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MONEY MARKET IN OCTOBER

The money market eased markedly during the period from October 1 to 4 when the Treasury's books were open for a combined exchange of its notes maturing October 15 and November 1. System purchases of Government securities, principally notes, and net Treasury disbursements released a total of nearly one billion dollars into the money market during the first statement week of the month. Part of this release of funds was offset at the time by other market factors, and a gradual re-absorption continued through the remainder of the month, but bank reserve positions were generally easy for the country as a whole until the final statement week. Federal funds were traded in New York at rates of ½ of 1 per cent or lower from the 5th to the 25th of the month, with the exception of a brief interval of tightness around the Columbus Day holiday week end. This represented the longest period of reserve ease since April.

As further described below, the money market ease associated with the Treasury's refunding operations also facilitated its later new money borrowing of 1¼ billion dollars through 144-day tax anticipation bills, for which bidding took place on October 17. By the end of October, however, System sales and redemptions of other Treasury bills had largely offset the Federal Reserve credit released at the beginning of the month, and occasionally the fluctuations of the Federal funds rate extended up toward the Federal Reserve discount rate. A substantial increase in commercial bank holdings of Government securities toward the end of the month resulted from purchases of the new bills, for which the banks served in effect as initial underwriters and distributors because they were permitted to make payment for subscriptions through credit to Treasury Tax and Loan Accounts on their own books.

Bank loans to business increased over the four weeks ended October 24, largely as a reflection of seasonal demand from nondefense industries; the rise was somewhat less than three fourths of the increase that occurred in the comparable period a year ago.

TREASURY DEBT OPERATIONS

As announced toward the close of last month, the Treasury's books were open from October 1 to 4 for an offering of 1⅞ per cent certificates of indebtedness, dated October 15, in exchange for the 11.2 billion dollars of 1¼ per cent notes maturing October 15 and November 1. Because of the pressure that had been exerted on shorter-term securities by the extremely tight money market in late September, certificate prices had displayed some weakness and it became necessary for the System to exert a stabilizing influence in the market for the maturing issues during the period of the Treasury's refunding operations. Federal Reserve security purchases totaled over 900 million dollars in the two weeks ended October 3. While total redemptions on the refunding were but 3 per cent, cash redemptions of the securities held by investors other than Federal Reserve Banks were moderately large, with approximately 10 per cent of the total of the two issues not held for Federal Reserve account being redeemed for cash.

On October 10, the Treasury announced that it planned to borrow approximately 2¼ billion dollars in the fourth quarter of 1951 through the sale of two issues of tax anticipation bills. Bids on the first issue of 1¼ billion dollars, dated October 23 to mature March 15, totaled over 3.3 billion dollars, and the accepted bids represented an average annual discount of 1.550 per cent. This rate for 144-day bills was lower than the current rate on new 91-day bills, for which bids were made at average discounts ranging between 1.646 and 1.576 for the five weekly tenders made in October. Initial trading in the tax anticipation bills in the market, however, was around 1.62 per cent, well above the average issue rate. Announcement of

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the second issue of tax anticipation bills, to mature on the June 15 tax date, is expected later in the year.

New Treasury borrowing had been made necessary by the wide differences in the timing of receipts and expenditures over the fiscal year. A rather large deficit confronted the Treasury for the remainder of calendar 1951, while a sizable surplus is probable for the first six months of 1952. Timing disparities of this sort have existed for some time, but have been accentuated by the acceleration of corporate income tax payments under the "Mills plan" which went into effect last spring. As the concentration of corporation income tax payments in the first half of each calendar year progresses —until 1955 when almost all corporate income taxes will be paid in the first half of the year—the Treasury may find it more and more convenient to collect some of its revenues in advance through sale of short-term securities, similiar to the new bills, dated to mature on tax collection dates.

In addition to the difference in maturity, the current issue of tax anticipation bills differs from the regular 91-day bills in two respects: (1) the new bills may be used directly to pay Federal income taxes due on the maturity date; and (2) depositary banks could make payment for their own purchases, and for purchases on customers' account, by crediting the Treasury's Tax and Loan Account on each bank's own books. The very favorable rate at which the bills sold is largely the result of this second characteristic. Banks were encouraged to bid for the bills by the fact that the only immediate cost to them was the reserve which they would have to maintain against the new Treasury deposits. This represented less than a 25 per cent margin, and they could therefore expect an unusually attractive return if the Treasury left the proceeds on deposit for some time after the issue date. If the period were long enough, the return would more than compensate the banks for any difference between the purchase price of the bills and the lower price (higher discount) at which the bills may be sold in the secondary market.

The new tax anticipation bill is well adapted to the purpose it is intended to serve, i.e., to bridge the gap between Treasury expenditure and income. A primary advantage of bills by contrast with other short-term securities for temporary borrowing of this sort is that use of a discount instrument simplifies determination of the terms of the issue, and allows the forces of demand and supply to set the rate of discount with a minimum of disturbance to the market. Recourse to the banking system for such temporary borrowing need not produce inflationary consequences. The bills should be in steady demand by nonbank investors as tax funds accumulate, and can be supplied from bank holdings as needed, thus relieving the Treasury from making direct offerings in close response to the day-by-day accrual of the tax reserves available for investment in Government securities.

Apart from its regular weekly offerings of Treasury bills, the Treasury apparently now faces only the prospect of issuing approximately one billion dollars in tax anticipation bills, and the refunding of 1.1 billion dollars of partially tax-exempt bonds called for redemption on December 15, until March of next year when two issues of bonds are subject to call.

Government Security Market

The Government security market showed strength through all maturities early in the month, but subsequently the longer-term taxable issues weakened and prices for bank-eligible and noneligible bonds settled, respectively, as much as ⅓ and ⅔ of a point from their end-of-September levels to the lows reached on October 18. Some observers attributed the decline in longer-term Treasury security prices in part to the increase in rates on prime commercial loans from 2½ to 2¾ per cent effective at several larger New York banks October 17. Prices of partially tax-exempt bonds were fractionally higher over the month, reflecting the new tax legislation, while notes were steady to slightly higher.

As a result of the extremely easy money situation, a strong demand developed for shorter-maturity securities, and yields on bills and certificates tended to fall through the first four statement weeks of the month. The greatest decline in yields was in the shorter-maturity Treasury bill issues. The rate on the new bill issue was 1.646 per cent on October 4, but declined to 1.576 the next week and was back up to 1.617 for the issue dated November 1.

Prices of taxable Treasury bonds recovered from the lows reached at the beginning of the fourth statement week, in response to professional action and broadened trading on bids from other sources at the end of the month. During the final week prices of the eligible taxable issues fluctuated around levels just below the end-of-September quotations, while the ineligible issues moved irregularly at prices about ¼ to ½ a point below the September 28 level.

Member Bank Reserve Positions

Bank reserves over the period from late September to the end of October moved from extreme tightness to a position of ease and then, near the close of the month, back toward moderate tightness. In the early part of the week ending October 3, member banks found themselves very short of reserves and confronted with a growing seasonal demand for new credit. To meet this situation, banks temporarily increased their borrowing from the Federal Reserve and sold securities in the open market. By the end of the week, however, Federal Reserve open market purchases—occasioned both by the seasonal need for additional bank reserves and by Treasury refunding operations—had added 565 million dollars to bank reserves and enabled the banks to repay 147 million of loans from the Federal Reserve while adding substantially to their excess reserve balances. Net Treasury out-payments along with an inflow of funds from foreign transactions more than compensated for losses to reserves from a reduction of float and increased currency circulation, with the result that the excess reserves of the member banks increased by more than 600 million dollars.

For the greater part of the following three statement weeks, as shown in the table, bank reserve positions remained easy, even though during the third and fourth statement weeks Federal Reserve security operations, primarily sales and redemptions of Treasury bills, absorbed some 400 million dollars of the funds that had been released earlier in the month. As excess reserves accumulated in the banking system, funds were transferred to New York for investment and created marked ease in the New York money market through most of October.

At the close of the fourth week and in the last statement week of the month, bank reserve positions were under some pressure as funds available to the banking system were reduced concurrently with a large increase in required reserves. The increase in required reserves, over 200 million dollars, was concentrated on October 24 following the increase in Treasury Tax and Loan balances as a result of the new Treasury borrowing. In the following statement week, banks lost funds through normal month-end expansion of currency circulation and reduction of float. Even though there was a substantial reduction in total excess reserves of member banks, however, no pronounced tightness developed in the money market.

Business Loans

Commercial, industrial, and agricultural loans of weekly reporting member banks increased by 394 million dollars over the four statement weeks ended October 24, a rate of increase nearly three fourths of that for the similar period in 1950. The greater part of the new credit extended in recent weeks seems to have been for nondefense purposes. For the four statement weeks ended October 17, 476 million dollars of larger new loans, net of repayments, were reported by industry and purpose in the special tabulations prepared by the Federal Reserve System at the request of the Voluntary Credit Restraint Committee. Of these, 106 million dollars were for defense and defense-supporting activities, while 370 million were granted for nondefense purposes. In the nondefense category, a total of 374 million dollars of new credit was for inventory and working capital purposes. Seasonal factors, such as the financing of crop marketing, account for most of the acceleration in nondefense loans this fall.

Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, October 1951

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended					Five weeks ended October 31
	October 3	October 10	October 17	October 24	October 31	
Routine transactions						
Treasury operations*	+427	+ 60	0	−176	+ 22	+333
Federal Reserve float	− 66	− 47	+325	−176	−334	−298
Currency in circulation	−183	−128	+ 63	+ 84	−109	−273
Gold and foreign account	+ 46	− 2	+112	+ 89	+189	+434
Other deposits, etc	− 8	+ 9	−136	+ 40	+ 39	− 56
Total	+217	−108	+363	−136	−196	+140
Federal Reserve transactions						
Government securities	+565	+ 33	−224	−182	−114	+ 78
Discounts and advances	−147	+ 10	− 10	+ 83	+ 34	− 30
Total	+418	+ 43	−234	− 99	− 80	+ 48
Total reserves	+635	− 65	+129	−235	−276	+188
Effect of change in required reserves	− 22	− 2	− 38	−209	+ 86	−185
Excess reserves	+613	− 67	+ 91	−444	−190	+ 3

* Includes changes in Treasury currency and cash.

Note: Because of rounding, figures do not necessarily add to totals.

LATIN AMERICAN EXPORT CREDIT INFORMATION

For slightly more than four years, this bank has issued monthly reports on the collection experience of banks forwarding drafts to Latin American countries for payment.[1] During most of this period, exporters to Latin America have been beset by a variety of complex problems, connected mainly with changes in the over-all exchange situation of the various countries and the operation of numerous exchange and priority controls. To some extent, notably during the recession that occurred in early 1949, interest has also focused on the possibility of impairments in the financial position of individual customers, of the type that had caused heavy losses to American exporters during the sharp price declines after World War I. The monthly survey, employed along with other trade and bank information, can be used by exporters as an aid in analyzing the impact of these developments on the creditworthiness of individual Latin American countries.

Since its inception, the report has contained data for each country on: (1) the total number of draft collections paid each month; (2) the total dollar value of draft collections outstanding at the end of the month; and (3) the total dollar value of unused confirmed letters of credit outstanding.[2] In addition, draft collections paid have been classified with respect to promptness of payments. The report indicates for each country what percentages of the total number of collections fall into the categories of prompt, up to 30 days slow, 31-90 days slow, and over 90 days slow. Since the time span within which payments must be made in order to be considered prompt varies from country to country owing to differences in shipping conditions and other factors, a schedule showing these variations is also included in the report.

[1] A copy of the monthly report, which takes the form of a press release, is available upon request at the Federal Reserve Bank of New York, Research Department, Financial Statistics Division.

[2] "Collections paid" are drafts (both sight and time) for which payment was received in this country during the month. "Collections outstanding" are drafts sent out for collection for which payment had not yet been received in the United States at the end of the month.

Table I

Collections Outstanding on Latin American Countries as Reported by Twelve New York City Banks and Three Banks Outside the Second Federal Reserve District*

(Averages of end-of-month data; in millions of dollars)

Country	January-September 1951	1951, quarters			Year 1950	1950, quarters				Year		
		3rd	2nd	1st		4th	3rd	2nd	1st	1949	1948	1947†
Argentina	6.9	3.9	4.0	12.8	14.8	14.3	14.1	14.6	16.1	17.0	14.0	13.0
Bolivia	1.8	2.2	1.7	1.3	1.5	1.7	1.4	1.4	1.6	1.3	1.3	1.7
Brazil	55.1	66.0	50.7	48.5	44.3	38.4	38.3	42.5	57.9	97.5	60.2	49.1
Chile	4.7	6.1	5.1	2.9	1.7	1.4	1.2	1.3	2.7	3.5	6.3	7.4
Colombia	14.0	14.5	15.6	12.0	10.5	11.2	14.3	10.5	5.9	7.5	9.1	7.5
Costa Rica	1.0	0.9	0.8	1.4	3.0	2.0	3.2	3.5	3.4	2.3	1.6	2.3
Cuba	6.1	5.8	6.5	6.1	4.9	5.8	4.6	4.5	4.6	4.0	3.7	5.1
Dominican Republic	0.9	0.9	0.9	0.8	0.7	0.8	0.7	0.7	0.6	0.6	0.6	0.3
Ecuador	2.7	2.8	2.9	2.5	1.7	2.4	1.6	1.5	1.4	1.6	1.8	1.6
El Salvador	1.4	1.8	1.4	1.0	1.0	1.2	1.1	1.0	0.8	0.9	0.7	0.5
Guatemala	1.4	1.8	1.3	1.0	0.9	0.9	1.0	0.9	0.8	0.9	0.8	0.6
Haiti	0.6	0.7	0.6	0.6	0.7	0.6	0.5	0.6	0.4	0.3	0.2	0.3
Honduras	0.9	0.9	0.9	0.8	0.9	1.0	1.0	0.8	0.8	0.9	0.7	0.6
Mexico	5.3	5.9	5.5	4.5	3.7	4.4	4.1	3.1	3.1	2.8	3.5	5.1
Nicaragua	0.7	0.5	0.9	0.8	0.8	0.7	0.7	0.9	1.0	0.5	0.8	0.2
Panama	1.2	1.2	1.2	1.2	1.0	1.2	1.0	1.0	0.8	0.8	1.0	1.4
Paraguay	0.3	0.3	0.3	0.2	0.5	0.2	0.4	0.8	0.6	0.5	0.4	0.4
Peru	6.5	6.8	6.7	6.0	4.0	4.4	3.9	3.7	3.8	4.1	2.8	3.7
Uruguay	2.5	3.2	2.1	2.1	0.8	1.4	0.6	0.6	0.6	1.0	1.6	1.7
Venezuela	14.4	14.3	14.7	14.1	12.3	14.0	11.9	12.1	11.2	11.3	8.8	7.1
British Guiana	‡	‡	‡	‡	‡	‡	‡	‡	‡	‡	‡	0.1
Dutch Guiana	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
French Guiana	—	—	‡	‡	‡	‡	‡	‡	—	‡	‡	‡
Other West Indies	1.0	1.1	1.2	0.8	0.8	0.8	0.8	0.7	0.7	n.a.	n.a.	n.a.
All countries	129.5	141.7	125.2	121.6	110.4	109.3	106.4	107.2	118.8	159.5	119.8	109.6

* Twelve New York City banks prior to June 1949, when three banks located in the Federal Reserve Districts of Boston, Chicago, and San Francisco were added to the series. This increase raised the 1949 average monthly collections outstanding for all Latin America by 12.8 million dollars.

†Average of eight months, May to December 1947.

‡ Less than $50,000.

n.a. Not available.

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

A number of revisions have been made in the contents of the survey during the past three years which, it is believed, have enhanced its usefulness to the export community. When the survey began, data were received from 12 New York City banks, each of which does a large foreign business. But a special series of reports, submitted by 84 banks in all parts of the country as of November 30, 1948, indicated that greater completeness in the coverage of the survey for certain Latin American countries was desirable. Accordingly, three institutions located in the Boston, Chicago, and San Francisco Federal Reserve Districts were added to the series in June 1949. These additions increased the proportion of all outstanding Latin American draft collections covered by the reporting series from 64 per cent to 80 per cent, while the proportion of all outstanding confirmed letters of credit was expanded from 82 per cent to 87 per cent.

A second change was made in October 1950, when a series showing the total *dollar value* of collections paid during the reporting period was added to the report. The inclusion of this series not only constitutes a useful complement to the survey's information on the total *number* of draft collections paid each month but also makes it possible to calculate, as a residual, the dollar amount of *new* drafts sent out each month to Latin America for collection. The latter item, when considered in conjunction with the data on the dollar volume of outstanding letters of credit, is of particular interest as a guide to current trends in United States exports, especially since the survey data on which it is based are released to the press well before more complete statistics on trade movements become generally available.

A third revision in the report involved a re-examination of the schedule on which classifications with respect to promptness are predicated. After detailed consultation with the reporting banks, the period in which payments are considered prompt was extended for three countries. Beginning in October 1950, this period was broadened to 2½ months for Brazil, as against a previous allowance of only six weeks; for Colombia, it was changed from seven weeks to two months, and for Paraguay, from 2½ months to three. Modifications in the promptness schedule were kept to a minimum, however, in order to interfere as little as possible with the continuity of the series.

