

MONTHLY REVIEW

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BUY DEFENSE BONDS

To BUILD SECURITY
To FIGHT INFLATION
To MAKE SURE YOU SAVE



KEEP DEFENSE BONDS

For A SAFE INVESTMENT
For INCREASING VALUE
For FUTURE NEEDS

MORTGAGE LENDING IN THE SECOND FEDERAL RESERVE DISTRICT

Comprehensive data on the amount and type of mortgages held and serviced by various groups of lenders in this region are now available for the first time. Because of the concentration of large institutional lenders in the New York City area, many of them of national importance, these figures undoubtedly include substantial amounts of mortgages on properties located in other parts of the country. This information has been gathered in connection with the registration, under the terms of Regulation X of the Board of Governors of the Federal Reserve System, by organizations and individuals engaged in the business of extending real estate credit or acting as agents in arranging for such credit. In part of the registration statement, lenders were required to fill out a simple statement of the amount of the different types of mortgages held on May 31, 1951, together with the amount of mortgages they were servicing for others. Heretofore, detailed data in the field of real estate credit have been relatively sparse, and the rapid growth of mortgage debt in the postwar period has increased the need for comprehensive figures; these registration statistics have thus greatly improved the coverage of this important financial field.

Preliminary data for nearly 4,400 registrants holding about 19 billion dollars in mortgages have now been tabulated for the Second Federal Reserve District,¹ and these eventually will be combined with data from other districts to provide data for the country as a whole. This information will be highly useful to the Board of Governors in fulfilling its responsibilities under the Defense Production Act for control of real estate credit. The data represent mortgage *ownership*

¹ The totals do not include the mortgage holdings of institutions or investors who were exempt from registering. Those extending credit three times or less in 1950 or 1951 in an aggregate volume of \$50,000 or less per year were not required to register, including those whose entire portfolio of mortgages was acquired prior to 1950.

and should not be used as a measure of the volume of mortgage credit *originated* by the various types of financial institutions, because much of their portfolios may have been acquired through brokers or from other lenders. Also, the totals for any given region do not represent the mortgage *indebtedness* of that region; particularly in the Second District, investors have large holdings of mortgages secured by properties located in all parts of the United States.

RELATIVE IMPORTANCE OF DIFFERENT CLASSES OF REGISTRANTS

A total of 4,378 organizations and individuals had registered in the Second District by mid-August. As shown in Table I, over 1,200 of these registrants, or 28 per cent of the total, did not hold any mortgages on May 31, either for their own account or that of others. About 7 per cent, or 323 registrants, held no mortgages of their own but were engaged in servicing 629 million dollars' worth for others. The total dollar volume of mortgages which the remaining 2,826 registrants held for their own account amounted to 18,983 million dollars. Judging from rough estimates of total mortgage debt in the United States, over one fourth of the national total is held by Second District investors. In addition, 467 of

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Table I
Number of Registrants and Value of Mortgages Held or Serviced
in the Second District, May 31, 1951

Type of lender	Number of registrants			Mortgages (In millions of dollars)	
	Total	Without mortgage holdings	Holding mortgages for own account or for others	Held for own account	Serviced for others
Life insurance companies.....	22	0	22	8,409	0
Mutual savings banks.....	164	0	164	6,274	6
Commercial banks.....	815	2	813	2,024	388
Trust departments of banks*.....	162	0	162	180	22
Savings and loan associations.....	440	0	440	1,679	5
Mortgage companies, mortgage title and guaranty companies, correspondents.....	79	10	69	31	668
Real estate and mortgage brokers and agents.....	1,437	852	585	35	611
Nonprofit organizations.....	104	1	103	113	1
Investors.....	367	25	342	62	9
Builders and developers.....	326	186	140	15	1
Individual trustees or executors.....	58	1	57	15	1
Miscellaneous#.....	404	152	252	146	94
Total.....	4,378	1,229	3,149	18,983	1,806

* Excludes liens on real and other property held under corporate trusteeship as security for bond issues.

Includes industrial banks, insurance companies other than life insurance, National Farm Loan Associations, thrift funds, credit unions, lawyers, investment companies, etc.

this last group of registrants reported that they were servicing 1,177 million dollars of mortgages owned by other lenders. These other lenders for whom mortgages are being serviced, however, are not necessarily all confined to the Second District, but may be located anywhere in the United States.

Of all the types of registrants, life insurance companies held the largest dollar volume of mortgages for their own account, owning 8,409 million dollars, or 44 per cent of the total volume held by the District's registrants. They were followed by mutual savings banks with a total of 6,274 million dollars, or approximately one third of the total. Commercial banks (including their trust departments) accounted for 2,204 million dollars, or an additional 12 per cent of the total, while savings and loan associations held 1,679 million dollars, or 9 per cent. In the aggregate, these four groups of registrants held 18,566 million dollars, or 98 per cent of all mortgages owned by registrants in this District.

Real estate and mortgage brokers and agents were the most numerous type of registrant, accounting for one third of the total number of establishments or individuals engaged in the mortgage business in this District. Their function

is mainly one of providing service—bringing lender and borrower together—and, in many cases, the function is performed with a relatively small volume of capital. Mortgage investment positions by brokers are usually considered temporary, with ownership being only incidental to the process of effecting purchases and sales. It is not surprising, therefore, that, of the 1,437 real estate and mortgage brokers registering in the District, 852 (representing approximately three fifths of the total) reported no mortgage position on May 31, 1951, either for their own account or for the account of clients. Only 328, or 23 per cent, reported mortgage holdings for their own account. The remaining 257 functioned exclusively as servicing agents. Registrants classified as mortgage companies, title and guaranty companies, and correspondents were also active in servicing mortgages, but in this category a greater proportion of the registrants—over three quarters—held mortgages for their own account. Together these two groups accounted for 70 per cent of the value of mortgages reported as serviced for others. Among the other groups, commercial banks, in addition to maintaining a position for their own account, were most active in servicing mortgages for others and accounted for 21 per cent of the total, while other types of lenders serviced relatively minor amounts.

Builders and developers were one of the most numerous groups, but their relative importance in the dollar totals was much less than it would have been in terms of mortgage credit originated.

CONCENTRATION OF HOLDINGS

The high degree of concentration of mortgage holdings among relatively few registrants is clearly shown in Table II. A little more than 1 per cent of the total number of registrants (51 out of 4,378) owned over 70 per cent of the total mortgage debt reported. The top 316 registrants held over 17 billion dollars in mortgages for their own account, or 91 per cent of the Second District total.

Holdings were centered in an especially small number of registrants in the case of life insurance companies and mutual savings banks. Eight life insurance companies owned 8.3 billion dollars' worth of mortgages, or 98.4 per cent of the total for all 22 life insurance companies registered in this

Table II
Number of Registrants and Amount of Mortgages Held for Own Account, Classified by
Type of Owner and Size of Holdings, Second District, May 31, 1951
 (Amounts in millions of dollars)

Volume of mortgages held for own account (millions of dollars)	Life insurance companies		Mutual savings banks		Commercial banks (including trust departments*)		Savings and loan associations		All other lenders		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
50 and over.....	8	8,273	36	4,614	6	449	1	53	0	0	51	13,389
25 to 50.....	2	70	23	835	8	261	10	359	2	81	45	1,606
10 to 25.....	4	55	31	476	22	334	29	444	3	42	89	1,351
5 to 10.....	0	0	34	236	44	302	46	312	7	48	131	898
1 to 5.....	3	7	38	112	298	617	161	435	49	104	549	1,275
0.1 to 1.....	5	4	2	1	494	236	175	75	410	117	1,086	433
Less than 0.1.....	0	0	0	0	101	5	18	1	746	25	865	31
No holdings for own account.....	0	0	0	0	4	0	0	0	1,558	0	1,562	0
Total.....	22	8,409	164	6,274	977	2,204	440	1,679	2,775	417	4,378	18,983

* Excludes liens on real and other property held under corporate trusteeship as security for bond issues.

District. In fact, the holdings of the four companies which reported over a billion dollars each in mortgages totaled more than 7 billion dollars, which was close to two fifths of the life insurance company holdings in the entire United States. Among the 164 mutual savings banks which registered, more than half the total volume of mortgages was held by the 15 banks with over 100 million dollars each in mortgages. Nearly three quarters of the holdings of Second District savings banks (and more than half of the national savings bank total) were concentrated in the top 36 mutual savings banks registered here.

A somewhat more even distribution was apparent among savings and loan associations and commercial banks. The top 9 per cent of savings and loan associations owned a little more than half of the mortgages held by this group. The 80 largest commercial banks (including trust departments), about 8 per cent of the registrants in this classification, held 61 per cent of the mortgages. At the other end of the scale, however, 193 savings and loan associations and 599 commercial banks and trust departments owned less than a million dollars' worth of mortgages apiece, compared with only five life insurance companies and two savings banks in this category. The concentration of registrants with small holdings was most pronounced in the "all other" classification (mainly agents, brokers, and investors); 56 per cent did not hold any mortgages for their own account, and 95 per cent of the remainder, or 1,156 registrants, held less than a million dollars apiece in mortgages. The remaining 61 lenders accounted for two thirds of the dollar value held by this group.

TYPES OF MORTGAGES HELD BY PRINCIPAL GROUPS OF LENDERS

The accompanying chart shows the distribution of the various types of mortgages held by different groups of lenders registering in this District. The major institutional lenders—life insurance companies, banks, and savings and loan associations—own all but a minute fraction of the Government-insured or guaranteed home mortgages and farm mortgages held in this District, and all but 2½ per cent of conventional (not Government-aided) residential mortgages and all except 5 per cent of "other" mortgages (primarily on commercial properties). Life insurance companies held a larger dollar volume of each type of mortgage than any other group of investors except in the case of conventional mortgages where savings banks were in the lead. Life insurance companies were the only group in this District to report sizable holdings of farm mortgages, partly because of the wider geographical area in which they are permitted to invest. Residential mortgages held by life insurance companies were fairly evenly distributed among the three types, FHA, VA, and conventional. Over half of the savings banks' residential mortgages were conventional, and one third were FHA-insured. Among savings and loan associations, conventional mortgages accounted for nearly two thirds of the portfolio and VA-guaranteed loans made up most of the remainder. Commercial banks in this District

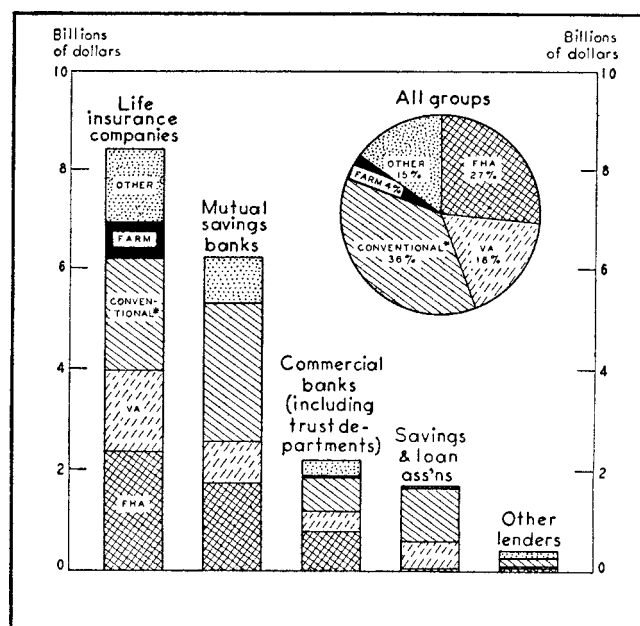
emphasized FHA-insured loans (presumably mostly those on large apartment projects, including a large volume of construction loans), but trust departments held mostly conventional mortgages.

