MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN SEPTEMBER

Developments in the money market during the past month eflected, in addition to seasonal influences, the partial working ur of the effects of the decisions taken in August by the 'ederal Reserve System and the Treasury in the fields of ıonetary policy and debt management, and the continuance f inflationary conditions in the economy. Since August 18, hen these decisions were announced, the System has achieved certain measure of success in attaining its objectives. hort-term money rates rose during this period, narrowing he spread between the yields on short and long-term Treasury ssues and increasing the cost of both Federal Reserve and ommercial bank credit. At the same time, despite a great eal of churning about, orderly conditions were maintained in he Government security markets; there were no wide and harp movements of prices and the Treasury's refunding offer vas not endangered. Furthermore, the System's readiness to urchase Treasury securities called or maturing on September 5 and October 1, and to accept the new notes issued in exhange, kept the volume of September 15 redemptions for cash vell within the limits of the Treasury's existing balances. Iowever, the success of these security operations was achieved t the expense of the System's other and major objective of estraint on the further use of Federal Reserve resources for e expansion of commercial bank credit. Thus, during the ast month another 800 million dollars of Treasury securities ere added to the quarter of a billion dollar increase in the ystem's holdings that occurred in the latter part of August. 'rue, the entire expansion during September came in the nal week of the month and reflected temporary money market onditions which may be expected to reverse themselves in ıbsequent weeks. But a portion of the increased Federal eserve credit has been absorbed in the added reserve balances equired as a result of the new credit extended by the banking stem—one billion dollars of increased loans in the first ıree statement weeks of September for the weekly reporting ıember banks alone, on top of a 360 million dollar increase ı the last two statement weeks of August.

Associated with the System's operations in connection with he Treasury's refinancing was a very heavy churning of funds nd securities which was related in large part to sporadic sales of called or maturing issues to the System by banks outside the largest financial centers and by nonbank investors, and in part also to lags in the reinvestment of funds. The irregular movement of funds and securities produced sharp fluctuations in the System's total holdings of Government securities and in the reserve positions of the member banks, particularly of banks in the larger cities, including New York City. These fluctuations at times interfered with the maintenance of sustained anti-inflationary pressure on the volume of bank reserves.

Some part of the market's net absorption of the proceeds of System purchases during the past month was the result of steps taken by some banks to increase their liquidity as a precaution against the possibility of an increase in legal reserve requirements or of a further upward movement in interest rates. Early in the month, banks preparing for expected losses of funds resulting from quarterly income tax payments of their customers were also accumulating balances.

The banks' needs for funds were relatively large because many of them started the month with depleted reserves. Late in the month, some of the funds released by Federal Reserve purchases of Treasury issues were also used to raise excess reserves of the commercial banks to more workable levels, and to replace the reserves lost through customers' income tax payments which had not been fully anticipated. In addition, during most of September, the member banks had to meet losses of reserves occasioned by foreign countries' purchases of gold from the Treasury

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financed with funds received from the market. And, of course, a portion of the increased Federal Reserve credit was absorbed in the added reserve balances required as a result of the new credit extended by the banking system.

Although tightness predominated at the beginning and close of the month, there was an intervening period of money market ease, particularly around the middle of the month, when Treasury disbursements for interest on the public debt and for cash redemptions of maturing securities were very substantial. During this time the banks and nonbank investors purchased large amounts of securities indirectly from the Reserve System.

Yields on short-term securities, other than issues called for redemption, rose further during the month. In the medium and long-term bond market, yields also rose and prices fell correspondingly.

Government Security Market

Trading in Government securities continued active in September and was featured by continued liquidation, on a smaller scale than in August, of Treasury bonds and certificates of indebtedness maturing September 15 and October 1, 1950, and by reinvestment of a part of the proceeds in Treasury bills, January 1, 1951 certificates of indebtedness, Treasury notes, and shorter-term bank-eligible bonds, including issues callable through 1954. Demand for shorter-term bonds and some of the notes declined as the month progressed. System purchases of the called and maturing securities were heavy, while most of the short-term issues acquired by investors came out of the System's portfolio. As a result, substantial changes occurred in the System's holdings, which became heavily weighted with short-term bonds and Treasury certificates, and, after the middle of the month, with Treasury notes. Thus, in the week ended September 20, reflecting the exchange of maturing issues, System note holdings rose 5.2 billion dollars, while holdings of bonds declined 4.5 billion and holdings of certificates and bills, 700 and 564 million dollars, respectively. Bill holdings of slightly more than one billion dollars on September 20 were the lowest since February 3, 1943.

Yields on short-term securities continued to rise during September. The average discount on new Treasury bill issues rose from 1.285 per cent for the issue dated August 31 to 1.308, 1.311, 1.317, and 1.324 per cent for the successive weekly issues through the one dated September 28. This further rise in three-month Treasury bill yields was accompanied by increases in the yields of other short-term Government securities, and of nearer-term maturities of bonds and medium-term notes.

The rising short-term yields led to further market uncertainty concerning possible additional increases in short-term interest rates and declines in medium and long-term bond prices. The narrowing spread between long and short-term rates also tended to reduce the incentive to invest in longer-term Treasury bonds. As a result, offerings of both bank-eligible and restricted bonds grew, and prices receded, although market volume generally was small. The principal sellers of restricted bonds were life insurance companies and savings banks, which chose this means of providing funds against previous commitments and future cash needs. Commercial banks tended to maintain liquid positions or confined their investments to short-term issues in anticipation of a rumored increase in legal reserve requirements and of higher interest rates, while nonbank investors were considering the effect on restricted bond prices of the expanded offering of F and G bonds to institutional investors and others during the first part of October, November, and December.

For the month through September 19, restricted bond price declines ranged from 11/32 to 1/2 of one point; thereafter, prices remained practically unchanged through the rest of the month. Price declines among bank-eligible bonds were wider, with the September 15, 1967-72 issue showing a drop of more than one point through September 26. In spite of prospects of higher income taxes, partially tax-exempt bonds also fell correspondingly in price. In the closing days of the month, prices of the taxable bank-eligible bonds rose slightly.

Member Bank Reserve Positions

The month was characterized by sharp fluctuations in the Treasury security holdings of the Federal Reserve System and in the excess reserves of the member banks. These fluctuations were related not so much to the influence of ordinary money market transactions as to the differences in timing between the sales of issues called for redemption, by banks in smaller centers and by nonbank investors, and the reinvestment of the proceeds. It was not until the last statement week of the month that routine money market factors exercised any considerable net effect on member bank reserve positions. The impact of the difference in timing of sales and reinvestment was heaviest among the banks in the larger cities and particularly in New York.

Increases of 358 and 122 million dollars in System holdings of Government securities in the weeks ended September 6 and 13, respectively, were accompanied by gains in excess reserves of 360 and 90 million dollars. A low volume of excess reserves at the start of the first week reflected in part the fact that member banks, particularly those in New York City, had made purchases of new Treasury bills well in excess of their holdings of the maturing issue. In order to raise excess reserves to a more adequate working level, the commercial banks made substantial net sales of short-term Treasury securities (mainly those maturing or called for redemption on September 15 and October 1). Thus, the large net increase in the System's holdings did not ease the money market in the week ended September 6.

On the other hand, the much smaller net purchases of the System in the following week were enough to turn the money market easy, even though most of the reserves made available to the banks in this way (after repayment of a moderate amount of loans to the Reserve Banks) were used for the further building up of excess reserves, to a total of 990 million dollars. In part the accumulation of excess reserves to this amount was made in anticipation of large calls from Treasury Tax and Loan Accounts and of large transfers of funds when the third-quarter instalment on Federal income taxes came due on September 15. To a considerable extent, the easing of member bank reserve positions during the week ended September 13 reflected a concentration of System purchases of securities in New York which enabled the City banks not only to overcome a reserve deficiency carried over from the previous week but also to acquire Government issues from the market.

