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MONEY MARKET IN JANUARY

The money market passed through several alternating phases of ease and tightness during the past month under the uneven impact of seasonal and other factors tending to make reserves available to the banks, of substantial nonbank investor demand for short-term Treasury securities, and of a series of increases in member bank reserve requirements announced by the Federal Reserve Board toward the end of December. The increase in reserve requirements, generally interpreted as a further emphatic step in the sequence of System actions aimed at restraining inflationary expansion of bank loans, set off a series of increases in the cost of borrowing money during the course of the month. Many commercial banks in New York City raised the rate charged prime commercial borrowers by $\frac{1}{4}$ of 1 per cent to $2\frac{1}{2}$ per cent. Rates on all maturities of prime commercial paper rose $\frac{1}{8}$ of 1 per cent, and those on all maturities of bankers' acceptances were increased twice during the month by a total of $\frac{1}{4}$ of 1 per cent on the bid side and $\frac{3}{16}$ of 1 per cent on the asked side. Loans to Government security dealers were raised to $1\frac{3}{4}$ from $1\frac{1}{2}$ per cent, and the Stock Exchange call rate was lifted to 2 per cent from $1\frac{3}{4}$ per cent.

MEMBER BANK RESERVES

The dominant influence upon member bank reserve positions in January was the increase in legal reserve requirements promulgated by the Board of Governors of the Federal Reserve System on December 29, 1950 (for the text of the announcement see the January issue of this *Review*, page 3). The net effect of the several increases for different classes of banks and of deposits was to place the bulk of the rise in requirements, 1.2 billion out of an estimated total of 2 billion dollars, in the statement week ended January 17. Another 600 million dollar increase became effective on January 25, and the remainder on February 1.

The magnitude of these adjustments, together with a number of cross currents in the market stemming from other transactions, made for an extremely sensitive and volatile money market throughout the month. Conditions varied from easy to moderately tight to tight, as reflected by the fact that the rate on immediately available Federal funds fluctuated in wide cycles of about a week's duration (until the final week,

when tightness prevailed throughout). Nevertheless, the initial adjustment of member bank reserves to the higher requirements was not difficult for the banks. That adjustment was facilitated by the concurrence of several large routine money market transactions which in the three weeks ended January 17 supplied the banks on balance with an amount of reserves approximately equal to the additional requirements. The later, and smaller, adjustments, however, presented greater problems to the banks.

In the period leading up to the first round of increases, Treasury cash disbursements, including over 800 million dollars for the redemption of certificates of indebtedness maturing January 1, exceeded Treasury receipts by a wide margin in spite of withdrawals of about 1.4 billion dollars from accounts with depositary commercial banks. Suspension of calls on Tax and Loan Accounts after January 9 tended to maintain the Treasury's net disbursements out of its balances with the Reserve Banks at comparatively high figures, and for the three weeks ended January 17, Treasury transactions made about 700 million dollars of reserve funds available to the banking system. The usual heavy post-Christmas return flow of currency increased member bank reserves another 700 million dollars, and other transactions added small amounts. On the other side, a further decline in the monetary gold stock through these three statement weeks brought with it a reduction of 300 million dollars of member bank reserves, while a modest amount of reserves was absorbed through much of this period by a decline in Federal Reserve "float" (outstanding checks

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against which the banks are granted credit in their accounts with the Reserve Banks prior to collection). Apparently the increase in the "float" resulting from the inauguration on January 12 of maximum two-day availability schedules on checks presented to the System for collection was more or less offset by the usual short-run seasonal contractive tendencies. The net effect of all these transactions was to place about 1.1—1.2 billions of reserves at the banks' disposal by the time the first round of added reserve requirements came into effect. It was partly in anticipation of the need to prevent such funds from becoming a base for further inflationary expansion of bank credit that the increase in legal reserve requirements was imposed.

Notwithstanding the increase in reserve balances resulting from these other factors, the banks as a whole were also sellers of Government securities during the period preceding the first of the increases in legal reserve requirements. Sales were apparently necessary largely because of differences among banks in the distribution of the added reserves, and particularly because of the drain of funds from New York to other areas, although the banks' customary desire to reduce borrowings from the Reserve Banks at the year end also accounted for substantial sales early in the period. For the three statement weeks (ended January 17) as a whole, total holdings of Government securities by the weekly reporting banks in 94 cities declined roughly 1 billion dollars, while somewhat less than half of this amount (about 460 million dollars) was matched by net purchases for the account of Federal Reserve Banks. Although borrowings at the Reserve Banks were reduced about 275 million dollars around the year end, there was a moderate increase in borrowing as the first series of reserve adjustments approached. When these first adjustments were completed, however, the banks were in the comfortable position of possessing about one billion dollars of excess reserves.

This condition was sharply reversed in the following week (ended January 24). Receipts of personal income tax checks became a more significant factor in the Treasury's revenue and enabled the Government to replenish in part its deposits with the Reserve Banks, which had been all but depleted during the preceding week. At the same time, a substantial decline in Federal Reserve float and other transactions added considerably to the banks' needs for funds, which were only partly relieved by a further reduction in the currency circulation. Adding further to the pressures on the banks' reserve positions was a fairly large volume of sales of short-term Treasury securities in the market by the Reserve System in response to demand originating with nonbank investors. Member banks consequently faced a net reserve drain of about 525 million dollars, which they met through borrowing about 175 million and drawing on their excess reserves for another 350 million.

Thus, the comfortable excess reserve position disappeared just as the banks in central reserve and reserve cities were

called upon to meet the second upward adjustment of their legal reserve ratios, amounting to about 600 million dollars, on January 25. At the same time, the banks could not look to ordinary money market transactions to provide any relief, since Treasury receipts of personal income tax checks and other collections still were larger than disbursements and the seasonal return flow of currency had about come to an end. In many respects, therefore, meeting the second phase of the increase in legal reserve requirements proved more difficult for the banks, and a much larger proportion of the increase (together with other needs for funds) had to come directly out of the banks' earning assets, or from borrowings, than had been the case for the initial and much larger adjustment. Because of other needs for funds, net Federal Reserve System purchases of Government securities toward the close of the month exceeded the dollar amount of the increase in reserve requirements.

As money market banks, the New York City institutions had to bear not only the burden of their own adjustment to higher reserve requirements, but also a portion of that of their out-of-town correspondents. Thus, there was a substantial shift of New York funds to other parts of the country during the month in excess of the usual seasonal movement, as out-of-town banks drew down their deposits in the City. Interbank deposits of the weekly reporting member banks in New York City fell over 600 million dollars in the four weeks ended January 31. But the pressure on the City banks was reduced by a partly offsetting countermovement of funds from other areas by nonbank investors, who were paying for Treasury securities purchased in the New York market, and by a heavy concentration of the Treasury's net cash disbursements in New York. In part, however, these net disbursements reflected net cash redemptions of the City banks' holdings of maturing Treasury bill issues in excess of the allotment of new bills, and constituted another form in which the New York City banks chose to bring their reserves up to the new requirements.

Although the heavy nonbank investor demand for short-term Government securities during the past month did provide some inflow of funds for the New York market, it also had a tightening effect on aggregate reserve positions, particularly during the weeks ended January 10 and 24, when it was satisfied in part through net Federal Reserve sales. This demand also complicated the member banks' problem of adjusting their reserve positions, since the sale of Government securities by the banks to nonbank investors did not give the dollar-for-dollar increase in reserves obtained from sales of Governments to the Reserve System. Instead, sales to nonbank investors merely tended to reduce demand deposits (and required reserves), thus freeing reserve funds by only a fraction of the amount of sales. As a result, the banks were compelled to liquidate a volume of securities that was larger in dollar amount than the amount of their residual needs for funds.

GOVERNMENT SECURITY MARKET

To some extent, the heavy nonbank investor demand for short-term Treasury securities which made its appearance in the market in January merely made good a part of the lag in reinvestment of the proceeds of sales or cash redemptions of the Treasury bonds and certificates of indebtedness which came due on December 15 and January 1, respectively. Industrial corporations and others, whose interest in short-term Government securities has apparently been stimulated in the past year or so by the higher rates of return available from such obligations, were persistent buyers during the month of the longer maturities of Treasury bills and of Treasury notes maturing in October and November. They also acquired considerable amounts of the new issues of bills directly from the Treasury, and as a result, allotments of new bills to the commercial banks fell short of their holdings of maturing issues. On the other hand, the commercial banks liquidated the shorter maturities of Treasury bills and notes when seeking funds to provide for higher required reserves. The Federal Reserve System, then, tended to be the balance wheel, purchasing the shorter-term bills and notes and selling the longer maturing bills and the October and November notes. And when reserve pressure on the member banks eased somewhat, on two occasions during the month, persistent nonbank investor demand for bills tended to reduce bill yields.

In adjusting their reserve positions to the higher requirements, the banks also liquidated a portion of their holdings of long-term notes (maturing in 1954 and 1955) and of short and intermediate-term taxable bonds (callable through 1956). In the absence of sizable market demand, the System purchased moderate amounts of these issues. Prices of most of these issues fell in the early part of January and rose for a time after the middle of the month; the range of these changes, however, was very narrow.

Rumors of an agreement among interested Federal officials that future Government financing during remobilization would be accomplished under the current pattern of rates, running from about $1\frac{1}{2}$ per cent for one-year money to $2\frac{1}{2}$ per cent for long-term funds, gave rise early in the month to a moderate upswing in Treasury bond prices. On January 18, in apparent confirmation of the earlier rumors, particularly with respect to the $2\frac{1}{2}$ per cent rate, a speech by the Secretary of the Treasury was followed by a sharp spurt in market activity and a rapid one-day rise in prices. This advance brought the Victory bonds $3/32$ above the end of December level and the shortest-term restricted issue (which becomes eligible for bank investment next year) $18/32$ above its year-end price. Price increases in the other restricted bond issues ranged between these extremes. Medium and long-term eligible bonds followed a similar price pattern; the longest-

term bank-eligible issue at its January peak was $20/32$ above the quotation for the end of December.

After the 19th, some step-up in life insurance company selling of restricted bond issues, and subsequent developments casting doubt upon the unanimity of opinion as to appropriate interest rate policy, sent Treasury bond prices downward, eliminating most of the earlier gains. Although prices of partially tax-exempt issues moved roughly in the same direction as those of the eligible and ineligible bonds, the major influence affecting the prices of the tax-exempts continued to be the prospects for higher corporate taxes. Thus, the longer-term partially tax-exempt bonds showed larger initial price gains and smaller subsequent losses than the taxable issues.

MEMBER BANK CREDIT

Total loans of the weekly reporting member banks fell about 115 million dollars in the four weeks ended January 24, but the decline occurred principally in loans on securities and loans to banks, which characteristically fluctuate widely from week to week. Probably of greater significance was the fact that business, real estate, and "all other" (including consumer) loans experienced a sharp reduction in their weekly rate of increase.

