funds to other parts of the country, a more important cause was the fact that System sales of Treasury securities to nonbank investors were made largely in the New York market. The strain lightened in the remainder of the month, although not as much as might have been expected from the volume of System purchases (net) of Government securities in the New York market. During this period, except for a few days of temporary ease, offsetting items, including a large outflow of funds to other parts of the country, gold and foreign account transactions, and large City bank purchases of the new Treasury bill issues dated August 24 and 31 (in excess of holdings of maturing bills), tended to keep the New York money market tight.

Member Bank Credit

Commercial, industrial, and agricultural loans rose sharply during the past month. As illustrated in the accompanying chart, the expansion of business loans, although under way prior to the start of the Korean war, has accelerated since then. This was a major factor in the decision of the Federal Reserve System to take action designed to restrain further excessive expansion of bank credit.

The upswing in business loans which usually occurs in the second half of the year got off to an early start in 1950—in June, compared with last year's August start. Not only has the current rise been distinctly of greater than seasonal proportions, but also the growth of business loans at the weekly reporting banks has been progressively larger, increasing from a weekly average gain of 61 million dollars in June to 77 million in

Changes in Business Loans at Weekly Reporting Member Banks, 1949 and 1950*
(Cumulated from last week in Dec. 1948 and Dec. 1949)



* Business loans include commercial, industrial, and agricultural loans. Wednesday dates; latest figure is for August 16, 1950.

July and 150 million in the first four statement weeks of August. In the twelve weeks elapsing between May 31 and August 23, the increase in business loans of 1.2 billion dollars at these banks was 75 million dollars larger than the entire 1949 seasonal upswing, which occurred over a period of 21 weeks, and the current expansion began at a higher level of commercial loans. The outstanding volume on August 23 was 14.5 billion dollars, 1.6 billion dollars larger than on the corresponding date a year ago, and the highest since April 13, 1949.

The current accelerated demand for business loans reflects principally the quest for working capital and has been accompanied by a sizable inventory accumulation, particularly since the start of hostilities in the Far East. The inventory accumulation movement has been stimulated by the Federal Government's plans for partial mobilization, which have spurred efforts to obtain raw materials and equipment likely to become scarce once defense production gets under way. The accompanying rise in business borrowings from the banks has been further stimulated by a sizable upward movement of commodity prices, which in turn has given further impetus to restocking

Other types of loans also rose during August, with real estate and all other (including consumer) loans reaching new high records. However, despite the rush of consumers to stock up on durable goods and to acquire housing, there has been no particular increase in the already rapid rate of gain in real estate and consumer loans; the principal change has come, instead, in an accelerated drawing upon liquid assets, as Savings bond redemptions increased and savings and time deposits showed net withdrawals for the first time in years.

The weekly reporting member banks reached a new peak in August in their holdings of "other securities," mainly issues

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of States and local governments and to a lesser extent of business corporations. Holdings of such securities reached 6.2 billion dollars on August 23, a rise of 1.1 billion dollars since the end of 1949, in contrast to an increase of 744 million dollars in the corresponding period of 1949. The accelerated rate at which the banks have increased their portfolios of municipal and corporate securities (principally the former), especially since February 1950, reflects in some measure their efforts to reduce income tax liabilities. In part, it also reflects substantial demands for funds by State and local government and corporate issuers.

Government security portfolios of the weekly reporting member banks, on the other hand, have fallen rather markedly during the year through August 23—by about 2.6 billion dollars, or 7 per cent. Despite this substantial decline in Government security holdings since the end of last year, total loans and investments of the weekly reporting member banks have risen 755 million dollars in this period.

THE EUROPEAN PAYMENTS UNION

On August 18 in Paris, the Council of the OEEC (Organization for European Economic Co-operation) approved the documents setting up a European Payments Union (EPU). The union will function as an organ of the OEEC, and has been initially established for two years, as of July 1, 1950.

The new payments union is a successor to two previous arrangements in which the countries of the European Recovery Program have participated in an effort to facilitate and expand trade among themselves and to move in the direction of multilateral trade and transferable currencies. Until the adoption of the first of these arrangements, the Intra-European Payments Plan of October 1948,[1] postwar trade and payments between the Marshall Plan countries were moving toward an increasingly bilateral pattern. This state of affairs obstructed the development of a healthy intra-European trade at a time when the ERP countries were often in urgent need of one another's available resources for reconstruction purposes.

The first payments plan provided for some loosening of these rigid patterns. Countries were encouraged to grant "drawing rights", i.e., financial grants in their own currencies, to the extent of "conditional" allotments of dollars received from the United States under the European Recovery Program. A country receiving a drawing right in a local European currency could not, however, transfer the funds and spend them in another ERP country, unless it could point to circumstances of *force majeure* or prove that despite every reasonable effort it had been unable to use its rights to draw on the original creditor country—conditions so strict that virtually no such transfers were made.

The second Intra-European Payments Plan, which became effective as of July 1, 1949,[2] went a step further toward intra-European currency transferability by providing that 25 per cent of the drawing rights received by any participant might be transferred at the option of the recipient. It was followed later in 1949, moreover, by decisions that resulted in freeing 50 per cent of the private trade between ERP countries from import quotas. Nevertheless, the plan remained essentially one based on bilateral principles of trade and payment.

The new payments union improves on the 1949-50 intra-European payments plan and its 1948-49 predecessor in several respects. First, a system of multilateral settlement of payments among the ERP countries is to replace what in the previous plans were for the most part rigid bilateral relationships; a member country may now spend its current earnings from another member in any country belonging to the union. Secondly, the union is to make predominant use of credits and gold payments, rather than grants, in the financing of surpluses and deficits among members, thus going far toward providing incentives for the correction of deficits. Thirdly, while the payments arrangements will still be dependent on ECA funds, the latter will serve primarily as a reserve for the union, in contrast to the ECA dollars provided for the earlier plans, in which the dollars had been used directly to compensate the creditors in intra-ERP payments. Thus, the earlier plans were immediately dependent on ECA aid, whereas the new payments union is capable of functioning after the termination of American aid, provided the union's dollar reserve is not exhausted.

The EPU Mechanism

The EPU mechanism is similar to that of a clearing house. Periodically (bimonthly for the first six months, and then monthly) the central bank of each member is to communicate to the Bank for International Settlements the balances on its books in the names of the other members' central banks. These balances will then be cleared. The resultant net debit and credit balances, representing liabilities to and claims on the union respectively, will then be settled in a manner determined by the size of the cumulative debit or credit balances relative to the quotas established for member countries (see Tables I and II). Debit or credit balances up to one fifth of a member's quota will be settled through the extension of credit by or to the union. Debit balances in excess of one fifth will

Table I
Settlement of Members' Credit and Debit Balances with EPU
(In per cent of total quota)

Per cent of quota	Debtors of EPU: Settlement effected by: Extension of credit by EPU	Debtors of EPU: Settlement effected by: Gold payment by debtor	Creditors of EPU: Settlement effected by: Extension of credit by creditor	Creditors of EPU: Settlement effected by: Gold payment by EPU to creditor
1st 20	20	0	20	0
2nd 20	16	4	10	10
3rd 20	12	8	10	10
4th 20	8	12	10	10
5th 20	4	16	10	10
Total	60	40	60	40

1 For a description of this plan, see the November 1948 issue of this *Review*.

2 This plan was described in the September 1949 issue of this *Review*.

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be settled partly through the extension of credit by the union and partly through gold payments to the union, on the sliding scale shown in Table I; the proportion that has to be settled through gold payments increases with the ratio of the debtor country's deficit to its quota. Credit balances in excess of one fifth of a creditor country's quota will be settled half through the extension of credit to the union and half through gold payments by the union.