In the week ended September 20, System sales of Government securities, mainly Treasury bills, more than offset the large purchases of maturing issues, and System holdings fell 538 million dollars. This decline in the System's portfolio was accompanied by a 600 million dollar drop in excess reserves. Money market conditions remained easy in this week, however, owing to the concentration of large Treasury disbursements on September 15. These expenditures, including the redemption of the September 15 maturities and the payment of close to 400 million dollars in interest on the public debt, enabled the banks to purchase large amounts of short-term Treasury obligations, even though heavy withdrawals from Treasury Tax and Loan Accounts with depository banks and subsequent income tax receipts balanced the expenditures, and despite the banks' moderate losses from other money market transactions.

A large part of the Treasury's September 15 disbursements were paid out in New York City and temporarily eased the City banks' reserve positions. The New York City institutions were able to purchase moderate amounts of Treasury securities and temporarily also to increase their excess reserves. Toward the close of the week, however, the City banks incurred a large reserve deficiency as the restrictive effects of quarterly income tax payments grew.

In the following week, the need to overcome the reserve deficiency in New York and to expand the low excess reserves of banks in other parts of the country to a more workable volume, together with losses of funds stemming from continued large payments of Federal income taxes, led to heavy sales of Government securities by the banks. Most of these issues were absorbed by the System, as indicated by an increase of 827 million dollars in its holdings in the week ended September 27. Excess reserves rose 470 million dollars to 860 million. For the month as a whole, roughly 100 million dollars (net) were added to required reserves by the expansion of bank deposits associated with the new bank credit being granted.

Member Bank Credit

In the face of boom conditions in the economy, commercial bank loans continued to expand in September at an accelerated pace. Total loans (gross) of the weekly reporting member banks rose slightly more than one billion dollars in the three weeks ended September 20, compared with the increase of somewhat over 900 million dollars recorded in the four weeks ended August 30. The New York City member banks, with less than one third of the total loans of all weekly reporting banks, accounted for close to 45 per cent of the increase in loans during the first three weeks of the past month. On September 20, gross loans of all weekly reporting member banks, at 28.7 billion dollars, totaled 4.8 billion more than on the corresponding date a year ago, and 2.9 billion more than at the December 29, 1948 peak.

Reflecting continued inflationary pressures, business demand for bank credit remained urgent, and the expansion of business loans of the weekly reporting banks accounted for more than three fourths of the increase in total loans in the first three weeks of the month, and about half the gain in the year ended September 20, 1950. New York City banks accounted for somewhat less than half of the 780 million dollar increase in loans to commercial, industrial, and agricultural establishments in the first three weeks of September. From the low point of this year (May 1950), the growth of business borrowing from the banks was decidedly greater than the usual summer and fall expansion, and in New York City the gain in business indebtedness to the reporting banks (21 per cent) was much sharper than in the 93 other centers (14 per cent). Since the sales finance companies have been heavy borrowers from the New York institutions, part of the advance in these banks' business loans reflects indirect financing of consumers.

Despite the sharp increase in bank accommodations to business, the business loans outstanding of all the weekly reporting banks on September 20 still totaled 60 million dollars less than at the peak for total loans on December 29, 1948. (In the week ended September 27, the New York City banks reported a further gain of 66 million dollars.) Thus, most of the increase in the total loans of the weekly reporting banks between December 29, 1948 and September 20, 1950 represented other than business financing. In this period, real estate loans and "all other" loans (including loans to consumers) showed the largest increases—24 and 41 per cent, respectively. In the first three weeks of September, these two categories of loans rose at a much slower rate than in August, when "all other" loans in particular showed a pronounced expansion as a result of heavy consumer buying on credit and the extension of a large loan to a foreign government. However, the weekly volume of expansion was not less in September than in most other months of the year.

Reflecting the rise in short-term money rates and uncertainties in the trend of Government bond prices, loans of the weekly reporting member banks on Government securities fell about 180 million dollars in the three weeks ended September 20 as dealers and others reduced their holdings. This decline was partly offset by an increase of 106 million dollars in loans on other securities. Compared with a year ago, loans on securities other than Government issues were up about 450 million dollars on September 20, chiefly in response to higher stock prices and more active trading in the stock market. Since Government security loans fell almost 390 million dollars in this 52-week period, the use of bank credit to finance activity in the security markets showed little net change.

The expansion of bank credit indirectly to State and local governments and to corporations through purchases of their securities continued in September. The weekly reporting member banks' holdings of such securities reached a new peak on September 20, 1950, of 6.4 billion dollars—about 130 million and 1.3 billion dollars, respectively, above the August 30, 1950 and September 21, 1949 totals. Most of the increase has been in tax-exempt issues, purchased partly in anticipation of higher corporate tax rates.

Bank holdings of Government securities fell during the past month, largely as a result of money market conditions. Changes in the composition of the banks' Government security portfolios in recent weeks have of course reflected the Treasury's refunding operation and the System's purchases of maturing and called issues. Treasury bill and note holdings have consequently risen substantially, while holdings of certificates of indebtedness and bonds have shrunk.

Over the year ended September 20, 1950, bank credit extended to the Federal Government in the form of the reporting banks' holdings of Government securities fell approximately three billion dollars. Total loans and investments, however, rose 3.1 billion dollars in this period. Thus, in a period marked by high levels of business activity and employment, the development of shortages in many sectors of the economy, and an inflationary rise in commodity prices, the growth of bank credit to the private sector of the economy (including State and local governments) amounted to over 6 billion dollars for the weekly reporting member banks alone.

THE ROLE OF FEDERAL RESERVE BANKS UNDER THE DEFENSE PRODUCTION ACT

Under the Defense Production Act of 1950, which President Truman signed on September 8, responsibility in three important fields—control of consumer and privately financed real estate credit and administration of Government loan guarantees to defense contractors—was delegated to the Federal Reserve System. Before the month had ended, the Federal Reserve System had taken steps to develop in two of these fields effective programs designed to foster economic stability in a period of accelerated defense effort.

The Defense Production Act restored to the Federal Reserve System the power to control consumer credit which the System had exercised in two previous periods (September 1, 1941 to November 1, 1947, and September 20, 1948 to June 30, 1949), but the restored authority will terminate on June 30, 1951 unless Congress continues it in effect. Accordingly, the Federal Reserve Board re-issued Regulation W, effective on September 18. Purchasers of passenger cars are now required to pay a minimum of one-third down and the balance within 21 months. On household appliances, radio and television sets, and air conditioning units a down payment of 15 per cent is required, while purchases of furniture and floor coverings require 10 per cent down. In both these categories, the balance must be paid in 18 months. In the case of loans for residential repairs and alterations, the minimum down payment is 10 per cent and the maximum maturity 30 months. Down payment restrictions do not apply, however, to articles selling for less than $100; and neither the down payment nor the maturity restrictions apply to articles, other than automobiles, when the credit extended exceeds $2,500.

In order to facilitate the defense effort and the placing of defense orders with small as well as large concerns, a program of guaranteed loans patterned after the so-called V-Loan program of World War II has been inaugurated, effective September 27. The Federal Reserve Board's new Regulation V sets forth the procedure and terms for such loans. Federal Reserve Banks will act as fiscal agents in connection with production loans guaranteed by the Departments of the Army, the Navy, and the Air Force and by other Government procurement agencies. Private financing institutions may be guaranteed against loss of principal or interest on any loan to finance any contractor or subcontractor in connection with defense production under Government contract. The maximum rate of interest which may be charged with respect to a guaranteed loan has been set at 5 per cent, and a schedule of guarantee fees has been established.