Commercial, industrial, and agricultural loans (i.e., "business" loans) of the weekly reporting banks rose about 180 million dollars in the four weeks ended January 24, reaching a new all-time high record of about 18 billion dollars. The average weekly rate of increase (about 45 million dollars a week) was less than one fourth of the December rate and the lowest since the start of the current upswing. The tendency toward declining rates of loan expansion prevailed both among the New York City weekly reporting member banks and in the 93 other reporting centers. This slower increase presumably reflects the weakening of seasonal expansionary tendencies in some lines of business.

Real estate loans of the weekly reporting member banks also continued to grow, but the increase, which averaged 7 million dollars a week for the four weeks ended January 24, was less than one fourth of the peak weekly rate during August of last year. Some evidence that consumer credit restrictions may be taking increasing effect appeared in the sharp reduction in the growth of all other loans of the weekly reporting member banks over the first four weeks of January. The increase averaging 9 million dollars a week was the smallest in the past 12 months except for February 1950 when such loans declined. Part of the past month's gain, furthermore, included new loans to foreign governments.

During the year ended January 24, 1951, total loans and other than Government securities of the weekly reporting member banks rose nearly 8.3 billion dollars, or about 28 per cent. Since a large part of the increase in these assets was financed through the sale of Government securities to non-

bank investors (as shorter-term interest yields became increasingly attractive), the net increase in (adjusted) demand deposits of individuals, partnerships, and corporations, and of the States and their political subdivisions was held to 3.1 billion dollars, or 6 per cent over the previous year's figure. The New York City weekly reporting banks accounted for approximately a third of the nationwide increase in total loans and other security holdings, and the amount of these earning assets held by New York banks grew by about one third over the year, as compared with a rise of one fourth for the weekly reporting banks in the 93 other centers. In contrast, however, the demand deposits adjusted of the New York City banks accounted for about a sixth of the increase in deposits of all weekly reporting member banks, rising only 3 per cent over the year as against a gain of 8 per cent for the other reporting member banks.

FURTHER CONSTRUCTION CONTROLS

To restrain inflationary pressures further and to release more materials and labor for the defense program, an amendment to Regulation X has restricted the amount of credit financing allowed on larger residential buildings, while the National Production Authority has issued an order banning the starting of private commercial construction until February 15. Regulation X was amended by the Board of Governors of the Federal Reserve System, effective January 12, 1951. The amendment has placed three and four-family residences under credit controls similar to those applying to one and two-family residences since October 12, 1950. "Multi-unit" residential structures (for more than four families), including cooperatives, were also brought under credit controls. All new nonessential private commercial building costing more than \$5,000 was banned by the National Production Authority on January 15. The NPA order was issued in anticipation of a general licensing system for private commercial construction to take effect February 15, 1951.

The new amendment to Regulation X, like the regulation itself, was issued concurrently with companion restrictions by the Federal Housing Administration and the Veterans' Administration. Regulation X applies only to "conventional" loans, i.e., those which are not aided by Government insurance or guarantees, while the companion restrictions cover loans insured or guaranteed by the Government. The housing credit regulations of both the FHA and the VA have been amended to bring them into general conformity with the amended Regulation X, with the VA continuing its preferential borrowing schedule for veterans.

The maximum amount of the loans permitted by Regulation X under the restrictions on residences of two or more family units is now determined on a family-unit basis, as against the previous "structure basis". In general, borrowing is limited to no more than 83 per cent of the value per family unit in a multi-unit residence. This maximum percentage

applies in the case of family units valued at not more than \$7,000. The maximum percentage of mortgage financing is lower for higher-priced units, and ranges down to 50 per cent where the cost per family unit is more than \$23,500.

The new amendment makes Regulation X applicable also to major additions or improvements to multi-unit properties, but not to hotels, motels, rooming houses, and club houses.

The National Production Authority curbs on commercial construction cover the hotels and motels which the Regulation X amendment exempts. In addition the NPA has temporarily prohibited the starting of such structures as banks, office buildings, garages, laundries, restaurants, and retail stores. Specifically exempted from the order are wholesale food and fuel establishments, warehouse buildings used by manufacturers, and construction projects of the Defense Department and the Atomic Energy Commission. The special purpose of the NPA order is to conserve materials for the construction of industrial plants and for the residential expansion of communities in which there will be expanded defense production.

All new private commercial construction started after January 13 is subject to the NPA curb. Exemptions will be granted for a building started after January 13 (and before the NPA order) only if "a substantial quantity of building material has been incorporated". Authorization to build private commercial structures in the future will be given only in those cases in which the applicant can show that the new building furthers the defense effort, is essential to public health, welfare, or safety, or will alleviate or prevent a hardship to a particular community.

THE PRESIDENT'S BUDGET MESSAGE

The budget which President Truman presented to Congress on January 15 must be regarded as a very tentative estimate of the Government's fiscal activities in the twelve months beginning July 1, 1951. The President has stated that both the military and international security programs may be subject to substantial adjustment, as the defense program progresses, and that actual expenditures will depend on how rapidly we are able to produce the military items for which funds are made available. The possibility of important changes in the international outlook or in the domestic economic situation should also be allowed for.

Actual spending in any one fiscal year, and especially in a period of rapidly expanding outlays for heavy goods, may vary considerably from the obligational authorizations granted by Congress for that period. Obligational authority is generally given by Congress in the form of an appropriation for a given period. It is granted to cover, and at the same time to act as a limit on, the amount of obligations which are to be incurred during the period. Most appropriations remain available for making payments two years after the obligations are actually incurred. In some cases, appropriations per-

mit obligations to be incurred during a period of more than a year, some even without a time limit, and payments are correspondingly deferrable. Plans must be made, orders placed, and in most cases goods delivered before actual payment is made by the Treasury. During the period of rearmament, however, the President has indicated that advance payments will be made whenever they may be needed for the stimulation of defense production.

The estimate of receipts is based on existing tax legislation and, according to Secretary Snyder, on the assumption that personal income will rise some 5 per cent from the level in the closing months of 1950 to around 245 billion dollars in the current calendar year. The President indicated he would shortly recommend an increase in taxes adequate to attain a balanced budget, as the only sound financial basis on which to undertake an extended period of very high defense expenditures.

Expected receipts of 55.1 billion dollars in the fiscal year 1952 fall short of anticipated expenditures of 71.6 billion dollars, resulting in an indicated *budget* deficit of 16.5 billion dollars, compared with an indicated deficit of 2.7 billion in the current fiscal year. On the basis of *cash* receipts and outlays, however, the deficit for fiscal 1952 would be 12.8 billion dollars compared with an expected surplus of 200 million this year.

THE BUDGET ACCOUNTS

The estimated budget receipts in fiscal 1952 would amount to over 19 per cent of national income, somewhat more than in the fiscal year ended June 1950 (about 17 per cent) but considerably less than at the peak of the war effort (nearly 24 per cent of national income in fiscal 1945). The anticipated

budget outlays, on the other hand, would represent around 21 per cent of the gross national product implied in the estimates. This compares with 15 per cent in fiscal 1950, but would be less than half the relative share which obtained in fiscal 1945. On a cash basis, the ratio of receipts and expenditures to income and the gross national product would be only slightly higher than on a budgetary basis. Thus the present program is relatively modest compared with the requirements of a full-scale war. It will nevertheless require a major diversion of effort and impose a severe drain on the supply of some important materials, as the President indicated in his *Economic Report*.

The estimated rise of budgetary receipts in fiscal 1952 by some 10.6 billion dollars reflects both the full impact of the income and excess profits tax legislation passed since the outbreak of the Korean conflict and the anticipated rise in business activity. Collections from corporations alone are expected to rise nearly 6.5 billion, reflecting the higher level of corporate profits before income and excess profits taxes and the progressively greater effects of the changes embodied in recent tax laws. Individuals are expected to pay some 4.4 billion dollars more in income taxes in fiscal 1952, primarily as a result of an increase in aggregate income, although some part of the increase will arise from the fact that collections at the higher rates fixed under the 1950 legislation will be for a whole year, as against the nine-month period to which the higher rates applied in fiscal 1951. Direct tax payments by individuals will provide nearly half of the estimated budget receipts, while corporation profits taxes will provide over 36 per cent. The share to be contributed by individuals is about the same as in the past fiscal year, 1950, whereas that paid by corporations is higher by 6 percentage points. Collections of excise taxes, which provide the bulk of the remaining receipts, are not expected to change from the current year's 8.2 billion dollars. Collections of old-age insurance taxes will rise substantially in fiscal 1952, but these are immediately appropriated to a trust fund and do not increase budgetary receipts.

Anticipated expenditures for fiscal 1952 would be some 24.4 billion dollars higher than in the current fiscal year and over 31 billion higher than the amount spent in the fiscal year ended June 30, 1950. The estimated expenditures include requirements under legislation yet to be proposed to Congress, as well as under existing and already recommended legislation. Expenditures for the "primary national security programs",¹ at 52.7 billion dollars, would be almost double the outlays expected during the current fiscal year. Other activities in fiscal 1952, at 18.9 billion dollars, would require 1.1 billion dollars less than corresponding operations this year.

¹ Under this heading are grouped outlays for the military functions of the Department of Defense, and for the Selective Service System, the National Advisory Committee for Aeronautics, international aid and relations, the stockpiling of strategic and critical materials, the development of atomic energy, the expansion of defense facilities, the administration of price, wage, and rent controls, the Federal share of the costs of constructing civil defense facilities and setting up a national civil defense reserve of supplies and equipment, promotion of the merchant marine, the Coast Guard, and the dispersal of Government agencies.

Table 1
U. S. Budget and Cash Receipts and Expenditures
Fiscal Years 1950-52
(In billions of dollars)

	Projected 1952	Estimated 1951	Actual 1950	Change 1951 to 1952
Budget receipts.....	55.1	44.5	37.0	+10.6
Trust account receipts.....	8.6	7.3	6.7	+ 1.3
Less: noncash receipts.....	2.5	2.5	2.8	- 0.1
Cash receipts.....	61.3	49.3	40.9	+12.0
Budget expenditures*.....	71.6	47.2	40.2	+24.4
Trust account expenditures#.....	5.0	4.5	6.9	+ 0.5
Less: noncash expenditures†.....	2.6	2.6	3.5	**
Cash expenditures.....	74.1	49.1	43.2‡	+24.9
Excess of cash receipts.....		0.2		
Excess of cash payments....	12.8		2.2	+12.9
Budget deficit.....	16.5	2.7	3.1	+13.8

* Includes net expenditures of wholly-owned Government corporations and credit agencies.

Includes net operations and market debt transactions of partly-owned Government corporations.

† Net of noncash expenditures and net market sales or redemptions of obligations of partly-owned Government corporations less cash redemptions of noncash issues. The net of market transactions in obligations of Government corporations is included with cash borrowing from the public.

‡ Includes a reduction of 483 million for outstanding checks in the clearing account. In fiscal 1951 and 1952, the expected clearing account adjustment is negligible.

** Increase of 11 million dollars.

Note: Because of rounding, figures may not add to totals shown.

Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1952*, and Bureau of the Budget, *Receipts from and Payments to the Public*, January 1951.