In evaluating the accuracy with which the monthly survey has reflected changes in Latin American credit conditions, it is important to bear in mind that the indicators contained in the report are designed to supplement rather than supplant the information that comes to the exporter from his own experience as well as from a variety of other sources. A proper interpretation of the various series requires an understanding of the economic problems and governmental practices that are characteristic of the various countries. It is particularly important to make a sharp distinction between countries where exchange controls are nonexistent or at a minimum, and those that make extensive use of such restrictions. In the former case, slowness in collections is likely to be due to the financial situation of individual customers. In the latter case, collec-

Table II
Total Number of Collections Paid by Latin American Countries as Reported by Twelve New York City Banks and Three Banks Outside the Second Federal Reserve District*
(Averages of monthly data)

Country	January-September 1951	1951, quarters			Year 1950	1950, quarters				Year		
		3rd	2nd	1st		4th	3rd	2nd	1st	1949	1948	1947†
Argentina	347	70	641	331	144	40	55	222	260	92	575	1,438
Bolivia	241	199	236	287	95	113	93	113	60	228	248	308
Brazil	2,681	3,098	2,939	2,007	2,941	1,964	2,888	1,926	4,987	2,037	3,065	4,211
Chile	393	541	444	195	133	126	85	155	163	312	507	701
Colombia	1,459	1,914	1,187	1,275	1,289	972	1,461	1,440	1,284	1,117	1,176	1,396
Costa Rica	368	341	336	428	282	503	421	144	59	94	281	425
Cuba	2,602	2,483	2,709	2,614	2,265	2,518	2,121	2,233	2,190	1,796	1,866	1,973
Dominican Republic	564	520	626	545	485	532	447	501	460	420	453	540
Ecuador	659	613	681	683	530	524	526	544	527	581	589	645
El Salvador	432	392	447	456	390	417	378	365	401	348	385	348
Guatemala	500	494	514	491	469	484	421	469	500	467	514	434
Haiti	522	455	565	545	490	518	389	509	544	395	352	386
Honduras	503	545	512	451	515	577	517	458	507	488	415	497
Mexico	2,593	2,651	2,791	2,337	2,180	2,333	2,109	2,096	2,181	1,808	2,022	2,448
Nicaragua	376	504	411	213	311	227	322	381	314	185	283	382
Panama	1,029	1,010	1,105	971	981	1,028	923	1,043	929	986	1,002	1,090
Paraguay	24	35	24	13	31	24	28	30	41	56	86	96
Peru	1,236	1,419	1,309	978	759	854	789	726	665	553	490	968
Uruguay	303	291	343	275	138	153	110	141	149	177	360	618
Venezuela	3,991	3,965	4,038	3,970	3,860	3,781	3,696	3,846	4,117	3,825	3,545	2,900
British Guiana	24	30	24	17	12	9	14	13	11	26	59	96
Dutch Guiana	110	108	131	92	123	101	129	117	145	103	70	105
French Guiana	—	—	1	‡	‡	1	‡	—	—	1	‡	3
Other West Indies	1,230	1,285	1,335	1,072	1,077	1,097	1,003	1,064	1,142	n.a.	n.a.	n.a.
All countries	22,187	22,964	23,351	20,245	19,498	18,895	18,926	18,536	21,634	16,095	18,342	22,007

* Twelve New York City banks prior to June 1949, 15 banks thereafter. This increase raised the 1949 average monthly number of collections paid for all Latin America by 1,486 items.

† Average of eight months, May to December 1947.

‡ Less than one-half.

n.a. Not available.

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

tion backlogs frequently indicate a deterioration in the country's over-all command over dollar resources; they may, however, also be due to any number of other factors connected with the operation of the control system, such as administrative delays in exchange allocation following the promulgation of new regulations. Moreover, where exchange is made available on the basis of import priorities, the trend in over-all collections may not necessarily be indicative of the experience of individual exporters.

Tables I, II, and III indicate the fluctuations since May 1947 in the dollar value of outstanding draft collections, the total number of collections paid, and the dollar amount of unused confirmed letters of credit, for Latin America as a whole, and for individual countries. It is evident that the movements in the two series relating to draft collections for Latin America as a whole largely reflected the changing experience with Brazilian collections, since these collections normally account for about half of the aggregate drafts drawn against the importers in all Latin American countries. Since the inception of the series until the latter part of 1949, Brazil was faced with a recurrent scarcity of dollar exchange. The shortage stemmed principally from an unfavorable dollar trade balance and was reflected in substantial accumulations of outstanding draft indebtedness during two distinct periods. The first backlog of overdue commercial payments developed in January 1948 and was largely eliminated by the following September. The second period of draft accumulation followed immediately after this liquidation and carried total outstanding Brazilian collections to a peak in the fall of 1949. This point, however, marked the beginning of a rapid recovery in Brazilian dollar receipts, attributable initially to the extraordinary rise in the price of coffee in October of that year and subsequently to the further stimulus provided by the outbreak of the Korean war in mid-1950. Moreover, the effectiveness of import restrictions had been greatly increased, and Brazilian imports from the United States were reduced to the strikingly low amount of 57 million dollars during the last three months of 1949, as against 127 million in the corresponding period of the previous year. Largely as a result of these developments, Brazil was able to liquidate its backlog of United States collection items by September 1950, and, as its dollar exchange position improved, import restrictions were relaxed. Since the fall of 1950, outstanding Brazilian collections, in line with the expansion of United States exports to Brazil, have grown substantially but have been accompanied by a corresponding increase in the volume of payments, made possible by the rise in Brazil's dollar earnings.

The collection experience with Latin American countries other than Brazil shows considerable variation. As may be noted from a comparison of Tables I and II, which indicate the annual and quarterly averages of the monthly volume of draft collections outstanding and of the total number of drafts paid, accumulations of backlogs in commercial indebtedness were not infrequent.

For example, an abrupt fall in Argentine draft payments in early 1948, brought on by a precipitous deterioration in the country's dollar position, was followed by continued delays in payment, and outstanding collections rose to a peak of approximately 20 million dollars by the end of February 1949. They remained at a high level until the first half of 1951, when the backlog was largely eliminated with the aid of an Export-Import Bank loan.

A sizable backlog of Costa Rican draft collections was built up during the 18 months ended in April 1950, principally as a result of low proceeds from the short coffee crop which was marketed in the first half of 1949, but improvements in the exchange situation as coffee earnings rose permitted repayment of the backlog during 1950. Costa Rica's outstanding collections reached a record low in early 1951.

At the present time, outstanding collections for most Latin American countries are at new peaks for the entire period since May 1947. These recent increases in outstandings, with some exceptions, have generally been accompanied by a corresponding growth in the number of draft payments, indicating that the larger volume of outstanding draft indebtedness is being carried without great difficulty.

The classification of draft payments in terms of promptness provides a valuable complement to the information on trends in the number and dollar volume of collections. This series, however, must be interpreted with particular care. Since the collection items included in the promptness breakdown represent only drafts *paid*, the *percentage* of items in the "prompt" category is bound to vary widely from month to month whenever a large change in the *total number* of payments is not accompanied by a significant change in the *number* of draft payments classified as prompt. Thus, an increase in the proportion of payments reported as prompt may reflect a drop in total collections paid rather than any real improvement in a country's credit situation. Conversely, a sharp drop in the proportion of payments in the prompt category, when accompanied by significant reductions in collections outstanding, is usually characteristic of large-scale liquidations of commercial arrears. This was true in the case of Brazil during the first quarter of 1950, for example, when the percentage of promptness reached a low of 0.7 per cent, while the average level of outstanding collections dropped to 58 million dollars, as compared with an average level of 110 million dollars during the previous quarter. Since 1948, an improvement in promptness appears to have been characteristic of most of the Latin American countries. While precise country-to-country comparisons are not meaningful, it is noteworthy that certain countries have maintained a high degree of promptness in the payment of draft collections during most of the period under review, notably Cuba, the Dominican Republic, Haiti, Mexico, Nicaragua, and Panama.