It is thus possible for the several guaranteeing agencies immediately to provide such guarantees as may be necessary to facilitate the financing of defense contracts. The form of guarantee agreement, the schedule of rates and fees, and the details of procedure are subject to change from time to time as experience under the renewed program may make desirable. In general, the procedures for the handling of guarantees will follow, to the extent applicable, those which were in effect when the wartime V-Loan program terminated in 1945.

The Board of Governors of the Federal Reserve System has not yet issued regulations relating to the control of privately financed real estate credit. Copies of Regulations V and W may be obtained from the Press and Circulars Division of this bank.

RECENT TRENDS IN THE UNITED STATES BALANCE OF PAYMENTS

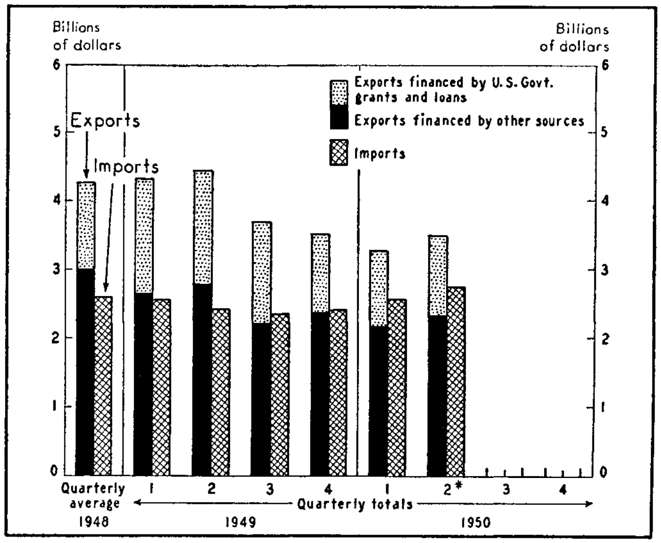
The most outstanding recent development in the United States balance of payments has been the striking decline in our surplus on current account (goods and services) from an annual rate of 8,096 million dollars in the second quarter of 1949 to an annual rate of only 2,956 million in the second quarter of 1950.[1] Foreign holdings of gold and short-term dollar balances, moreover, appear to have increased during the same period by approximately 1.5 billion as a result of transactions with the United States. These developments raised expectations that our export surplus would be more easily manageable in the near future.

From a postwar peak of 3,165 million dollars in the second quarter of 1947, our quarterly balance-of-payments surplus on current account had declined steadily to 1,294 million by the third quarter of 1948 under the impact of the growing recovery in production and trade abroad and the gradual abatement of the more urgent postwar backlogs of foreign demand (both of these developments being, of course, greatly influenced by the continuing large-scale United States Government foreign aid, especially to Western Europe). This decline was the combined result of a decrease in our export of goods and services from 5,268 million dollars in the second quarter of 1947 to 4,029 million in the third quarter of 1948, and a rise in our imports of goods and services from 2,103 million to 2,735 million dollars. Up to the latter part of 1948, therefore, satisfactory progress was being made toward the achievement of a more orderly balance-of-payments pattern between the United States and foreign countries.

In the last quarter of 1948, however, and especially in the first half of 1949, our export surplus again increased sharply, rising to 2,024 million dollars in the second quarter of that year. As may be seen from the accompanying chart, that increase was attributable, about equally, to an increase in our exports (from 4,029 million dollars to 4,442 million between the third quarter of 1948 and the second quarter of 1949) and to a decline in our imports (from 2,735 million dollars to 2,418 million during the same period). Since United States Government foreign aid and other supplies of dollars currently being made available to foreign countries were together insufficient—despite an increase over earlier months—to finance our higher export surplus, foreign countries in the aggregate had to draw heavily on their gold and dollar reserves, although the reserves in the case of some countries were already at "minimum" levels. The group of countries covered by the European Recovery Program, and the United Kingdom in particular, were hard hit, not only as a result of their increased current account deficit with the United States, but also because of sharply increased net dollar payments to third countries.

A major causal factor in the increase in our exports during that period seems to have been the increased flow of United States Government foreign aid, especially to the ERP countries as a group, their dependencies, and certain Far Eastern countries. The decline in our imports was attributable to a number of factors. The recession in United States business activity and prices commencing in the fall of 1948 and extending into the summer of 1949 reacted adversely on the volume and dollar value of foreign exports to this country. Secondly,

United States Exports and Imports of Goods and Services, 1948-Second Quarter of 1950



* Preliminary.
Source: U. S. Department of Commerce.

since the decline in American prices was not accompanied by a proportionate decline in the prices of imported goods, there tended to be a relative shift in American demand from foreign to domestic goods; the overvaluation of many foreign currencies relative to the dollar became even more pronounced than before. Thirdly, the decline in our imports reflected to a certain extent the end of a restocking process in the United States (part of our imports having previously been attributable to the filling of domestic production pipelines). Fourthly, the growing belief that many foreign currencies would soon be devalued undoubtedly induced many prospective importers to hold back their purchases in the hope of obtaining goods more cheaply in dollar terms when the anticipated devaluations occurred.

Since the middle of 1949, the balance-of-payments picture has again reversed itself, our current account surplus resuming its downward trend at an accelerated rate. From its level of 2,024 million dollars in the second quarter of 1949 the surplus declined to only 739 million in the second quarter of 1950.[2] This remarkable change was predominantly attributable to a decline in exports of goods and services from 4,442 million to 3,480 million dollars, since imports rose only from 2,418 million to 2,741 million (and had, in fact, fallen to 2,346 million dollars in the third quarter of 1949). That decline was, in turn, attributable chiefly to a fall in the volume (rather than the price) of merchandise exports.

Of the various factors which contributed to the remarkable decline in our export surplus, and especially in our exports, between the second quarters of 1949 and 1950, the following would seem to be the most pertinent:

1. The new dollar crisis that spread over the sterling area and other foreign countries in mid-1949 led to a widespread

[1] The surplus had actually declined to an annual rate of 2,816 million dollars in the first quarter of 1950, but there was a slight increase in the second quarter.

[2] As noted earlier, the surplus was even somewhat lower in the first quarter of 1950.

tightening of exchange and trade restrictions abroad against American goods and services, including, in some cases, the reimposition of restrictions that had previously been relaxed. An outstanding example was the 25 per cent reduction in the dollar expenditures of the United Kingdom, announced in July 1949, and followed by similar reductions by other sterling area countries. A number of Latin American countries, as well as the Philippines, imposed further restrictions in the latter half of 1949. On the other hand, there has, in recent months, been a tendency for controls in certain foreign countries to be relaxed somewhat.

2. Another contributory factor, of a more "normal" and desirable sort, was the continuing expansion in production abroad, notably in Western Europe, which made it possible for foreign countries to a larger degree to satisfy their needs from domestic sources or from trade with one another. For example, industrial production in Western Europe (excluding Germany) is now some 25 per cent above 1938, and that area has been favored by two successive bumper harvests. This generally improved supply position has lessened abnormal demands for American goods and contributed to a replacement of American supplies by those of other countries. To some extent, also, devaluation may have accentuated this shift of demand away from the United States.

3. To some degree the satisfaction of certain of the more abnormal emergency demands of the early postwar years and the replenishment of producers' and consumers' stocks to more normal levels may have contributed to the general lessening of demand for American goods. The sharp curtailment of inflationary pressures throughout the world as a whole, and especially in Western Europe, is also likely to have operated in this direction.

4. The decline in the total supply of dollars made available to the rest of the world through United States imports of goods and services, United States Government foreign aid, and private American capital exports and remittances must also be considered. The total supply of dollars, so defined, declined steadily from 4,325 million dollars in the second quarter of 1949 to 4,104 million in the second quarter of 1950; United States Government foreign aid alone declined during the same period from 1,661 million to 1,162 million dollars. Given the reluctance or inability of foreign countries to draw much further on their exchange reserves and, indeed, their desire to rebuild these reserves, the decline in the dollar supply during the period under consideration induced foreign countries as a group to limit their net dollar outlays. The influence of this factor, however, has already been taken largely into account in the discussion (paragraph 1 above) of tightened exchange restrictions.