Expenditures for the military functions of the Department of Defense alone are tentatively estimated at 40.0 billion dollars for fiscal 1952, compared with 20.0 billion dollars anticipated for the current fiscal year. Congress has already provided 42.0 billion in new obligational authority and the President intends to request another 10.0 billion for fiscal 1951 and 60.0 billion for fiscal 1952. As proposed in the President's budget message, the Army is soon to be more than twice as large as on the eve of the Korean war, the Navy shortly will be 50 per cent stronger than a year ago, while the Air Force has started a program to expand from 48 to 84 air wings. The largest part of the Defense Department funds will be used to procure modern equipment, such as planes, tanks, electronic equipment, recoilless weapons, and rockets. Certain items, such as rifles and naval ships, are already available and in some cases need only be modernized. The objective of the program is not only to support and equip a larger active force (3.5 million men and women as compared with less than 1.5 million six months ago) but also to provide a reserve of equipment for a still larger force, if it should be needed, and at the same time to develop the production capacity for moving to a full-scale mobilization if necessary. A potential annual capacity of 50,000 planes and 35,000 tanks is desired, but actual procurements, as currently planned, will not reach those levels. At the same time, military research and development will move ahead and involve outlays amounting to nearly a billion dollars.

The stockpiling of strategic and critical materials which are not available in this country or which cannot be produced here at a rate sufficient to meet all-out military needs, will be stepped up. Purchases anticipated in fiscal 1952 amount to 1.3 billion dollars, or three times as much as was acquired in the twelve months ended last June 30.

Other activities directly related to our remobilization effort will require 3.8 billion dollars. This includes 1.3 billion dollars for the atomic energy program, 1.1 billion for the purchase of specialized equipment and the construction of any Government-owned plants and facilities that may be needed to insure an adequate supply of raw materials and other components required in the production of military items, 300 million for the administration of economic controls, 330 million for civil defense preparations, 350 million for the promotion of the merchant marine, 200 million for the Coast Guard, some 160 million for the proposed dispersal of Government facilities, and 100 million dollars for limited aid in providing defense housing and community facilities to be undertaken largely by private builders and local communities.

International military and economic assistance programs, as anticipated for fiscal 1952, would require 7.1 billion dollars—more than 50 per cent above the amounts needed in either 1951 or 1950. Over half of the 1952 total is for procurement of military equipment to be shipped from this country to the North Atlantic Treaty nations as they endeavor to create, in line with the program in this country, highly

trained and well equipped forces-in-being and a much larger mobilization base. Whatever economic aid is given to the North Atlantic countries will, with few exceptions, be directed to supporting their military build-up rather than to improving their general economic position, which has been greatly strengthened during the past two or three years. Aid to non-European areas will emphasize the building of security through economic improvement. It is proposed that knowledge, skills, and capital be made available to countries which request them and which adopt the policies necessary to make such aid effective.

Interest payments on the public debt in fiscal 1952 are estimated at 5.8 billion dollars, or some 175 million more than in fiscal 1951, while veterans' services and benefits are estimated to require some 4.9 billion dollars, which is about 800 million less than in the current year. The decline in veterans' aid is expected to occur in education, training and readjustment benefits, which are nevertheless expected to require 1.6 billion dollars in fiscal 1952. Expenditures for the three groups discussed above—"the primary national defense programs", interest, and veterans' aid—altogether will require 63.4 billion dollars in fiscal 1952, according to the budget. Spending for other programs is not expected to exceed 8.2 billion dollars, a figure some 400 million less than now anticipated for the current year. In fiscal 1950, these expenditures amounted to 9.9 billion dollars.

THE CASH POSITION

Net cash outlays (and the corresponding requirements for cash) in the fiscal year 1952, under the programs presented in the budget message, would amount to 12.8 billion dollars. This is some 3.7 billion less than the expected budget deficit, for several reasons. In the first place, the budget figures include a large amount of noncash expenditures and only a small amount of noncash receipts from Government agencies. The noncash expenditures consist mainly of anticipated payments to the trust funds for interest and other charges and of the net increase in accrued interest on Savings bonds. These funds are generally invested immediately in Government securities or held in reserve, thus requiring no immediate payment of cash. The cash deficit in the budget accounts alone is expected to be 13.9 billion dollars, but further reduction to a net cash outlay of 12.8 billion dollars is anticipated through the fact that the trust funds will receive more cash from the public than they will disburse in benefits. The excess will be invested in Government securities, along with the receipts of interest and payments from the Federal Government.

On a cash basis, some 61.3 billion dollars is expected to be collected from the public in fiscal 1952. The increase of nearly 12.0 billion dollars is expected mainly from the higher income and profits taxes and from increased cash collections by the trust funds. Larger receipts are anticipated by the old-age and survivors insurance trust fund (+860 million) under the full impact of the revisions adopted last fall in the 1950

Amendments. The medical care insurance program which the President has again proposed to Congress would add 240 million to net cash receipts. No estimates are given to cover the proposed further enlargement of coverage of the old-age insurance system, the provision of disability insurance, or the revision of the unemployment program. Cash receipts by other trust funds will show only small changes.

Cash outlays by the Government in fiscal 1952 would amount to 74.1 billion dollars, with the budget accounts disbursing 68.9 billion of this total. Except for interest, the three major categories of budget expenditures discussed above are largely cash outlays. The decline in cash outlays in other budget programs, as compared with expenditures in fiscal 1951, is estimated at about 600 million. The trust account cash disbursements of over 5.1 billion dollars anticipated for fiscal 1952 are some 475 million higher than in fiscal 1951, largely as a result of higher old-age benefits and the more liberal eligibility requirements which became effective last October. Unemployment compensation payments are expected to decline some 247 million, but this will be largely offset by an increase in dividend payments by the veterans' life insurance funds, which are preparing to distribute, beginning this April, some 700 million in dividends accumulated since 1948.

THE PUBLIC DEBT

Unless new tax measures are adopted, the contemplated cash outlays under the President's programs for fiscal 1952 would require that the Treasury borrow some 12.7 billion dollars from the public. A further rise of 3.4 billion dollars in the public debt would occur as a result of the noncash expenditures. Thus by the end of June 1952, the direct public debt would amount to over 276 billion dollars, or only 3.0 billion below the peak reached in February 1946 after the Victory Loan drive.

THE CURRENT FISCAL YEAR

Cash receipts in the current fiscal year, ending June 30, are now estimated to provide 49.3 billion dollars, which will slightly more than cover cash outlays. In January 1950, cash receipts of 43.1 billion dollars and expenditures of 45.8 billion had been expected in this period. The change from an estimated deficit of nearly 2.7 billion to an estimated small surplus reflects not only changes in income and profits tax rates, but also the improvement in the business situation since the latter part of 1949, which raised receipts and lowered outlays for unemployment compensation and for the support of farm prices and the secondary mortgage market. Expenditures for military services as now estimated are some 7.5 billion higher than they were expected to be last January, but this rise was partly offset by a decline in the estimate of all other cash outlays. Thus, the new estimate for cash disbursements, as a whole, is only 3.3 billion higher, while cash receipts in the current fiscal year are now expected to be 6.2 billion dollars higher than seemed likely a year ago.

During the first half of the fiscal year, July-December 1950, cash receipts (at about 20.9 billion) were some 800 million

Table II
Change in the Public Debt, Fiscal Years 1950-52
(In billions of dollars)

	Projected 1952	Estimated 1951	Actual 1950
Excess of cash* (receipts — , payments +)	+ 12.7	— 0.2	+ 2.2
Change in Treasury cash balance	—	##	+ 2.0
Borrowing from the public#	12.7	— 0.2	4.2
Noncash borrowing†	3.4	3.5	0.3
Increase in the Federal debt‡	16.2	3.3	4.6
Public debt at end of year**	276.3	260.3	257.4
Treasury's balance at end of year	5.5	5.5	5.5

* Includes receipts from seigniorage on silver amounting to about 30 million dollars.

Mainly cash retirement of Treasury marketable debt, net market sales and purchases by Government agencies and trust funds, and net sales and redemptions of Savings bonds and notes. Also included are a small amount of sales and redemptions of obligations of Government corporations and net changes in a few minor debt items.

† Increases in special issues, noncash securities issued in payment for budget expenditures, and accrued discount on Savings bonds less redemptions of noncash issues and interest paid on Savings bonds redeemed.

‡ Gross direct public debt and both guaranteed and nonguaranteed obligations of Government corporations and credit agencies held by the public.

** Gross direct public debt and a small amount of guaranteed obligations only.

Decrease of 17 million dollars.

Note: Because of rounding, figures may not add to totals shown.

Source: Same as for Table I.

higher than expenditures. As usual, receipts will be larger in the second half of the fiscal year, when final payments and adjustments in income taxes are made. This year, moreover, higher rates will be in effect for the full second half-year period, and corporations will begin to make payments on their record profits obtained in the calendar year 1950. As a result, cash receipts are expected to rise to 28.4 billion, or 7.5 billion higher than in the first six months, July-December. However, expenditures are expected to show an even greater rise of 8.9 billion, to 29.0 billion dollars, as the national security programs gain momentum. A cash deficit of around 600 million thus is implied in the estimate for the second half of the fiscal year.

So far in this fiscal year, the Treasury has redeemed about 2.5 billion dollars of the direct debt held by the public. That part of maturing or called marketable issues which holders did not exchange for new issues amounted in itself to 2.8 billion dollars. In large part this "attrition" reflected the underpricing of two issues, offered in exchange last September and October. The Treasury financed these redemptions, in effect, by using in addition to the cash surplus, 1.3 billion already held in the General Fund, some 400 million raised by Government corporations in the market, 300 million from the net sales of Savings bonds, notes, and other nonmarketable issues, and 100 million obtained in the market early in July, when the Treasury completed a 13-week cycle of bill borrowing begun in April.

The new estimates for the current fiscal year indicate that the Treasury intends to restore its balance to 5.5 billion dollars by June 30. To do this and cover the expected cash deficit of 600 million for the second half of the fiscal year, it would be necessary to borrow some 1.9 billion in cash from the public before June 30, if the anticipated budget estimates are realized. The attrition on the exchange offering in January has already absorbed over 800 million dollars, and some further funds may be required to cover the unexchanged portion of

a 2¾ per cent bond callable in June. This would indicate a minimum cash borrowing schedule of 2.8 billion dollars in the period January-June 1951. The amount of funds which can be raised by the net sale of Savings bonds and notes in this period will, in effect, determine the extent to which the Treasury will resort to market borrowing to cover the anticipated requirements.

INCREASE IN MARGIN REQUIREMENTS

The following statement was issued for publication on January 17, 1951, by the Board of Governors of the Federal Reserve System:

"The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements of brokers and banks, by increasing requirements from 50 per cent to 75 per cent, effective January 17, 1951. The increased requirements apply to both purchases and short sales. No other change is made in the regulations."

The last previous change in margin requirements was made in 1949 when the Board of Governors lowered them from 75 per cent to 50 per cent, effective March 30 of that year.

