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MONEY MARKET IN JULY

Considerable tightness developed in the money market early in July, and persisted almost without respite for the remainder of the month. The most important factor creating pressure on bank reserves, and therefore on the money market, was the sharp increase in required reserves of member banks growing out of bank financing of the Treasury's offering of six-year 2⅜ per cent bonds dated July 1, 1952. Payment for bank subscriptions to this issue and for bonds purchased by the banks from other subscribers in the secondary market, as well as the credit extended by banks to enable nonbank subscribers to make payment to the Treasury for their subscriptions, resulted in a sharp increase in Treasury deposits with commercial banks and, as a result, in required reserves. Further pressure was exerted by the heavy outflow of currency for month-end payrolls and for the Fourth of July week end. Over the remainder of the month, despite a return flow of currency to the banks, there was a further drain on bank reserves which reflected chiefly Treasury withdrawals of funds from the market to restore its working balances with the Federal Reserve Banks to normal levels. Required reserves declined somewhat in the later days of the month, but throughout July member banks found it necessary to make progressively more intensive utilization of Reserve Bank discount facilities. Because of the money market tightness, transactions in Federal funds were limited, but quoted rates were close to the discount rate throughout the month.

Money market tightness was a pervasive influence in most sectors of the Government security market in July, particularly in the short-term area. Market yields on Treasury bills and certificates of indebtedness moved to the highest levels since the closing days of last year, and the regular Treasury bill issues were awarded during the month at progressively higher average rates. Purchases of short-term Government securities by the Federal Reserve System, outright and under sales-contract agreements arranged with dealers, provided, net, a significant volume of funds to the market, but the relief provided by the reserves from this source did not alter the heavy tone in short-term securities. The Treasury announced on July 30 that its books would open on August 4 on an offering of 2 per cent one-year certificates, to be dated August 15, in exchange for the 1⅞ per cent certificates of August 15 and September 1, 1952, outstanding in amounts of 583 million dollars and 1,832 million dollars, respectively.

Longer-term and intermediate bank-eligible issues drifted lower, following the lead of the newly issued 2⅜'s of June 1958, while bank-restricted bonds were somewhat higher in price on limited buying interest until the last week of the month, when they declined fractionally in sympathy with the bank-eligible securities.

Loans of the weekly reporting member banks in the statement week ended July 2 to brokers, dealers, and others, largely for carrying the new Treasury bond, increased by more than 770 million dollars; by the end of July, however, the greater part of this additional credit was retired. Business loans of reporting banks declined somewhat in July, while consumer loans extended the upward movement that has prevailed since the elimination of Regulation W in early May.

MEMBER BANK RESERVES

The temporary easing in member bank reserve positions following the mid-June tax date had been reversed by the opening days of July, so that by July 2 excess reserves held by the

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banking system totaled only 129 million dollars while member bank indebtedness to the Federal Reserve System on discounts and advances amounted to 480 million dollars. Table I shows the factors that created this tight reserve situation during the statement week ended July 2 and that tended to maintain pressure on bank reserves throughout the remainder of the month.

Customers' demands for currency at the end of June and in anticipation of the Fourth of July holiday provided the initial drain on bank balances, far more than offsetting a slight gain from the other operating factors during the opening week of the month. At the same time that reserve balances were being reduced, sharply expanded bank deposit liabilities resulted in an increase of about 450 million dollars in required reserves. The increase in deposits was the result of the role played by commercial banks in financing the Treasury's July 1 bond issue. Indicative of the volume of bank credit involved in this financing, the Government security holdings of the member banks in 94 cities reporting such data weekly increased by nearly 1.1 billion dollars in the week ended July 2, while loans by these banks to dealers, brokers, and others for carrying Government securities increased by more than 770 million dollars. Federal Reserve credit extended through loans to member banks and increases in securities held by the Federal Reserve System offset a substantial part of the increased need for reserve funds in that week, but nevertheless the net effect was a strain on bank reserve positions which set the pattern for the remainder of the month.

The New York money market was placed under particular pressure by the developments of the July 2 statement week. Nearly the entire increase in loans to dealers and others for carrying Governments was provided by the City banks, and of the total increase in reporting member bank holdings of Government securities, 440 million dollars were taken into the portfolios of New York institutions. Thus, the largest part of the increase in required reserves was centered in the New York money market banks. At the same time, the City banks lost nearly 670 million dollars through a flow of funds out of New York as out-of-town correspondents drew on their New York balances to make payment for their own and customers' security purchases and for other purposes. Federal funds were quoted at or near their maximum rate on every trading day during the month.

Table I

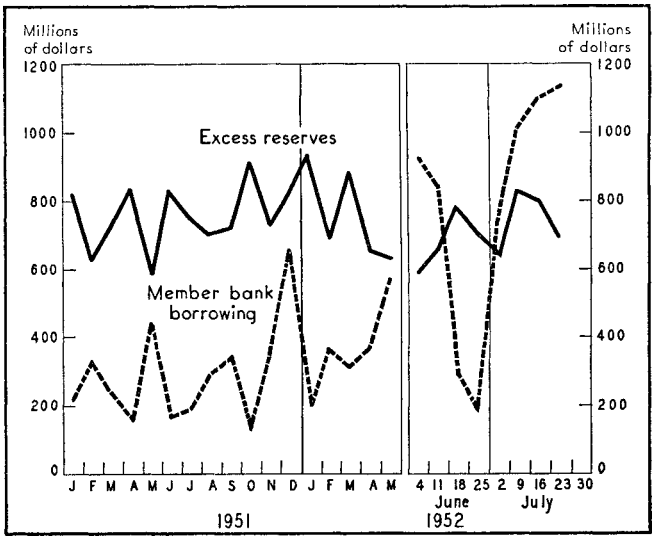
Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, July 1952