As a result of the differences between the schedule of gold payments to be made by debtors and that of gold payments to be received by creditors, the union is likely to experience a net outflow of gold during its early operations. Settlement of obligations to creditor members will call, in many cases, for a 50 per cent gold payment, while at the same time the union may be receiving settlement in gold for less than half of its claims on debtors. On the other hand, if a member accumulates a deficit in excess of 60 per cent of its quota (after exhaustion of its initial credit position, if any) more than one half of the excess must be settled by gold payments. The union would then stand to regain gold since, in general, it would still be paying gold to creditors for, at most, 50 per cent of their surpluses.

EPU Quotas

Quotas have been established on the basis of each member's total payments and receipts on current account with other members in 1949. The quotas, shown in Table II, are equal to 15 per cent of these totals, except in the cases of Belgium and Switzerland, which are discussed below. The quotas are expressed in terms of "EPU units". Such units are defined as of a gold content that makes them equivalent to the United States dollar. EPU units are not a new international currency, but merely units of account.

It is expected that the trade structure of some members will make them persistent debtors in the periodic settlements of the EPU. To cope with this situation the agreement provides that each such member be endowed at the start with a credit balance with the EPU, referred to as an "initial credit position", which will be drawn on to cover the member's deficits arising from the periodic settlements. The existing structure of trade is expected to make certain other members persistent creditors in the periodic settlements, and each of them (except Switzerland, to which a special treatment is applied) has accordingly been assigned an "initial debit position" with the union. Their net credits arising from the periodic settlements will be set off against the initial debit positions.

In order to meet the net gold outflow that the union may experience as a result of its quota arrangements and settlement mechanism, the union is expected to receive a reserve fund of probably 350 million dollars from the ECA. This reserve will also serve to cover the net disbursement of resources that may result from the pattern established for initial positions with the EPU; the initial credit positions exceed the initial debit positions, and the union therefore starts out with more obligations than claims. In addition to providing working capital for the union, the ECA will hold a fund available for loans and grants to members in special difficulties.

Table II
Quotas and Initial Positions
(In millions of EPU units, of a gold content equivalent in value to the United States dollar)

Country	Quota	Initial position*
Austria	70	+ 80
Belgium-Luxembourg	360	(a)
Denmark	195	0
France	520	0
Germany	320	0
Greece	45	+115
Iceland	15	+ 4
Italy	205	0
Netherlands	330	+ 30
Norway	200	+40 to + 70
Portugal	70	0
Sweden	260	(b)
Switzerland	250	0
Turkey	50	+ 25
Sterling area (excluding Iceland)	1,060	−150

* (+) = credit position; (−) = debit position.
(a) The Belgian-Luxembourg debit position will be half of the 1950-51 ECA allotment to Belgium, and will be considered as a part of the Belgian-Luxembourg quota.
(b) The Swedish debit position will be equal to the 1950-51 ECA allotment to Sweden.

Principally to take into account the role of sterling in European trade, provision has been made to integrate bilateral credit arrangements, such as now exist between many countries, with operations under the payments union. The substance of such bilateral arrangements is that one country agrees to accumulate the currency of another. Under the payments union, a creditor of the EPU may choose to hold the currency of its own debtors (with their consent) instead of EPU units. If it chooses to hold a debtor member's currency, its obligation to extend credit to the EPU (that is, to hold EPU units) is automatically reduced. Correspondingly, the debtor member whose currency is thus being held by the creditor has its credit line with the EPU reduced.

In addition to its payments arrangements, the EPU agreement contains important provisions relating to commercial policy. Members undertake to end by January 1, 1951 any discriminatory restrictions against imports from other members, and this provision applies equally to visible and invisible transactions. The freeing of the intra-ERP trade on private account from quantitative restrictions, already achieved to the extent of 50 per cent, will now be extended by a further 10 per cent. Quantitative restrictions may be reimposed by a member that finds its reserves seriously threatened, but this must be done on a nondiscriminatory basis. The EPU itself, however, may authorize its members to discriminate against any member with so persistent a creditor position that the union's reserves are threatened.

The Position of Sterling in EPU

In the course of negotiations for a payments union, the United Kingdom has sought to preserve the position of sterling as a "key currency" in international trade and finance, and at the same time protect itself from the gold losses that might result if EPU members were able to use their sterling resources without restriction. Both aims appear to have been accomplished without compromising the basic principles of the payments union. In the first place, the increased trans-

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ferability made possible by the general provisions of the union and, in particular, those provisions of the union relating to the option of holding another member's currency instead of EPU units, should help to maintain the status of sterling as an international currency. Secondly, the United Kingdom has obtained partial protection against the possible effects of "settling" through the EPU mechanism the large sterling balances now held by other EPU members as though they were current earnings. Such "settlements" would have the effect of turning the sterling balances over to the EPU, and the claim that the EPU would then have on the United Kingdom might have to be settled in large part by British gold payments. Protection from this is given, first, by confining the use of sterling balances accumulated before July 1 to the settlement of net deficits with the EPU, and secondly, by an ECA guarantee to underwrite any British gold losses suffered on account of such use of sterling resources.

The "Strong Creditor" Countries in EPU

Belgium also has faced special problems with reference to participation in the union, as a result both of the heavy volume of its foreign trade relative to its economy and of its large creditor position in Europe. In order that Belgium's internal economy may not be too greatly strained, its quota will be somewhat less than the standard 15 per cent of 1949 intra-ERP current-account transactions. Furthermore, the initial debit position that Belgium is to assume in the union is not to exceed one half of Belgium's ECA aid, and will be counted as a part of the Belgian quota. (For Sweden and the United Kingdom the initial debit positions are additional to their quotas.)

In addition, Belgium because of its creditor position will be favored by certain general provisons of the EPU, especially that under which a creditor will at first receive more gold from the EPU than a deficit country with an equal quota will pay to the union.

Switzerland's participation in the payments union also has raised special problems, because of its creditor position and the fact that it receives no American aid that could be considered as compensation for assuming an initial debit position with the EPU. Instead of undertaking such an initial debit position the Swiss have offered to increase their quota, thus committing themselves to lending more to the EPU. Switzerland had taken only a very limited part in the previous payments schemes, and its full participation in the EPU is regarded as an important advantage of the new arrangements.

The Current Outlook

From the viewpoint of a particular member the payments union has the effect of removing the payments difficulties resulting from the varying scarcities of the different members' currencies. Payments can now be made with equal ease to any member country.