BRITAIN'S INTERNATIONAL ECONOMIC POSITION

The suspension of ECA aid to Britain as of January 1 has focused attention on the fundamental changes that have taken place during the past three years in the economic relations between the sterling and dollar areas. Before 1939 the financing of British trade deficits with the United States and Canada had been facilitated by the United Kingdom's very large net "invisible" earnings from investments and services, etc., and by the overseas sterling area's gold output and its trade surplus with the United States. By the end of the war, this trade and payments pattern had been completely disrupted. Far from helping to offset the trade deficit with the dollar area during 1946-49, Britain's invisible transactions consistently showed dollar deficits, while during most of the period the overseas sterling area added to the drain with sizable deficits in its own gold and dollar accounts. To these difficulties was added in 1947 the flight from sterling that accompanied the convertibility crisis. As a result, during that year the sterling area had a gold and dollar deficit of no less than 4,131 million dollars, as shown in Table I.

To finance this huge deficit, the British authorities were obliged not only to utilize more than 3,500 million dollars of funds borrowed from the United States, Canada, and the International Monetary Fund, but in addition to draw down the sterling area's gold and dollar reserves by almost 620 million dollars.¹ At the end of 1947, as shown in Table II, the reserves

¹ Throughout this article, 'sterling area gold and dollar reserves' mean the United Kingdom's official holdings of gold, U. S. dollars, and Canadian dollars, to which members of the sterling area contribute and on which they have the right to draw. Not included in these figures are United Kingdom private dollar holdings and certain gold and dollar funds held apart from the central reserves by members of the overseas sterling area.

Table I
Sterling Area Gold and Dollar Surplus or Deficit
(Annual rate; in millions of United States dollars; + = credit, — = debit)

Item	Jan.-June 1950 ^p	July-Dec. 1949	Jan.-June 1949	1947
Transactions with dollar area:				
United Kingdom:				
Imports (f.o.b.).....	-1,130	-1,544	-1,648	-2,279
Exports and re-exports (f.o.b.).....	+ 734	+ 626	+ 760	+ 512
Net invisible items.....	+ 110	- 158	- 254	- 549
Other transactions.....	+ 70	+ 158	- 116	- 330
Net United Kingdom balance.....	- 216	- 918	-1,258	-2,646
Rest of sterling area (net).....	+ 364	- 286	- 522	-1,128*
Gold sales to United Kingdom by rest of sterling area.....	+ 298	+ 300	+ 168	+ 342
Transactions of entire sterling area with nondollar countries—net gold and dollar receipts or payments:				
With other Western Hemisphere.....	+ 16	- 6	- 8	- 298
With ERP countries.....	+ 26	- 132	- 190	- 339
With other nonsterling countries and nonterritorial organizations.....	- 48	- 98	- 114	- 62
Net balance.....	- 6	- 236	- 312	- 699
Total net gold and dollar surplus(+) or deficit (-).....	+ 440	-1,140	-1,924	-4,131

^p Provisional.

* Including subscription of 28 million dollars to International Bank and International Monetary Fund.

Source: *United Kingdom Balance of Payments, 1946 to 1950* (Cmd. 8065), pp. 24-25.

stood at only 2,079 million dollars. In April 1948, the European Recovery Program began. While during the following twelve months the dollar position of the sterling area improved materially, the so-called dollar gap was still distressingly large. In the first half of 1949, when sterling's difficulties were aggravated by the American recession, the over-all gold and dollar deficit was at an annual rate of 1,924 million dollars. Although in that six-month period Britain and other sterling area countries received grants under the European Recovery Program and various dollar loans in excess of 750 million dollars, the sterling area's gold and dollar reserves dropped 205 million dollars. The area's dollar position deteriorated further during the summer of 1949, mainly as the result of speculation against sterling, e.g., delays both in actual purchases of, and in payments for, sterling area goods and services by dollar area residents who anticipated devaluation. Finally, with the gold and dollar reserve down to 1,340 million, sterling was devalued on September 18. At about the same time, evidence was accumulating that the American recession was at an end.

A remarkably swift recovery of the British gold and dollar position ensued; in the final quarter of 1949 the dollar gap narrowed to negligible proportions, and in 1950 it was re-

Table II
Sterling Area Gold and Dollar Reserves

Date	Millions of dollars
1945-December 31.....	2,476
1946-December 31.....	2,696
1947-December 31.....	2,079
1948-December 31.....	1,856
1949-June 30.....	1,651
September 18.....	1,340
December 31.....	1,688
1950-March 31.....	1,984
June 30.....	2,422
September 30.....	2,756
December 31.....	3,300

Source: *United Kingdom Balance of Payments, 1946 to 1950* (Cmd. 8065), page 28, and *London Times* (January 11, 1951).

placed by a substantial dollar surplus. This change was attributable to a variety of factors, among which initially the most important was the reduction of the sterling area's dollar imports. In the first nine months of 1950 British imports from the dollar area as a whole and imports by the rest of the sterling area from the United States and Canada² were both running at annual rates about half of the 1947 levels. Other factors in the improvement include the achievement by Britain of a surplus in its invisible transactions with the dollar area, and the virtual elimination of dollar payments on behalf of the sterling area as a whole to nondollar countries.³ Furthermore, the British Treasury has indicated that, since September 1949, in marked contrast to the situation before devaluation, there has been an influx of capital from the dollar area. While during the final quarter of 1949 and early 1950 this movement probably reflected the return of funds that had flowed out of the sterling area in anticipation of devaluation, after the outbreak of the Korean war it was probably linked to expectations of larger American purchases of sterling area commodities and to short-lived speculation on a possible appreciation of the pound. Finally, an expansion of sterling exports to the dollar area has also contributed to the improvement of the area's reserve position, particularly in the last half of 1950. Until the outbreak of the Korean war, this expansion was slow and moderate, but thereafter it was rapid and substantial, mainly as a result of the boom in sterling area commodity prices.⁴

As a result of these various changes, a trade and payments pattern similar in certain respects to that of the 1919-1939 period was discernible in 1950: the accounts of the overseas sterling area again showed a substantial gold and dollar surplus in transactions with the dollar area, and this, added to the moderate dollar surplus achieved in Britain's invisible transactions, more than sufficed to cover the greatly reduced deficits in United Kingdom merchandise trade with the dollar area and in the gold and dollar transactions of the sterling area as a whole with certain nondollar countries. For the entire year 1950 the sterling area had an over-all gold and dollar surplus of no less than 805 million dollars which, together with grants by the Economic Cooperation Administration and various dollar loans to the United Kingdom, was reflected in a rise of 1,612 million dollars in the sterling area's gold and dollar reserves, to a total of 3,300 million dollars on December 31. Although, as Chancellor of the Exchequer Gaitskell has recently pointed out, the December 31 figure in terms of constant pur-

chasing power was still only about one third of the 1938 reserves, it was nevertheless more than twice the level prevailing immediately before devaluation.

In view of the rise in these reserves, an informal Commonwealth economic conference decided in September 1950 to modify the agreement reached in the summer of 1949 by the United Kingdom and other Commonwealth governments to reduce their countries' dollar imports to 75 per cent of their 1948 value. Mr. Gaitskell stated in this connection that the 75 per cent formula had been invalidated by price increases, stockpiling needs, and the deterioration of the international political situation, but he emphasized that the Commonwealth governments were unanimously agreed on the need to rebuild the sterling area's gold and dollar reserves, increase dollar earnings, and maintain strict economy in dollar expenditures.

As already suggested, striking changes have also occurred during the last three years in the sterling area's economic relations with nondollar countries outside the sterling area. Gold and dollar payments by the United Kingdom to nondollar countries as a result of the transactions of the whole sterling area declined from almost 700 million dollars in 1947 to 274 million in 1949, and to an annual rate of only 6 million dollars in January-June 1950. Most of this reduction is attributable to an improvement in the sterling area's gold and dollar accounts with the nondollar Western Hemisphere countries and with certain of the countries participating in the European Recovery Program. Whereas in 1947 Britain made gold and dollar payments of 298 million dollars to the nondollar Western Hemisphere countries, and of 339 million to the ERP countries, in January-June 1950 Britain actually received gold and dollars at an annual rate of 16 million from the former and of 26 million from the latter.

In the second half of last year, moreover, the sterling area built up a surplus with the members of the European Payments Union⁵ equivalent to no less than 476.2 million dollars. This surplus resulted in: (1) the disappearance of the sterling area's entire initial debit with the EPU of 150.0 million dollars' equivalent; (2) a decline of 43.2 million dollars' equivalent in the existing sterling balances of other EPU members; (3) the building up by the sterling area of a credit in the EPU of 247.5 million; and (4) the payment of gold by the EPU to Britain to the amount of 35.5 million. So long as the sterling area's EPU credit exceeds the prescribed 212 million dollars' equivalent, i.e., one fifth of its total quota, Britain will receive gold payments from the EPU equivalent to one half of any further surpluses of the sterling area as a whole with the Union.

In the light of these changes in the economic relations between Western Europe and the sterling area, the British Government took several steps during 1950 to relax its exchange controls and thus increase the usefulness of sterling as an international currency. Under the so-called Uniscan Agreement,

² Data on imports by the rest of the sterling area from dollar area countries other than the United States and Canada are not available.

³ Under United Kingdom trade and payments agreements with certain nondollar countries outside the sterling area, provision is made for transfers of gold and dollars under specified circumstances, e.g., when sterling holdings of a nondollar country's central bank exceed a specified limit, the United Kingdom is obliged to transfer to that central bank an amount of gold or dollars equivalent to the excess of sterling, and vice versa.

⁴ International commodity price trends were discussed in the December 1950 issue of this *Review*.

⁵ The European Payments Union was discussed in the September 1950 issue of this *Review*.

Table III
United Kingdom Economic Indicators

Month	Wholesale prices (1938 = 100)	Retail prices (June 17, 1947 = 100)	Import prices (1947 = 100)	Export prices (1947 = 100)	Wage rates (June 30, 1947 = 100)	Industrial production (1946 = 100)	Registered unemployed as per cent of total working population*
1948-January.....	209	104	107	106	104	118	†
June.....	219	110	115	109	106	123	1.2
1949-January.....	218	109	116	113	108	124	1.6
June.....	229	111	113	113	109	130	1.1
September.....	228	112	110	113	109	132	1.2
1950-January.....	241	113	124	116	110	135	1.6
June.....	252	114	132	119	110	143	1.2
September.....	268	114	137	121	110	144	1.2
November.....	284	116	147	125	113	150†	1.3
December.....	n.a.	116	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. Not available.

* Great Britain only (Northern Ireland excluded).

† Comparable figure not available.

‡ Provisional.