MORTGAGE HOLDINGS IN NEW YORK CITY COMPARED WITH THE REST OF THE SECOND DISTRICT

In the aggregate, the lenders located in New York City owned nearly three fifths of the District mortgage total, or some 10.9 billion dollars, while the lenders located in the remainder of the District held two fifths, or 8.1 billion. Nearly half of the holdings in the remainder of the District was concentrated in several large institutional investors in the metropolitan area around New York City.

The larger total for the New York City registrants arose principally from the heavier mortgage volume held by the mutual savings banks, 4.7 billion dollars in New York City contrasted with only 1.5 billion dollars in the Upstate and other Second District areas. This contrast is attributable to the concentration of savings banks deposits in New York City. The principal variation in the distribution of the mortgage portfolios of the savings banks in the two areas was a sharply lower proportion of VA mortgages and a heavier proportion of commercial mortgages in the City banks. Mortgage holdings of the life insurance companies located in the City aggregated 4.7 billion dollars and moderately exceeded the total of 3.8 billion dollars reported by other Second District insurance registrants, most of which was concentrated in several large companies in Northern New Jersey. The mortgage portfolio of the City insurance registrants consisted of heavier proportions of conventional, VA, and commercial mortgages, and smaller proportions of

Principal Types of Mortgages Held by Lender Groups in the Second Federal Reserve District, May 31, 1951



* Residential mortgages not Government-insured or guaranteed.

Table III
Mortgage Holdings for Own Account in Second District Member Banks
Registering on May 31, 1951, with Changes from June 30, 1950
(Dollar amounts in millions)

Type of mortgage	Banks Located Outside New York City								41 New York City banks*		Total Second District (714 banks)	
	131 Banks with deposits under \$2 million		212 Banks with deposits of \$2 to \$5 million		257 Banks with deposits of \$5 to \$20 million		73 Banks with deposits of over \$20 million					
	Dollar amount 1951	Per cent change	Dollar amount 1951	Per cent change	Dollar amount 1951	Per cent change	Dollar amount 1951	Per cent change	Dollar amount 1951	Per cent change	Dollar amount 1951	Per cent change
FHA.....	1.0	+ 2	9.6	+ 5	43.4	+ 3	289.7	+13	380.3	+31	724.0	+21
VA.....	6.1	+10	35.1	+19	123.8	+19	186.8	+43	8.7	+ 9	360.5	+30
Conventional.....	11.0	+14	54.6	+11	172.6	+15	167.8	+28	59.5	+64	465.5	+24
Total residential.....	18.1	+12	99.3	+13	339.8	+15	644.3	+24	448.5	+34	1,550.0	+24
Farm.....	5.1	- 3	10.1	- 2	9.8	+ 2	5.3	+ 8	(a)	-	30.3	+ 1
Other.....	3.3	+ 3	17.6	+ 5	65.6	+ 7	100.7	+12	59.7	+ 4	246.9	+ 8
Total.....	26.5	+ 8	127.0	+10	415.2	+13	750.3	+22	508.2	+30	1,827.2	+21

* Includes banks in all five boroughs of New York City.
(a) Less than \$50,000.

FHA and farm mortgages than in the rest of the District. The aggregate mortgage holdings for commercial banks were greater in the areas outside New York City than in the City, reflecting the more extensive mortgage lending on the part of these institutions in other parts of the District. The bulk of the City commercial banks' mortgage portfolio of 519 million dollars consisted of FHA mortgages, but elsewhere in the District every type of mortgage except farm was well represented in a total portfolio of 1,503 million dollars. Reflecting the relatively greater importance of savings and loan associations outside New York City, such associations held 585 million dollars in mortgages in New York City and 1,093 million in the rest of the District, but there was no significant geographical variation in the type of holdings.

CHANGES IN MEMBER BANK MORTGAGE HOLDINGS

Detailed information on changes in mortgage holdings is available for only one group of registrants, those commercial banks which, as members of the Federal Reserve System, had submitted a breakdown of their real estate loans on June 30, 1950.² Table III shows the May 31, 1951 portfolio and the change which had occurred in the preceding eleven months—one of the most active periods of real estate lending on record. In the aggregate, the 714 Second District member banks for which comparisons are available expanded their mortgage holdings by 315 million dollars, or 21 per cent. Residential mortgages held by member banks increased 297 million dollars, or 24 per cent, and commercial and industrial mortgages rose 18 million dollars, or 8 per cent, but farm mortgages showed only a negligible change. The gains in total mortgage holdings during this period varied directly with the size of the bank, ranging steadily upward from 8 per cent in the smallest banks (those with deposits of less than 2 million dollars) to 30 per cent in the large New York City banks. Among the various types of residential mortgages, the greatest gain, 30 per cent, was shown by VA-

guaranteed mortgages, perhaps partly as a result of the more liberal maturity and guarantee provisions under the Housing Act of 1950.

The most striking characteristic of the distribution of mortgage loans among commercial banks in this District is the relatively small proportion held by the large New York City banks, despite the large increase in their portfolios during the past year. The volume of lending on real estate by New York City banks is only 5 per cent of their total loan portfolios, while among the other banks in the Second District such loans are over two fifths of all loans outstanding. In particular, New York City banks have not engaged in much permanent financing of residential property, apparently largely because the proportion of time deposits at these banks is far lower than in other banks. Many of the FHA-insured loans are construction loans on large projects which will be turned over to another lender for permanent financing on completion of construction.

One manifestation of the limited activity of New York City banks in the field of permanent residential financing is the remarkably small part VA-guaranteed loans play in the residential mortgage portfolios of these banks, accounting for only about 2 per cent of the total, compared with nearly one third in other member banks in this District. Outside New York City, the increases between June 1950 and May 1951 in the holdings of VA mortgages tended to vary with the size of the bank, with gains ranging from 10 per cent in the smallest banks to 43 per cent in the largest. A somewhat similar but not so consistent relationship also prevailed in the case of conventional mortgages, in which increases ranged from 11 per cent in the next to the smallest group to 28 per cent in the largest. In New York City, where conventional mortgages are much less important than elsewhere in the District, the gain was 64 per cent.

The increase in holdings of FHA-insured loans was almost entirely confined to the New York City banks and the largest banks outside the City. The three smallest size groups of

² See "Nonfarm Real Estate Lending of Second District Member Banks" in this *Review* for November 1950.

banks showed very minor dollar and percentage gains in FHA mortgages. To a large extent this reflects the concentration of large housing projects, particularly apartment projects insured under Section 608 of the National Housing Act, in the metropolitan areas served by large banks. Together, the New York City banks and the largest banks outside the City held virtually all of the unutilized commitments under Section 608 reported by member banks in this District

in June 1950. Because of their larger resources these banks are better able to meet the financing needs of the large-scale builders who originated so much of the housing and the mortgage debt during the past year. The smaller banks apparently tend to deal less often with the large builders who initiate FHA mortgages than they do with the small builders and individual home owners who take out conventional or VA-guaranteed mortgages.

MONEY MARKET IN AUGUST

The money market, after having been almost continuously on the tight side since the last week of June, firmed somewhat further through much of August. Pressure on bank reserve positions was centered on the New York money market, although the gains and losses of reserves were somewhat more widely distributed geographically than in the preceding month. The usual seasonal expansion in business (and agricultural) loans also got under way in most sections of the country during the past month, although not in the volume experienced a year ago.

As a consequence of money market conditions, short-term money rates were relatively high. Immediately available Federal funds changed hands on most days at $1\frac{3}{8}$ per cent, and occasionally at $1\frac{11}{16}$ per cent—just short of the Federal Reserve discount rate. The new Treasury bills issued on August 16 reached the highest average discount rate in over 18 years. The bill issue on that date culminated seven consecutive weeks of new money borrowing by the Treasury, in weekly amounts of 200 million dollars, and thereafter rates on Treasury bills and other shorter-term Government securities declined slightly, as the Treasury confined its subsequent bill offerings to the amounts of maturing issues. Long-term money rates (bond yields) declined somewhat further as growing investor confidence, encouraged by a sharply curtailed volume of liquidation on the part of insurance companies, brought the prices of restricted Treasury bonds to the highest levels since the first half of April. The Treasury's refinancing announcements during the month played some part in contributing to the rise of longer-term bond prices.

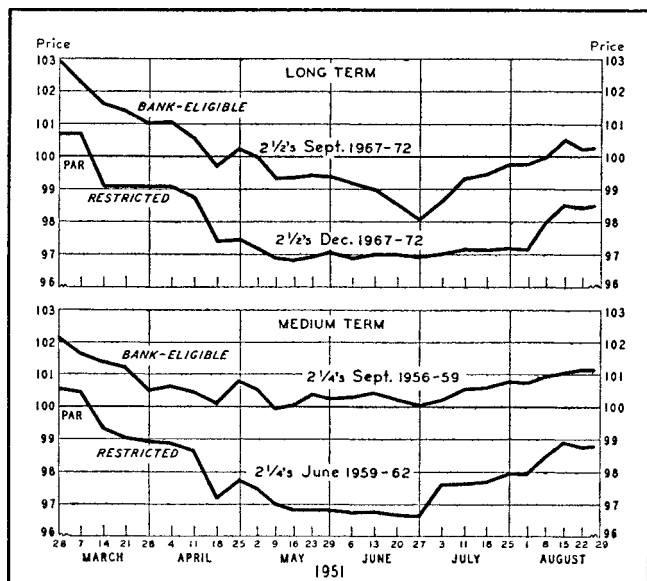
GOVERNMENT SECURITY MARKET

On four different days during the month, the Secretary of the Treasury made announcements which affected the Government security market. On August 13, he announced that the 2 per cent bonds of December 15, 1951-55 (outstanding in an amount of 510 million dollars) would not be called for redemption. At the same time, the Secretary called for payment on December 15, 1951 the 1.1 billion dollars of $2\frac{1}{4}$ per cent partially tax-exempt bonds of December 15, 1951-53. On August 16, the Secretary announced that the Treasury bill offering of August 23 would be made in an amount sufficient only to equal the maturing issue, thus bringing to an end for the time being the Treasury's program of obtaining new money in connection with the weekly bill tenders. On August 21, follow-

ing reports that recommendations had been made to commercial banks to engage in forward arbitrage transactions with respect to the restricted bonds which will become eligible for bank purchase in 1952, the Secretary requested the Federal and State bank supervisory authorities to investigate through their bank examinations any violation of the letter or spirit of the Treasury regulations which (1) forbid commercial bank purchase of restricted bonds for the bank's own benefit in advance of the date on which such bonds become eligible, and (2) limit commercial bank transactions in restricted issues to the needs of an active trading account maintained to facilitate purchases and sales of such issues by bank customers. On August 27, the Secretary announced that the 755 million dollars of 3 per cent Treasury bonds maturing September 15, and the 1.9 billion dollars of $1\frac{1}{4}$ per cent Treasury notes coming due October 1 would each be refinanced through an offering of $1\frac{7}{8}$ per cent 11-month certificates of indebtedness. Thus, the certificates offered in exchange for the maturing bonds will mature on August 15, 1952, while those offered in exchange for the maturing notes will come due on September 1 next year.