The efforts now being made to liberalize trade and achieve free multilateral payments are closely connected. Unrestricted payments would be of only limited value if severe restrictions on imports were retained, while the lifting of restrictions on imports would have little significance if there were restrictions on payments. The joint result of trade liberalization and unrestricted multilateral payments should be a substantial contribution to European viability by making the economy more competitive and, it is hoped, more productive. Care will of course have to be taken lest too rapid a removal of trade restrictions result in some members accumulating large deficits with the EPU and thus lead to difficulties for the union. Large defense expenditures might have a similar effect.

In general, successful functioning of a payments union depends on its not becoming rapidly clogged with debtors' currencies and not exhausting its credit lines with surplus countries. This requires that members remain roughly in balance in their payments and receipts with other members taken as a group, or that members with persistent deficits be able to finance such deficits with gold or acceptable currencies.

These conditions were more nearly met during the first half of 1950 than during previous periods. France has progressed toward a balanced position in its intra-ERP payments, and the Belgian surpluses, particularly with the United Kingdom, have been much reduced. In addition to this improved intra-ERP balance, further progress has been made in reducing the overseas deficits of members and in strengthening their monetary reserves. Some countries remain persistent debtors or creditors in their intra-ERP payments, but the above-outlined initial credit and debit positions with the EPU will materially reduce the burden that this circumstance imposes upon the union.

EARNINGS AND EXPENSES OF SECOND DISTRICT MEMBER BANKS

Net profits of the central reserve New York City banks during the first six months of 1950 amounted to 70.8 million dollars, a rise of 8.3 million dollars, or 13.2 per cent, over the corresponding six months of 1949. For the remaining member banks of the Second District, 1950 first-half net profits were generally above the 1949 level, but the increases varied widely between the different size-groups of banks. The smallest increase was that of 1.3 per cent in a representative group of banks with total deposits of 2 to 5 million dollars. The largest increase—27.5 per cent—was in the group of smallest banks, those with total deposits of less than 2 million dollars. In the New York City banks the dollar gain in net profits arose in almost equal proportions from larger operating earnings before income taxes, from security profits and recoveries, and from a reduction in net losses and charge-offs on loans. In the banks outside New York City, security profits and the continued gain in operating income were the dominant influences in the rise, except for the smallest banks, in which the conversion of last year's loan losses to recoveries was an important factor.

Total current operating earnings of all groups of member banks were higher in the first half of 1950 than in the 1949

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half year, principally because of larger income from loans. Income from non-Government securities rose sharply in all groups of banks, but income from Government securities increased only in the larger banks, those with total deposits of 20 million dollars or more, and either remained unchanged or declined moderately in the smaller banks. Income from services rendered (service charges on deposit accounts and trust department earnings) showed moderate gains in most groups of banks, continuing the uptrend in effect since the close of the war.

The gain in total current operating income for the New York City banks, 3.2 per cent, was much below that of the other Second District groups of banks owing to a much smaller rise in income from loans, and this in turn reflected the fact that the City banks as a group did not expand their average loan volume. In fact, average loan volume for the City banks receded slightly between the first half of 1949 and the first half of 1950, as reductions in the volume of commercial loans were slightly in excess of aggregate increases in security loans, real estate loans, and consumer loans. In the banks outside New York City, gains in the last three types of loans outweighed the decline in commercial lending, and average loan volume increased; the largest gains in loan income and gross income in these banks occurred in the larger banks. In the District as a whole, loan income showed a greater percentage increase than loan volume, reflecting the proportionately greater increase which took place in the banks' consumer and real estate loans than in other types of loans, on which interest rates are generally somewhat lower.

Total current operating expenses increased in all groups of banks and closely followed the rise in gross operating income. Generally, the groups of banks with proportionately larger gains in gross operating income had the larger increases in operating expenses and in net current operating earnings before income taxes. Salary and wage outlays increased in all groups of banks, reflecting an increase in the number of employees, as well as some rise in rates of pay. The largest increases in salary payments occurred in the largest-size Second District banks outside New York City; it was in this group of banks that loan income, total income, and employment expanded the most. In the New York City banks, in which loan income and gross income increased but slightly, total salary and wage payments increased only 1.6 per cent.

Interest paid on time and savings deposits increased in all but the smallest banks of the District and far outstripped the gains in the average volume of such deposits held, indicating increases in the rates paid. New York City banks showed the largest increase in interest payments, 21.3 per cent, but such payments are a much less important factor in their total expenses than for banks in other parts of the District. Outside New York City the increase in payments on time and savings deposits ranged from 11.3 per cent in the largest banks to zero in the smallest banks. Competition for such deposits appears to be greatest in the localities served by the larger banks and to diminish as the community served becomes smaller.

Reflecting the higher average prices of Government, corporate, and municipal bonds prevailing in the first half of 1950 as compared with the 1949 half year, security profits and

Earnings and Expenses of Selected Second District Member Banks for the First Six Months of 1950 and the Percentage Changes from the First Six Months of 1949
(Dollar amounts in thousands)

Item	New York City banks: Central reserve (25 banks)		Sample banks located outside New York City, Deposit size: Over $20,000,000 (35 banks)		$5,000,000 to $20,000,000 (25 banks)		$2,000,000 to $5,000,000 (25 banks)		Under $2,000,000 (15 banks)	
	Dollar volume 1st half 1950	Per cent change 1949 to 1950	Dollar volume 1st half 1950	Per cent change 1949 to 1950	Dollar volume 1st half 1950	Per cent change 1949 to 1950	Dollar volume 1st half 1950	Per cent change 1949 to 1950	Dollar volume 1st half 1950	Per cent change 1949 to 1950
Interest on United States Government obligations	74,190	+ 5.1	7,932	+ 8.1	1,125	0	374	− 3.6	104	− 3.7
Interest and dividends on other securities	14,283	+20.5	1,850	+ 23.4	205	+ 19.9	81	+12.5	18	+ 12.5
Interest and discount on loans	96,749	+ 1.9	11,811	+ 20.4	1,869	+ 20.3	691	+14.4	211	+ 17.2
Service charges on deposit accounts	8,073	+ 9.4	1,567	+ 13.0	300	− 2.9	96	+14.3	25	+ 4.2
Trust department income	27,360	+ 4.7	1,185	+ 17.1	55	+ 57.1	7	+40.0	—	—
Other current income	20,851	− 9.7	2,021	+ 1.3	146	− 6.4	54	+ 3.8	12	0
Total current operating earnings	241,506	+ 3.2	26,366	+ 14.4	3,700	+ 10.5	1,303	+ 8.1	370	+ 8.8
Salaries and wages—officers and employees	80,145	+ 1.6	8,382	+ 13.9	1,045	+ 9.7	382	+ 6.7	104	+ 10.6
Interest on time and savings deposits	4,600	+21.3	3,220	+ 11.3	560	+ 7.9	194	+ 2.1	47	0
All other current expenses	57,493	+ 2.6	7,026	+ 13.9	882	+ 11.8	317	+13.6	89	+ 15.6
Total current operating expenses	142,238	+ 2.5	18,628	+ 13.4	2,487	+ 10.0	893	+ 8.0	240	+ 10.1
Net current operating earnings, before income taxes	99,268	+ 4.3	7,738	+ 16.9	1,213	+ 11.5	410	+ 8.5	130	+ 6.6
Security profits and recoveries (+) or charge-offs (−)*	+ 7,609	+77.9	+ 348	+100.0	+ 197	+286.3	+ 4	−55.6	+ 9	+800.0
Net additions to (−) or deductions from (+) loan valuation reserves†	+ 176	(a)	− 1,019	+ 58.5	− 69	− 8.0	− 42	+20.0	− 6	+ 50.0
Net recoveries (+) or charge-offs (−) on loans	− 325	−92.3	− 38	− 87.4	− 38	+ 35.7	− 29	+ 7.4	+ 2	(a)
All other net recoveries (+) or charge-offs (−)	− 1,351	+32.8	− 96	− 4.0	− 22	(a)	− 8	−20.0	− 8	(a)
Taxes on net income	34,542	+12.2	2,106	+ 30.2	418	+ 66.5	95	+21.8	25	− 3.8
Net profits	70,835	+13.2	4,827	+ 16.8	863	+ 7.2	240	+ 1.3	102	+ 27.5
Dividends paid	41,468	+ 3.8	1,965	+ 9.9	253	+ 29.7	75	+ 4.2	17	+ 6.3
Retained earnings	29,367	+29.9	2,862	+ 22.0	610	0	165	0	85	+ 32.8