Source: Central Statistical Office, *Monthly Digest of Statistics; Records and Statistics, Supplement to the Economist*, January 6, January 20, 1951.

most restrictions on current-account payments between the residents of the United Kingdom and of Denmark, Norway, and Sweden were abolished early in 1950, and the regulations regarding certain capital transactions were also liberalized. By joining the European Payments Union in the summer of 1950, moreover, Britain undertook in effect to make sterling freely transferable on current account among the other members of the Union and between the latter and the sterling area as a whole. In addition, along with other EPU signatories, Britain agreed to end all discriminatory restrictions against imports (both visible and invisible) from other EPU members and to increase to at least 60 per cent the proportion of its private trade⁶ with other EPU countries that was to be freed from quantitative restrictions. In recent months, the British authorities have further extended the area in which sterling may be freely utilized for current-account purposes by including Austria, Denmark, and Greece in the sterling transferable-account system, and they have also progressively liberalized the so-called administrative transferability of sterling. Finally, last December, the currencies of the three Scandinavian countries were removed from the list of "specified" currencies that must be sold to authorized dealers for sterling when received by United Kingdom residents.

The shifts in the international economic position of the sterling area as a whole are attributable in no small part to changes in the over-all balance of payments of the United Kingdom itself. Britain's own international transactions on current account showed an aggregate surplus in 1950 tentatively estimated by Mr. Gaitskell at 200-250 million pounds, in contrast to the deficits of 38 million in 1949 and of no less than 558 million in 1947. The 1950 surplus was achieved despite a continuing deterioration of the United Kingdom's terms of trade caused by rising import prices, and is entirely attributable to increased exports and invisible earnings. As shown in Table III, the index of Britain's import prices (1947=100) rose to 147 in November from 124 at the beginning of the year (and only 110 in September 1949 when sterling was devalued) with the result that, although the physi-

cal volume of imports in 1950 was virtually unchanged from 1949, their cost increased to 2,604 million pounds (c.i.f.), from 2,274 million in 1949. British export prices, on the other hand, rose much more slowly, the index (1947=100) rising from 113 in September 1949 only to 116 in January 1950 and 125 in November. The expansion in British exports (excluding re-exports) from 1,785 million pounds in 1949 to 2,170 million pounds in 1950 accordingly reflected a 15 per cent increase in physical volume in addition to the rise in prices. On balance, these movements in import and export prices, according to a recent estimate by Mr. Gaitskell, cost Britain nearly 300 million pounds in 1950.

The current-account surplus of the United Kingdom with the rest of the sterling area, which had amounted to 89 million pounds in 1947 but had risen to an annual rate of 270 million in January-June 1949, dropped to a rate of only 160 million in the first half of 1950. This decline was entirely attributable to an increase, on an annual basis, in British imports from the rest of the sterling area in January-June 1950 to 910 million pounds, from 764 million in the corresponding period of 1949; over the same period there also were relatively small increases both in Britain's exports to, and in her net invisible earnings in, the rest of the sterling area.

In the year ended June 30, 1950, moreover, Britain's sterling liabilities to the other sterling countries rose by 272 million pounds to 2,497 million. Plans, however, were announced in December 1950 for the systematic reduction of the sterling balances held by India, Pakistan, and Ceylon. The arrangements, which have not yet been formally worked out, presently contemplate the release of some 247 million pounds from the blocked sterling balances of the three countries. India is to receive up to 35 million pounds annually for six years beginning next July, and Ceylon up to 3 million pounds annually for seven years as from last July; details of the arrangements with Pakistan have yet to be announced. Chancellor of the Exchequer Gaitskell has suggested that by 1957 the sterling balances of the three countries might be reduced under these plans to something like the amounts which they would wish to hold in any case as their normal reserves.

⁶ As distinguished from government bulk buying, etc.

While Britain's current international economic position contains elements of strength, the outlook is obscured by uncertainty as to the impact of the expanded defense program and of raw material shortages on the country's economy. In the fiscal year ending next March 31, defense expenditures were originally budgeted at 781 million pounds, or about 6 per cent of the estimated 1950 gross national product. After the outbreak of the Korean war, the government announced an expansion in the rearmament program that called, subject to United States assistance, for maximum defense expenditures over the next three years of 3,600 million pounds. This target has recently been raised to 4,700 million pounds and Prime Minister Attlee has indicated that in the fiscal year beginning next April defense expenditures may reach 1,300 million pounds or 62.5 per cent more than in 1950-51 (as now estimated).

This defense program is being adopted, as British Government spokesmen point out, by a country that is already working at "full stretch" with little unused industrial capacity or manpower, whose raw material position is generally tight and whose international economic position can ill afford deterioration. Bottlenecks are already developing. Among the most serious of these is the coal shortage. While coal production expanded somewhat during 1950, domestic consumption increased more rapidly than output and coal stocks have as a consequence dwindled to abnormally low levels. Coal exports have had to be curtailed and some coal has even been imported from the United States. With much of Britain's industry dependent directly or indirectly on coal for power, the government has announced a long-term plan for expanding the industry's output, and Prime Minister Attlee has called upon the mine workers to make special efforts to increase production during the next few months.

Moreover, the structure of British wages and prices is being forced upward, mainly as a result of the steep rise in the sterling prices of imports. By November 1950 wholesale prices had risen 25 per cent above the predevaluation level, as shown in Table III. Although retail prices advanced only 3 per cent over the same period, British trade unions have been pressing for wage increases, and the index of weekly wages (June 30, 1947=100), which had been steady since the beginning of 1950, rose three points between September and November, to 113.

With a view to minimizing inflationary pressures on the economy, the government has indicated that, in implementing

the defense program, it intends to rely mainly upon increased productivity, on grants from the United States, and, if necessary, upon a reduction in domestic consumption. There can be little doubt, however, that the competition between the needs of economic stability and defense will be keen. As Mr. Attlee has observed, the main burden of expanding defense production will fall on the capital goods industries—machinery, vehicles, building, aircraft, and electrical goods—which produce over 40 per cent of the country's exports, as well as much that is indispensable for other essential home industries. It is therefore improbable that, in these circumstances, Britain's international economic position can remain unaffected.

THE SECURITY MARKETS

Demand for long-term funds in the capital markets expanded sharply in 1950 to record-breaking totals. Flotation of new long-term security issues by State and local governments to finance peak capital outlays, and heavy mortgage borrowing to provide funds for record-breaking residential and other construction activity, were primary factors in the enlarged demand for long-term capital. Although corporate needs for funds were larger than ever before, a substantial portion of those needs were for short-term working capital and were financed principally through an expansion of short-term liabilities. A large part of the remainder was met through the use of sharply increased internal funds in a year of highly profitable operations. Corporate offerings of securities, therefore, declined for the second successive year.

The demand for long-term funds apparently outweighed the supply of new savings available to the capital market. Insurance companies and some other savings institutions, therefore, disposed of a portion of their Government security holdings to meet the demand, and commercial banks sold such securities while adding substantially to their business and real estate loans and other (mainly municipal) securities. A large portion of the Government securities sold by banks were absorbed, directly or indirectly, by nonbank investors, particularly industrial corporations seeking short-term outlets for temporarily idle funds, and pension funds and some other longer-term investors acquired substantial amounts of long-term Treasury bonds. The pressure of the demand for funds was especially strong in the last four to six months. In the interest of an orderly security market the Federal Reserve System made substantial purchases of long and short-term Government securities in the last four months of the year, at declining prices. These purchases more than offset System sales in the first eight months, when the supply of and demand for funds were more in balance.

The pressure of the excess demand for long-term funds was felt mainly in the Government bond market, and prices of long-term Treasury bonds canceled much of their gains of the previous year (yields rose correspondingly). The fall in high-grade corporate bond prices was much more moderate. Prices of lower-grade corporate bonds rose, as did municipal

Table IV
United Kingdom Balance of Payments on Current Account
(In millions of pounds; + = credit, — = debit)

Item	Jan.-June 1950 ^p	1949	1948	1947
Current account:				
Imports (f.o.b.).....	-1,150	-1,965	-1,790	-1,560
Exports and re-exports (f.o.b.).....	+1,042	+1,818	+1,583	+1,135
Net invisible items.....	+ 160	+ 109	+ 127	- 133
Net balance.....	+ 52	- 38	- 80	- 558

^p Provisional.

Source: *United Kingdom Balance of Payments, 1946 to 1950* (Cmd. 8065), page 7.

bond prices. These corporate bonds rose in response to inflationary tendencies, which were also reflected in substantially higher stock prices, while the price rise in municipals was in response to actual and prospective increases in taxes which raise the value of the tax exemption feature of municipal obligations.

STOCK MARKET

Stock prices rose about 20 per cent during the past year. As measured by Standard and Poor's broad index of 416 issues, common stock prices toward the close of 1950 reached the highest point since May 1930. They stood at 162 per cent of the 1935-39 average as compared with 133.5 per cent at the end of 1949. About two thirds of the gain came in the second half of the year, despite a sizable temporary setback in prices in late June and early July, following the invasion of South Korea and the events which it precipitated.

The bull market had lasted for a year and a half when the year 1950 drew to its close. Stock prices had risen 50 per cent above mid-1949 levels. Despite this substantial advance, the average yield on common stocks in December 1950 (6½ per cent) was higher than in the corresponding month of 1949, reflecting a considerable increase in corporate dividend payments.

Trading gained momentum during the year as prices rose, particularly in the second half. During the course of 1950, public participation in stock market activity broadened for the first time since the spring of 1946. Turnover on the New York Stock Exchange reached 525 million shares, almost twice the 1949 total and the largest volume of transactions since 1933. Purchases of common shares on margin also rose. Debit balances of customers of New York Stock Exchange member firms grew from less than 900 million dollars at the end of 1949 to 1.4 billion at the end of 1950, the highest dollar total since 1937. At the same time, free credit balances rose by about 260 million dollars to a new high level of 890 million. The Board of Governors of the Federal Reserve System raised margin requirements from 50 per cent to 75 per cent of the value of shares, effective January 17, 1951.

Stock prices rose further in the first three weeks of January 1951, and the volume of transactions averaged 3.3 million shares a day, almost 60 per cent above that for the corresponding period a year earlier.

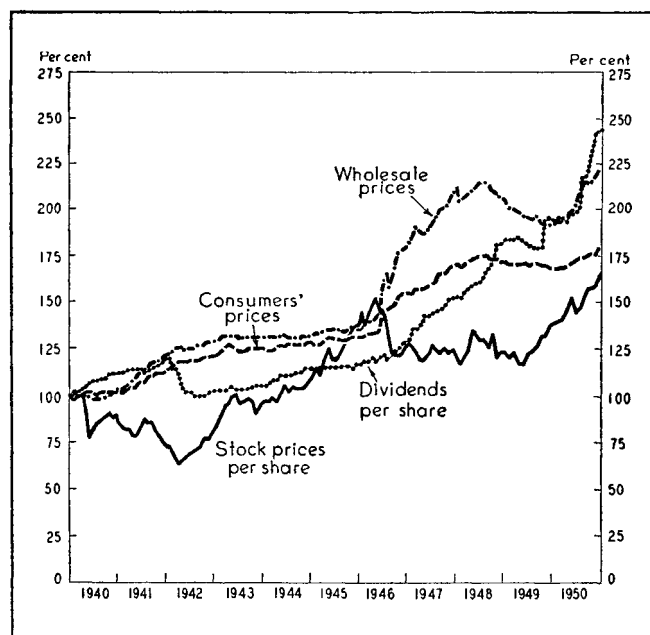
Fear of inflation born (or perhaps reborn) of the fighting in the Far East, and the Government's determination substantially to increase the country's military strength, constituted the most important stimulants to share prices during the year. Marked increases in corporation profits after taxes and in dividend payments also were an important influence. Toward the end of 1950, prices of industrial and railroad stocks attained new high levels since October 1929 and August 1946, respectively. Prices of public utility shares, however, recovered only part of their midyear losses, as investors considered these

securities a poor inflation hedge in view of regulated utility rates and rising costs of materials, supplies, and labor. On the other hand, railroad shares, which are theoretically subject to the same limitations, rose sharply in price (40 per cent for the year as a whole). The existence of considerable slack in the use of railroad facilities and the prospects for substantial improvement in their utilization as a result of the rearmament program, with an accompanying reduction in unit overhead costs and expansion of earnings, were responsible for the heavy demand for railroad shares.