5. The widespread devaluations of foreign currencies *vis-a-vis* the dollar in September 1949 appear to have contributed in part, by their effect on relative prices, to the decline in our exports (and, as will be noted, to the slight increase in our imports). These devaluations increased the local-currency prices of American imports in the devaluing countries, both in absolute terms and relative to the local-currency prices of competing domestic goods and of goods from other devaluing countries, and thereby may have tended to reduce United States exports by causing some shift in purchases from the United States to the devaluing countries. United States merchandise exports may have also tended to meet increased competition from the goods of devaluing countries even in the markets of nondevaluing countries, since United States products became more expensive there relative to the competing goods of devaluing countries. In short, the devaluations probably strengthened the trend, noted above, for American merchandise to be displaced by goods from other sources. However, these relative price changes are likely to have exerted

Balance of Payments of the United States
(In millions of dollars; (+)=credits, (—)=debits)

Item	1946	1947	1948	1949				1950	
	(Quarterly averages)			I	II	III	IV	I	II*p*
Exports of goods and services:									
Merchandise	2,918	3,994	3,357	3,448	3,455	2,770	2,664	2,448	2,582
Services	767	955	916	875	987	915	842	823	898
Total	3,685	4,949	4,273	4,323	4,442	3,685	3,506	3,271	3,480
Imports of goods and services:									
Merchandise	1,292	1,525	1,958	1,960	1,761	1,593	1,830	1,961	1,993
Services	449	547	631	590	657	753	571	606	748
Total	1,741	2,072	2,589	2,550	2,418	2,346	2,401	2,567	2,741
Balance on goods and services	+1,944	+2,877	+1,684	+1,773	+2,024	+1,339	+1,105	+ 704	+ 739
Unilateral transfers (net):*									
Private	− 170	− 166	− 163	− 139	− 126	− 112	− 138	− 109	− 111
Government	− 572	− 487	−1,040	−1,382	−1,557	−1,291	−1,074	−1,021	−1,115
United States capital (net):									
Private (long and short-term)	− 92	− 250	− 219	− 203	− 122	− 154	− 157	− 76	− 90
Government (long and short-term)	− 753	−1,739	− 227	− 294	− 104	− 178	− 67	− 76	− 47
Foreign long and short-term capital	− 246	+ 61	+ 95	+ 55	− 226	− 9	+ 225	+ 248	+ 608
Change in United States gold stock	− 156	− 541	− 383	− 69	− 169	− 91	+ 165	+ 203	+ 29
Errors and omissions	+ 45	+ 245	+ 253	+ 259	+ 280	+ 496	− 59	+ 127	− 13

p Preliminary.

* Unilateral transfers comprise all transfers, in the form of goods and services or money and other capital assets, not accompanied by a *quid pro quo*. Included here for example, are personal and institutional remittances, ECA grants, civilian supplies for occupied countries, etc.

Source: U. S. Department of Commerce.

only a secondary influence, since the restrictive import barriers abroad had doubtless already reduced the demand for American goods to below the level to which, in a free market, it would have declined as a result of the devaluations.

The rise in our imports since the middle of 1949 has been only a secondary factor in the reduction in our export surplus. Between the third quarter of 1949 and the second quarter of 1950 our total imports rose by less than 400 million dollars. Much of this increase can be accounted for by the upturn in business activity in the United States and the resumption of inventory stockbuilding. These factors not only increased the physical volume of our commodity imports but also, despite the devaluations, raised the dollar prices of many primary products. The devaluations of last September do not appear, as such, to have exerted any noticeable upward effect on our imports. Although the currency realignments lowered the dollar prices of foreign goods generally relative to the prices of American goods, and may thereby have stimulated an increase in the volume of our purchases, especially in the case of manufactured goods, there is no evidence that the increase in purchases so stimulated more than offset the decline in the dollar prices of these goods. A minor factor contributing to the increase in imports may have been a resumption of purchases that had been postponed in earlier months in anticipation of the devaluations.

The Korean hostilities have set into motion a new set of forces that may well exert a major impact upon the pattern of our balance of payments. Those hostilities, and the rearmament plans in the United States and Western Europe which they have provoked, have already resulted in strong demands for goods and services which are likely to stimulate both our imports and our exports.

The increase of demand has made itself felt most immediately in the field of imports. Prices for industrial raw materials, in particular rubber and wool, have risen rapidly. American business units and governmental agencies are now seeking maximum imports of such materials. These developments are likely to cause a significant rise in the value of our imports in the second half of this year, even if further price rises do not take place or some declines occur. Imports of some manufactured goods during the same period are also likely to increase, partly because of some increases in foreign, particularly European, supply capacities. As long as the transition to rearmament is relatively more rapid in the United States than in Western Europe, the stimulation of our imports is likely to remain fairly general. So far as manufactured goods are concerned, however, the current expansion of our imports may not extend very far into the future. Once the anticipated rearmament program gets under way in Europe, resources will be increasingly diverted from export industries, and the growth of exports to this country may tend to recede.

United States exports are at present subject to new forces which are pushing in different directions. The recent improvement in dollar earnings and in reserves abroad is causing some relaxation of dollar import restrictions, and foreign buyers in many fields are more anxious to assure themselves of supplies of American goods. But the reversal of dollar import policies may be only gradual in some countries, in part because of the increasing availability of nondollar supplies; and United States Government restrictions upon exports from this country, designed to safeguard supplies for domestic uses and to prevent critical supplies from reaching the "Iron Curtain" countries, may delay or prevent shipments. During the latter half of this year, therefore, any improvement in our exports is likely to be only moderate relative to the increase in our imports.

Powerful stimuli to our export trade may, however, gradually make themselves felt. The provision of greatly increased amounts for military aid is bound to stimulate exports of munitions, as they become available, and of various materials and production equipment needed to develop rearmament abroad. The demand for foodstuffs and basic materials from the United States is also likely to rise in various European and Asiatic countries. In fact, limited exportable supplies in this country rather than foreign lack of dollars may often prove to be the critical problem.

It seems probable, therefore, that the effects of the new setting created by the invasion of Korea on our balance of payments will become visible in two stages. We are now in the first stage, during which a substantial rise in our imports will be accompanied by only a moderate increase, if any, in exports. In a second stage, our exports are likely to rise substantially further, with the increase possibly exceeding any further rise in imports. As we approach the end of the first stage, the decline in our export surplus will be slower and may well come to an end, or even give way to a fresh increase. The timing of these stages and the magnitude of the shifts in our balance of payments will, of course, be intimately related to the speed and scope of the domestic and foreign rearmament programs.

THE COMMERCIAL PAPER MARKET

Business concerns may obtain short-term credit accommodation either by borrowing from banks directly or by disposing of their promissory notes through an intermediary—the commercial paper dealer—who in turn places the notes with financial institutions seeking investment outlets for short-term funds. Transactions of the former type are said to take place in the customers' loan market, those of the latter type in the commercial paper market. While the term "commercial paper" may refer, in a broad sense, to all types of short-term negotiable instruments, its more restricted meaning (and the one used in this article) is that of short-term promissory notes discounted with dealers for resale to financial institutions.

The commercial paper market is the oldest of the several segments of the open market for short-term funds. It developed to substantially its present form shortly after the turn of this century, but its antecedents can be traced in our financial history for over a hundred and fifty years. An outstanding characteristic of this market, as of any open market, is the impersonality of its operations. All borrowing and lending is effected through commercial paper dealers, except in the case of paper sold by certain large finance companies. Of the ten dealers in the market, five handle commercial paper only, while the other five are engaged in various lines of the brokerage and securities business as well. Nationwide distribution of paper is achieved through branch offices and correspondent relationships.