As already noted, the Treasury's decision to cease new money borrowing through its bill issues helped to ease slightly the average discount rate on new bill offerings. For the issues dated August 2, 9, and 16, the average discount rates were, respectively, 1.611, 1.652, and 1.660 per cent. For the two remaining issues during August, the average discount rate declined, respectively, to 1.651 and 1.645 per cent. Yields on outstanding bills, except for the very short maturities, fluctuated during most of the month in a narrow range at levels slightly above those prevailing toward the close of July. Despite the pronounced firmness in bill rates during the month, the Federal Open Market Account did not find it necessary to make appreciable bill purchases in order to assist reserve adjustments by the banks. The Federal Reserve Bank of New York did, however, enter into a moderate volume of repurchase agreements, which permitted qualified dealers in Government securities to obtain funds temporarily through sales of bills and other short-term securities to the Reserve Bank subject to repurchase within 15 days at the same price. The Reserve Bank provided such accommodation at charges equivalent to its discount rate in order to assist dealers in carrying "positions" of sufficient volume to enable them to do their part in maintaining orderly market conditions. Reserve Bank holdings of securities under these agreements fluctuated

Closing Bid Prices of Selected Treasury Bonds
(Weekly from February 28, 1951*)



* Wednesday dates except for latest figures which are for Monday, August 27.

from day to day in response to changes in money market conditions and the demand for the securities, and after the statement week ended August 8 accounted for practically all of the changes in holdings of Government securities by the Federal Reserve System as a whole.

Prices of Treasury bonds rose further, in the face of the tight money market, in response to the same stimulating forces that had become apparent during July—a moderate increase in personal savings, a lull in inflationary pressures within the economy, some catching up by financial institutions on backlogs of advance commitments, and scattered instances of postponement in business expansion plans. Price advances—which by August 27 had recovered roughly half of the declines that occurred in the three months immediately following the development toward freer market conditions that began with the announcement on March 4 of the Treasury-Federal Reserve “accord”—were again made in a relatively thin market, more conspicuous for a reduction in selling than for any great increase in demand.

Prices of two representative medium-term eligible and ineligible issues, and the prices of two comparable longer-term issues, are plotted on the accompanying chart. These price movements, which generally characterize the changes that occurred throughout the Treasury bond list, indicate greater upward price adjustments for restricted bonds of longer term (reversing the experience of July when price increases were somewhat greater among the medium-term restricted bonds). Prices of eligible bonds increased less than those of the restricted issues, but the longest-term eligible issue sold fractionally above par for the first time since early May. The Secretary of the Treasury’s decision not to call the 2 per cent bonds of December 15 apparently had no direct effect on the course of eligible bond prices because this decision had been

generally anticipated by investors. However, the Treasury’s announcement that it would redeem the partially tax-exempt bonds callable as of December 15 pointed toward further reduction in the supply of partially tax-exempt bonds, and thus provided some additional stimulus to the rise in prices of the longer maturities of such bonds.

MEMBER BANK RESERVE POSITIONS

During the last week in July (the statement week ended August 1), member banks were able to maintain their reserve positions only by obtaining substantial advances from the Federal Reserve Banks. The convergence of usual month-end transactions which exerted this heavy pressure on bank reserve positions was intensified by the Treasury’s final call on its “X” balances on July 30. The influence of Treasury operations on the banks was reversed in the following week, but a substantial portion of the reserves accruing to the member banks was devoted to the repayment of advances previously obtained from the Reserve Banks. The net increases in total reserves and excess reserves during the statement week ended August 8 were gradually employed in meeting other reserve drains that persisted, on balance, through the remainder of the month. In the final statement week there was a repetition of the experience at the end of July. The various factors contributing to the persistent tightness in bank reserves over the month are summarized in the accompanying table.

Member banks outside New York City found it necessary to draw against their correspondent balances here more or less continuously after the first week of August. This was partly because the banks outside New York experienced a somewhat greater proportion of the direct impact of Treasury transactions than during July, and consequently drew upon New York in order to maintain their reserve positions. Correspondingly, there were two influences which lessened the direct impact of Treasury transactions upon the New York City banks. One of these was the Treasury’s exhaustion of its “X” balances, which

**Weekly Changes in Factors Tending to Increase or Decrease
Member Bank Reserves, August 1951**
(In millions of dollars; (+) denotes increase,
(—) decrease in excess reserves)

Factor	Statement weeks ended					Five weeks ended August 29
	August 1	August 8	August 15	August 22	August 29	
Routine transactions						
Treasury operations*	-131	+366	-281	+ 58	-121	-109
Federal Reserve float	-134	- 66	+239	- 90	-219	-270
Currency in circulation	-136	- 62	- 21	- 7	-102	-328
Gold and foreign account	+ 52	- 43	+ 45	+ 42	+ 41	+137
Other deposits, etc.	+ 9	+204	-100	- 24	+ 57	+146
Total	-342	+399	-118	- 18	-346	-425
Federal Reserve transactions						
Government securities	+ 24	+ 37	+ 33	- 67	- 18	+ 9
Discounts and advances	+330	-208	+ 42	- 28	+ 63	+199
Total	+353	-170	+ 75	- 95	+ 45	+208
Total reserves	+ 11	+229	- 43	-113	-301	-217
Effect of change in required reserves	+ 34	- 11	- 7	- 51	- 11	- 46
Excess reserves	+ 45	+218	- 50	-164	-312	-263

* Includes changes in Treasury currency and cash.
Note: Because of rounding, figures do not necessarily add to totals.

had been built up in New York City banks in amounts proportionately greater than the customary distribution of Treasury balances throughout the banking system. As the Treasury reverted to withdrawing funds from its regular Tax and Loan Accounts, Treasury receipts from the New York money market fell below the volume of Government disbursements in the New York area. The other influence helping to minimize pressure on bank reserve positions in New York City was the Treasury's discontinuance after August 16 of its program for new money borrowing through weekly additions to its bill offerings. Because a relatively large part of the Treasury's new offerings had been purchased by customers of New York banks, the cessation of further Treasury new borrowing helped to lessen the net drain of funds out of New York City to the rest of the country through Treasury transactions.

The New York City banks also gained the bulk of the proceeds of disbursements by foreign central banks and governments from accounts held at the Reserve Bank. At a

rough magnitude of 40 to 50 million dollars each week, one week excepted, these gold and foreign account transactions continued to provide funds to the banking system, in sharp contrast to the sustained gold outflows that had persisted until April of this year following the currency devaluations of September 1949.

It was noteworthy during the month that the New York City banks and the banks in other sections of the country showed a diminishing inclination to adjust their reserve positions through the market sale of Government securities. Increasing reliance is apparently being placed upon direct borrowing from the Federal Reserve Banks, as interest rates on shorter-term Government securities hover close to the discount rate and fluctuate in price in response to the tightening or easing of money market conditions. With the exception of the sales contract agreements mentioned above, the Federal Reserve System was only called upon to engage in minor transactions in Government securities during the period.

THE FIRST YEAR OF THE EUROPEAN PAYMENTS UNION

On June 30 the European Payments Union completed its first year of operations, a year marked by grave disturbances to the world economy as a result of the Korean war. Although these disturbances created many unforeseen obstacles to a smooth functioning of the payments mechanism, the EPU has evidenced sufficient strength to withstand the pressures resulting from the war, as well as a notable degree of flexibility in adapting itself to changing circumstances, and has emerged a potent instrument for the promotion of European integration.

Particularly noteworthy has been the progress made under the EPU toward the restoration of multilateral trade among the monetary areas of the EPU countries. The EPU achievement in this regard marks a major advance beyond the limited progress made under the earlier Intra-European Payments Agreements. The latter, which functioned from October 1948 through June 1950, undertook to facilitate an expansion of intra-European trade by arrangements under which creditor countries extended bilateral grants to their prospective debtors in the form of "drawing rights". These drawing rights, in turn, were backed by ECA dollar aid to the creditor countries. The IEPA tended, however, to freeze intra-European trade into rigid bilateral channels, and failed to provide adequate incentives to the debtor countries to reduce their deficits.

The EPU was designed to overcome both these difficulties. First, the union re-established the interconvertibility of European currencies by making it possible for a member country to use a surplus in any member currency for settling a deficit in any other. This was accomplished by means of a clearing house procedure through which at the end of each month the EPU offsets against each other, as far as possible, the various surpluses and deficits of an individual member country with all of the other members, so as to establish its net monthly deficit or surplus with the union. In addition, this

net deficit or surplus is offset against any net surplus or deficit that the country may have incurred during the previous months.

Secondly, the net deficit or surplus of each country resulting from the monthly clearing is then settled in accordance with a quota, which regulates, in the case of deficit countries, the extent to which they receive credit from the union or are required to make payments to it in dollars to settle their net deficits. The provision for credit was made to finance seasonal and temporary disequilibria, and to allow time for remedial action to be taken where necessary; the requirement of dollar payments tends to discourage the debtor countries from running excessive deficits. Net deficits up to one fifth of a country's quota are settled in full through the extension of credit by the union, and in excess of this through a combination of credits by and dollar payments to the union, but with a progressively increasing proportion of dollar payments.

To provide backing for the credits extended by the union, the countries with surpluses are required to extend credit to the union, settling their net surpluses completely in credit up to one fifth of their quotas; thereafter they extend credit to the union and receive dollars from it in equal proportions. In addition to this quota mechanism, provision was also made for a deficit country to settle all or part of its net deficit, if it so desired, by using its "existing resources", i.e., its exchange reserves in the form of another member country's currency, such as sterling. Furthermore, in the EPU's first year, six debtor countries were granted special "initial credit balances" to help toward paying for their deficits. These credit balances were partially backed by initial debit balances allotted to three creditor countries, the latter balances in turn being underwritten by United States aid. The initial credit

and debit balances therefore resembled the drawing rights of the old IEPA even though they were much smaller. The United States further strengthened the EPU by providing it with a 350 million dollar working-capital fund to cover a temporary excess of dollar payments by the union over its dollar receipts.