Thus, while share values rose substantially for the market as a whole, price movements of individual issues and industrial groups deviated considerably from the average, reflecting the varying impact of booming business conditions and commodity prices and of investors' expectations as to the effects of the defense program and of excess profits taxes upon corporation earnings and their valuation.

Although inflationary pressures were a major influence tending to raise stock prices during the past year, the advance in share values in the past year and a half succeeded in redressing only in part the depreciation of the stockholder's investment dollar since 1940, as shown in the accompanying chart. Stock quotations failed to keep pace with the advance in commodity prices during the war and the entire postwar period, except for the last quarter of 1945 and the first half of 1946. Nevertheless, the bull market in stocks during 1950 carried stock prices to levels toward the close of the year at which the stockholder's investment dollar (in terms of what consumers buy, i.e., in terms of the consumers' price index)

Stock Prices, Dividend Rates, and Commodity Prices, 1940-50
(Monthly, December 1939 = 100 per cent)



Source: Dividends per share (at annual rates) and stock prices per share for 200 common stocks, Moody's Investors Service; wholesale commodity and consumers' prices, U. S. Bureau of Labor Statistics. All data converted to a December 1939 base by the Federal Reserve Bank of New York.

was worth about 93 cents as compared with December 1940. This comparison does not take account, however, of the substantial improvements and expansions of plant and equipment (estimated roughly at more than 20 dollars a share for a group of 125 industrial stocks, as compiled by Moody's Investors Service), which have been financed in recent years through reinvesting the major portion of corporate earnings.

The value of stockholders' dividend income likewise lagged behind the advance in commodity prices during most of the war and postwar years. As shown in the chart, it was not until the closing months of 1948 and 1949 that stockholders' average dividend income per share reached "parity" with the cost of living and with wholesale commodity prices, respectively (in terms of December 1940 relationships). A marked expansion of corporate profits after taxes in 1950 resulted in a further substantial increase in dividends paid to stockholders, with a large volume of extra and special dividends raising the average dividend per share to a new peak in December.

BOND MARKET

In contrast to the activity of the stock market, conditions in the market for high-grade corporate bonds were unusually stable in 1950. The range between the high and low months for 1950 in the Moody's Investors Service average yield on Aaa corporate bonds was particularly narrow; this yield reached its low of 2.57 per cent in January and its high of 2.67 per cent in the last three months of the year. Yields on highest quality corporate bonds rose very gradually during the year. The increase was just about half that in long-term, Government bond yields. Yields on high-grade municipal bonds, on the other hand, fell moderately, beginning in the second half of the year, when it became obvious that Federal income and other taxes would have to be raised substantially to finance remobilization, thus raising the tax exemption value of municipal bonds. The *Bond Buyers'* average yield on 11 high-grade municipal bonds declined from 1.86 per cent toward the close of 1949 to 1.54 per cent toward the close of 1950. Lower grades of corporate bonds, especially the railroad issues, also declined in yield, in keeping with the increase in stock prices.

The comparative stability of the high-grade corporate bond market not only attests to the investment character of the demand for such obligations, but also reflects the substantially smaller supply of new capital issues floated during the year. Nevertheless, prices declined moderately, reflecting principally the combined pressure of heavy demands for funds by State and local governments and by mortgage borrowers, heavy borrowing from the banks, and the effects on interest rates of Federal Reserve efforts to restrain credit expansion.

The pressure of the increased demand for funds, which became pronounced during the second half of 1950, was met in part by sales of Government securities. Average yields on Treasury bonds due or callable in 15 years or over rose

from 2.19 per cent in December 1949 to 2.39 per cent in December 1950. The demand for mortgage funds on the part of prospective home owners grew more insistent during the year, and financial institutions placed a record volume of funds in new mortgages during the third and fourth quarters of the year. The demand for long-term funds in the aggregate apparently exceeded the volume of savings currently made available in the capital market, and the commercial banks met part of the demand by adding substantially to their portfolios of real estate loans and municipal and corporate securities.

NEW ISSUES

Corporate new capital financing in the new security market declined about 10 per cent during 1950, as corporations financed the bulk of their enlarged needs for funds through sharply higher retained earnings, increased depreciation allowances, and a substantial expansion of their short-term liabilities, including borrowings from commercial banks. The total volume of corporate new capital security flotations amounted to about 5 billion dollars in 1950, as against 5.6 billion in 1949. Most of the decline came in offerings of manufacturing and public utility corporations, the latter including both telephone and power and light companies.

Issues for the purpose of financing additions and improvements to capital assets fell 20 per cent to 3 billion dollars, while offerings for working capital purposes rose by about the same percentage to 1.1 billion. Refunding issues amounted to about 1.2 billion, a threefold expansion as compared with 1949. Although yields on the higher grades of corporate bonds rose gradually during the year, the average for 1950 as a whole was slightly less than that for 1949 and still less than the 1948 average, which was the peak of corporate bond yields in the postwar years. Corporate issuers, therefore, were afforded opportunities to save on interest charges by refunding outstanding bonds with new issues bearing lower coupons. The improved earnings position of the railroads also enabled those corporations to tap the refunding market, which they had not done in volume since 1946.

Practically all the refunding securities took the form of debt issues. The marked contraction of new capital flotations also came entirely in new bond issues. The substantial drop in the latter was offset in part by a 20 per cent increase (225 million dollars) in offerings of new capital stock issues to 1.2 billion dollars, highest since 1947. Despite a buoyant stock market, the volume of common stock offerings rose only slightly, and practically all of the increase came in new preferred issues. To a considerable extent, the increased preferred stock financing represented larger offerings by public utility corporations in order to maintain their capital in proper relationship with total liabilities.

Direct or private placements of new securities with life insurance companies and other financial institutions accounted for a somewhat smaller proportion of total issues than in preceding years. To a large extent, this probably reflects the

contraction in bond offerings for new capital purposes, and the insistent demand for mortgage money.

Despite the gradual rise in corporate bond yields, bond offerings were well received by investors. A few new issues were, as usual, priced too close to the market for outstanding securities, but, a slight adjustment of offering prices was usually sufficient to move such bonds out of syndicates quickly.

State and local government financing for new capital reached a new peak of 3.6 billion dollars in 1950, about 700 million dollars above the previous record in 1949. One large State veterans' bonus bond issue amounting to 375 million dollars accounted for more than half the increase in the year's flotations. Sales of revenue and other bond issues (exclusive of veterans' bonds), reflecting chiefly the financing of "municipal" outlays for schools, roads, hospitals, street paving, sanitary facilities, and other public works, raised 2.9 billion dollars, or about 300 million more than in 1949.

Although there was some lag in investor demand for the large volume of new offerings of State and local securities in the first half of the year, this was soon reversed by the war in the Far East, which presaged substantial increases in income taxes to finance mobilization and a consequent rise in the attractiveness of tax-exempt securities. The demand for "municipal" issues grew progressively persistent toward the close of the year as it became more evident that curtailment of municipal public works expenditures in a defense economy might reduce the supply of new issues coming on the market and that taxes would be increased further in 1951. Indicative of this demand, the Blue List measuring the volume of outstanding securities offered for sale by municipal bond dealers fell from a high point of 260 million dollars on November 14, 1950 to 161 million at the end of December.

DEPARTMENT STORE TRADE

A recurrence of the buying spree of last summer pervaded the retail trade centers of the United States during the month of January. With the advantage of an extra shopping day this year, department store sales in this District are estimated to have been 30 per cent higher than in January 1950. Seasonally adjusted average daily sales during January were about 286 per cent of the 1935-39 average, or 9 percentage points higher than the previous record set last August.

Contrary to conditions last July and August, there was little or no evidence of "panic" buying. That is to say, the rush to buy excessive amounts of certain items which marked the buying wave of last summer, was not apparent. Nevertheless, consumers were in fact spending more money relative to year-ago levels than they did following the outbreak of war in Korea last summer. Higher prices, apparently, were not deterring purchases, especially of goods in which consumers felt that shortages would later develop, but also of practically all other types of merchandise. Sheets and pillow cases, tradition-

Department Store Sales and Stocks for Selected Departments
Second Federal Reserve District
(Percentage change from preceding year)

Department	Sales		Stocks on hand Dec. 31, 1950
	December 1950	Jan.-Dec. 1950	
<i>Main store</i>			
Piece goods.....	- 4	-17	+ 1
Household textiles.....	+15	+ 7	+ 23
Silverware and jewelry.....	0	- 3	+ 13
Millinery.....	- 2	+ 1	- 2
Hosiery.....	+ 9	+ 6	+ 49
Infants' wear.....	+ 2	- 2	+ 5
Women's and children's shoes.....	+10	+ 3	+ 16
Women's coats and suits.....	+ 9	- 4	+ 13
Women's dresses.....	- 1	-12	+ 5
Furs.....	- 6	- 3	+ 9
Men's clothing.....	+ 9	+ 4	+ 4
Men's furnishings and hats.....	+ 3	+ 1	+ 17
Furniture and bedding.....	+10	+14	+ 18
Domestic floor coverings.....	+ 6	+ 2	+ 34
Major household appliances.....	+39	+ 8	+ 25
Housewares.....	+ 4	0	+ 19
Radios, phonographs, television.....	+29	+67	+209
Toys and games.....	+ 2	0	+ 18
Sporting goods and cameras.....	- 1	+ 3	+ 19
Luggage.....	+ 3	- 4	+ 22
<i>Basement store</i>			
Coats and suits.....	- 7	-10	- 8
Dresses.....	- 4	- 5	- 11
Men's clothing.....	+ 3	+ 2	+ 12
Men's furnishings.....	+ 8	+ 2	+ 8

ally featured in January "white sales", and household durables were reported in exceptionally strong demand.