Formerly it was customary for dealers to accept paper from would-be borrowers for sale on a commission basis, but presently prevailing practice is for dealers to purchase paper outright. Interest at the current rate is deducted in advance, as is the dealer's commission of one fourth of one per cent of the face value of each note. Notes ordinarily bear maturities of from four to six months, and are issued in convenient round denominations.[1]

Distribution of Commercial Paper Borrowers by Line of Activity in 1949

Line of activity	Number of concerns
Manufacturers	
Textiles	58
Grains, flour, fertilizers, and seed	26
Meat packers, canners, and sugar refiners	19
Metal products	17
Food and dairy products	13
Leather and leather products	13
Chemicals, drugs, and paints	11
Lumber, wood, paper, and rope	11
Other	12
Total	180
Wholesalers	
Groceries and food products	41
Hardware and paints	22
Textiles and leather products	10
Other	17
Total	90
Retailers	
Department and chain stores	25
Other	19
Total	44
Finance*	
Automobile	40
Small loan companies	24
Commercial	13
Total	77
Other	11
Total	402

* Does not include General Motors Acceptance Corporation, Commercial Investment Trust, Inc., and Commercial Credit Company, which do not use dealers but instead place their paper directly with purchasers.

Source: National Credit Office.

Dealers generally resell commercial paper on a ten-day option basis, although in some cases options may be granted for fourteen days. Options are usually granted for credit checking purposes only and dealers have refused to accept paper returned for reasons other than the unsatisfactory credit standing of the maker.

The standards required of borrowers in the commercial paper market are so high as effectively to limit the number of firms which may employ this form of short-term financing. "Prime names" are found, however, in diverse lines of business and in every section of the country. The accompanying table shows how commercial paper borrowers in 1949 were distributed among various lines of activity. The geographic location of these borrowers was very wide. The New York Federal Reserve District, where 69 business concerns used the market in 1949, had the highest concentration of borrowers. The Cleveland District, with 11 concerns using the market, had the lowest. Of the total of 402 borrowers in 1949, 377 (94 per cent) used one-name, unsecured promissory notes. Endorsed or guaranteed notes were given by only 15 borrowers, and notes secured by collateral by 10. Borrowing concerns had a net worth ranging from 250 thousand to over 25 million dollars, and more than half of them had a net worth of from 1 million to 5 million dollars.

Commercial paper is not viewed as a source of permanent working capital. Firms borrowing in the commercial paper market do so normally for the seasonal financing of inventory or other current working capital requirements, such as the carrying of trade receivables. Finance companies, however, are in the market more or less continuously,[2] and some other concerns have at times borrowed for considerable periods.

The commercial paper market is properly considered not as a substitute for direct bank lines of credit to borrowing firms, but as a supplement to them. Its use as a supplement to direct bank lines of credit in obtaining short-term accommodation has certain advantages for business concerns. Borrowing on commercial paper is generally less expensive than direct borrowing. It enables borrowing concerns to secure part of their funds in a national market, and thus to obtain more favorable terms from their banks on direct borrowings. If properly coordinated with direct bank borrowing, use of the commercial paper market permits a periodic "clean-up" of bank loans, and also enables firms whose banks are unable to supply the full amount of funds required to obtain additional accommodation in a market broader than the customers' loan market.

In addition, concerns which are able to use commercial paper financing become better known in the financial world and are supposedly thereby placed in a more favorable position for raising such long-term capital as they may from time to time require.

Only firms in good financial and trade standing, as disclosed by statements audited by outside accountants, have access to the commercial paper market. Borrowers must be willing to submit detailed information on finances and operations to dealers and to prospective purchasers of their paper. A satis-

[1] Denominations of 5, 10, 25, 50, 100, 250, and 500 thousand dollars are in use, but the larger denominations are infrequent. A borrower of 1 million dollars might execute, for example, eight notes of 50 thousand, 12 of 25 thousand, 24 of 10 thousand, and 12 of 5 thousand dollars.

[2] Three of the largest finance companies now sell their paper direct, and do not use dealers at all. Paper of these companies outstanding totaled 567 million at the end of 1949, as compared with market outstandings of 257 million dollars at that time.

factory current ratio, a reasonable amount of invested capital,[3] and earnings in fair proportion to volume, as compared with similar concerns, must be shown. Funds borrowed must be used for current purposes, not for permanent investment. In addition, some commercial paper dealers have at times required firms using their facilities to borrow amounts sufficiently large to make the accounts profitable to handle.

Although commercial paper was formerly held by a wide range of investors, participation on the lending side of the market has been limited in recent years almost exclusively to commercial banks. Traditionally, commercial paper has been regarded as well adapted for use by banks as secondary reserves. It can be purchased from dealers in amounts and maturities which suit the needs of the individual banker. Since open-market borrowing does not lend itself to renewals, commercial paper can be relied on as a certain source of cash at maturity. Furthermore, eligible paper within ninety days of maturity may, if necessary, be rediscounted with or used as security for advances from Federal Reserve Banks. (Federal Reserve Banks cannot, however, purchase commercial paper in the open market.) Finally, the acquisition by banks of profitable new accounts may be facilitated by the purchase of commercial paper.

Rates charged on commercial paper are generally lower than those on direct bank loans, even after allowance is made for the one fourth of one per cent commission customarily charged by dealers on each note handled. The differential reflects the fact that commercial paper represents prime risks, on which the possibility of loss is very small. In fact, judging from the experience of national banks, credit institutions have suffered much lower losses on commercial paper than on either customer loans or investments. Aggregate losses of all holders were negligible prior to 1932, and no losses have been experienced since 1937. This record largely explains the strength and steadiness of the demand for commercial paper, which in recent years has enabled dealers to dispose readily of their offerings.

In spite of the strong demand for commercial paper, and of low interest rates and other advantages connected with its use by borrowers, a downward trend in commercial paper financing has been evident since 1920. The volume of paper outstanding, the number of borrowers, the number of dealers, the number of lenders, and the relative importance of this method of financing as compared with direct borrowing from banks have all declined since the end of World War I.

Commercial paper outstanding is reported to the Federal Reserve Bank of New York by dealers active in the market. The volume of such paper reached a peak in January 1920, when it totaled 1,296 million dollars. It declined to a low of 60 million in May 1933, and although it had recovered to 388 million in February 1942, the impact of war brought another decline to 101 million in June 1945. The amount outstanding as of August 31, 1950 (286 million) was only slightly over one fifth of the 1920 total, in spite of the great increase in the dollar value of national income. Part of this decline reflects the fact that while in earlier years some leading finance companies placed their paper through dealers, they now sell it directly to banks throughout the country, and these borrowings, therefore, are not included in the totals compiled by this bank.

On the other hand, the decrease in volume has been accompanied by, and in part results from, a corresponding fall in the number of borrowers using the market. This number declined from well over 4,000 in 1920 to a low of 375 in 1945. By 1949, the figure had increased slightly to 402.

The shrinkage in the volume of commercial paper has greatly reduced the number of dealers, and has led also to a narrowing of the market on the buying side. About thirty dealers were operating in the country during the decade of the twenties, compared with only ten now (including one not recently active in the market). Purchases of paper from dealers by individuals and corporations seeking short-term investments have long since come to an end, and the large banks in New York City and some other cities have not bought commercial paper for their own account for a number of years past. The withdrawal of these banks from the market has been explained as probably resulting from the decline of the rate on prime names below the minimum commercial lending rate to which banks in leading centers tend to adhere. Large increases in the volume of other instruments suitable for use as secondary reserves (e.g., short-term Government securities) must also have contributed to the withdrawal. The shortage of offerings and the attendant limitation on new account prospects in the existing small market, coupled with unwillingness to break the rate structure, seem likewise to be important reasons.