INDIVIDUAL CREDITOR AND DEBTOR POSITIONS

During the first twelve months of EPU operations, three countries—the United Kingdom, France, and Belgium—emerged as major creditors, accounting for 94 per cent of the net surpluses within the EPU. On the debit side, two major debtors—Western Germany and the Netherlands—accounted for 50 per cent of the total net deficits. The positions of these and the other member countries are shown in the table.

Although the United Kingdom remained a major creditor, important shifts in its position (which reflects the transactions of the whole sterling area except Iceland) took place during the year. On joining the EPU, the United Kingdom received special safeguards against dollar losses that, it was feared, might result from the settling through the EPU mechanism of the sterling balances held by other EPU members; this protection was principally in the form of an ECA guarantee to underwrite any British dollar losses resulting from the use of sterling resources. As matters turned out, this proved superfluous. During the first months of the EPU, the United Kingdom accumulated increasing surpluses with the union, primarily because of the increases in primary commodity exports by the overseas sterling area at inflated prices, and of the considerable anticipatory purchases of sterling by other EPU members, following rumors of possible revaluation.¹

The unexpectedly rapid extension of credit by the United Kingdom to the EPU caused considerable concern in Britain, especially since the counterpart of the overseas sterling area's surplus with the EPU was accumulating in the form of sterling balances credited to these sterling area countries. At the same time misgivings were voiced by the United Kingdom's European trading partners as to the adequacy of the trade liberalization measures both of the United Kingdom itself and of the rest of the sterling area. In March 1951 the British surplus fell substantially, however, and in May and June the United Kingdom registered its first clearing deficits since the start of EPU operations. This change appears partially attributable to increased imports from Western Europe by both the United Kingdom and the overseas sterling area, to the break in the prices of sterling area raw materials, and to the slowing down in the expansion of British exports to the Continent. Perhaps even more important, sterling area exports of certain primary commodities, which are at their seasonal lows from

April to September, fell sharply, while British purchases of fruits and vegetables and British expenditures on travel on the Continent rose as usual during the summer months. These seasonal factors, which may be expected to continue during the third quarter, tend to obscure any long-term trend in the United Kingdom's EPU position that may be developing.

France's EPU position has developed in a similar manner, registering a surprisingly large surplus during the first nine-month period and then changing over to monthly deficits. The surpluses may have been primarily attributable to an improved balance in France's domestic economy, which has tended to reduce import demand and at the same time has released goods for export in response to rising demand in the other countries. However, it may also be noted that some of France's trading partners have complained that its slow removal of import quotas and its high tariffs have contributed to its surpluses.

Belgium initially had been expected to remain the outstanding intra-European creditor, but during the first six months of the EPU's operations its transactions resulted in an approximate balance with the union. In fact, had it not been for Belgium's sizable surplus with the Netherlands and the repayment to Belgium of outstanding debts by other members, Belgium would have shown a substantial deficit in this period. During these six months it ran a consistently heavy deficit with the United Kingdom, mainly attributable, according to press reports, to forward purchases of sterling in anticipation of a revaluation of the pound, and to abnormally heavy purchases of sterling area primary commodities. After the turn of the year, Belgium reverted to a strong surplus position, the result in part of an expansion in Belgium's intra-European exports following the rise in its imports, of a change from deficits to surpluses vis-a-vis the United Kingdom, and of the financing, through Belgium, of various types of capital flight from other European currencies.

Western Germany became EPU's dominant debtor soon after the beginning of EPU operations and, despite a tightening of internal credit and import controls in October, exhausted its quota completely during November. The EPU managing board after investigation concluded that Western Germany should receive additional EPU assistance for a limited period, on the assumption that the deficit would be overcome if remedial measures were taken. The EPU diagnosed the difficulties as caused in part by increased stockpiling made possible by liberalization measures taken by the West German Government, and in part by an acceleration of payments for imports together with a slowing down of receipts from exports. It noted that relatively easy credit conditions had contributed to the crisis, but also pointed out that the need to provide for working capital made it likely that a payments gap would accompany increased West German economic activity. Besides these causes, various commentators advanced the view that the West German quota, which like those of the other countries was based on its 1949 intra-European payments, was inadequate since Western Germany's intra-European trade had expanded much faster during 1950 than that of the other EPU

¹Of the total United Kingdom surplus of 476 million dollars' equivalent during the first six months of EPU operations, according to United Kingdom balance-of-payments statistics, 185 million was accounted for by the United Kingdom's own current-account surplus with the EPU area, and 196 million by the surplus of the overseas sterling area. The remainder represented the net result of capital transactions and other transfers.

European Payments Union Operations, by Countries, July 1950 - June 1951
(In millions of dollar equivalent)

Member countries and monetary areas	Offsetting operations			Settlement operations					
	Total of gross bilateral		Net surplus or deficit*	"Existing" resources used (net) against (+) or by (-) member	Initial debit (+) or credit (-) balance utilized	Quotas utilized			
						Credit extended (+) or received (-) by member	Dollars received (+) or paid (-) by member	Total dollars and credit	Per cent of total quota utilized
	Surpluses	Deficits							
Austria.....	+ 26.4	-- 130.5	-- 104.1	—	-- 80.0	—	-- 24.1†	-- 24.1†	0
Belgium.....	+ 450.7	-- 214.9	+ 235.8	-- 15.8	+ 29.4	+147.4	+ 75.4	+222.8	67.4
Denmark.....	+ 85.6	-- 153.7	-- 68.6	-- 2.0	—	-- 61.1	-- 5.5	-- 66.6	34.2
France.....	+ 445.1	-- 251.1	+ 196.4	+ 1.1	—	+149.6	+ 45.6	+195.3	37.6
Western Germany.....	+ 365.9	-- 647.2	-- 281.7	-- 11.9	—	-- 182.6	-- 90.2	-- 272.8	85.3
Greece.....	+ 5.9	-- 146.3	-- 140.4	-- 1.1	--115.0	—	-- 24.3†	-- 24.3†	0
Iceland.....	+ 0.9	-- 7.9	-- 7.0	—	-- 4.0	—	-- 3.0†	-- 3.0†	0
Italy.....	+ 159.6	-- 189.6	-- 30.4	--42.5	—	+ 12.4	—	+ 12.4	5.9
Netherlands.....	+ 183.5	-- 453.1	-- 271.0	—	-- 30.0	--175.6	-- 65.4	--241.0	73.0
Norway.....	+ 50.4	-- 130.2	-- 80.0	-- 0	-- 60.0‡	-- 20.0	-- 20.0	-- 20.0	10.0
Portugal.....	+ 91.4	-- 32.7	+ 59.1	—	—	+ 36.5	+ 22.5	+ 59.1	84.4
Sweden.....	+ 146.6	-- 206.0	-- 59.7	--15.4	—	+ 44.3	—	-- 44.3	17.0
Switzerland††.....	+ 111.5	-- 100.5	+ 11.1	—	—	+ 11.1	—	+ 11.1	4.4
Turkey.....	+ 58.1	-- 122.1	-- 64.0	+ 1.9	-- 25.0‡	-- 28.2	-- 12.7	-- 40.9	81.8
United Kingdom.....	+ 993.0	-- 388.8	+ 607.7	+85.7	+150.0	+292.0	+ 80.0	+371.9	35.1
Totals.....	+3,174.6	--3,174.6	{ -1,109.9* } { +1,110.6* }	±88.8	{ -314.0 } { +179.4 }	-511.7 +648.7	-225.2 +223.5	-737.0 +872.3	41.1

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

* The net surplus or deficit includes interest paid on loans granted or received. The difference between the two totals in this column is the amount by which interest paid by the EPU to member countries exceeded interest received from members.

† Settled fully in dollars outside of quota, since under the EPU agreement Austria, Greece, and Iceland have not been allowed to use their quotas when debtors to the EPU; indicated amounts financed in full by ECA special aid in the cases of Greece and Iceland and to the extent of 10 million in the case of Austria.

‡ Norway's initial balance included 10.0 million in the form of a loan repayable to the EPU; the entire initial balance for Turkey was in this form.

†† Switzerland included only from November 1950.

Source: Organization for European Economic Cooperation.

countries. To tide Western Germany over these difficulties, it was granted a special short-term credit of 120 million dollars' equivalent from the EPU to be used in combination with its own dollar resources, on the condition that it take certain internal and external measures to improve its position. Nevertheless, the deficit continued to rise, and at the end of February, the West German Government, faced with approaching exhaustion of the special credit, suspended all further import licensing.

The effect of this step was a striking improvement in Western Germany's position, imports falling abruptly. In addition, exports continued to rise and exporters repatriated their export proceeds more rapidly. From March through June, Western Germany registered surprisingly large surpluses, and was able not only to repay the special credit of 120 million dollars' equivalent but also to start repaying the credit extended to it under its quota. But it is improbable that Western Germany will accumulate surpluses indefinitely, since in order both to continue its economic progress and not to hinder that of its European partners, it requires a more liberal import program. How far it can liberalize its imports, however, will of course depend on how its foreign exchange position develops.

The Netherlands ended EPU's first year as its second largest debtor, but in contrast to Western Germany its position shows little sign of immediate improvement. The Netherlands' fundamental problem is its large deficit with Belgium, which in the first year was almost as large as its entire deficit with the EPU. During the spring, moreover, the Netherlands was most unfavorably affected by Western Germany's February import restrictions, owing to its great dependence on the West German market. To combat its payments deficit the Dutch

Government has restricted domestic credit and has also taken other deflationary measures. This new policy should significantly contribute toward an improvement in the Dutch payments position, but may require some time to become fully effective.

Notwithstanding the payment difficulties encountered by the various member countries, however, the EPU clearing and credit mechanism proved generally adequate to cope with the unexpectedly wide swings in intra-European payments resulting from the Korean war. After reviewing its first year of operations, the EPU has accordingly found it necessary to make only minor modifications in its payments mechanism, increasing Germany's quota from 320 million dollars' equivalent to 500 million, and raising the Netherlands quota from 330 million to 355 million. Furthermore, the EPU ended its first year with the 350 million dollar working capital, provided by the United States, intact. Even though it had to draw upon its working capital during the course of the year, by the end of the year its current payments operations had added 1.7 million to its dollar resources.

LIBERALIZATION OF TRADE

The establishing of the EPU has opened the way for a progressive liberalization of intra-European trade by rendering intra-European discrimination unnecessary and by providing credit to finance possible short-term deficits arising out of such liberalization.

Liberalization has been effected primarily by a gradual removal of quotas on intra-European imports. By the spring of 1951, the proportion of nongovernmental imports that member countries were required to admit free of quotas had been increased to 75 per cent (computed on the basis of trade in

1948), exemption being granted several debtor countries. However, this percentage method allowed each member country to choose independently of the others the commodities it would free, with the result that certain quotas that were among the greatest obstacles to intra-European trade were not removed. To meet this and other difficulties a new approach has been developed. Lists of specific products are to be drawn up, on which all member countries will remove quota restrictions completely. The first such list, consisting mainly of textile products, was agreed to in July 1951, several debtor countries being exempted from complete compliance.