Outstanding confirmed letters of credit show a much more marked movement than draft collections outstanding, and account for a much larger segment of the total payments for United States exports to Latin America. Exports payable on a draft basis are usually made to customers with whom trade relations have been established on a satisfactory basis for a relatively long period of time. This relatively select group cannot be expanded rapidly, and, while its demand for goods tends to follow the general level of trade, variations in the

Table III

Confirmed Letters of Credit Outstanding for Latin American Countries as Reported by Twelve New York City Banks and Three Banks Outside the Second Federal Reserve District*

(Averages of end-of-month data; in millions of dollars)

Country	January-September 1951	1951, quarters			Year 1950	1950, quarters				Year		
		3rd	2nd	1st		4th	3rd	2nd	1st	1949	1948	1947†
Argentina	40.9	45.5	41.6	35.6	29.4	30.5	26.5	30.8	29.7	40.6	84.4	138.7
Bolivia	8.8	7.8	9.7	9.0	3.5	5.7	4.4	2.1	1.9	3.7	6.2	5.8
Brazil	56.2	70.3	54.3	44.1	25.5	38.1	30.0	18.3	15.6	14.5	19.4	33.0
Chile	14.4	14.9	17.7	10.5	5.1	6.7	5.9	3.7	3.9	7.8	8.2	8.3
Colombia	26.5	25.9	26.6	27.0	18.2	21.5	19.1	19.9	12.4	9.2	16.2	17.7
Costa Rica	0.7	0.4	0.7	1.0	1.3	1.2	1.2	1.4	1.2	0.9	0.5	0.5
Cuba	18.4	14.1	18.1	23.0	15.2	22.7	21.5	11.3	5.2	8.7	10.7	12.5
Dominican Republic	5.1	5.7	5.2	4.3	1.4	2.4	1.9	1.0	0.5	1.6	1.5	0.7
Ecuador	2.0	2.3	2.1	1.6	1.2	1.3	1.2	1.0	1.2	1.4	1.9	2.8
El Salvador	4.8	3.9	5.1	5.3	1.6	2.8	1.8	0.9	0.7	0.6	1.6	1.7
Guatemala	0.9	0.7	1.0	1.0	0.5	0.6	0.3	0.5	0.8	0.7	0.8	0.6
Haiti	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.2
Honduras	0.5	0.4	0.5	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Mexico	52.9	52.1	60.2	46.4	20.8	27.7	20.4	15.5	19.5	23.4	29.6	31.6
Nicaragua	0.2	0.1	0.2	0.2	0.1	0.2	0.1	0.1	‡	0.1	0.1	0.1
Panama	3.7	4.7	4.0	2.3	2.1	2.4	2.7	1.6	1.5	1.7	2.0	3.2
Paraguay	1.1	1.2	1.1	1.1	0.3	0.6	0.2	0.2	0.3	0.6	1.2	1.7
Peru	4.1	3.0	3.7	5.5	4.3	5.3	4.4	3.5	3.9	3.8	3.0	2.4
Uruguay	14.5	13.8	15.9	13.9	7.2	11.9	5.6	5.3	5.9	4.9	6.3	7.8
Venezuela	25.1	22.3	26.3	26.8	15.9	25.2	16.0	10.9	11.3	14.6	20.9	21.5
British Guiana	—	—	—	—	—	—	—	—	—	—	—	—
Dutch Guiana	‡	‡	‡	‡	‡	‡	‡	‡	0.1	0.4	0.4	0.3
French Guiana	—	—	—	—	—	—	—	—	—	—	—	—
Other West Indies	0.6	0.5	0.7	0.6	0.4	0.4	0.4	0.4	0.6	n.a.	n.a.	n.a.
All countries	281.4	289.9	294.6	259.8	154.2	207.4	164.1	128.8	116.5	139.7	215.8	291.2

* Twelve New York City banks prior to June 1949, 15 banks thereafter. This increase raised the 1949 average monthly confirmed letters of credit outstanding for all Latin America by 5.5 million dollars.

† Average of eight months, May to December 1947.

‡ Less than $50,000.

n.a. Not available.

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

size of this demand will of necessity be rather limited. The use of letters of credit for export sales, on the other hand, is less risky from the seller's viewpoint, and is thus usually preferred as a means of financing new business; sales under letters of credit are, therefore, not only bound to fluctuate more widely than sales made on a draft basis but also usually reflect rather closely the broad variations in the level of exports. It should be noted, however, that fluctuations in the volume of outstanding letters of credit may also indicate changing long-term trends in the importance of this means of financing relative to other methods, or may signify shifts in the share of total imports attributable to particular commodities or areas for which financing on a letter-of-credit basis is customary.

These characteristics of letter-of-credit transactions are clearly reflected in the survey data. Since the inception of the series, which coincided with the monthly peak of the United States exports to Latin America, the dollar volume of outstanding letters of credit has paralleled the trend of exports. The letter-of-credit series declined rather steadily from an initial high of 327 million dollars to a level of 114 million dollars in early 1950. A slow upswing that commenced at this time resulted mainly from the improvement in Latin America's dollar position that had been primarily induced by the rise in coffee prices late in 1949. This upward movement was greatly accelerated after the outbreak of the Korean war. Whereas the dollar value of outstanding letters of credit amounted to 128 million dollars at the end of June 1950, it reached a level of 306 million dollars at the end of June 1951, very close to the previous peak. This trend is explainable not only by the notable increase in the volume of Latin American purchases from the United States, which in turn was made possible by a stepping-up of United States imports from Latin America and by sharp rises in commodity prices, but also by a shift from draft to letter-of-credit financing. The outbreak of the Korean war created widespread fears that shortages incident to the rearmament program would make needed merchandise unavailable, and many Latin American countries made determined efforts to stockpile essential import items while this was still possible. The resultant emergence of a sellers' market has given special impetus to the use of letter-of-credit financing.

The return of the volume of outstanding letters of credit to a level approaching the 1947 peak is particularly impressive in view of the fact that letters of credit drawn on importers in Argentina, who have long made particularly wide use of this method of financing, are now far below earlier levels. At the 1947 high, letters of credit drawn in favor of exporters to Argentina were the largest factor in the Latin American total, amounting to 154 million dollars, or 47 per cent. At the peak reached at the end of June 1950, however, outstanding unused confirmed letters of credit opened by Argentine firms amounted to only 44 million dollars, or 14 per cent of the Latin American total, reflecting the greatly lowered level of Argentine imports in recent years, as contrasted with the record purchases of 1947. This decline for Argentina was offset by the expansion to new high levels of outstanding letters of credit opened by importers in virtually every other Latin American country, the largest dollar increases in the post-Korean period being recorded for Brazil, Mexico, and Venezuela.

After June of this year, the volume of outstanding export letters of credit for Latin America as a whole turned downward, dropping by 28 million dollars, or 9 per cent, during July and August. In September, the volume of outstanding letters of credit for Argentina increased, but the total for all other Latin American countries continued to decline. Moreover, the volume of new drafts drawn fell in June, and after some recovery in July, declined further in August and September. These developments occurred shortly after some weakening in Latin American dollar earnings became evident, primarily in consequence of a sizable drop in the prices of tin, wool, cocoa, and sugar. In view of the decrease in dollar earnings as well as the high level of inventories held by many Latin American firms as a result of large previous purchases made in anticipation of shortages, it seems possible that the recent declines in outstanding letters of credit and new drafts drawn may reflect at least a temporary diminution in the volume of new Latin American orders for United States exports.

DEPARTMENT STORE TRADE

Reflecting, in part, the advantage of one more shopping day, department store sales in the Second District during October are estimated to have been about 3 per cent above the year-ago volume. On an average daily basis, however, sales during October, seasonally adjusted, are expected to show a moderate decline from the September level and not much, if any, gain from the October 1950 volume.

In New York City retailers generally blamed warm weather early in the month for the rather disappointing response to fall ready-to-wear lines. However, sales of this merchandise reportedly picked up sharply with the advent of more seasonable weather during the week ended October 13, although consumer demand for major household durables continued to lag well behind year-ago figures.

The value of department store stocks in this District on September 30 was 13 per cent greater than on the same date last year, the smallest year-to-year increase in 12 months. Moreover, the dollar volume of orders outstanding at the end of September fell 47 per cent below the corresponding level of last year, and for the first time since last March, was less than the value of incoming merchandise during the month. This may indicate that the largest part of the usual fall inventory buildup has taken place and also that commitments for additional merchandise are being geared closely to current levels of consumer demand.

Retail Distribution of "Department Store Type Merchandise" in New York State, 1948 and 1939

The highly competitive nature of the retail trade industry in the United States has been strikingly evident for many years in the rivalry for customers among the stores that sell "department store type merchandise"—merchandise commonly found in department stores. While the rivalry may often be most conspicuous among individual department stores themselves, it also extends to the competition between department stores as a group and other groups of stores engaged in merchandising products of the "department store type". A large body of statistical information bearing upon the distribution of sales among various classes of stores has recently become available with the publication of the 1948 *Census of Business* by the United States Department of Commerce. This article is devoted to some of the outstanding developments that occurred over the decade preceding the latest census, using as a starting point the last previous *Census of Business* covering the year 1939.

While *Census of Business* publications for a given year are invaluable sources of a great variety of useful information, the use of census data of different census years for comparative purposes is somewhat less reliable. For example, a change in the definition of a department store after the census in 1939 resulted in the reclassification of a large number of stores (in most cases, however, very small volume stores) for the 1948 *Census of Business.* Moreover, the adoption of new techniques providing for more detailed reporting by business firms, particularly with regard to retail sales by type of commodity, has produced much more comprehensive data in the latest census but, at the same time, as a result of the slightly different breakdown of commodity classifications used in the 1948 census, census-to-census comparisons have been made somewhat more difficult. These are, however, relatively minor reservations and do not prevent a meaningful review of the outstanding developments over this period.