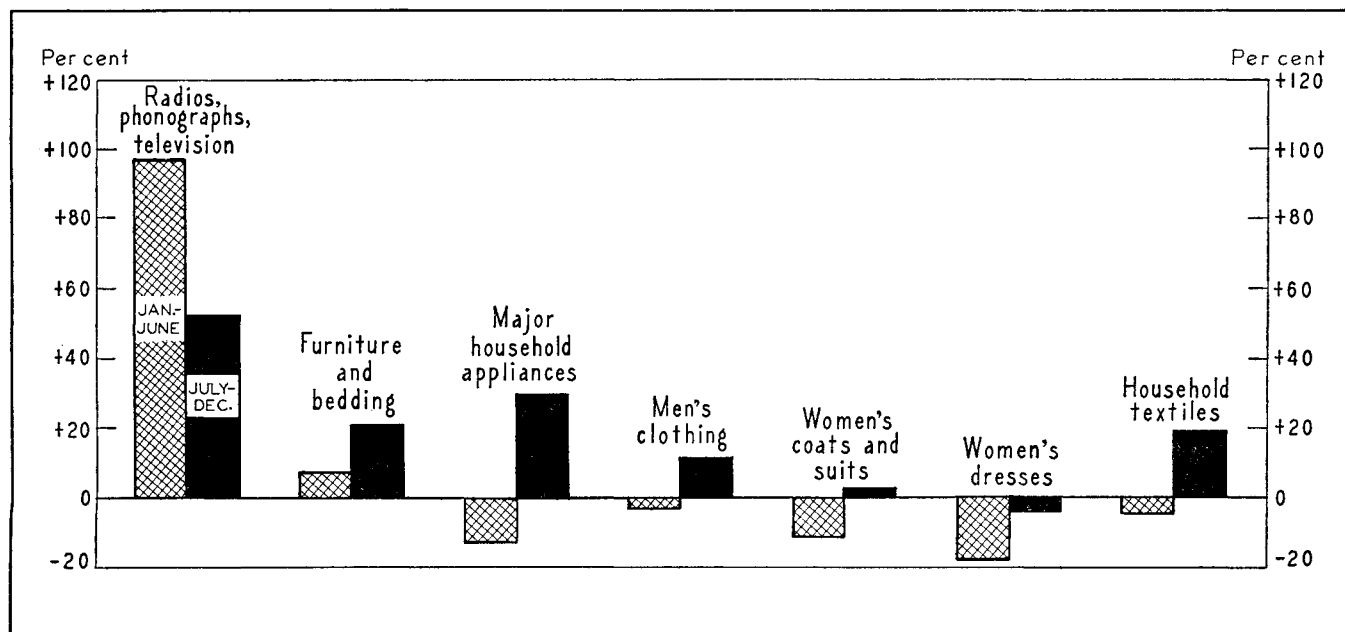
A preliminary survey of New York City department stores revealed that for the three weeks ended January 20 sales of major appliances and of radio and television sets increased 74 and 68 per cent, respectively, from the corresponding year-earlier levels.

REVIEW OF 1950

Department store trade in 1950, both in the Second District and throughout the rest of the United States, was marked by sharp contrasts between the first and second halves of the year. In this District's department stores, consumer expenditures during the first six months of 1950 were 3 per cent below the corresponding 1949 figure. During the buying wave of July and August, however, the demand for goods, at all levels of distribution, reflected in many instances the anticipation of future wants rather than current needs alone. Consequently, despite a relative subsidence of consumer spending from September to November, the dollar volume of department store sales during the latter half of 1950 was 8 per cent higher than that of the last six months of 1949. For 1950 as a whole, the year-to-year change was a gain of 3 per cent.

The comparatively poor sales performance early in the year was reflected in the cautious inventory policy pursued by the stores. With the dollar sales volume running below the year-earlier level, department stores kept their inventories close to the comparable 1949 levels in an effort to minimize the need for "shelf-clearing" markdowns later on. There was, however, some year-to-year increase in the value of outstanding orders during the first half of 1950. Why this increase in the stores' commitments for additional merchandise during a period of declining sales did not result in an increase in the dollar amount of stocks on hand can be readily explained. A large percentage of the orders outstanding were for household dur-

Department Store Sales for Selected Departments, Second Federal Reserve District
(Percentage change, 1949 to 1950, January-June and July-December)



ables, which, with the exception of major appliances, were in consistently strong demand and, with the added impetus of liberal credit terms, were selling very well. Moreover, deliveries of durables from manufacturers are much slower than in most other merchandise lines and, since retailers were reluctant to buy in great quantity, a buildup of inventories above 1949 levels did not occur.

As the chart shows, sales in some of the largest volume departments from January through June were notably lower than those of the first half of 1949. Declines in the dollar sales volume of household textiles, of women's coats, suits, and dresses, and of major household appliances, could be attributed only in part to lower prices. The disappointing customer response to the women's apparel lines actually dated back to the last half of 1949, when the sales volume of this merchandise began to slump badly. As for appliances, the marked decline in sales volume was believed by some department stores to have resulted from a loss of customers to appliance stores, where price cuts were reported and easy credit terms were given wide publicity. Were it not for the excellent selling strength of the other durable housefurnishings lines, especially furniture and television, the over-all record of department

store trade in this District during the first half of 1950 would have been much worse.

When the fighting began in Korea, an immediate transformation in the pattern of retail activity took place. During July and August, customers flocked to the stores in numbers unprecedented for that time of the year. Retailers, wholesalers, and manufacturers were similarly active as the second half of 1950 witnessed the greatest expenditure for consumer goods for any period of like duration. The value of orders placed by stores during the third quarter rose to heights reminiscent of the postwar scramble for goods in 1946. Depleted stocks were quickly replenished, and even after the panic buying of July

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

Locality	Net sales		Stocks on hand Dec. 31, 1950
	Dec. 1950	Jan. through Dec. 1950	
Department stores, Second District....	+ 6	+ 3	+15
New York City.....	+ 4	+ 2	+14
Northern New Jersey.....	+10	+ 5	+12
Newark.....	+10	+ 4	+12
Westchester County.....	+ 6	+ 5	0
Fairfield County.....	+ 9	+ 7	+15
Bridgeport.....	+10	+ 8	+16
Lower Hudson River Valley.....	+ 3	+ 1	+17
Poughkeepsie.....	+ 2	0	+16
Upper Hudson River Valley.....	+11	+ 4	+19
Albany.....	+18	+ 4	+26
Schenectady.....	+ 4	+ 2	+12
Central New York State.....	+11	+ 6	+21
Mohawk River Valley.....	+ 8	+ 6	+21
Utica.....	+ 3	+ 5	+20
Syracuse.....	+12	+ 6	+21
Northern New York State.....	+15	+ 4	+15
Southern New York State.....	+ 7	+ 5	+11
Binghamton.....	+ 3	+ 2	+ 9
Elmira.....	+12	+10	+19
Western New York State.....	+ 7	+ 4	+19
Buffalo.....	+ 5	+ 3	+24
Niagara Falls.....	+20	+ 9	+ 2
Rochester.....	+ 8	+ 5	+12
Apparel stores (chiefly New York City).....	+ 3	+ 1	+11

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

Item	1950			1949
	Dec.	Nov.	Oct.	Dec.
Sales (average daily), unadjusted.....	450	302	259	409r
Sales (average daily), seasonally adjusted..	266	234	238	242r
Stocks, unadjusted.....	239	306	291	209r
Stocks, seasonally adjusted.....	263	266	258	229r

r Revised.

and August had run its course, the stores continued to accumulate inventories, not only to protect themselves against possible future shortages and price increases, but also in anticipation of a further rise in consumer demand later in the fall season.

As had been the case during the first half of the year, the housefurnishings group again dominated the scene in the third quarter; sales in this group recorded some of the most significant year-to-year increases and constituted an average of 31 per cent of total store sales during July, August, and September. There were, however, numerous nondurable lines in which sales were exceedingly heavy during this period. Sales of sheets, pillow cases, millinery, hosiery, furs, and women's coats and suits were particularly outstanding.

Consumer demand for department store merchandise, relative to year-earlier levels, eased somewhat during the latter part of September, October, and November, largely as a result of the combined effects of tighter credit restrictions, spiraling prices, and a normal reaction from the spending wave of the midsummer months. At the same time, stocks continued to pile up, so that by the end of November the dollar amount of inventories held by the stores in this District reached record-breaking proportions.

Around the second week in December when the intervention of Communist China made it clear that the fighting in Korea was not nearly at an end (and might even spread beyond Korea), the sales volume regained much of its earlier momentum. Consumer expenditures in Second District department stores, inflated by a steadily rising price level and by the desire of many people to anticipate their future needs, were the greatest ever during the month of December. Once more, considerable interest was focused on the household durables group, with major appliance sales recording the largest relative increase. Sales of mattresses and of radio and television sets were also well above those of December 1949, and among the soft-goods lines, domestics (sheets, pillow cases, etc.) made the best showing.

At the end of 1950, the inventory position of the stores was not unlike that of the preceding months, although the dollar amounts involved were, of course, substantially reduced by the holiday trade. The value of stocks on hand on December 31 was about 15 per cent above the year-earlier volume and, with future commitments half again as large as the 1949 year-end volume, it was evident that the stores planned to continue the policy of maintaining sizable inventories.

Business Indicators

Item	Unit	1950			1949	Percentage change	
		December	November	October	December	Latest month from previous month	Latest month from year earlier
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1935-39 = 100	216 _p	215	216 _r	179	#	+21
Electric power output*	1935-39 = 100	316	306	306	268 _r	+ 3	+18
Ton-miles of railway freight*	1935-39 = 100	198 _p	194 _p	207	165 _r	+ 2	+20
Manufacturers' sales*	billions of \$	21.2 _p	21.1 _p	21.2	15.8	#	+34
Manufacturers' inventories*	billions of \$	33.8 _p	33.0 _p	31.8	28.9	+ 2	+17
Manufacturers' new orders, total	billions of \$	24.2 _p	22.4 _p	24.7	16.0	+ 8	+51
Manufacturers' new orders, durable goods	billions of \$	12.3 _p	10.6 _p	12.2	6.9	+16	+78
Retail sales*	billions of \$	12.1 _p	11.4	11.8	10.5	+ 6	+15
Residential construction contracts*	1923-25 = 100	287 _p	284	294	255	+ 1	+13
Nonresidential construction contracts*	1923-25 = 100	342 _p	323	303	268	+ 6	+28
<i>Prices, wages, and employment</i>							
Basic commodity prices†	Aug. 1939 = 100	358.9	343.8	329.0	248.1	+ 4	+45
Wholesale prices†	1926 = 100	175.3 _p	171.7	169.1	151.2	+ 2	+16
Consumers' prices†	1935-39 = 100	178.4	175.6	174.8	167.5	+ 2	+ 7
Personal income* (annual rate)	billions of \$	—	231.9 _p	231.1	208.4	#	+13
Composite index of wages and salaries*	1939 = 100	—	214 _p	213	203	#	+ 6
Nonagricultural employment*	thousands	45,431 _p	45,478	45,412 _r	42,758	#	+ 6
Manufacturing employment*	thousands	15,606 _p	15,612	15,603 _r	13,946	#	+12
Average hours worked per week, manufacturing†	hours	41.6 _p	41.2	41.3	39.8	+ 1	+ 5
Unemployment	thousands	2,229	2,240	1,940	3,489	#	-36
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	74,720 _p	73,860 _p	74,600 _p	77,232	+ 1	- 3
Total loans of all commercial banks	millions of \$	52,830 _p	51,650 _p	49,890 _p	42,965	+ 2	+23
Total demand deposits adjusted	millions of \$	93,200 _p	90,700 _p	89,400 _p	85,750	+ 3	+ 9
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	27,531	27,298	27,233	27,459	+ 1	#
Bank debits* (U. S. outside New York City)	billions of \$	77.1	80.7	79.2	64.2	- 4	+20
Velocity of demand deposits* (U. S. outside New York City)	1935-39 = 100	95.8	97.7	100.5	83.6	- 2	+15
Consumer instalment credit outstanding†	millions of \$	13,478 _p	13,304 _p	13,389 _p	10,890	+ 1	+24
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	4,504 _p	3,487	2,426	4,263	+29	+ 6
Cash outgo	millions of \$	4,020 _p	3,415	3,335	4,070	+18	- 1
National defense expenditures	millions of \$	1,692 _p	1,607 _p	1,499	1,165	+ 5	+45
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey)	1935-39 = 100	124	122	123	111	+ 2	+12
Residential construction contracts*	1923-25 = 100	—	169 _p	149	154	+13	+ 8
Nonresidential construction contracts*	1923-25 = 100	—	175 _p	181	204	- 3	-15
Consumers' prices† (New York City)	1935-39 = 100	175.1	172.1	171.0	164.9	+ 2	+ 6
Nonagricultural employment*	thousands	—	7,199.4 _r	7,215.3	6,905.9	#	+ 5
Manufacturing employment*	thousands	2,614.7 _p	2,579.0	2,596.1 _r	2,393.0	+ 1	+ 9
Bank debits* (New York City)	billions of \$	43.5	44.2	43.8	37.8	- 2	+15
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of \$	3.2	3.7	3.5	2.7	-13	+17
Velocity of demand deposits* (New York City)	1935-39 = 100	111.9	114.4	116.6	97.8	- 2	+14