The removal of quotas by the various member countries was at first on a generally uniform percentage basis, but in the spring of 1951 it was made somewhat more flexible. In April, at the request of the Council of the Organization for European Economic Cooperation, the stronger creditor countries for the most part agreed both to permit some degree of West German discrimination against themselves and to make unilateral import concessions to Western Germany and to the other debtor countries. This modification of the original liberalization procedure has been regarded by some as a retrogression from the ultimate objective of a single European market. On the other hand, thoroughgoing uniformity in trade liberalization, with the various countries at different stages of recovery, may well have tended to lead to a trade pattern that was artificial in the sense that it has depended upon a continuing flow of grants and credit.

The primary objective of the efforts to liberalize intra-European trade has been, of course, the integration of Western Europe into a unified market; competition would thereby be stimulated, resources reallocated to more effective uses, productivity increased, and Western Europe relieved of dependence on United States aid. While there has been general agreement as to the importance of this objective, questions have been raised as to the extent of the potential contribution integration can make toward the solving of Western Europe's fundamental difficulties. It is argued that liberalization would create a high-cost area insulated from the rest of the world, and that an expansion of intra-European trade might well tend to reduce rather than increase European exports to dollar markets.

It is of course impossible to measure precisely the results of liberalization, but there is little doubt that intra-European trade has been noticeably stimulated. While the liberalization program may have to be pursued for a considerable time in order to achieve any significant integration, the essential fact is that the Western European countries have accepted the principle and have begun to move in that direction.

SOME MAJOR POLICY ISSUES

One of the major policy issues underlying the whole concept of the European Payments Union has been the question of the pattern of trade and payments that the union has been designed to encourage. Before the war some Western European countries had surpluses in Europe with which they

financed their deficits elsewhere, while other countries had deficits in Europe covered by outside surpluses. This pattern of payments was disrupted by the war. Most Western European countries were unable to return to convertibility, and were accordingly forced to seek a bilateral balancing of their payments with other countries. The EPU made it possible to replace this bilateralism with multilateral settlements within the EPU area, but on the other hand it provided for only a limited convertibility of net balances into dollars. As a consequence EPU creditors cannot fully use their intra-European surpluses to finance their deficits with the outside world. The scope for such financing, however, may have been reduced, since the disruption of the prewar pattern of world payments may have created a tendency for Western European countries to move toward a closer balance with each other as a group. Be that as it may, it is by no means clear that, in view of the reluctance of Western European countries to utilize their scarce dollar assets to settle their intra-European deficits, a fuller settlement of such deficits in dollars is feasible at present.

Another question concerns the adequacy of the credits provided by the union, and in contrast, the severity of the dollar-payments requirements. The dollar-free segments of most countries' quotas were exhausted much sooner than was expected, and the requirement for progressively increasing dollar payments has put increasing pressure on the debtor countries to remedy their positions. But whether the threat of such increasing dollar payments is a sufficient deterrent to debtors when they retain the hope of further credits or further outside assistance remains questionable. The creditors on their part feel that the fact that only one half of any continuing surpluses is paid for in dollars puts undesirable inflationary strains on their economies since they cannot use the whole of their EPU surpluses elsewhere. This, however, may eventually lead to a further easing of import restrictions by the creditors in order to achieve a closer balance with the EPU.

Thirdly, there is the question of chronic deficits in the intra-European trade of a number of all-round debtor countries, such as Austria and Greece. The initial balances given to a number of debtor countries during EPU's first year have not solved the problem, and some of these debtors have had to receive additional United States assistance. During 1951-52 the United States Government, instead of underwriting new grants of initial balances, is giving assistance directly to four chronic debtor countries—Austria, Greece, Iceland, and Turkey—as and when they incur deficits in the EPU.

Finally, there is the very important issue of whether the EPU's group approach represents the most useful avenue toward the attainment of convertibility of West European currencies into dollars, or whether this objective could not be better achieved by the stronger countries establishing such convertibility singly. Although the EPU's group approach has increased the freedom of payment among its members in the face of wide differences in the strength of their currencies, it has been at the cost of facilitating a movement of capital toward the stronger currencies that has created a definite

problem. On the other hand, the single country approach to convertibility might be at the expense of the weaker countries, and in addition there is doubt as to whether it could have stood the strains resulting from the Korean war.

Against these four major unresolved issues, however, the EPU has accomplished much within its limited geographical scope, even though full convertibility of sterling—the most widely used of Europe's currencies—remains essential for a return to a world-wide multilateral system of trade and payments. The EPU has provided sufficient flexibility to meet the strains of the Korean war, and has made possible the growth of multilateral trade within the EPU area. In addition,

it has made great progress toward developing European as opposed to purely nationalistic policies for the solving of mutual problems—progress that would otherwise have been more difficult to achieve.

In conclusion, it may fairly be said that, while the ultimate goal of complete convertibility of European currencies is still distant, the EPU has made progress toward the day when it will be able to coalesce into a wider trading and payments system. But there is no magic in the EPU mechanism that can relieve individual countries of the task of strengthening their international economic positions by appropriate internal, as well as external, policies.

EARNINGS AND EXPENSES OF THE SECOND DISTRICT MEMBER BANKS— FIRST HALF OF 1951

Reflecting principally the impact of heavier income taxes, net profits of all member banks in the Second Federal Reserve District declined to 96.4 million dollars during the first six months of 1951, a drop of about 3 per cent below the net profit of 99.5 million dollars earned during the corresponding period of 1950. The decrease in the aggregate net profit for the District, which is based upon a preliminary tabulation of the principal items in reports submitted by the individual banks, compares with a decline (also preliminary) of 16.0 million dollars, or 4.0 per cent, for all member banks in the country as a whole.

Net profits of the central reserve New York City banks, as shown in the accompanying table, amounted to 70.4 million dollars during the first half of 1951, or virtually the same amount as during the first six months of 1950, whereas the net profits of sample groups¹ of other Second District member banks fluctuated irregularly—the changes ranging from 6 per cent above the corresponding period of 1950 in the largest institutions to 14 per cent lower in the smallest banks. In general, the main determinants of the movements of net profits among the various groups of banks were the rise in net current operating earnings on the one hand and the increase in income taxes on the other, although increased expenses were also a factor of some importance in holding down net profits. In all groups of banks, lower security profits and recoveries were contributing factors drawing down net profits, and in two groups of banks (the smallest sized group with deposits of less than 2 million dollars and the middle sized group with deposits of 5 to 20 million) they assumed a major role in the final results.

Total current operating earnings expanded in most banks

throughout the District, and the larger banks, which had experienced the sharpest gains in loan income, generally had the greatest gains in gross income. In the New York City banks, income from loans showed a substantial rise of 48.3 million dollars, or 50 per cent, over the first six months of 1950, reflecting not only a greater average loan volume but also higher rates of interest and a somewhat greater proportion of higher rate loans in the total loan portfolio. Outside New York City the percentage gains in loan income varied directly with the size of the bank, ranging upward from 9 per cent in the smallest banks to 27 per cent in the largest banks. It is interesting to note that the percentage gains in loan income in the two largest sized group of banks outside the City exceeded the rise in the average loan volume held during the two periods, whereas in the two smallest sized groups the gain in income was proportionately less than the gain in volume. Apparently, the larger banks were able to increase the rates they were charging on loans while the smaller banks, whose loan rates have generally been somewhat higher and more rigid, were unable to do so.

Inasmuch as the larger banks experienced the heavier demand for loans, they had to sell a proportionately greater volume of Government securities in order to accommodate this demand. As a result, their average holdings of Government securities and their income from them showed proportionately greater declines. Generally, however, the percentage drop in income from Government securities was less than the decline in the average volume of such investments (except for the smallest sized groups of banks), indicating that portfolio yields had risen between the two periods. Interest and dividends received on investments in non-Government securities, which consist mainly of tax-exempt State and municipal obligations, increased in most banks in the District. In the largest sized group of banks outside New York City, however, a small decline is shown in this item which reflects substantial write-offs of premiums by a few banks against the income received. In all groups of banks, average holdings of State and municipal obligations were heavier than in the first half of 1950, as banks made purchases to reduce the

¹ Sample groups of Second District member banks outside New York City have customarily served as the basis for articles on bank earnings and expenses appearing in this *Review* in order to permit early publication of the principal results of recent member bank operations, in advance of the complete checking and tabulating of all income and expense accounts on all reports submitted to the Federal Reserve Bank of New York. Identical samples of banks have been used since 1945. These samples include roughly half of the banks with deposits in excess of 20 million dollars and 10 per cent of the number in each of the smaller groups.

amount of income subject to income taxes and excess profits tax, or in the expectation that future tax increases would enhance the value of the tax-exemption feature and might also result in higher prices and an opportunity to obtain security profits.

Total current operating expenses increased in all groups of banks and generally the larger banks, which had the heaviest gains in gross income, showed the largest rises in both total operating expenses and in net current operating earnings before taxes. Salary and wage outlays also increased more in the larger banks and reflected the combined effect of a larger volume of employment and higher wage and salary rates. Interest payments on time and savings deposits were higher than in the first six months of 1950 in all groups of banks and reflected a fairly general rise in the rates paid. In the large New York City banks and in the smallest banks outside the City the percentage rise in interest expense outstripped the gains in the average volume of time deposits, whereas in the remaining groups of banks the increases occurred despite reductions in average time deposit volume. All other current expenses, which include real estate taxes, recurring depreciation on "banking house", deposit insurance premiums, and the physical expenses of banking were 9 to 22 per cent higher in the various groups of banks. However, for the year 1951 as a whole, the banks probably will have much smaller increases in this "all other" category, as deposit insurance payments in the second half will be reduced heavily by F.D.I.C. credits, totaling 60 per cent of its net assessment income for the year 1950.

Security profits and recoveries were either drastically reduced from the level of the first half of 1950 or, as in the case of the two smallest sized groups of banks, converted to small net losses. These changes reflected the steady downward trend in Government security prices through most of 1950 and early 1951 and the sharp drop following the adjustment to free market conditions which resulted from the accord reached between the Treasury and the Federal Reserve System in early March. Prices of State and municipal bonds, the only other type of security held in volume by commercial banks, also declined sharply after March 1951, but, on the average, their prices were higher in the first half of 1951 than in the corresponding period of 1950.

Valuation reserves for loan losses were increased by all groups of banks and reflected additions by those institutions which had not as yet accumulated the maximum allowed for income tax purposes (three times the average loss experience of the past 20 years) and by banks setting up loan reserves for the first time. Actual net losses on outstanding loans, however, were confined to the three smallest sized groups of banks, with the City banks and the largest banks outside New York both recording actual net recoveries.