* Also includes transfers to or from valuation reserves for losses on securities.
† Includes transfers to or from both bad debt and all other valuation reserves for loan losses.
(a) No percentage change can be calculated, the change being from a zero or from a plus to minus or vice versa.

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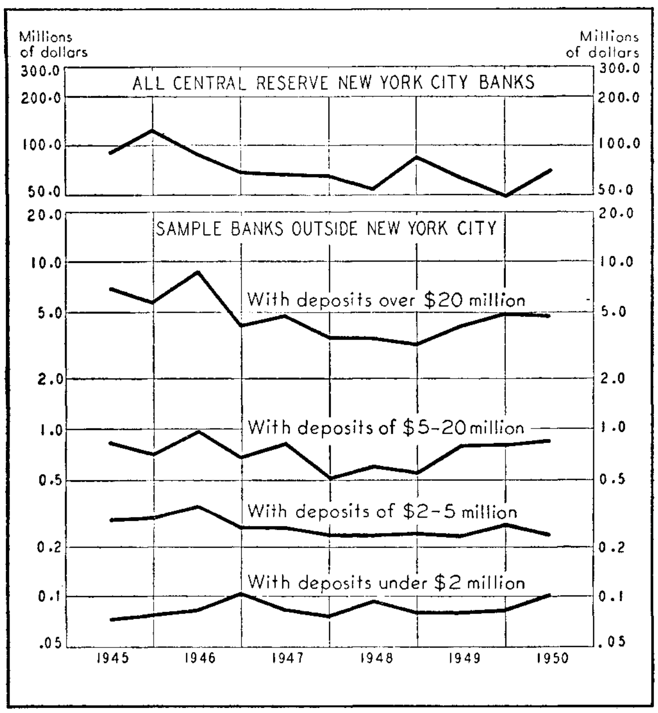
recoveries of the Second District member banks generally increased sharply. Despite the growth in the District's loan volume to a record high level, actual losses and charge-offs on loans in the different groups of banks were for the most part either greatly reduced or converted to net recoveries; where such losses and charge-offs rose, the rise was relatively small. Net additions to or deductions from loan valuation reserves showed little uniformity among the different groups of banks. The City banks actually had a small amount of recoveries from loan reserves, but among the groups of banks outside New York City, there were net transfers of earnings to reserves for losses on loans in all cases, three groups of banks accumulating a greater volume of reserves than in the first half of 1949 and one group slightly less.

At this juncture it should be emphasized that first-half year changes in the volume of transfers to reserves for bad debt losses are not necessarily indicative of the trend of transfers for the year as a whole, as many banks defer their reserve accumulations until the year end, when their possible losses on outstanding loans can better be appraised. The increment to bad debt reserves in 1950 is expected to be somewhat smaller than in 1949 simply because many banks have reached the maximum limit to tax-free reserve accumulation fixed by Treasury ruling (three times the 20-year average loss experience). In the aggregate, future transfers to reserves will represent mainly replacement of loan losses charged against the reserve by banks that have set up their maximum reserves, and accumulations by banks that adopted the bad debt method of handling loan losses subsequent to 1947.

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



* Plotted on ratio scale to show proportionate changes.

The amounts set aside for State and Federal taxes on net income, in line with the increases in taxable income, were greater than a year ago in all but the smallest-sized banks. Dividend payments remained conservative but continued their postwar growth, and in the two middle-sized groups of banks, with deposits ranging from 2 to 20 million dollars, the entire increase in net profits over 1949 was distributed, leaving the dollar amount transferred to surplus unchanged from the 1949 level. In the other groups, retained earnings increased and provided an additional strengthening of their capital accounts.

The accompanying chart, which is drawn to show percentage changes and thus facilitate comparison between profits of different-sized banks, shows the postwar trend of semiannual net profits for the various size-groups of Second District member banks. The postwar peak in net profits occurred in the different groups in 1945 and 1946 and, except for the smallest-sized banks, coincided with the highs in the volume of security profits and recoveries. Until the end of 1947 the decline from the peaks largely reflected the evaporation of these security profits and recoveries and their replacement by net losses and charge-offs.

Beginning with 1948 the banks' net profits were affected by fluctuations in the volume of transfers to the reserve for bad debt losses on loans as allowed under a Treasury ruling of December 7, 1947. Especially large charges for this purpose occurred in the New York City banks in the first half of 1948 and the last half of 1949, and in both cases net profits were depressed to unusually low levels. These reserve charges have also been an important factor in reducing net earnings in the other Second District groups of banks, especially in the larger institutions, but these banks, in contrast to the New York City banks, have had a steadily mounting level of net current earnings before income taxes and thus, despite the additional transfers to reserves, their net profits have risen rather steadily from the 1947 and 1948 lows. In this rise, net profits of the smallest banks have approximately reattained their previous record highs, but in the other groups of banks outside New York City net profits are still from 13 to 46 per cent below their respective peaks, and for the New York City banks net profits are down 43 per cent from the peak.

AMERICAN AGRICULTURE IN 1950

As successive crop reports have come in from across the nation, an encouraging picture of farm production in 1950 has taken form. Crop and herd conditions in midsummer indicated that the volume of total farm production, food and nonfood, for 1950 would be 137 per cent of the 1935-39 average and only 2 per cent below the all-time high reached in 1949. Food production is estimated at 138 per cent of the 1935-39 average, up 1 point from last year, with the output of meat and dairy products up 3 per cent from 1949 and food crop production down 7 per cent. Continued favorable weather during August points to the possibility that these figures may be revised upward.