Table I
Total Sales of Stores Selling "Department Store Type Merchandise"
New York State, 1948 and 1939
(In millions of dollars)

Type of store	Total sales		Per cent increase 1939 to 1948	Per cent of grand total	
	1948	1939		1948	1939
Department	1,136	462	146	22	25
Apparel	1,747	629	178	34	34
Furniture, furnishings, and appliance	850	220	286	16	12
Dry goods and general merchandise	176	75	135	3	4
Variety	261	115	127	5	6
All other	1,007	358	181	20	19
Grand total	5,177	1,859	178	100	100

Source: Computed by the Federal Reserve Bank of New York from the *U. S. Census of Business,* 1948 and 1939.

Consumer expenditures for the types of merchandise carried by department stores were approximately 5.2 billion dollars in New York State in 1948, an increase of almost 180 per cent since 1939, as shown in Table I. There were, however, signifi-

Table II
Sales of Selected Apparel and Accessory Departments
New York State, 1948 and 1939
(Percentage distribution by type of store)

Men's, women's, and children's shoes (including rubber footwear)

Type of store	Per cent of total sales 1948	1939
Department	15	17
Family shoe	35	41
Women's shoe	19	18
Men's shoe	15	13
All other	16	11
Total	100	100

Men's and boys' wear

Type of store	Per cent of total sales 1948	1939
Department	17	19
Men's and boys' clothing	40	51
Men's and boys' furnishings	17	14
Family clothing	17	6
All other	9	10
Total	100	100

Women's and misses' dresses (including juniors')

Type of store	Per cent of total sales 1948	1939
Department	21	18
Women's ready-to-wear	60	72
Family clothing	19	10
Total	100	100

Women's and misses' coats and suits (including juniors')

Type of store	Per cent of total sales 1948	1939
Department	23	22
Women's ready-to-wear	52	65
Family clothing	21	10
All other	4	3
Total	100	100

Millinery

Type of store	Per cent of total sales 1948	1939
Department	27	20
Millinery	36	58
Women's ready-to-wear	23	17
Family clothing	14	5
Total	100	100

Hosiery

Type of store	Per cent of total sales 1948	1939
Department	29	37
Women's ready-to-wear	26	17
Hosiery	20	20
Family clothing	11	6
All other	14	20
Total	100	100

Source: Computed by the Federal Reserve Bank of New York from the *U. S. Census of Business,* 1948 and 1939.

cant differences in the rate of growth of the various kinds of retail outlets primarily engaged in selling the types of merchandise commonly found in department stores. Department store sales in New York State in 1948 amounted to 1.1 billion dollars, 146 per cent above the level of 1939. Sales of apparel stores (including men's and women's specialty shops) totaled slightly more than 1.7 billion dollars, and those of homefurnishings stores (including furniture, furnishings, and appliance stores) were 850 million dollars, representing percentage increases of 178 per cent and 286 per cent, respectively. Sales of variety stores and dry goods-general merchandise stores reached 261 million dollars and 176 million dollars, respectively, in 1948, and recorded 10-year gains of 127 per cent and 135 per cent, in that order.

Part of the explanation for these changes in the relative importance of the various types of retail outlets may be found in a more detailed review of some of the changes which have taken place in sales of various types of commodities. A number of other related factors, involving the responsiveness of these different types of outlets to shifting patterns of population in urban areas, are beyond the scope of the present article.

One of the most significant shifts in the retailing of apparel and accessories occurred in the distribution of sales of women's and children's hosiery. Department stores, which had accounted for 37 per cent of total hosiery sales in 1939, had only 29 per cent of the market in 1948. On the other hand, women's ready-to-wear stores increased their share of hosiery sales from 17 per cent in 1939 to 26 per cent in 1948. Department stores, however, still accounted for a larger percentage of hosiery sales than did any other single type of retail outlet. Hosiery stores, in which hosiery sales in 1948 constituted almost 80 per cent of their total sales revenue, were not able to improve their position—accounting for 20 per cent of total hosiery sales in both 1939 and 1948.

As if by way of compensating for their smaller share of hosiery sales, department stores in New York State increased their portion of total millinery sales from 20 per cent in 1939 to 27 per cent in 1948. Millinery stores, on the other hand, received 36 per cent of the 1948 millinery business, considerably less than the 58 per cent recorded in 1939. Women's ready-to-wear stores and family clothing stores also gained at the expense of millinery stores.

The major shifts in the distribution of sales of the other selected groups of merchandise shown in Table II did not involve department stores to any great extent. Variations in the distribution of men's and boys' wear sales, sales of women's and misses' dresses, and of women's and misses' coats and suits, were primarily indicative of a shift from the so-called "specialty shops" to family clothing stores where apparel and accessories for the entire family are obtainable under the same roof. While this arrangement also holds true for most department stores, this group of stores was able to effect only minor increases, compared with those of family clothing stores, and

Table III
Sales of Selected Homefurnishings Departments
New York State, 1948 and 1939
(Percentage distribution by type of store)

Major household appliances		
Type of store	Per cent of total sales	
	1948	1939
Department	14	14
Household appliance (including radio-appliance)	61	58
Furniture	10	12
Hardware	9	10
All other	6	6
Total	100	100

Radios, phonographs, and television		
Type of store	Per cent of total sales	
	1948	1939
Department	9	8
Household appliance (including radio-appliance)	64	41
Radio-music	16	32
Furniture	8	11
All other	3	8
Total	100	100

Floor coverings (including hard surface)		
Type of store	Per cent of total sales	
	1948	1939
Department	32	34
Floor coverings	47	32
Furniture	20	32
All other	1	2
Total	100	100

Furniture and bedding		
Type of store	Per cent of total sales	
	1948	1939
Department	27	29
Furniture	67	65
All other	6	6
Total	100	100

China, glassware, and housewares		
Type of store	Per cent of total sales	
	1948	1939
Department	38	64
Household appliance	18	*
China, glassware, and metalware	14	11
Hardware	8	10
All other	22	15
Total	100	100

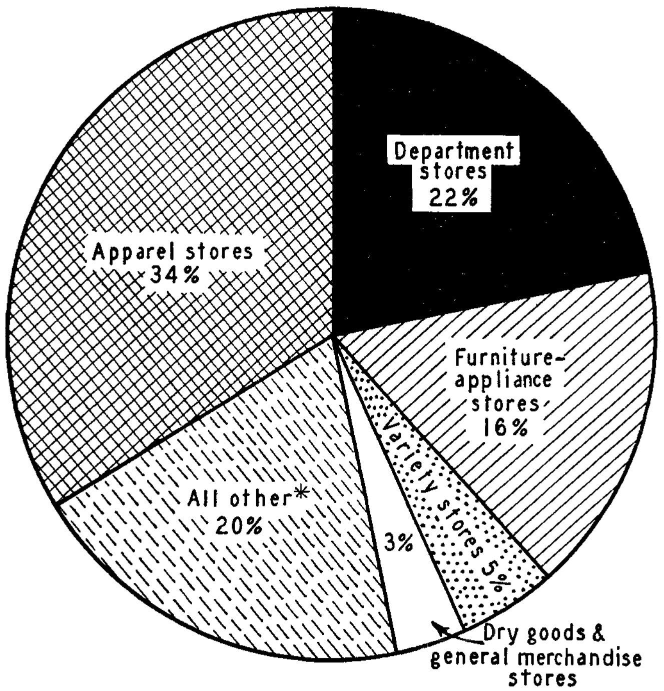
Other homefurnishings#		
Type of store	Per cent of total sales	
	1948	1939
Department	45	60
Draperies, curtains, and upholstery	27	13
Furniture	17	15
All other	11	12
Total	100	100

* In the 1939 *Census of Business*, household appliance stores were not listed as selling this merchandise.

\# Includes sales of draperies, curtains, upholstery, lamps, shades, pictures, and frames.

Source: Computed by the Federal Reserve Bank of New York from the *U. S. Census of Business*, 1948 and 1939.

Total Sales of "Department Store Type Merchandise" By Type of Store, New York State, 1948



* "All other" excludes stores which are primarily engaged in selling merchandise not commonly found in department stores.

Source: Computed by the Federal Reserve Bank of New York from the *U. S. Census of Business*, 1948.

in one case—sales of men's and boys' wear—the department stores' share actually declined.

The distribution of sales of men's, women's, and children's shoes among the four largest sellers shown in Table II was somewhat, but not markedly, different from what it was in 1939. Family shoe stores and department stores were the outlets which lost ground, the former declining from 41 to 35 per cent and the latter from 17 to 15 per cent of the total market between 1939 and 1948.

In the major homefurnishings lines, the department stores' share of the business was only slightly less than it had been in 1939. The dollar volume of furniture and bedding sales transacted in department stores fell from 29 to 27 per cent of total furniture and bedding sales, while the only other major retailer of this merchandise—furniture stores—registered an increase of similar magnitude. The distribution of sales of floor coverings, however, showed a more pronounced shift. Stores specializing in this line were able to increase their share considerably at the expense of both the department stores and the furniture stores. The furniture stores' percentage of total floor coverings sales decreased from 32 per cent to 20 per cent from 1939 to 1948.