In recent years, although there has been nationwide distribution of commercial paper, buying has been primarily by moderate-sized and smaller banks. The banks of New England, a section of the country which has always looked with favor on commercial paper financing, are among the most important purchasers.

These developments have naturally led to a decline in the relative importance of commercial paper in the loan portfolios of banks. Such paper probably never constituted an important part of these portfolios. Even at the end of 1919, open-market commercial paper outstanding was less than five per cent of the total loans of all commercial banks. But this proportion had fallen by the end of 1932 to 4/10 of 1 per cent, an all-time low. By the end of 1946, it had risen to 3/4 of 1 per cent of all commercial bank loans. It fell again thereafter, however, and was but 3/5 of 1 per cent at the end of 1949.

Several broad reasons may be advanced in explanation of the decline in the commercial paper market since 1920. First among these is changes in general business conditions. Generally lessening activity in the commercial paper market during

[3] In recent years, the minimum invested capital figure appears to have been about 250 thousand dollars. Few firms this small enter the market.

the twenties has been attributed in part to the advantage taken by many companies of inflated conditions in the stock market to acquire permanent working capital, and thus to reduce their need for open-market borrowing. Depressed economic conditions following 1929, resulting in a greatly decreased business demand for short-term funds, account for the sharp drop in the volume of commercial paper outstanding to the May 1933 low of 60 million dollars. Our entry into World War II, and the subsequent development of special arrangements to finance war production, caused the termination, in 1942, of a period of rising volume associated with the improvement in general business conditions after 1934. And during the war and postwar periods, some business concerns have used part of their prevailing high earnings to build up working capital positions, thus again, as in the twenties, reducing their need to use the commercial paper market.

A second reason for the long-run shrinkage of the commercial paper market may be found in changes in business borrowing practices, including the large-scale resort to the practice of term loans. The development by large finance companies of methods of direct placement for their paper, by-passing the dealers altogether, has doubtless had a substantial effect in reducing the volume of open-market paper outstanding, since the high figures of the twenties undoubtedly included considerable amounts of finance paper.

The change in structure of the commercial banking system since World War I has also contributed to the decline of the commercial paper market. Mergers, the growth of branch banking, and development of the practice of correspondent participations have resulted since 1920 in the appearance throughout the country of banks and groups of banks with lending limits large enough to enable them to supply substantial lines of credit to single borrowers.[4] Many large institutions have aggressively sought business on a national scale. This increased competition of the customers' loan market with the commercial paper market has been favored by the low money rates generally prevailing over the last two decades. Low interest rates tend to make the open market's cost advantage over the customers' loan market seem less attractive than when higher rates prevail.

Finally, the commercial paper market no longer fully enjoys one of the advantages claimed for it in years prior to 1920, namely, its usefulness in equalizing the supply of and demand for short-term commercial credit between geographical areas of seasonal surplus and deficiency. The Federal Reserve System, by providing means for the ready movement of funds throughout the country and thereby leveling out local conditions of tight or easy money, has materially reduced the market's appeal in this respect. Also, the growth of commercial bank holdings of Government securities has given banks ready access to Federal Reserve funds. These factors have contributed inescapably to the market's decline.

Sources of information close to the market report a somewhat greater than normal increase in commercial paper borrowing since the beginning of hostilities in Korea. This seems to reflect in part the recent wave of "scare" buying by consumers and in part business attempts to anticipate shortages by accumulating inventories. It is viewed by close observers as a temporary phenomenon, however, and in fact some concern is currently being expressed that the nation's rearmament program may soon have adverse effects on the volume of commercial paper financing similar in nature, though of lesser extent, to those associated with our participation in World War II.

Thus, the increase in the volume of commercial paper during the past five years (from 101 million dollars in June 1945 to 286 million in August 1950) does not necessarily presage any substantial revival of the market. It is measured from an abnormally low postwar level. It occurred, furthermore, while economic activity was reaching heights never before achieved in peacetime. And both the volume of paper currently outstanding and the present number of borrowers are seen to be small when compared with the figures associated with previous periods of prosperity.

BANKING AND BUSINESS DEVELOPMENTS IN THE SECOND DISTRICT

Significant changes in both banking and business were reported by bankers in various parts of the District who were visited in recent months by field representatives of the Federal Reserve Bank of New York. Industrial activity in the District increased substantially, with a consequent rise in employment. Retail buying became very active in anticipation of possible future commodity shortages, price increases, and the return of credit controls. An increased demand developed in the District for all types of loans.

Production needs and the building up of merchandise inventories were mentioned to the representatives of this bank as the principal reasons for the increased demand for business loans, while "scare" and anticipatory buying was said to account for much of the expansion in consumer credit. Another factor in loan expansion was an increased demand for mortgage money, spurred on by the possibility of future curtailment of new construction, plus the prospect of higher prices for homes because of higher labor and material costs.

Demand deposits in most of the banks visited continued to show some increase. Time deposits were to some extent reduced by withdrawals to purchase homes, cars, and other consumer goods. Rate competition from savings banks and savings and loan associations was another factor frequently mentioned by the bankers interviewed. In an effort to retain time deposits, some commercial banks have increased interest rates paid. A slow but rather steady trend in this direction is unmistakable. In some banks, however, an increase in present interest costs

[4] National banks are prohibited by law from lending an amount larger than 10 per cent of their unimpaired capital stock and surplus to any one borrower, and many State banks operate under similar restrictions.

is precluded because of inadequate earnings, the possibility of lower dividends to stockholders, the need to apply earnings to the building up of capital structure, or a combination of such considerations.

A marked increase in business activity was indicated by bankers in the various areas visited. Industrial plants have increased production and hired additional help. Several large, nationally known industrial plants are reported to be operating now with extra shifts. In some sections, Government orders for military needs were responsible for the improved conditions. Retail trade, which earlier in the year was reported lagging in many of the places visited, is said to have shown considerable improvement, partly because of "scare" buying. In the agricultural areas, crop conditions are reported good and, while prices received or anticipated are somewhat lower than a year ago, production is higher. With the seasonal increases in the price of milk, farmers in general are expected to come through the year with a satisfactory return for their efforts.

Residential construction, particularly the building of individual homes and of garden type apartments, is proceeding at a brisk pace in and around the larger communities. With the rise in labor and building costs, there has been some mark-up in sales prices of low to medium-priced houses, without apparently deterring prospective buyers. Building contractors are said to be evidencing some concern about future commitments because of rising construction costs, and in at least one area they are reported to be inserting escalator clauses in new contracts.

DEPARTMENT STORE TRADE

Preliminary information indicates that department store sales in this District during September were from 7 to 9 per cent better than a year ago and about 4 per cent greater than in September 1948. Seasonally adjusted average daily sales for the third quarter as a whole were 16 per cent higher than in the second quarter and 22 per cent above those of the first quarter.

The retail value of outstanding orders at the end of August was almost double the year-ago level and represented the largest end-of-month dollar volume of orders outstanding at Second District department stores since November 1946.

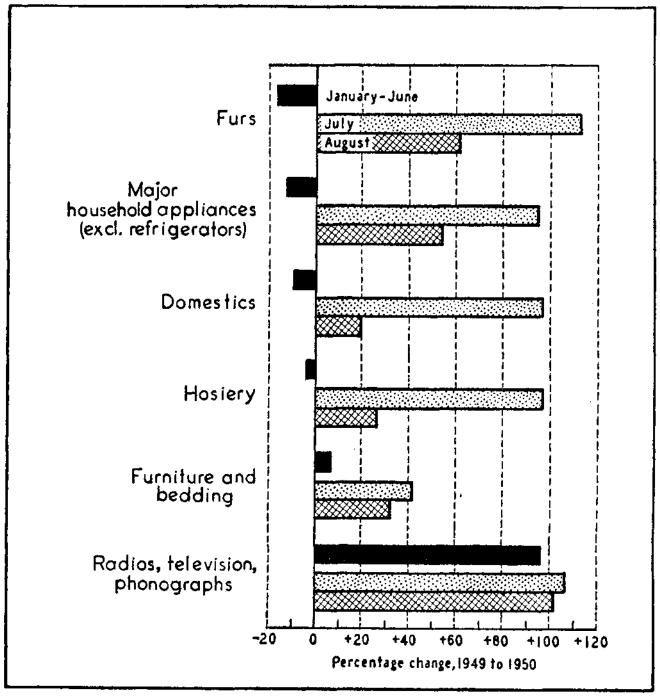
Receipts of merchandise during August increased 131 per cent from the total July intake, so that, despite the unusually high August sales level, the retail value of stock on hand on August 31 was 11 per cent above the level at the same date a year earlier.