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Output of Farm Commodities

Although total farm production in 1950 is expected to approximate the high levels of last year, production of certain of the more important agricultural commodities will be considerably below 1949. The data in Table I illustrate this point. Whereas the production of oilseeds, potatoes, meat, and some livestock feeds are expected to be generally higher in 1950 than in 1949, the cotton and wheat crops are significantly smaller. Carryover stocks of both cotton and wheat are, however, well above normal, and the short crops in 1950 do not indicate inadequate supplies for normal consumption and export demands. Total wheat supplies in 1950, including production and carryover, will be only slightly less than 1.4 billion bushels, considerably larger than expected wheat consumption and exports of about 1.0 billion bushels. Cotton supplies will total over 17 million bales and utilization should be of the order of 14 million bales.

Large carryover stocks of corn and other feed grains, and generally favorable weather for feed crops thus far this season, indicate that near-record supplies of feed grains and concentrates will be available for the 1950-51 livestock feeding season. With stocks of this size, ample meat supplies are assured for the rest of the year, and incentive is provided for larger herds and still larger meat supplies next year. Farmers' plans at present point to a level of total meat production in the last half of 1950, particularly in the fourth quarter, somewhat higher than that for 1949. For the full 1950 calendar year, meat production is expected to be 3 per cent greater than in 1949 and 2 per cent above the 1939-48 average. At the same time, the process of herd rebuilding that started in 1948 has continued this year, marked by an 11 per cent fall from 1949 in the number of heifers slaughtered. By January 1, 1951, the number of cattle on farms, other than milk cows, may be back to approximately where it was at the beginning of 1946, when the highest peacetime level on record was attained.

For other foods, too, supply conditions are favorable. Egg production in the first 7 months of the year was about 6 per cent above the high-level 1949 output, and this rate of production is expected to continue for at least the next year. Total milk output so far this year has been at a near-record rate, and a larger proportion than in previous years is going to market as fluid milk or other human food. For the period January through July, the total milk flow showed a gain of 2 per cent over the same period last year. Vegetable production is expected to be at least as large this year as last, and as of July 1, stocks of most frozen vegetables were above 1949 levels. Fruit production is indicated to be approximately equal to 1949, which was 21 per cent above the 1935-39 average. The citrus fruit crop appears to be somewhat better than last year, but deciduous fruit production—especially apples and peaches—is significantly below 1949 levels.

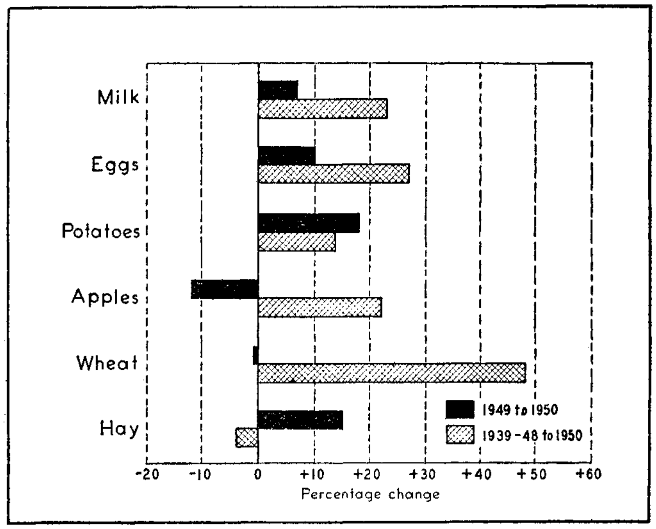
Table I
Total Production of Selected Commodities in the United States, 1949 and 1950
(Quantities in millions)

Commodity	Unit	1949	1950 est.	Percentage change 1949 to 1950
Oats	bushel	1,323	1,456	+10
Oilseeds*	bushel	335	363	+ 8
Hay	ton	99	105	+ 6
Meat	pound	21,700	22,400	+ 3
Potatoes	bushel	402	407	+ 1
Corn	bushel	3,378	3,168	− 6
Wheat	bushel	1,146	996	−13
Cotton	bale	16.1	10.3	−36

* Soybeans, flaxseed, and peanuts.
Source: U. S. Department of Agriculture.

Changes in the Output of Important Farm Products in New York State

Percentage change from 1939-48 average and 1949 to 1950 (estimated)



Source: U. S. Department of Agriculture; 1950 estimates for milk and egg production partly estimated by the Federal Reserve Bank of New York.

Farm production in New York State, as illustrated in the chart, is following the national pattern, with an increase over last year in the output of most products. Milk, the most important single farm product in New York, is in better supply, showing an increase of 7 per cent for the first seven months of 1950 over the same period in 1949. Near-record levels of milk production per cow, rather than larger herds, are responsible for the expanded output. Production of eggs in New York State for the first seven months of 1950 was at an annual rate 10 per cent greater than production in 1949 and 27 per cent above the 1939-48 average. As with milk production, a good part of this expansion is due to record levels of production per animal.

Field crops in New York are generally above last year's level. The output of potatoes promises to exceed the 1949 total by a large margin, primarily because of record yields for the Long Island crop. Yields per acre on Long Island are estimated at 355 bushels in 1950 compared with 230 bushels in 1949 (a relatively poor year because of drought) and the 1939-48 average of 257 bushels. Wheat production in this State is down somewhat from 1949, as is the output of apples and peaches. Most other crops are larger than last year.

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Farm Prices

Despite the high levels of farm production this year, the index of prices received by farmers on August 15 was at 267 per cent of the 1910-14 base, up 9.4 per cent from last year, and at the highest level in 19 months. Prices in mid-1950 were above those for the same date in 1949 for nearly all farm commodities, with the principal exception of those products most clearly in surplus supply. Among these surplus commodities, eggs, turkeys, flaxseed, and potatoes were the most important. The sharpest year-to-year price increases were noted for cotton, cottonseed, and meat animals.

The present levels of farm prices are the result of developments of the past few months. Rapid expansion of industrial activity, employment, and income during the first half of the year was reflected in price increases for agricultural commodities, which by June 15 had risen 6 per cent from their low point in December 1949. The outbreak of fighting in Korea, combined with the announcement of estimated cotton production far below previous expectations, gave additional impetus to the price rise. By commodities, the sharpest price increases in recent months have been for hogs, cotton, cottonseed, and eggs, but sizable increases have also appeared for rice, corn, milk, cattle, calves, and chickens.

Agricultural Income

The high levels of farm production in 1950, combined with the current high prices, point to a quite satisfactory farm income situation for the year. During the first six months of 1950, when prices were below those for the same months in 1949, farmers' cash receipts from marketings were 9 per cent below receipts in the first half of 1949. Addition of the estimated 4.9 billion dollars in farm cash receipts for July and August, however, brings total cash receipts for the first eight months of 1950 to 15.5 billion dollars, only 6 per cent below 1949. As prices paid by farmers for commodities used in production have risen somewhat from last year, the difference in net farm income is probably greater than 6 per cent. However, with farm prices currently well above last year's levels, and with farm output expected to be but moderately below last year, farm cash receipts and net income for the remainder of the year should be considerably larger than during the same period in 1949. For the year as a whole, it is probable that net farm income will be not more than 5 per cent below the 1949 total.