The percentage of total sales of major household appliances accounted for by department, furniture, and hardware stores declined from 1939 to 1948, while that of household appliance stores (including radio-appliance stores) rose somewhat. Appliance stores were also able to increase their share of radio-television sales, as furniture stores and radio-music stores received proportionately much less than they had in 1939 and the department stores' portion of this market was only slightly higher than it was 10 years before. The domination of the major appliance and radio-television market by appliance stores is partly explained by the reported widespread use of "discounts" as a sales stimulus by many of these stores, particularly in New York City.

In the distribution of sales of the last two commodity lines listed in Table III the department store group lost heavily between 1939 and 1948. The percentage of total sales of china, glassware, and housewares accounted for by department stores dropped from 64 per cent in 1939 to 38 per cent in 1948. Household appliance stores, which were not listed in the 1939 *Census of Business* as retailers of this merchandise, received 18 per cent of this market in 1948 and were responsible for most of the decline in the department store portion. The distribution of sales of miscellaneous homefurnishings showed a marked shift in favor of those stores which specialize in retailing these particular items, although department stores still accounted for the largest single portion of the market.

The accompanying chart and Table I show the net effect of these and other changes in the retail distribution of "department store type merchandise" in New York State in 1948.

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

Item	1951			1950
	Sept.	August	July	Sept.
Sales (average daily), unadjusted	257	194	179	265r
Sales (average daily), seasonally adjusted	252	265	256	260r
Stocks, unadjusted	289	279	262	255r
Stocks, seasonally adjusted	274	279	294	242r

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 Sept. 30, 1951
	Sept. 1951	Jan. through Sept. 1951	
Department stores, Second District	− 7	+ 6	+13
New York City	− 9	+ 6	+13
Nassau County	− 7	+14	+20
Northern New Jersey	− 8	+ 7	+14
Newark	− 8	+ 6	+14
Westchester County	+ 2	+14	+23
Fairfield County	− 8	+ 6	+ 7
Bridgeport	− 7	+ 7	+ 8
Lower Hudson River Valley	− 9	− 2	+12
Poughkeepsie	−10	− 1	+13
Upper Hudson River Valley	− 1	+ 8	+11
Albany	− 3	+ 9	+17
Schenectady	+ 2	+ 7	− 1
Central New York State	− 4	+ 5	+11
Mohawk River Valley	−12	+ 2	+14
Utica	−10	+ 2	+14
Syracuse	− 1	+ 7	+ 9
Northern New York State	0	+ 5	+19
Southern New York State	− 6	+ 5	+10
Binghamton	− 6	+ 3	+ 6
Elmira	− 5	+ 7	+17
Western New York State	− 5	+ 6	+15
Buffalo	− 5	+ 6	+12
Niagara Falls	+ 2	+ 7	+ 8
Rochester	− 5	+ 6	+18
Apparel stores (chiefly New York City)	− 9	+ 1	+ 8

Department stores, which had accounted for 25 per cent of the business in 1939, received only 22 per cent in 1948. Sales of the furniture-appliance group, stimulated by the tremendous postwar demand for household durables, increased from 12 to 16 per cent of the total, while apparel stores accounted for 34 per cent of total consumer expenditures for "department store type merchandise" in both 1939 and 1948. Perhaps these shifts were the inevitable results of the larger but more widespread markets of the last several years which are not quickly adaptable to department store type operations and, which, at the same time, are not easily accessible to well established department store trade centers.

MONEY SUPPLY

Included in the list of business indicators published each month in this *Review* are statistics on "total demand deposits adjusted" and "currency outside the Treasury and Federal Reserve Banks". When considered together these two figures give a simple, but adequate, indication of the size of the country's money supply, that is, the amount of money immediately available for cash payments. Somewhat different definitions of the money supply from the one given above are used by some analysts. They include "other liquid assets" (such as time deposits or shares in savings and loan institutions), which in normal periods are readily convertible into demand deposits or currency. The Board of Governors of the Federal Reserve System, for example, customarily includes time deposits in its definition of the money supply. However, only demand deposits and currency have been included in the table of Business Indicators, since they alone may be used for payment transactions without delay or an intervening conversion step.

On the other hand, most analysts exclude currency held by banks when estimating the available money supply. In the interest of reporting currency figures as soon as possible after the end of the month, this bank reports a total figure which includes currency held by banks (vault cash). These funds are not in the hands of the public and thus, strictly speaking, cannot be considered immediately available for cash payments. However, monthly estimates of bank holdings of vault cash are not available until a few weeks after the month end. Actual figures are available only for call dates, that is, the dates (at least three times a year) when a condition statement is requested from each member bank.[1] Processing these data sometimes takes several months. By contrast, figures for total currency in circulation outside the Treasury and Federal Reserve Banks become available just a few days after the close of the month.

The figures given in the table are prepared monthly by the Board of Governors of the Federal Reserve System. Back data are available in the *Federal Reserve Bulletin* and in *Banking and Monetary Statistics* published by the Board of Governors in Washington. Currency figures are available on an annual basis since 1860. Monthly data are available without seasonal adjustment since 1914, while seasonally adjusted figures are available monthly since 1919. Demand deposits adjusted are available without seasonal correction for call dates since 1892. The monthly figures presented in the *Federal Reserve Bulletin* are estimated by the Board of Governors and are available since 1943.

Demand deposits adjusted includes all demand deposits at commercial banks in the United States, except interbank and United States Government deposits, less cash items in the process of collection. Interbank deposits are excluded because they are not demand deposits in the sense of funds which may be immediately withdrawn and spent; rather they are usually deposited with the larger commercial banks as clearing accounts, or in the case of nonmember banks as required reserves, or held to maintain correspondent relations and so obtain the advantages of easy accessibility to the larger money centers. Government deposits are excluded because, although such funds will theoretically be paid out to the public at some future date, at the moment they are not available to the public. Cash items in the process of collection are checks, drafts, notes, or acceptances deposited with a bank for collection and for which the depositor is given credit before the account on which they are drawn has been debited; consequently, they must be subtracted from the total of demand deposits to prevent double counting.

Currency in circulation is defined as all coin and paper money outside the Treasury and Federal Reserve Banks. The figures given in the table are adjusted for seasonal variation and are monthly averages of daily figures.[2] Today, as a

[1] Figures for nonmember banks are obtained from the call reports of State banks. In the few instances when the dates of these reports do not coincide with the call dates for member banks, estimated figures for State banks are used.

[2] An analysis of the seasonal movements of currency may be found in the reprint article "Demand for Cash During Holiday Periods", *Bank Reserves—Some Major Factors Affecting Them,* Federal Reserve Bank of New York.

RETAIL CREDIT SURVEY

The *Retail Credit Survey* published by this bank in prior years was not conducted in 1951. However, data on credit sales in the year ended September 30, 1950 for the various Federal Reserve Districts were compiled from the registration statements filed under Regulation W, and have been published in the *Federal Reserve Bulletin* for October 1951. Reprints of this article, "Credit and Sales Reported by Regulation W Registrants", may be obtained on request to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C. It is planned to conduct a retail credit survey next spring, covering the years 1950 and 1951.

result of the historical evolution of our currency system, there are various kinds of circulating currency; part of them—primarily coin and small denomination notes—are issued and guaranteed by the United States Treasury; part are obligations of the Federal Reserve Banks.

Both currency and demand deposits have increased considerably since 1939. Owing to the tremendous rise in business activity, higher price levels, higher wages, and the need for higher levels of working capital, individuals and corporations have found it necessary to hold a larger volume of liquid assets. The expansion in the money supply must be related to the production of goods to determine its effect upon the economy. If production lags behind an increase in the money supply, there is a possibility of inflation, because the growing available money supply may merely be used in bidding against the relatively smaller supply of goods. However, in periods of extensive business activity and an increasing supply of goods, either an increase in the total money supply or a more intensive use of the available supply is necessary to facilitate the maintenance of a high level of activity.

The increase in the money supply in recent years has been due mainly to the increased lending activity of banks. In making a loan, a bank actually "creates" money (demand deposits), that is, it credits the account of the borrower by the amount of the loan. Purchases of securities by the banks (unless they are purchased from the Federal Reserve Banks) also increase the money supply. Thus an increase or decline in the level of the money supply gives an indication of the aggregate lending and investing activities of the banks.

Whether a given increase in the amount of money is held in demand deposits or currency depends on the desires of people in choosing whether to deposit their funds in banks or to hold them in the form of currency. It has been estimated that currency payments probably comprise not over 10 per cent of total payments.