Department Store Sales during July and August

Accelerated by "scare" buying and by intensive promotional efforts on the part of the stores, department store sales in this District made spectacular year-to-year gains during July and August of this year. In measuring these gains, however, one should bear in mind that sales in July and August 1949 were relatively low. In July last year the daily average sales had been the lowest of any month in three years, and the August 1949 daily average had been the lowest August figure since 1945.

Department Store Sales by Selected Types of Merchandise, Second Federal Reserve District

(Percentage change, 1949 to 1950; first six months, July, and August)



As in department stores throughout the rest of the United States, most of the major sales increases in July and August this year were in those merchandise lines which many consumers considered subject to almost immediate shortages in the event of a total economic mobilization.

In the durable housefurnishings group, the dollar sales volume of major household appliances (excluding refrigerators) during July was almost double the July 1949 level; in August the year-to-year increase dropped to 54 per cent. Trade-in sales of washing machines and stoves were very successful inducements to customers who sought to modernize their present equipment in view of possible appliance scarcities in the future. Similarly, the dollar volume of furniture and bedding sales spurted ahead of the year-ago levels by 42 per cent in July and 33 per cent in August. Rug and carpet sales increased 29 per cent in July from the July 1949 sales volume and rose even further during August, when they exceeded the August 1949 level by 34 per cent. The dollar volume of sales in the radio and television departments of Second District department stores during July and August was more than double the year-earlier volume.

As the chart shows, one of the most striking year-to-year sales increases during July and August among the nondurables was that of domestics: the sales volume of sheets, pillow cases, and other items in this department in each of these months almost equaled that of January, when "white sales" are featured by most of the stores.

In the women's accessories group, sales of women's gloves, millinery, shoes, and, of course, hosiery gained markedly during July. Hosiery sales showed the largest year-to-year increase —97 per cent. In August, however, hosiery sales were but 27 per cent higher than in August 1949. Among the apparel lines, women's and misses' coats and suits were in strong demand during both July and August (increases of 21 and 20 per cent, respectively). Sales of women's and misses' dresses, however, continued to lag far behind the 1949 dollar volume.

Without doubt, the prospect of a downward revision in the Federal excise tax rates had, until midsummer, a depressing effect on sales of fine jewelry and watches, and furs. With the advent of the Korean war, however, the likelihood of such reductions vanished and many persons made the purchases which they had deferred for so long. The dollar volume of fur sales during July and August showed year-to-year increases of 112 per cent and 61 per cent, respectively, after lagging 16 per cent behind the year-earlier level during the first half of this year. Sales of fine jewelry and watches during July were up 24 per cent from the same month in 1949, after a disappointing 9 per cent decline for the preceding six-month period. However, the year-to-year increase had shrunk to 4 per cent in August.

The basement store departments came in for a goodly portion of the exceptionally heavy midsummer buying. In many instances, basement departments outdistanced their comparable main store departments on the basis of year-to-year sales comparisons, as they had been doing throughout the year. However, thus far in 1950, the year-to-year comparison of *total* basement store sales in this District has not been as favorable as that of *total* main store sales, owing to the exceptionally large year-to-year sales increases in the upstairs housefurnishings lines. Such lines are generally not sold in the basement store.[1]

[1] Detailed statistics of Second District department store sales by departmental classifications are published monthly, and are obtainable on request from the Domestic Research Division, Research Department.

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

Locality	Net sales		Stocks on hand Aug. 31, 1950
	August 1950	Jan. through August 1950	
Department stores, Second District....	+17	+ 1	+11
New York City..................	+16	0	+13
Northern New Jersey.............	+18	+ 4	+ 8
Newark.......................	+17	+ 3	+ 7
Westchester County...............	+15	+ 4	− 2
Fairfield County..................	+28	+ 6	+14
Bridgeport......................	+30	+ 7	+15
Lower Hudson River Valley........	+13	+ 1	+ 1
Poughkeepsie..................	+12	0	+ 2
Upper Hudson River Valley........	+18	+ 1	+ 1
Albany.......................	+18	− 1	− 6
Schenectady..................	+19	− 1	+11
Central New York State...........	+16	+ 5	+ 4
Mohawk River Valley...........	+20	+ 4	+ 2
Utica.......................	+18	+ 4	+ 6
Syracuse......................	+15	+ 4	+ 5
Northern New York State..........	+13	+ 3	− 4
Southern New York State..........	+21	+ 3	+ 4
Binghamton....................	+19	+ 1	+ 6
Elmira.......................	+29	+ 9	+ 4
Western New York State...........	+16	+ 2	+11
Buffalo......................	+16	0	+14
Niagara Falls..................	+15	+ 5	+ 6
Rochester.....................	+18	+ 3	+ 7
Apparel stores (chiefly New York City).	+22	− 1	+13

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

Item	1949	1950		
	August	June	July	August
Sales (average daily), unadjusted	174*r*	230	192	202
Sales (average daily), seasonally adjusted..	238*r*	242	274	277
Stocks, unadjusted......................	206*r*	209	194	226
Stocks, seasonally adjusted..............	206*r*	222	218	226

r Revised.

Indexes of Business

Index	1949	1950		
	August	June	July	August
Industrial production*, 1935-39 = 100..... (*Board of Governors, Federal Reserve System*)	170	199	196	207*p*
Electric power output*, 1935-39 = 100..... (*Federal Reserve Bank of New York*)	258	289	288	297
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	154	184	186*p*	
Sales of all retail stores*, 1935-39 = 100.... (*Department of Commerce*)	331*r*	363	391	387*p*
Factory employment				
United States, 1939 = 100............. (*Bureau of Labor Statistics*)	141	147	148	155*p*
New York State, 1935-39 = 100......... (*NYS Div. of Placement and Unemp. Ins.*)	113*p*	113*p*	113*p*	121*p*
Factory payrolls				
United States, 1939 = 100............. (*Bureau of Labor Statistics*)	323	362	367*p*	392*e*
New York State, 1935-39 = 100......... (*NYS Div. of Placement and Unemp. Ins.*)	264*p*	272*p*	277*p*	306*p*
Personal income*#, 1935-39 = 100......... (*Department of Commerce*)	298	316	319*p*	
Composite index of wages and salaries*‡, 1939 = 100............................ (*Federal Reserve Bank of New York*)	200	207	208*p*	
Consumers' prices, 1935-39 = 100......... (*Bureau of Labor Statistics*)	169	170	173	173
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City.......................	110	105	113	144
Outside New York City...............	88	93	97	102

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

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, September 28, 1950)

Industrial output has shown a further marked increase in August and September above the record peacetime level reached in June. Business and consumer demands, however, have continued to be in excess of output and additional sharp rises have occurred in prices. Numerous industrial materials have risen by about as much since March as during the six-month period following the elimination of wartime price controls in 1946. A very rapid expansion in private credit and some drawing on liquid assets have been important factors, along with increased incomes, in financing the expanded rate of buying. Consumer credit controls became effective on September 18 under authority of the Defense Production Act, enacted September 8, which also authorized additional restrictions on real estate credit.