The amounts set aside for State and Federal income taxes were 73 per cent greater than in the first six months of 1950 for the central reserve New York City banks, 36 per cent greater in the largest banks outside the City, and 3 to 20 per cent greater in the remaining three groups. These especially heavy increases in the larger banks were necessitated by the

Earnings and Expenses of Selected Second District Member Banks for the First Six Months of 1951 and the Percentage Changes from the First Six Months of 1950
(Dollar amounts in thousands)

Item	New York City banks		Sample banks located outside New York City Deposit size							
	Central reserve (22 banks)		Over \$20,000,000 (35 banks)		\$5,000,000 to \$20,000,000 (25 banks)		\$2,000,000 to \$5,000,000 (25 banks)		Under \$2,000,000 (15 banks)	
	Dollar volume 1st half 1951	Per cent change 1950 to 1951	Dollar volume 1st half 1951	Per cent change 1950 to 1951	Dollar volume 1st half 1951	Per cent change 1950 to 1951	Dollar volume 1st half 1951	Per cent change 1950 to 1951	Dollar volume 1st half 1951	Per cent change 1950 to 1951
Interest on United States Government obligations ..	63,431	-14.5	7,258	- 8.5	1,066	- 5.2	372	- 0.5	103	- 1.0
Interest and dividends on other securities	17,743	+24.2	1,837	- 0.7	252	+22.9	88	+ 8.6	18	0
Interest and discount on loans	145,075	+49.9	15,046	+27.4	2,225	+19.0	797	+15.3	229	+ 8.5
Service charges on deposit accounts	9,017	+11.7	1,699	+ 8.4	327	+ 9.0	115	+19.8	28	+12.0
Trust department income	30,336	+10.9	1,226	+ 3.5	43	-21.8	14	+100.0	0	0
Other current income	26,540	+27.3	2,178	+ 7.8	152	+ 4.1	87	+ 61.1	13	+ 8.3
Total current operating earnings	292,142	+21.0	29,244	+10.9	4,065	+ 9.9	1,473	+13.0	391	+ 5.7
Salaries and wages—officers and employees	92,597	+15.5	9,490	+13.2	1,157	+10.7	441	+15.4	113	+ 8.7
Interest on time and savings deposits	5,914	+28.6	3,310	+ 2.8	599	+ 7.0	196	+ 1.0	48	+ 2.1
All other current expenses	63,663	+10.7	7,662	+ 9.1	974	+10.4	386	+21.8	98	+10.1
Total current operating expenses	162,174	+14.0	20,462	+ 9.8	2,730	+ 9.8	1,023	+14.6	259	+ 7.9
Net current operating earnings, before income taxes ..	129,968	+30.9	8,782	+13.5	1,335	+10.1	450	+ 9.8	132	+ 1.5
Security profits and recoveries (+) or charge-offs (-)* ..	+3,729	-51.0	+ 86	-75.3	+12	-93.9	- 3	(a)	- 1	(a)
Net additions to (-) or deductions from (+) loan valuation reserves†	-4,806	(a)	-508	-49.2	-116	+68.1	-18	-57.1	- 8	+33.3
Net recoveries (+) or charge-offs (-) on loans	+3,149	(a)	+216	(a)	-15	-60.5	-15	-48.3	- 5	(a)
All other net recoveries (+) or charge-offs (-)	-2,021	+49.6	-587	+511.5	-17	-22.7	-60	+650.0	0	(a)
Taxes on net income	59,662	+72.7	2,858	+35.7	432	+ 3.3	110	+15.8	30	+20.0
Net profits	70,357	- 0.7	5,121	+ 6.1	767	-11.1	244	+ 1.7	88	-13.7
Dividends paid	43,577	+ 5.1	1,962	- 0.2	265	+ 4.7	85	+13.3	19	+11.8
Retained earnings	26,780	- 8.8	3,159	+10.4	502	-17.7	159	- 3.7	69	-18.8

* Also includes transfers to or from valuation reserves for losses on securities.

† Includes transfers to or from both bad debt and all other valuation reserves for loan losses.

(a) No percentage change can be calculated, the change being from a zero or from a plus to minus or vice versa.

larger volume of taxable income (profits before taxes were greater), the increases in the corporate, normal, and surtax rates, and the enactment of an excess profits tax.

Except in the largest sized banks outside the City, which recorded virtually no net change, dividend payments continued to move upward in a conservative manner, while the amounts

of earnings retained and added to capital structures declined moderately from the amounts added at this time last year. Dividend payments in the first half of 1951 amounted to 62 per cent of the available net profits for the City banks and ranged from 38 per cent of net profits in the largest banks outside New York City to 22 per cent in the smallest.

CONSTRUCTION CONTRACTS

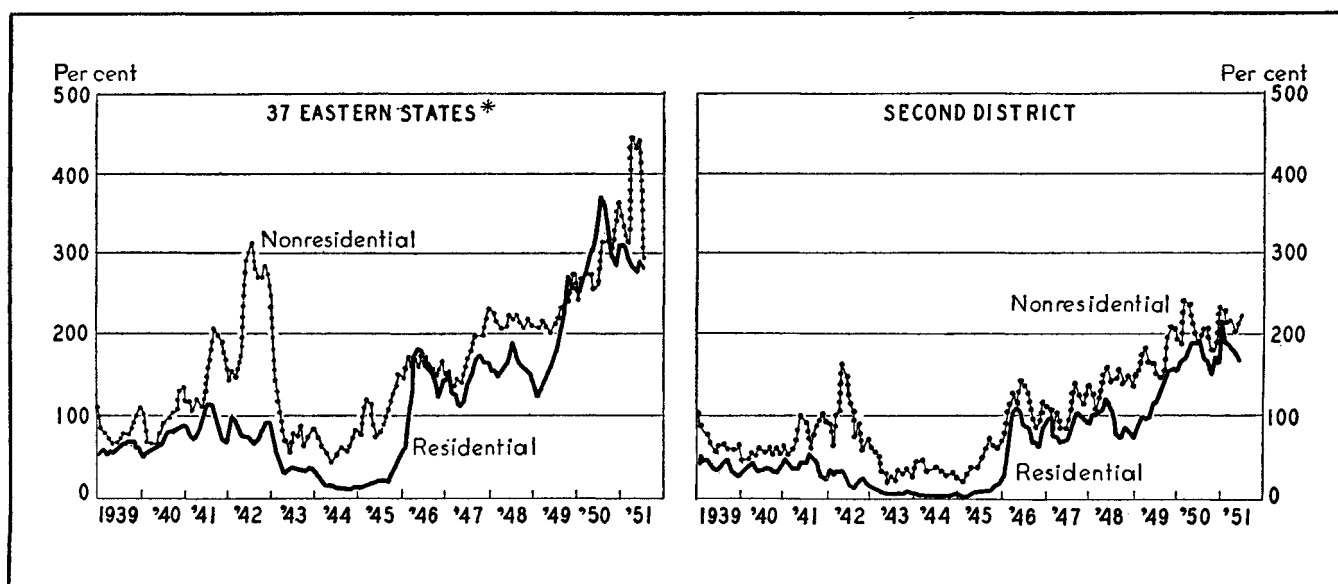
The volume of construction is one of the most difficult components of business activity to measure accurately—partly because of the varied nature of the end product (ranging from summer cottages to large industrial plants and highways and bridges); partly because of the length of time required to plan, undertake, and complete a given project; and partly because of the difficulty of obtaining comparable data for all areas of the nation. As a result, a number of heterogeneous statistical series are regularly prepared, covering the different phases of the construction process, by selected categories, with varying degrees of comprehensiveness. The indexes of construction contracts which appear in the table of Business Indicators measure changes in the dollar value of contract awards for all types of residential and nonresidential building. They are prepared by the Board of Governors of the Federal Reserve System (national figures) and the Federal Reserve Bank of New York (Second District figures) from basic data supplied monthly by the F. W. Dodge Corporation.

A preliminary step before most construction work is undertaken, particularly the larger projects, is the signing of a contract between the owner and the contractor who is to do the building. Field representatives of the F. W. Dodge Corporation collect data on the awarding of such contracts in 37 States

east of the Rocky Mountains (including the District of Columbia but excluding Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, and California). The data on which the indexes of residential contracts are based cover all types of dwellings, including one and two-family houses (both for sale and for rent), apartments, hotels, dormitories, and other shelter. The indexes for nonresidential contracts cover commercial, manufacturing, educational, social, institutional, civic, and other types of nonresidential buildings; public works (streets and highways, bridges, dams, reservoirs, sewerage systems, parks, playgrounds, etc.); and utilities (water, gas, and electric light and power systems, railroad construction, etc.). The Dodge series includes additions and alterations as well as new construction. Maintenance work, however, is excluded, as is shipbuilding. A negligible amount of farm building and of "force account work" (work done by a firm's own employees, rather than by outside contractors) is included.

The F. W. Dodge Corporation does not estimate the volume of work for which they do not have reports or that done in the 11 Western States. In so far as changes in the volume of construction contracts in the 11 Western States are not proportionate to those in the rest of the country, the indexes in the table

Construction Contracts Awarded
(Monthly indexes adjusted for seasonal variation; 1923-25 average=100 per cent)



* Including the District of Columbia, but excluding Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, and California.
Source: Computed by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York from basic data of the F. W. Dodge Corporation.

of Business Indicators will not adequately reflect national trends. There may also be some undercoverage of contract awards in the reporting States, particularly of smaller projects. In general, the Dodge statistics are considered to be more comprehensive in the field of nonresidential construction than for residential construction, principally because low-cost one and two-family houses erected individually in small communities are probably not fully reported. However, to whatever extent it may be safe to assume that the construction contracts not covered in the 37 Eastern States are subject to the same general movements as those actually counted, the index numbers are adequate indicators of changes in the volume of all contract awards in their respective areas.

Contract awards are subject to wide month-to-month fluctuations, not only because of normal seasonal influences, but also because of accidental factors such as the awarding of a few large contracts in a particular month. Such erratic movements may conceal the basic trend in construction activity at a given time. Therefore, the Federal Reserve lessens the influence of any one month by basing its index numbers upon centered three-month moving averages.¹ That is to say, the index number for April is computed from the average value of contracts

awarded in March, April, and May. Normal seasonal variations are eliminated by use of adjustment factors computed by the Federal Reserve, which differ somewhat for residential and nonresidential building and for the Second District and the national total. Finally, the adjusted dollar values of contract awards are converted to index numbers on a 1923-25 base.

The basic Dodge data for the 37 States have been prepared monthly from May 1924 to date. From January 1910 through April 1924, comparable information was collected for a smaller number of States, ranging from 27 to 36. (Adjustments were made by the Board of Governors of the Federal Reserve System to obtain an estimate of contract awards in all 37 States during the 1923-25 base period.) The index numbers as shown in the table are available for the nation and for the Second District from 1919 to date. The latter may be obtained from the Domestic Research Division, Research Department of this bank on request. Back data for the national series, including total contract awards as well as the residential and nonresidential breakdowns, appear in each issue of the *Federal Reserve*

¹ The award of nearly a billion dollars' worth of contracts for atomic energy plants in May 1951 was so exceptionally large that indexes for April, May, and June were all distorted.