At different times, however, the public prefers to hold varying proportions of currency and demand deposits. As shown by the accompanying chart, the rate of increase in currency in circulation during the past decade has outstripped the rate of increase in demand deposits, mainly as a reflection of wartime

Business Indicators

Item	Unit	1951			1950	Percentage change	
		September	August	July	September	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	219*p*	217	212*r*	211	+ 1	+ 4
Electric power output*	1935-39 = 100	330	333	324	298	− 1	+ 11
Ton-miles of railway freight*	1935-39 = 100	199*p*	196*p*	192	199	+ 2	#
Manufacturers' sales*††	billions of $	20.9*p*	21.8	21.3	20.1	− 4	+ 4
Manufacturers' inventories*††	billions of $	41.0*p*	40.6	39.9	30.1	+ 1	+ 36
Manufacturers' new orders, total††	billions of $	21.3*p*	22.8	20.8	23.5	− 7	− 9
Manufacturers' new orders, durable goods††	billions of $	9.8*p*	10.9	10.5	12.1	−10	− 19
Retail sales*††	billions of $	12.3*p*	12.5	12.1	12.4	− 1	#
Residential construction contracts*	1923-25 = 100	287*p*	292	298	332	− 2	− 14
Nonresidential construction contracts*	1923-25 = 100	270*p*	291	306	312	− 7	− 13
Prices, wages, and employment							
Basic commodity prices†	Aug. 1939 = 100	325.7	325.0	330.8	328.2	#	− 1
Wholesale prices†	1926 = 100	177.6*p*	178.0	179.4*r*	169.5	#	+ 5
Consumers' prices†	1935-39 = 100	186.6	185.5	185.5	174.6	+ 1	+ 7
Personal income* (annual rate)	billions of $	—	254.4*p*	252.4	231.5*r*	+ 1	+ 12
Composite index of wages and salaries*	1939 = 100	—	226*p*	226	211	#	+ 8
Nonagricultural employment*	thousands	46,395*p*	46,515	46,606*r*	45,196*r*	#	+ 3
Manufacturing employment*	thousands	15,800*p*	15,891	16,049*r*	15,444*r*	− 1	+ 2
Average hours worked per week, manufacturing†	hours	40.5*p*	40.4	40.2*r*	41.0	#	− 1
Unemployment	thousands	1,606	1,578	1,856	2,341	+ 2	− 31
Banking and finance							
Total investments of all commercial banks	millions of $	72,590*p*	71,870*p*	71,480*p*	74,630	+ 1	− 3
Total loans of all commercial banks	millions of $	55,960*p*	55,160*p*	54,590*p*	48,930	+ 1	+ 14
Total demand deposits adjusted	millions of $	91,960*p*	91,400*p*	90,700*p*	88,000	+ 1	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of $	28,270	28,091	27,915	27,208	+ 1	+ 4
Bank debits* (U. S. outside New York City)	billions of $	81.2	86.3	82.8	79.4	− 6	+ 2
Velocity of demand deposits* (U. S. outside New York City)	1935-39 = 100	102.8	101.4	99.5	101.4*r*	+ 1	+ 1
Consumer instalment credit outstanding†	millions of $	13,156*p*	13,044	12,903	13,344*r*	+ 1	− 1
United States Government finance (other than borrowing)							
Cash income	millions of $	6,555*p*	4,600	2,854	4,865	+43	+ 35
Cash outgo	millions of $	4,862*p*	5,565	4,843	3,199	−13	+ 52
National defense expenditures**	millions of $	2,970	3,373	3,196	1,155	−12	+157
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey)	1935-39 = 100	238	236	225	220	+ 1	+ 8
Residential construction contracts*	1923-25 = 100	—	153*p*	145	167*r*	+ 5	− 8
Nonresidential construction contracts*	1923-25 = 100	—	196*p*	188	204*r*	+ 4	− 4
Consumers' prices† (New York City)	1935-39 = 100	182.5	180.9	181.2	171.7	+ 1	+ 6
Nonagricultural employment*	thousands	—	7,301.5*p*	7,336.6	7,153.2*r*	#	+ 3
Manufacturing employment*	thousands	2,608.6*p*	2,642.0	2,679.6	2,563.2*r*	− 1	+ 2
Bank debits* (New York City)	billions of $	43.8	46.5	44.1	47.8	− 6	− 8
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of $	3.5	3.8	3.7	3.3	− 9	+ 5
Velocity of demand deposits* (New York City)	1935-39 = 100	116.6	110.8	113.4	126.0*r*	+ 5	− 7

p Preliminary. *r* Revised. † Seasonal variations believed to be minor; no adjustment made.
* Adjusted for seasonal variation. †† Series revised 1948 to date.
# Change of less than 0.5 per cent. ** Series revised to include Defense Production Act outlays which have become significant in recent months.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

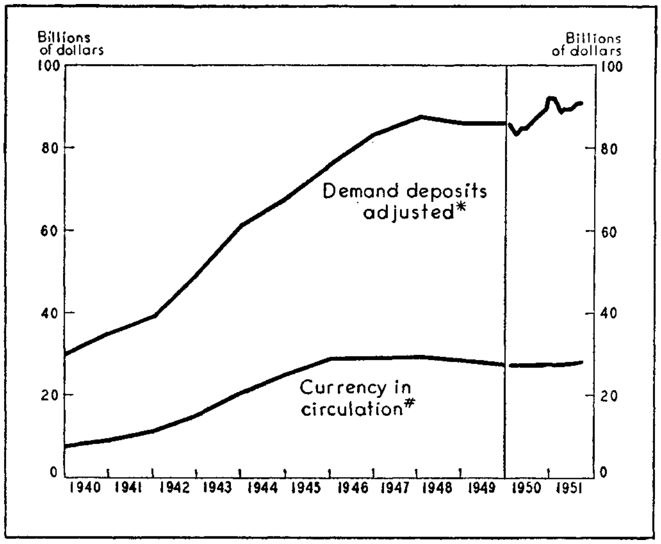
conditions. From the end of 1939 through 1950 the amount of currency in circulation increased three and one-half times, while demand deposits adjusted increased three times. The currency withdrawal occurred mainly between 1940 and 1946 when wartime dislocations enlarged the demand for hand-to-hand money. From 1947 to 1949, however, the increase in demand deposits leveled off while currency in circulation declined somewhat, as lessened population shifts and other factors resulted in more nearly stable currency requirements. However, the expansion in currency has reappeared recently, accelerating somewhat since March. Some of the current increase is due to increasing production; payrolls are up 39 per cent since November 1949, and retail sales are up 16 per cent. Moreover, an increasing volume of aggregate income payments has been going to low income groups who characteristically hold their funds in cash. On a smaller scale the rearmament effort has resulted in a repetition of the wartime shifting about of persons by the armed forces or private firms; this has also enlarged the public's disposition to hold cash. The present rise, however, cannot be entirely explained by these factors, and there is some reason to believe that there might be a reappearance of cash hoarding, as in the war years, perhaps partly for purposes of income tax evasion or other illicit operations.

The shift of funds between currency and demand deposits is affected not only by such long-run influences as the wartime needs for currency or the postwar demand for "check" money, but also by seasonal factors working within these broader movements. For instance, although both demand deposits adjusted and currency in circulation decline somewhat in January, demand deposits usually continue to decline quite sharply in February and March, while the amount of currency outstanding tends to level off. Demand deposits begin to increase fairly rapidly in June and continue to increase throughout the fall months with a peak in December. Currency also has a December peak, but its rise does not usually become noticeable until November. The currency figures presented in the table of Business Indicators have been adjusted to exclude these recurrent seasonal changes. The figures for demand deposits adjusted, on the other hand, are not seasonally adjusted. While the broad seasonal movements noted above usually apply, year-to-year variations arising from changed business conditions have prevented the computation of satisfactory adjustment factors for the seasonal variation of demand deposits.

The machinery of the Federal Reserve System is designed to facilitate conversions from deposits to cash or from cash to

Money Supply

(December 31, 1939-49; monthly 1950-51)



* Monthly figures are for the last Wednesday in each month and are partly estimated except on call dates; latest figure shown is September 1951 (estimated).

\# Currency in circulation outside the Treasury and Federal Reserve Banks; the monthly figures are seasonally adjusted averages of daily figures; latest figure shown is September 1951.

deposits whenever the public desires without disturbing effects upon the reserve position of the commercial banks. The public may obtain currency by drawing on its deposits at local banks. Member banks obtain currency by drawing down their reserve balances at the Federal Reserve Banks or by borrowing from the Reserve Banks. Nonmember banks also may obtain currency from the Federal Reserve. The Reserve Bank may either debit a nonmember bank's clearing account directly or it may charge the reserve balance of a nonmember's correspondent bank. When the public requires less currency, the excess is deposited in local banks. These banks then deposit the currency with the Reserve Banks for credit to their reserve balances. In this fashion, the withdrawal or return of currency from each individual bank affects the total of bank reserves.