Industrial Production

The Board's index of industrial production showed a marked rise in August to 207 and a further rise of about 5 points is likely in September. Output in August increased substantially in all major groups of industries except primary metals, automobiles, and foods.

Nondurable manufactures rose to a new all-time high of 191 per cent of the 1935-39 average, which was 6 per cent above the level prevailing in the first half of this year. The sharpest increases in production were at textile mills, where cotton consumption rose one-sixth above the June rate, and at paper and paperboard mills. Rubber consumption continued at a record level in August, but was apparently reduced in September by a Federal order establishing maximum limits for use in civilian output during the last four months of this year.

Production of durable goods showed a considerable increase in August, reflecting mainly marked increases in output in the furniture, machinery, and iron and steel fabricating industries. Activity at aircraft plants and shipyards also expanded rapidly. Production of primary metals, bricks, cement, and lumber continued to show little change from the advanced levels reached in the spring of the year. Demand for these materials—especially metals—has remained far in excess of market supplies. In mid-September the National Production Authority instituted regulations aimed at limiting inventory buying of most metals and various other industrial materials.

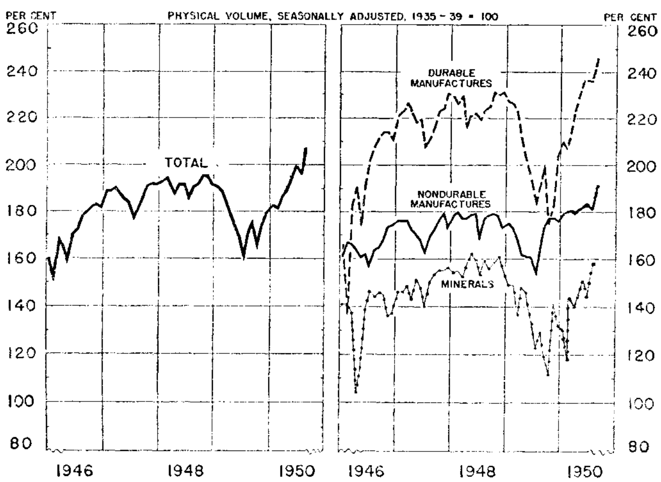
Construction

Contract awards for new construction expanded further in August to a new peak about one-tenth above the previous record reached in July and almost three-fourths higher than in August 1949. This expansion reflected large increases in the value of awards for most types of private construction which more than offset a small decrease in awards for publicly financed construction. The number of housing units started in August was close to earlier record levels and two-fifths greater than in August 1949.

Distribution

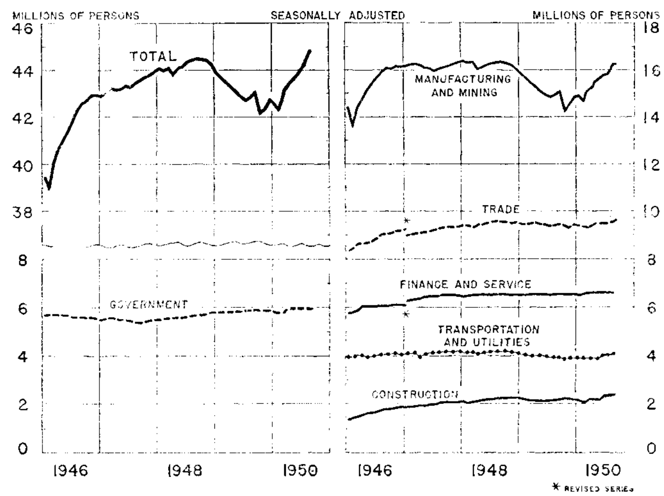
Buying at department stores in the four-week period ended September 9, although below the seasonally adjusted peak reached in July, was about one-tenth above year-ago levels. Sales of durable goods spurted again in mid-September reflecting in part buying in anticipation of the instalment credit controls. August sales at all retail stores were only slightly less than in July, on a seasonally adjusted basis, and 17 per cent greater than in August 1949.

INDUSTRIAL PRODUCTION



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

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 August.

Commodity Prices

The rise in the average level of wholesale prices has continued through the first three weeks in September, reflecting further sharp increases in prices of commodities other than farm products and foods. These commodities, as a group, are about one-tenth higher than in March and prices of numerous materials are up 20 to 60 per cent. Since mid-September buying of these materials has been less urgent and prices have shown some decline.

Retail food prices have been maintained at the advanced levels reached in July and prices of a number of other consumer goods have been raised since that time.

Bank Credit

Since midyear, credit to private borrowers and State and local governments has expanded by over 2½ billion dollars at banks in leading cities, which is an exceptionally large amount for this season of the year. From mid-August to mid-September, business loan expansion accelerated and loans to real estate owners and consumers continued to show large increases.

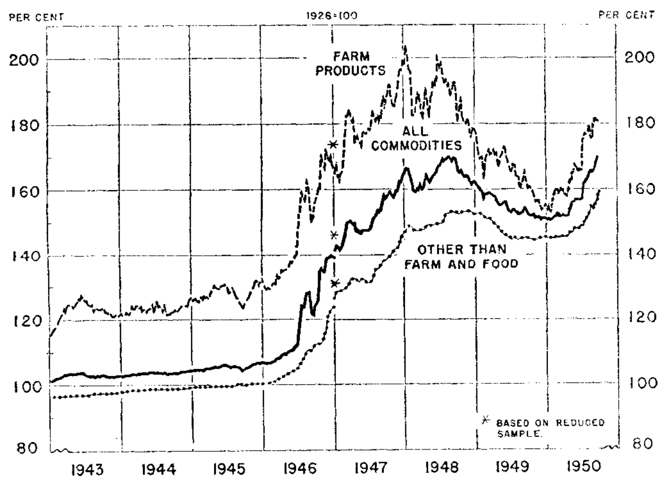
Following mid-August the Federal Reserve System purchased from banks and other investors a substantial volume of the bonds and certificates involved in the Treasury's current refunding program. Reserves supplied through these purchases were offset by System sales of other types of Government securities, by cash redemptions of System-held maturing Treasury bills, and by currency and gold outflows. As a result, member bank reserve balances were unchanged over the five-week period, August 17-September 20. Because of the credit expansion, required reserves increased somewhat further, while excess reserves declined.

Following an increase in the Federal Reserve discount rate and a rise in short-term money rates in August, interest rates to bank customers increased somewhat.

Security Markets

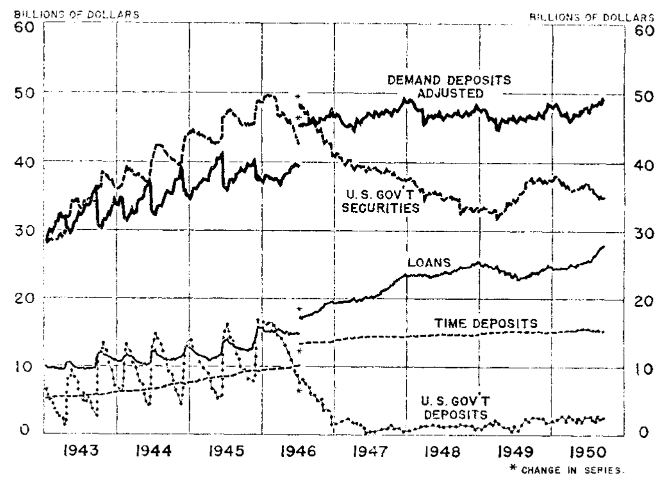
Common stock prices rose moderately during the first three weeks of September. Railroad shares continued to show pronounced strength, while public utilities issues recovered slowly. Yields on long-term Treasury bonds and high-grade corporate obligations increased slightly.

WHOLESALE COMMODITY PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended September 19.

MEMBER BANKS IN LEADING CITIES



Wednesday figures; latest shown are for September 13.