Cash receipts from farming in 1950 will probably decline somewhat more in New York State than in the rest of the country. For the first six months of 1950, cash receipts were down 10 per cent in New York State compared with the decline of 9 per cent in the nation. Further, the price increases of the past two months have had but a moderate effect upon prices of dairy products, which accounted for 40 per cent of the value of farm marketings in New York in 1949. Eggs, chickens, and potatoes, also important in the New York farm structure, are among the products whose prices have not reached the 1949 level and probably will not reach that level during the remainder of the year. Net farm income in New York for 1950 will probably be at least 10 per cent below the 1949 total, but still well above prewar.

Table II
Farm Yields per Acre, 1948-50 Average Compared with 1939-41 Average

Commodity	Unit	Output per acre 1939-41	Output per acre 1948-50*	Percentage change 1939-41 to 1948-50
Potatoes	bushel	129	216	+67
Corn	bushel	29.6	39.9	+35
Tobacco	pound	981	1,232	+26
Wheat	bushel	13.3	16.0	+20
Cotton	pound	241	287	+19
Soybeans	bushel	18.4	21.6	+17
Oats	bushel	31.6	34.6	+ 9

* 1950 figures are those indicated by crop condition on August 1.
Source: U. S. Department of Agriculture.

Changes in Farm Productivity

America's capacity to produce farm commodities is of vital importance during periods of international crisis, when the United States quite literally becomes the "bread-basket of the world." In the Second World War, to meet expanded domestic and foreign requirements, American farmers increased the total of their output by 37 per cent from its 1935-39 average while increasing planted acreage by only 2 per cent, and this despite an 8 per cent decline in farm employment. Among the factors in this expansion were the favorable weather of the early 1940's, the utilization of more farm equipment and fertilizers, improved insecticides, and advanced farming techniques. Technological advance in agriculture had been slowed down markedly during the period of the 1930's, and its rapid development in the Second World War was the direct result of a strong demand and favorable prices that stimulated farm production, and of relatively high farm incomes that made farm improvements possible. The growth of farm productivity was, in large part, a result, as well as a cause, of agricultural prosperity.

In the light of the current international situation and the prospective reduction in carryover of certain important crops, it is of interest to survey productivity in agriculture with a view to determining the effect of the past decade of prosperity upon agriculture's capacity to produce and to indicating the levels of output that might be expected from the farmers of the nation in the event that an all-out effort were again to be demanded of them.

The data in Table II indicate the changes that have taken place in output per acre of the most important crops since the immediate prewar period. Again it should be pointed out that favorable weather has helped to improve yields per acre, but it seems probable that most of the improvement between 1939-41 and 1948-50 has resulted from improvements in farming methods and practices directly related to agricultural prosperity.

The over-all increase in farm productivity in the past decade has been sufficient to yield an expansion of total output of 25 per cent between 1939-41 and 1950 on an acreage only 2 per cent greater. At the same time, production per farm worker has increased significantly, since, in the first six months

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of 1950, agriculture utilized the labor of 13 per cent fewer workers than in 1940. Thus, while utilizing roughly the same acreage and employing fewer people, agriculture in 1950 is providing America's consumers and export markets a far larger volume of food and fibres than in any period prior to the Second World War.

Explanatory of the improved productivity in agriculture over the last ten years is the greatly increased investment in tractors and other farm implements that has taken place. In 1940, farmers employed 1.5 million tractors; by 1949 the figure was 3.5 million, more than double the 1940 level. While quantitative data on farmers' investment in other types of equipment are not available, it may be inferred from the fourfold increase in the dollar value of farmers' investment in machinery and motor vehicles that the inventory of equipment has kept pace with the increase in tractor holdings.

In many other ways American agriculture has continued to improve its capacity to produce. Scientific research has made steady progress in the development of new or hybrid products and in the application of technical innovation to the problems of agriculture. New insecticides have reduced sharply the annual toll taken by insects. Further, farmers have taken advantage of the liquid resources and credit available to them to rebuild their soil and to adopt the most modern farming practices. The use of fertilizers, for example, has more than doubled in the last ten years.

It would be impossible to estimate the level of farm production that might be achieved under an all-out effort should developments within the next few years make such an effort necessary. It is important, however, to keep in mind that farm output in 1950 is being maintained very close to the levels reached during World War II and only moderately below the all-time peak in 1949, despite production restrictions imposed by the Department of Agriculture incident to its price-support program and despite relatively unfavorable weather conditions in some important producing regions. It seems probable that removal of the limitations upon output and encouragement of the widest use of the nation's farm resources would yield a level of total farm output well in excess of anything that has thus far been achieved.

FURNITURE STORE TRADE

The dollar sales volume of furniture stores in the Second District, from the beginning of this year through July, was 4 per cent higher than during the first seven months of 1949 and about equal to sales in the same period of 1948, the record year for furniture stores. As retail prices of furniture during the first half of this year were roughly 4 per cent lower than two years earlier, the number of units sold in 1950 thus far must have been somewhat greater than in the comparable 1948 period. Unlike furniture sales in the District's departments stores, which (in dollar volume) declined almost 8 per cent in 1949 from the previous year, sales by the furniture stores in this District during 1949 were very close to the peak level of 1948, so that the year-to-year gains in 1950 are not likely to attain the magnitude of those which are being currently registered by department store furniture sales.

Sales and Stocks of Second District Furniture Stores*

Month	Percentage change 1949 to 1950		Stock-sales ratio	
	Sales	End-of-month stocks	1949	1950
January	+5	−8	5.9	5.2
February	+2	−7	5.7	5.2
March	+4	0	4.7	4.6
April	−3	0	4.4	4.5
May	+2	+6	4.3	4.5
June	+5	+4	4.2	4.2
July	+15	+13	5.0	4.9

* For a group of stores reporting stocks as well as sales.

The dollar value of credit transactions of the furniture stores in this District has continued, thus far in 1950, to gain in relation to total sales. For years these stores have had the highest proportion of credit sales to total sales of any of the major types of credit-granting stores in the District. From January through July of this year, credit sales were 9 per cent higher than in the corresponding period a year ago, while cash sales fell 5 per cent. Noncash sales during the first seven months of this year accounted for 83 per cent of total sales as against 81 per cent for the same period last year.

As a result of the marked expansion of credit sales, the dollar value of furniture stores' accounts receivable on July 31, 1950 was 26 per cent larger than a year before and almost 50 per cent greater than the amount outstanding on July 31, 1948. While there has been a substantial year-to-year increase in collections, dollarwise, the rate of increase has not kept pace with the rapid rise in receivables. During the month of July 1950, for example, collections amounted to just 10 per cent of accounts receivable as of July 1, a drop of two percentage points from the year-ago level.

During the early part of this year the retail value of stocks on hand in the District's furniture stores was well below the corresponding 1949 level, as inventories had not been rebuilt in line with the expanding sales volume. Since the end of May, however, there has been a tendency toward the accumulation of inventories in excess of year-ago levels, in anticipation of continuing record sales volume and, to some extent, of possible future shortages. On July 31, the stores had just short of 5 months' supply of stocks on hand, at the July 1950 rate of sales.