Business Indicators

Item	Unit	1951			1950	Percentage change	
		July	June	May	July	Latest month	Latest month
						from previous month	from year earlier
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1935-39 = 100	213p	222	223	196	- 4	+ 9
Electric power output*	1935-39 = 100	324	325	320	288	#	+ 13
Ton-miles of railway freight*	1935-39 = 100	190p	196p	201	186r	- 3	+ 2
Manufacturers' sales*	billions of \$	—	22.8p	23.8r	20.3	- 4	+ 15
Manufacturers' inventories*	billions of \$	—	39.8p	38.9	29.8	+ 2	+ 33
Manufacturers' new orders, total	billions of \$	—	23.5p	23.3	22.2	+ 1	+ 14
Manufacturers' new orders, durable goods	billions of \$	—	12.3p	11.8	10.6	+ 5	+ 25
Retail sales*	billions of \$	11.9p	11.9	12.1	12.7	#	- 7
Residential construction contracts*	1923-25 = 100	279p	289	276	369	- 3	- 24
Nonresidential construction contracts*	1923-25 = 100	291p	443	430	289	-34	+ 1
<i>Prices, wages, and employment</i>							
Basic commodity prices†	Aug. 1939 = 100	330.8	351.2	367.1	288.3	- 6	+ 15
Wholesale prices†	1926 = 100	179.5p	181.8	182.9	162.9	- 1	+ 10
Consumers' prices†	1935-39 = 100	185.5	185.2	185.4	172.0	#	+ 8
Personal income* (annual rate)	billions of \$	—	251.1p	249.8	222.7	+ 1	+ 15
Composite index of wages and salaries*	1939 = 100	—	223p	223	209r	#	+ 8
Nonagricultural employment*	thousands	46,562p	46,622	46,513r	44,259	#	+ 5
Manufacturing employment*	thousands	16,044p	16,105	16,101r	14,977	#	+ 7
Average hours worked per week, manufacturing†	hours	40.4p	40.8	40.7	40.5	- 1	#
Unemployment	thousands	1,856	1,980	1,609	3,213	- 6	- 42
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	71,350p	71,190p	70,600p	76,340	#	- 7
Total loans of all commercial banks	millions of \$	54,590p	55,040p	54,460p	45,980	- 1	+ 19
Total demand deposits adjusted	millions of \$	90,800p	89,500p	89,500p	86,500	+ 1	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	27,915	27,686	27,516	27,171	+ 1	+ 3
Bank debits* (U. S. outside New York City)	billions of \$	82.8	85.7	88.2	73.2	- 3	+ 13
Velocity of demand deposits* (U. S. outside New York City)	1935-39 = 100	99.5	102.8	102.8	96.7	- 3	+ 3
Consumer installment credit outstanding†	millions of \$	12,898p	12,955	12,920	12,598	#	+ 2
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	2,858p	7,367	4,148	2,110	-61	+ 35
Cash outgo	millions of \$	4,851p	5,223	5,154	3,143	- 7	+ 54
National defense expenditures	millions of \$	3,158	2,803	2,679	1,118	+13	+182
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey)	1935-39 = 100	225	227	229	213	- 1	+ 6
Residential construction contracts*	1923-25 = 100	—	166p	176	186	- 6	- 11
Nonresidential construction contracts*	1923-25 = 100	—	221p	201	187	+10	+ 19
Consumers' prices† (New York City)	1935-39 = 100	181.2	180.5	181.4	169.8	#	+ 7
Nonagricultural employment*	thousands	—	7,312.5p	7,305.3	7,048.4	#	+ 4
Manufacturing employment*	thousands	2,685.5p	2,672.6	2,661.5	2,502.1	#	+ 7
Bank debits* (New York City)	billions of \$	44.1	45.0	46.3	39.5	- 2	+ 12
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of \$	3.7	3.7	4.0	3.2	+ 1	+ 17
Velocity of demand deposits* (New York City)	1935-39 = 100	113.4	119.5	111.6	113.0	- 5	#

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.

Bulletin. The basic data are published in some detail—by project type, valuation, and floor area—by the F. W. Dodge Corporation in a series of monthly releases.

After a contract is awarded, months and even years may elapse before the project is completed. There may even be a considerable delay before the project is started. The average time lag between the signing of a contract and the peak of activity or completion of a project varies considerably according to the type of construction involved and the conditions prevailing in the construction industry at the time. Thus, the indexes of contract awards are by no means indicators of the actual volume of construction work done in the month of reference. They measure, simply, changes in the dollar value of contracts awarded. As business indicators, the National Bureau of Economic Research found that on the average con-

tract awards reach turning points four to six months in advance of the general business cycle.

There are a number of other statistical series relating to contract awards and other measures of construction activity. Among the most commonly used are the contract awards data of the *Engineering News-Record*, the construction activity estimates (value of new construction put in place) of the Department of Commerce, and the Bureau of Labor Statistics' series on building permits in urban areas and the number of nonfarm dwelling units started. Any of these may show divergent movements from the indexes given here. In using any set of construction figures, it is well to keep in mind the exact phase of construction being measured and the categories of buildings covered, as well as the comprehensiveness of the particular series.

DEPARTMENT STORE TRADE

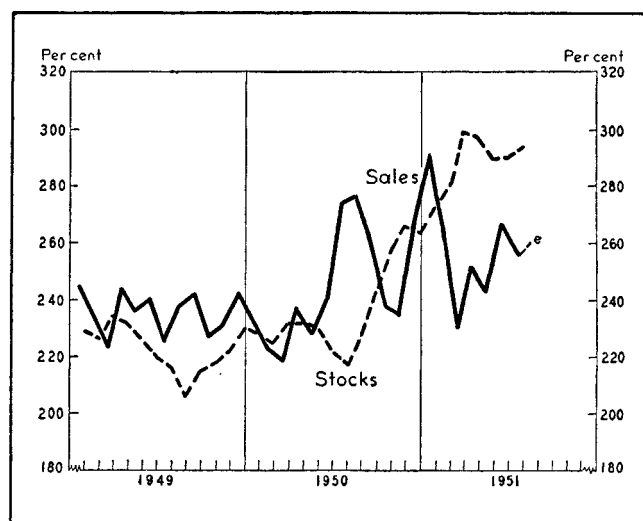
The "scare buying" that followed the outbreak of the Korean war last summer continued to present Second District department stores with an unattainable statistical target during August. From preliminary data, it is estimated that the dollar volume of department store sales was about 7 per cent below that of August 1950. There was evidence, however, of some resurgence of consumer demand, following the comparative lull of recent months, as department store sales increased more than seasonally during August. Back-to-school buying was reported proceeding satisfactorily, and the early response to the fall fashion lines was considered promising.

The relaxation of Regulation W on August 1 has apparently had little, if any, stimulating effect, thus far, on the demand for the major durables lines in Second District department stores. Moreover, judging from New York City newspaper advertising in recent weeks, department store executives apparently feel that the change in credit terms, alone, does not constitute an effective promotional device. On a nation-wide basis, however, there were some indications that the new credit terms had bolstered sales of household durables, specifically appliances and television.

DEPARTMENT STORE INVENTORIES

By the end of July, the department stores in this District appeared to have made little progress in bringing their inventories closer to the current level of consumer demand for department store merchandise. While extensive promotions during July helped to raise the month's sales to within 6 per cent of the inflated dollar volume of July 1950, receipts of additional merchandise by the stores almost completely offset the stock depletion owing to consumer purchases. As a result, the value of department store stocks in this District on July 31 was only slightly below that of a month earlier and fully 35 per cent higher than on July 31, 1950. The less-than-seasonal decline in stocks during July accounts for the fact that the seasonally adjusted index of department store

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



e August 1951 estimated.

stocks, shown in the accompanying chart, rose moderately.

An examination of the stocks-sales ratios shown in the table on the next page indicates that there was some narrowing of the gap between inventories and sales during May and June. These ratios are computed by dividing stocks at the end of the month by sales during the month and hence represent the number of months' supply on hand at the current rate of sales. As the stocks are valued by department stores at current market prices, and sales necessarily reflect current market prices, these ratios tend to "cancel out" the effect of price changes and thus to indicate variations in the relation between the physical volume of inventories and the physical volume of sales.

The reduction in stocks on hand through May and June occurred mainly as a result of the usual seasonal decline in inventories during this period of normally rising retail activity. (Although the New York City "price war" occurred at this

Ratios of Stocks to Sales at Second District Department Stores
Total Store, January-July 1950-51; Selected Departments, July 1950-51

Total store			Selected departments, July p		
Month	1951	1950	Department	1951	1950
January	2.8	2.9	Women's coats and suits	5.5	3.9
February	3.8	3.5	Women's dresses	1.2	1.2
March	3.5	2.8	Men's clothing	5.2	4.8
April	3.8	2.9	Furniture and bedding	4.4	3.4
May	3.4	2.8	Domestic floor coverings	8.4	5.5
June	2.9	2.5	Major household appliances	6.3	1.2
July	4.4	3.0	Television	13.2	2.4

p Preliminary.

time, it had virtually no effect on over-all department store inventories in the City.) Of more significance, however, is the fact that by the end of June the ratio of stocks to sales was closer to the year-ago level than it had been since February.¹ However, this downward movement of the stocks-sales ratios of Second District department stores toward the corresponding 1950 levels did not continue during July. The sharp seasonal drop in sales at that time was not accompanied by a comparable decline in inventories. Consequently the stocks-sales ratio on July 31, 1951 was markedly higher than it had been a year earlier and reached the highest mark for this District since mid-1942, when retailers were rapidly building up inventories in the expectation of war-induced shortages.

At the end of July, the heaviest inventory accumulation (in terms of current consumer demand) was concentrated in the household durables lines, and merchandisers were apparently reluctant to apply substantial markdowns in an effort to stimulate consumer demand for these goods. The reluctance may be due to two factors. First, most of the major durables lines are not as subject to style innovations as are many of the nondurables lines (particularly women's apparel). Hence, their marketability is retained for a much longer period of time. Second, if a more rapid acceleration of defense production takes place and inflationary pressures are resumed, the inventory situation may very well solve itself.

As the table shows, the stocks-sales ratios of television and of major household appliances were by far the largest when compared with their respective July 1950 levels. Although well-advertised promotions of furniture and bedding and domestic floor coverings by many of the stores during July were moderately successful, the stocks-sales ratios of these goods were no nearer to their respective year-ago levels than they had been a month or two earlier. Moreover, stocks of domestic floor coverings were still more than 60 per cent higher than on July 31, 1950. By way of contrast, the stocks-

¹ The stocks-sales ratios of January and February 1951 and July 1950 were reduced by the extraordinarily large volume of anticipatory buying which occurred during those months.

sales ratios of the major apparel departments shown in the table were much closer to their corresponding year-earlier levels than were those of the durables lines. This dissimilarity, of course, reflects primarily the need for keeping apparel stocks geared more closely to current consumer demand.