_p Preliminary. _r Revised.

* Adjusted for seasonal variation. † Seasonal variations believed to be minor; no adjustment made.

Change of less than 0.5 per cent.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, January 30, 1951)

Industrial output was somewhat larger in December and January than during the autumn, reflecting mainly further increases in output of producers' equipment and military supplies. Consumer demand for most goods showed a sharp expansion and business demands continued strong. Retail prices of consumer goods and wholesale commodity prices showed more marked advances than in other recent months. The rate of expansion in bank loans to business slackened in January.

On January 26, a Federal order established maximum prices of most commodities at the highest levels existing between December 19, 1950 and January 25, 1951. Wage and salary rates were fixed at the rates prevailing January 25 pending the development of adjustment procedures.

INDUSTRIAL PRODUCTION

The Board's production index in December was 216, and in January it is estimated that the index will be close to 220 per cent of the 1935-39 average. The current level is about one-tenth higher than in mid-1950 and one-fifth higher than a year ago.

Output of durable manufactured goods has expanded further following the temporary leveling off in November. Steel production, which had been reduced by severe weather conditions at the end of November, has increased to a rate somewhat above the earlier record reached in October. Output of producers' equipment and munitions, mainly in the machinery and transportation equipment industries, has shown substantial further gains since last autumn. Passenger car assemblies are near the average rate prevailing in 1950 when output was 30 per cent greater than in any other year. Production of most other consumer durable goods and building materials has been maintained close to the record levels reached in the second half of 1950.

Production of nondurable goods in December and early January has continued at peak rates, reflecting mainly a sustained volume of output of textile, paper, petroleum, and chemical products 10 to 20 per cent above year-ago levels.

Minerals output declined slightly in December, as activity at iron ore mines was reduced from the exceptionally high autumn rate and as crude petroleum production was curtailed somewhat. Petroleum output increased again in mid-January to a new record rate.

CONSTRUCTION

Value of construction contract awards increased in December, reflecting a further contraseasonal expansion in awards for public work and gains in private nonresidential awards. For the year, value of awards was two-fifths larger than in 1949, with substantial increases in almost all categories. The December rise in housing starts to 95,000 from 85,000 in November reflected a sharp increase in publicly financed units. Total starts of almost 1,400,000 in 1950 were more than one-third greater than the previous record in 1949.

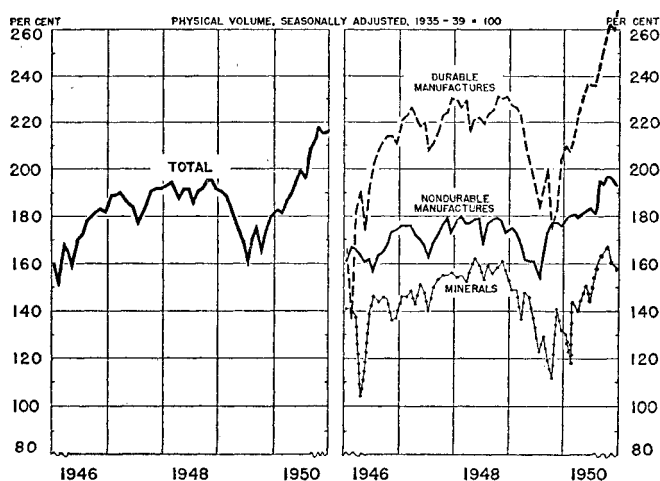
EMPLOYMENT

Nonagricultural employment showed the usual large seasonal rise in December, reflecting mainly temporary increases in trade and post office employment. Average hours of factory workers rose to 41.6 per week, the highest in five years, and average hourly earnings continued upward, reflecting increases in wage rates and more overtime pay.

DISTRIBUTION

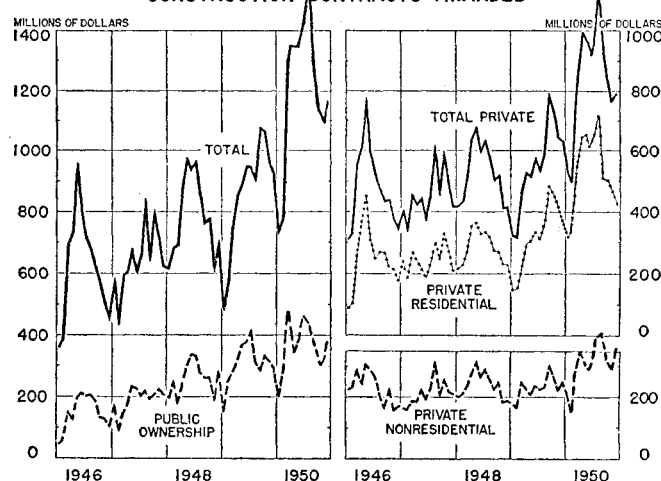
Since the early part of December, value of department store sales has been considerably above corresponding periods of other recent years. Increases in sales of household durable

INDUSTRIAL PRODUCTION



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

CONSTRUCTION CONTRACTS AWARDED



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

goods have been large, as during the upsurge in buying last summer, and there have also been sharp increases in sales of apparel and various other goods. Despite record sales for this season, stocks have been maintained at high levels as a result of the very large volume of output. Purchases of new passenger automobiles have shown marked increases from the reduced level reached in November which was still about 10 per cent higher than in November of any other year.

COMMODITY PRICES

Wholesale prices generally continued to advance during the first three weeks of January. Increases for basic commodities approached the rapid rate of rise of the summer months. Marked advances also occurred in wholesale prices of numerous industrial products and foods prior to the announcement of general price controls on January 26.

The consumers' price index rose 1.6 per cent from mid-November to mid-December, the largest monthly increase of the year, as retail food prices advanced 3 per cent. Since that time retail prices have generally continued to rise; foods have exceeded the July 1948 high.

BANK CREDIT

Bank loans to business continued to expand rapidly in December but increases were less marked in the first three

weeks of January. The expansion in real estate and consumer loans was smaller in the December-early January period than in previous months.

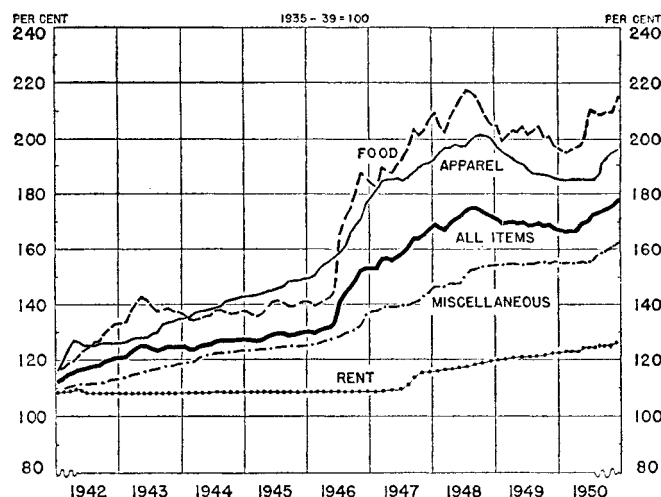
Average interest rates charged by commercial banks on short-term business loans rose from 2.6 per cent in the first half of September to 2.8 per cent in the first half of December. In early January, leading city banks announced further increases in rates to business borrowers.

Required reserves of member banks were raised by more than one billion dollars in mid-January as a result of the first step in the graduated increases in reserve requirement percentages announced in late December. Banks met this increase with funds obtained from a seasonal decline in currency in circulation and a reduction in Treasury deposits at Reserve Banks and by reducing excess reserves and selling Government securities.

SECURITY MARKETS

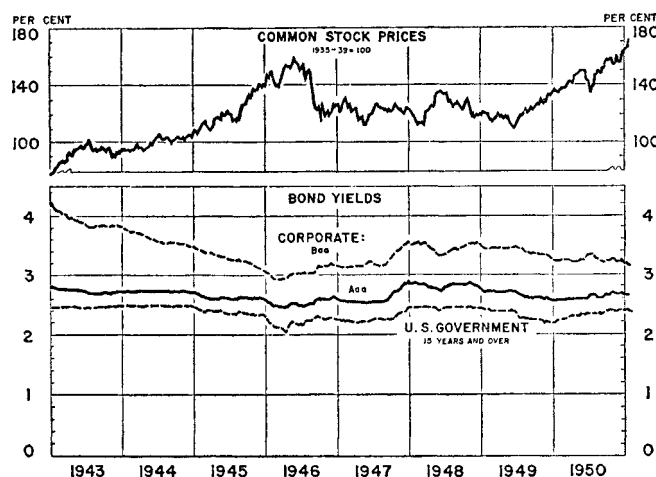
Yields on Government securities and high-grade corporate bonds continued to show little change during the first three weeks of January. Prices of common stocks rose further and, effective January 17, the Federal Reserve raised margin requirements for purchasing or carrying securities from 50 per cent to 75 per cent.

CONSUMERS' PRICES



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

SECURITY MARKETS



Stock prices, Standard & Poor's Corporation; corporate bond yields, Moody's Investors Service; U. S. Government bond yields, U. S. Treasury Department. Weekly figures; latest shown are for week ended January 20.