DEPARTMENT STORE TRADE

Second District department store sales during August, measured by dollar volume, exceeded the year-ago level by an estimated 14 per cent as consumers in this District continued their unusually heavy midsummer buying. On a seasonally adjusted basis, the August index of department store sales was expected to be only slightly lower than the record-breaking 274 of the previous month.

The current heavy buying is, to some degree, attributable to consumer apprehension of a rising price level. Reacting to the pressure of the public's heavy buying, Second District

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Department Store Sales by Type of Transaction Second Federal Reserve District*
(1946—first half of 1950)

Period	Percentage change from preceding year				Per cent of total sales		
	Total sales	Cash sales	Charge account sales	Instalment sales	Cash sales	Charge account sales	Instalment sales
1946	+31	+27	+43	+43	70	25	5
1947	+ 7	+ 2	+13	+43	67	26	7
1948	+ 3	− 1	+ 6	+25	65	27	8
1949	− 7	− 9	− 5	+ 4	63	28	9
January-June 1950	− 5	− 8	− 3	+16	61	29	10

* For a group of stores reporting by type of transaction; their total sales in 1949 accounted for about 70 per cent of the estimated Second District total.

department stores increased the dollar volume of their outstanding orders at the end of July to a level 71 per cent above that of July 1949 and more than double the amount outstanding on June 30, 1950.

Department Store Credit

Customers of department stores are making ever greater use of consumer credit facilities, particularly of instalment credit. By the end of June, credit sales in Second District department stores accounted for as large a proportion of total sales as in 1941, before the United States became actively engaged in World War II. As the table shows, charge account and instalment sales, combined, accounted for a shade less than 40 per cent of total sales during the first six months of this year. Instalment buying has played a major part in the return of credit sales of department stores in the Second District to the prewar position relative to total sales. From the beginning of this year through the end of June the dollar value of instalment sales was 16 per cent greater than in the corresponding period a year earlier, while cash and charge account sales went down 8 and 3 per cent, respectively. Thus, the increasing use of instalment credit has brought total department store sales during the first half of the year substantially closer to the year-ago level than would otherwise have been the case.

While the index of instalment accounts outstanding at Second District department stores at the end of June was 172, a drop of 2 per cent from the May 1950 level, it was, nevertheless, over 30 per cent greater than the level of June 30, 1949, the date on which Regulation W, governing the terms of instalment credit, ceased to be in effect.

The collection ratio of instalment accounts outstanding at Second District department stores dropped two percentage points in June from the level of 18 per cent which prevailed in June 1949. This decline reflected primarily the recent substantial increase in instalment buying rather than a liberalization of credit terms by the stores in this District. At the June rate of repayment, instalment accounts would be outstanding on the average about 11½ months, or 1½ months longer than a year ago.

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

Item	1949	1950		
	July	May	June	July
Sales (average daily), unadjusted	159r	221	230	192
Sales (average daily), seasonally adjusted	227r	226	242	274
Stocks, unadjusted	192r	231	209	194
Stocks, seasonally adjusted	216r	228	222	218

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 July 31, 1950
	July 1950	Jan. through July 1950	
Department stores, Second District	+21	− 1	+ 2
New York City	+19	− 2	+ 3
Northern New Jersey	+25	+ 2	+ 3
Newark	+25	+ 1	+ 2
Westchester County	+18	+ 2	− 8
Fairfield County	+32	+ 4	− 6
Bridgeport	+35	+ 5	− 6
Lower Hudson River Valley	+17	0	− 1
Poughkeepsie	+13	− 1	0
Upper Hudson River Valley	+24	− 2	− 4
Albany	+27	− 3	−12
Schenectady	+19	− 4	+ 3
Central New York State	+27	+ 3	− 3
Mohawk River Valley	+21	+ 3	0
Utica	+16	+ 2	+ 7
Syracuse	+30	+ 3	− 5
Northern New York State	+13	+ 1	− 5
Southern New York State	+26	+ 1	− 2
Binghamton	+21	− 1	− 3
Elmira	+39	+ 6	0
Western New York State	+23	0	0
Buffalo	+23	− 2	− 2
Niagara Falls	+22	+ 4	+ 1
Rochester	+21	+ 1	+ 5
Apparel stores (chiefly New York City)	+17	− 3	0

Indexes of Business

Index	1949	1950		
	July	May	June	July
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	161	195	199	197p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	255	284	289	288
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	156	173	185p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	327	351	363	390p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	137	145	147	148p
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	106p	112p	113p	113p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	313	349	362p	365e
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	247p	269p	272p	277p
Personal income*#, 1935-39 = 100 (*Department of Commerce*)	297	313	315p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	200	206	207p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	169	169	170	173
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	105	112	105	113
Outside New York City	88	93	93	97

* 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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household appliances more than doubled the already high volume of sales prevailing in June. Demand for passenger automobiles was very heavy. Also, purchases of various non-durable goods which were in short supply during the past war expanded considerably in July. Anticipatory buying has decreased in August from the July peak.

Commodity Prices

The average level of wholesale prices, which advanced 5 per cent during July, has shown little change in the first three weeks of August. Prices of farm products and foods have declined slightly but prices of industrial commodities have advanced further. The most marked increases have been in prices of imported materials. Prices of scrap metal and copper and lead products have also advanced considerably.

In retail markets average food prices have apparently shown little change following marked increases in July. Prices of a number of other consumer goods, including fuels, textile furnishings, tires, and used automobiles, have advanced further.

Bank Credit

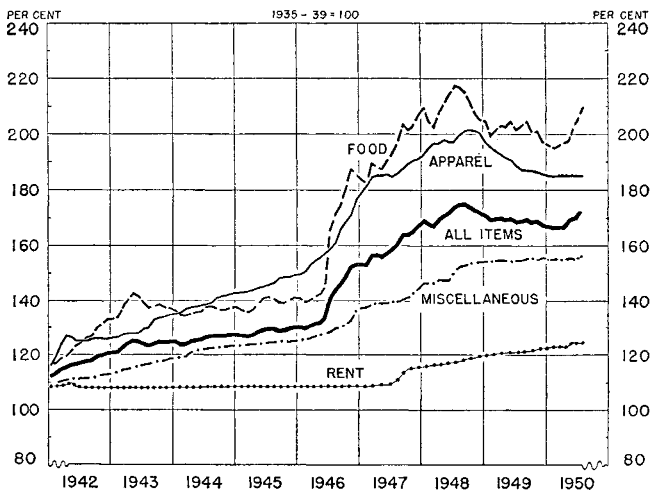
Total loans and holdings of corporate and municipal securities at banks in leading cities showed an exceptionally large increase of 1½ billion dollars during July and early August. Real estate and consumer loans continued their rapid rise and business loans also expanded sharply during this period. Banks sold a large volume of short-term Government securities to the Federal Reserve and to nonbank investors and purchased a small volume of Government bonds.