Some indication of the future course of department store inventories in this District may be found in the less-than-seasonal rise in the volume of outstanding orders during July. The value of commitments outstanding on July 31 was barely 12 per cent above that of a month earlier, as compared with corresponding month-to-month increases of 103 per cent in 1950 and almost 60 per cent in 1949. Moreover, although there are no data available as to the composition of these commitments for additional merchandise, it would appear likely that they consisted primarily of orders for seasonal merchandise (particularly men's and women's apparel). This may indicate that, precluding any greater-than-seasonal increase in demand, department store stocks (on a seasonally adjusted basis) may begin to level off during the next few months.

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

Item	1951			1950
	July	June	May	July
Sales (average daily), unadjusted	179	254	238	192
Sales (average daily), seasonally adjusted	256	267	243	274
Stocks, unadjusted	262	274	294	195r
Stocks, seasonally adjusted	294	290	290	219r

r Revised.

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

Locality	Net sales		Stocks on hand July 31, 1951
	July 1951	Jan. through July 1951	
Department stores, Second District	- 6	+10	+35
New York City	- 5	+10	+36
Nassau County	+12	+20	+40
Northern New Jersey	-11	+11	+42
Newark	- 9	+11	+45
Westchester County	+ 2	+18	+34
Fairfield County	- 7	+ 9	+22
Bridgeport	- 6	+11	+22
Lower Hudson River Valley	-19	0	+21
Poughkeepsie	-16	+ 2	+23
Upper Hudson River Valley	- 5	+11	+25
Albany	- 8	+13	+40
Schenectady	- 1	+ 8	+11
Central New York State	-10	+ 8	+42
Mohawk River Valley	-14	+ 6	+28
Utica	-11	+ 5	+28
Syracuse	- 8	+ 9	+51
Northern New York State	- 2	+ 7	+20
Southern New York State	-15	+ 7	+23
Binghamton	-16	+ 5	+20
Elmira	-16	+11	+27
Western New York State	- 6	+ 9	+31
Buffalo	- 7	+ 9	+33
Niagara Falls	- 7	+ 7	+23
Rochester	- 3	+ 9	+29
Apparel stores (chiefly New York City)	- 6	+ 4	+25

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, August 27, 1951)

Industrial output in July and August was somewhat below earlier peak rates, reflecting in part the reduced rate of consumer buying earlier this year and consequent accumulation of business inventories. After the early part of July, consumer buying apparently increased more than seasonally. Defense expenditures continued to expand rapidly. Prices of raw materials generally changed little after mid-July, following substantial declines from earlier peak levels. Business loans at banks showed some expansion.

INDUSTRIAL PRODUCTION

The Board's index of industrial production declined in July to 213 per cent of the 1935-39 average, as compared with a half-year plateau of around 222 and a year-ago level of 196 per cent. The decline from June was mainly due to plant-wide employee vacations in a number of industries, but there were also more than seasonal reductions in output of automobiles, textiles, and certain other goods. Preliminary indications are that output in August will be above July but still somewhat below the first half level.

Passenger car assemblies in July were curtailed by about one fifth from the June rate, reflecting mainly the cuts ordered by the National Production Authority for the third quarter. Production declines were less marked for furniture and other household durable goods. Output of producers' equipment and of primary metals was generally maintained close to earlier peak levels. Production of lumber was reduced. Among the nondurable goods pronounced decreases occurred in the output of textile and leather products, while chemicals production continued to rise slightly.

Mining output decreased from the high June level largely as a result of the coal miners' vacation in early July. Crude petroleum production continued in excess of 6 million barrels daily, as compared with about 5½ million a year ago.

CONSTRUCTION

Value of construction contract awards, according to the F. W. Dodge Corporation, showed little change in July as decreases in most types of privately financed awards were offset by increases in public awards. Value of work put in place, allowing for seasonal influences, continued to decline from the peak reached earlier this year, reflecting chiefly further declines in private residential building. Business construction activity continued to rise from already advanced levels.

EMPLOYMENT

Employment in nonagricultural establishments in July, after adjustment for seasonal influences, was maintained at about record June levels. The average work week in manufacturing industries declined somewhat; hourly earnings continued at a peak level of \$1.60 per hour. There were about 1.9 million persons unemployed in July, the lowest number for this month since 1945.

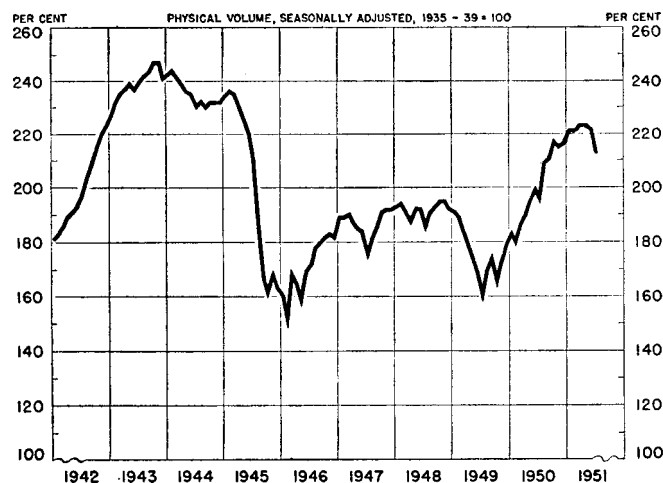
AGRICULTURE

Crop prospects decreased slightly during July with overall prospects at the beginning of August indicated to be 6 per cent larger than last year and 3 per cent below the 1948 record. The cotton harvest was forecast at 17.3 million bales, as compared with the small crop of 10 million bales last year. Beef slaughter has increased from the reduced level of June and early July.

DISTRIBUTION

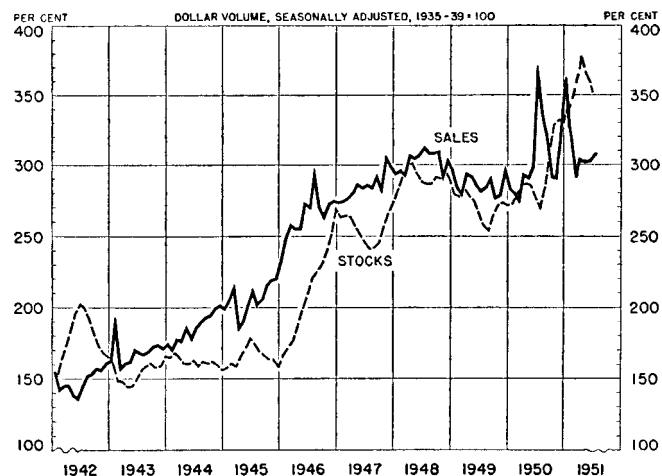
Seasonally adjusted sales at department stores in July and the first three weeks of August were moderately above the level of the preceding three months, reflecting increases in the volume of apparel and household durable goods stimulated partly by extensive promotions. Consumer buying of new

INDUSTRIAL PRODUCTION



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

DEPARTMENT STORE SALES AND STOCKS



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

passenger cars also expanded moderately after declining in the early part of July. Value of stocks at department stores changed little during July, according to preliminary data, following some reduction in May and June. Stocks of household durable goods continued at high levels.

COMMODITY PRICES

The general level of wholesale commodity prices has continued to decline since mid-July, but at a slower rate than in the preceding month. Prices of most basic commodities have shown little further decrease. Reductions in wholesale prices of consumer goods have become more numerous. Some automobile manufacturers, however, have requested higher Federal ceiling prices. Price increases for machine tools will be permitted under recent Federal action.

The consumers' price index advanced slightly in July. Since then retail prices of apparel, housefurnishings, and some other goods have declined somewhat further, while food prices have been maintained at the high level reached in February and rents have increased somewhat further.

BANK CREDIT AND THE MONEY SUPPLY

The total volume of bank credit outstanding has changed only slightly in recent weeks. Business loans at banks in lead-

ing cities, however, increased seasonally during late July and early August. Loans to finance direct defense contracts and defense-supporting activities, principally loans to metal manufacturers and public utilities, expanded further. Loans to commodity dealers and food manufacturers also began to increase after a steady decline during the spring and early summer months.

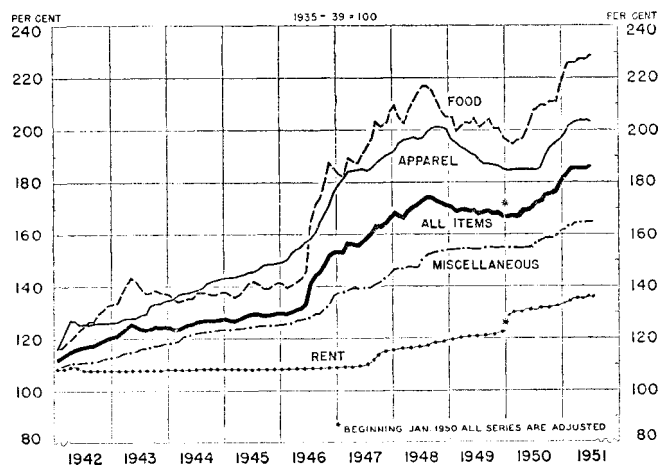
Holdings of Government securities by commercial banks and the Federal Reserve Banks have shown little change since June. Increased weekly offerings of bills by the Treasury during July and the first half of August were largely absorbed outside the banking system.

Deposits and currency held by businesses and individuals increased somewhat in July, while Federal Government balances declined. In the first half of August deposits at banks in leading cities declined.

SECURITY MARKETS

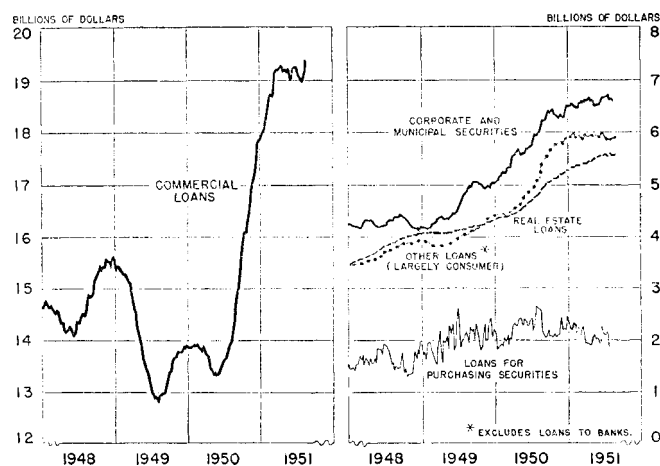
Prices of common stocks in the first week of August reached the highest levels since May 1930 and declined slightly thereafter. Prices of long-term U. S. Government securities and high-grade corporate bonds have risen somewhat since the end of June. Yields on Treasury bills advanced somewhat in July and August, while other short-term rates declined.

CONSUMERS PRICES



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

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



Commercial loans include commercial, industrial, and agricultural loans. Wednesday figures; latest shown are for August 15.