Changes in demand deposits, on the other hand, have no direct effect on aggregate reserves; such changes occur as a result of bank loans or investments that are made within the limits permitted by the aggregate reserves held by the commercial banks. In general, the disposition of the total money supply as between currency and demand deposits is left to the initiative (and desires) of the public. Federal Reserve control over the total money supply is effected through changes affecting the reserve balances of commercial banks, which are the basis for expansion of demand deposits.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial production and employment have remained somewhat below the advanced levels reached during the spring of this year. Retail sales of some goods have expanded above the reduced second-quarter level, while sales of new cars have declined again. Wholesale prices of agricultural commodities have strengthened since early September and the consumers' price index has risen. Common stock prices sold off in the latter part of October.

Industrial Production

The Board's industrial production index was 219 per cent of the 1935-39 average in September, as compared with 217 in August and 223 in April. Continued comparative stability is indicated for October as output of consumer goods in general has apparently remained at reduced levels.

Activity in most industries producing munitions and capital equipment expanded further in September. Production at steel mills increased to 101 per cent of capacity and was scheduled at 102 per cent in October. Output of nonferrous metals increased in late September and early October following production interruptions earlier. Lumber production continued at the curtailed August rate. Auto assemblies changed little, while output of major household durable goods rose moderately from the sharply reduced July-August level.

Output in nondurable goods industries remained about 4 per cent below early spring record levels. There were further curtailments at textile mills. Production of paperboard also continued to decline in September and early October to a rate which was about one-sixth lower than in the spring. Output of chemical, petroleum, and rubber products was maintained at recent high levels.

Record production of minerals in September resulted largely from a further expansion of crude petroleum and iron ore. Stocks of petroleum products are currently large, and, effective November 1, allowable crude oil production from Texas fields has been somewhat reduced.

Construction

Value of construction contract awards, according to the F. W. Dodge Corporation, continued to decrease in September, reflecting largely further reductions in public awards from earlier record rates. The total value of construction put in place, allowing for seasonal variation, changed little. The number of new dwelling units started, however, increased somewhat.

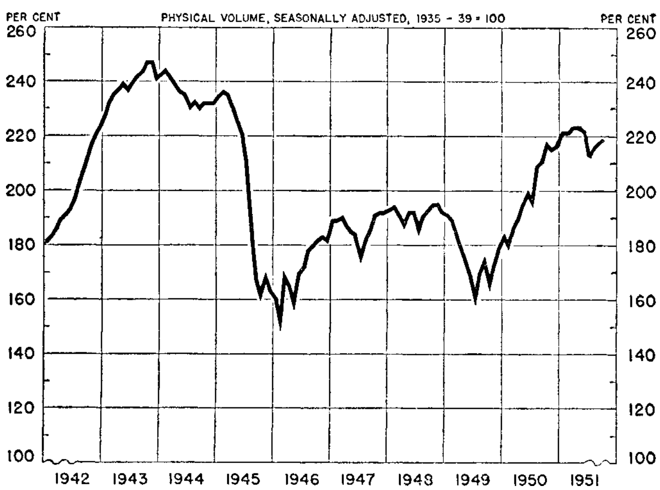
Employment

Total employment in nonagricultural establishments, seasonally adjusted, declined slightly further in September, as manufacturing and construction employment decreased and most other lines showed little change. The average work week at factories changed little and was 40.5 hours, while hourly earnings, after several months of stability, advanced somewhat to a new peak of $1.61. Unemployment continued at the low level of 1.6 million in September.

Agriculture

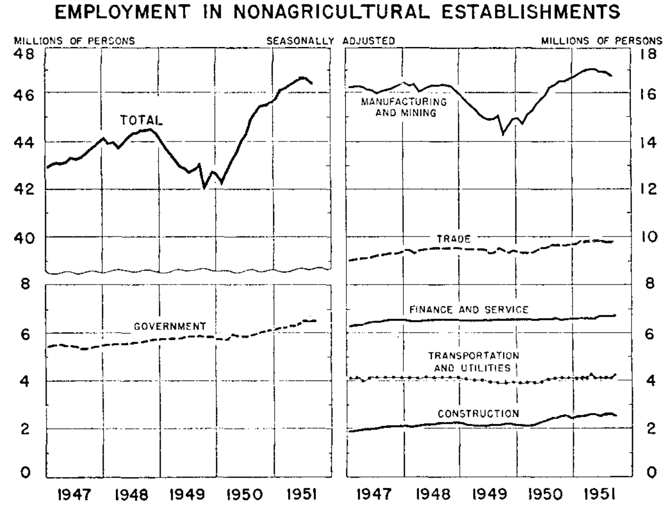
Crop conditions changed little during September except for slight decreases indicated in cotton and corn prospects. Cattle marketings continued at a reduced rate from mid-September to the third week of October and hog marketings showed little further increase. Total meat slaughtering during this period was 4 per cent below a year ago.

INDUSTRIAL PRODUCTION



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

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS



Bureau of Labor Statistics estimates adjusted for seasonal variation by Federal Reserve. Proprietors and domestic servants are excluded. Mid-month figures; latest shown are for September.

Distribution

Department store sales in September and the first three weeks of October rose less than seasonally, but remained somewhat above the reduced second-quarter level. Seasonally adjusted stocks at department stores declined further in September. Sales of new passenger automobiles showed a marked decline after mid-September, owing partly to seasonal influences.

Commodity Prices

The average level of wholesale commodity prices increased slightly from mid-September to the fourth week of October, reflecting advances in prices of some agricultural commodities. Prices of hides and textile products declined further and Federal ceilings for lead and zinc were raised but industrial commodities generally changed little.

The consumers' price index rose 0.6 per cent in September, reflecting increases in all groups of items. The most important rise—3 per cent—was shown by apparel.

Bank Credit

Seasonal borrowing at banks to finance the distribution and processing of crops, which had begun in August, accelerated in September and the early part of October. Bank loans to finance direct defense and defense-supporting activities expanded further.

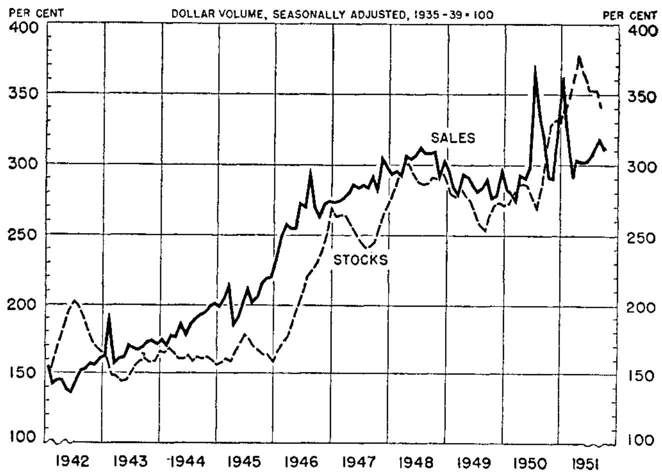
Interest rates charged by commercial banks on short-term business loans averaged 3.06 in September, little changed from the average in June. Rates increased slightly in New York and other Northern and Eastern cities but declined somewhat in the South and West. In mid-October, leading city banks announced a further increase in the prime rate to business borrowers, from 2½ per cent to 2¾ per cent.

Reserve System holdings of U. S. Government securities increased during late September and early October as a result of purchases in connection with Treasury refinancing operations. Subsequently, however, holdings declined.

Security Markets

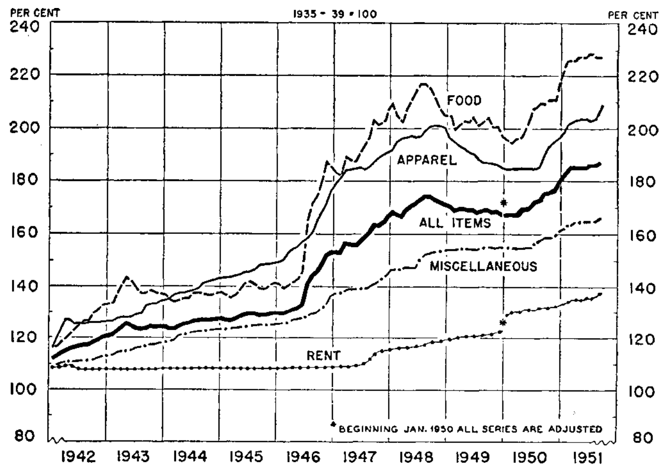
Common stock prices advanced somewhat further during the first two weeks of October but declined sharply in the third week to levels prevailing in mid-August. Yields on high-grade corporate bonds rose during the three-week period, while yields on long-term U. S. Government bonds showed little change. The Treasury sold for cash for delivery October 23, 1¼ billion dollars of 144-day tax anticipation bills on which the average discount rate was 1.55 per cent.

DEPARTMENT STORE SALES AND STOCKS



Federal Reserve indexes. Monthly figures; latest figure for sales is September; latest for stocks is August.

CONSUMERS PRICES



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