An outflow of gold and large sales of long-term Treasury bonds by the Federal Reserve System to nonbank investors also tended to drain reserve funds from banks during July and the first half of August. Banks met this drain and accumulated additional reserves more than enough to support the expansion in private credit mainly by their sales of short-term securities.

Security Markets

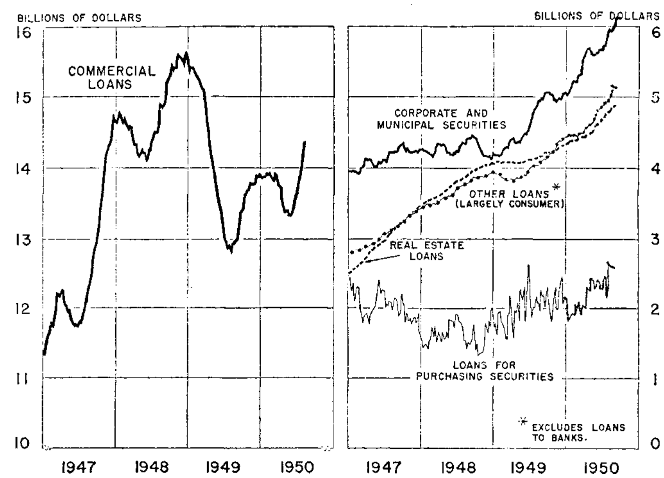
Yields on Government securities showed little change during the first three weeks of August. On August 18, the Federal Reserve announced a rise in the discount rate to 1¾ per cent at New York and a change in open market policies, and the same day the Treasury announced new refunding offerings. Following these announcements, short-term market rates rose while yields on longer issues remained firm. Yields on high-grade corporate bonds declined in the first three weeks of August and common stock prices increased gradually to a level about 4 per cent below the June peak.

CONSUMERS' PRICES



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

LOANS AND INVESTMENTS AT MEMBER BANKS IN LEADING CITIES
OTHER THAN U. S. GOVERNMENT SECURITIES



Commercial loans include commercial, industrial, and agricultural loans. Wednesday figures; latest shown are for August 16.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Under the stimulus of heavy consumer and business buying after the invasion of Southern Korea, prices, activity, and incomes have increased considerably beyond the advanced levels reached in June. Consumer purchases of goods, although reduced from the July peak, are still at a high level. Prices of agricultural commodities, after a marked rise in the early part of July, have shown little net change, while prices of industrial products have advanced further. Common stock prices have recovered most of the declines from June to mid-July. Bank credit to private borrowers and State and local governments has expanded rapidly.

Industrial Production

The Board's industrial production index in August is expected to be about 204 per cent of the 1935-39 average, as compared with 199 in June, and 197 in July when vacations and plant closings, not adequately allowed for in the seasonal adjustment, lowered the index.

Steel production declined slightly in July but returned to capacity levels in the first three weeks of August. Scheduled output in the fourth week was reduced by about one tenth as a result of a railway labor dispute in steel-producing districts. In July production of nonferrous metals and lumber declined somewhat.

Production of finished durable goods was generally maintained in July. There were marked gains in output of aircraft and various types of construction and industrial machinery. While little change in output of railroad equipment was noted, new orders for freight cars were the largest in many years. Motor truck production declined in July but in August was close to record levels. Passenger car assemblies were reduced somewhat in July and early August from the peak June level by holiday influences, some model changeovers, and labor disputes.

Nondurable goods output was only slightly lower in July as declines in production of textiles and some other goods, as a result of vacations, were less marked than in other recent years. Production of paper and paperboard in mid-August was about 5 per cent above the record June level. Output of rubber products and petroleum refining activity continued to rise in July. Crude petroleum output increased 3 per cent and was 12 per cent above the average level of the past 15 months.

Employment

Employment in nonagricultural establishments rose by about 150,000 persons in July, after allowing for seasonal changes. Most of this expansion was in industries manufacturing durable goods and in construction and retail trade activities.

Construction

Construction activity continued to increase in July and contract awards were maintained at advanced levels. The number of dwelling units started was estimated to be 144,000 as compared with 142,000 in June and 96,000 a year ago.

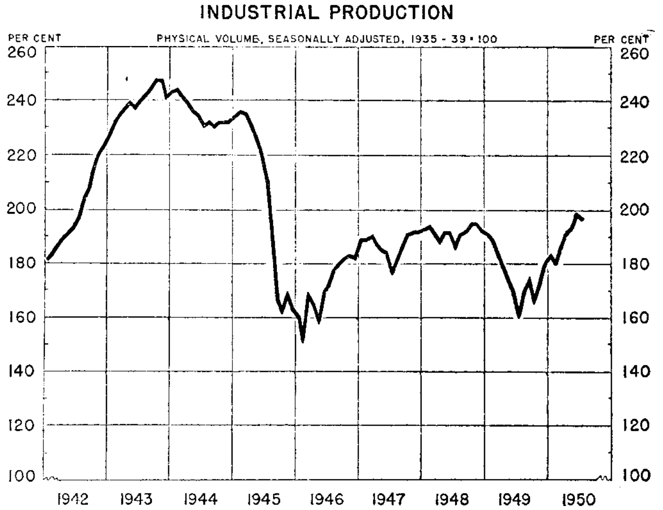
Agriculture

The official cotton estimate released August 8 indicated a crop of 10.3 million bales as compared with a harvest of 16.1 million last year; including the increased carryover, however supplies this season will be about 4.5 million bales less than last season but about as large as in most other recent years. Other crops developed favorably in July and the total harvest of feed and food crops is expected to be about as large as last year.

Distribution

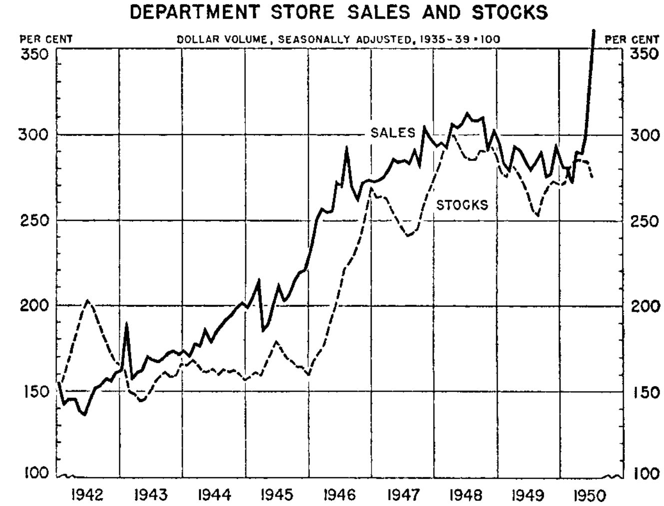
The Board's seasonally adjusted index of department store sales rose by one fifth in July to 362 per cent of the 1935-39 average as anticipatory purchases of some items like majo

INDUSTRIAL PRODUCTION



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

DEPARTMENT STORE SALES AND STOCKS



Federal Reserve indexes. Monthly figures; latest figure for sales is July latest for stocks is June.

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