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

Factor	Statement weeks ended					Five weeks ended July 30
	July 2	July 9	July 16	July 23	July 30	
Operating transactions						
Treasury operations*	+ 60	+ 64	−274	−179	−129	− 458
Federal Reserve float	− 76	+117	+ 52	− 99	−216	− 222
Currency in circulation	−366	+ 32	+160	+104	− 68	− 138
Gold and foreign account	+ 19	− 61	− 61	− 64	− 19	− 186
Other deposits, etc.	+ 29	− 85	− 18	+ 38	+ 66	+ 30
Total	−332	+ 67	−145	−199	−365	− 974
Direct Federal Reserve credit transactions						
Government securities	+305	− 9	−137	+ 3	+118	+ 280
Discounts and advances	+174	+202	+291	+100	+330	+1,097
Total	+479	+193	+154	+103	+448	+1,377
Total reserves	+147	+260	+ 9	− 96	+ 83	+ 403
Effect of change in required reserves	−446	+148	+ 32	+ 34	+ 38	− 194
Excess reserves	−299	+408	+ 41	− 62	+121	+ 209

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

Member Bank Excess Reserves and Member Bank Borrowing from the Federal Reserve System, January 1951-July 1952*



Note: July data on excess reserves are preliminary.
*January 1951-May 1952, monthly averages of daily figures; June-July 1952, weekly averages of daily figures.

During the last four statement weeks in July the New York City banks recovered a portion of the funds lost early in the month. Nonbank funds tended to flow to New York for investment and other purposes, more than offsetting the City banks' losses through Treasury operations and other factors. (Treasury operations over the greater part of July tended to draw funds out of New York because of the Treasury's practice of calling "X" balances[1]—of which New York banks carry a relatively large share—more rapidly than other Tax and Loan balances immediately after tax dates.)

For the country as a whole, the pressures on bank reserves continued throughout the month. A partial return flow of the currency that had been drawn into circulation early in the month did not compensate for losses of reserve balances to Treasury and foreign deposits with the Federal Reserve Banks and through other factors. A smaller than usual increase in float during the second and third statement weeks provided

[1] In order to minimize the immediate reserve strain at the quarterly tax dates of tax payments by bank depositors to the Treasury, the Treasury has provided for special "X" accounts in its bank depositaries so that tax checks of $10,000 or larger, drawn on a given bank, may be redeposited in a Treasury "X" account in that bank.

limited relief from the pressures on bank reserves, and lower required reserves reduced somewhat the need for bank reserve balances, but week by week throughout July it was necessary for member banks as a whole to increase their indebtedness to the Federal Reserve Banks in order to bring their reserves into balance with their reserve requirements. As a result, Reserve Bank discounts and advances during the past month reached the highest levels in twenty years. Government security holdings of the Federal Reserve System declined somewhat after the substantial increase at the beginning of the month, especially in the week ended July 16, but increased again in the final week of the month. The largest factor in these changes was fluctuations in the amount of securities held under repurchase agreements with dealers.

As indicated by the data in Table II, the tightness in July followed three months during which the factors other than the direct credit transactions of the Federal Reserve Banks operated to maintain nearly continuous pressure on reserve positions. At the same time, the need for reserve balances has increased, primarily because of the growth in deposits associated with the Treasury financing during that period. The Federal Reserve System, through its Government security operations, has provided a part of the new reserves needed to meet enlarged requirements and to offset the contractive influence of such factors as increased currency in circulation and losses of domestic funds to foreign accounts, but member banks also have had to increase their indebtedness to the System in order to obtain needed funds. As a result, "free" reserves (the margin of excess reserves over indebtedness to the System), which on April 2 had been 478 million dollars, have been negative, as shown in the accompanying chart, during much of this four-month period and on every day since July 2.

Table II

Changes in Factors Tending to Increase or Decrease Member Bank Reserves, April-July, 1952

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

Factor	April 2 to April 30	April 30 to May 28	May 28 to June 25	June 25 to July 30	Four months ended July 30
Operating transactions					
Treasury operations*.....	−155	−108	+431	− 458	− 290
Federal Reserve float.....	−173	+ 60	+229	− 222	− 106
Currency in circulation.....	− 15	−250	−104	− 138	− 507
Gold and foreign account.....	+ 53	− 80	+ 52	− 186	− 161
Other deposits, etc.....	+ 23	+ 54	− 50	+ 30	+ 57
Total.....	−267	−323	+558	− 974	−1,006
Direct Federal Reserve credit transactions					
Government securities.....	−151	− 90	+291	+ 280	+ 330
Discounts and advances.....	+546	+140	−510	+1,097	+1,273
Total.....	+395	+ 50	−219	+1,377	+1,603
Total reserves.....	+128	−273	+339	+ 403	+ 597
Effect of change in required reserves.	+ 60	− 84	−350	− 194	− 568
Excess reserves.....	+188	−357	− 11	+ 209	+ 29

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

The Government Security Market

Short-term security yields, which had firmed in the latter part of June, declined briefly in the opening days of July and then moved upward again when the money market did not fulfill market anticipations of ease after the Fourth of July holiday. Yields on these securities moved to the highest levels attained since the post-Christmas period last year and remained close to these levels through the close of July. By July 7, the new 1⅞ per cent certificate of June 1953 was selling to yield about 1.89 per cent, and the rate subsequently rose to as high as 1.93 per cent in the last half of the month. In the closing days of the month the August 15 certificates were selling at a smaller premium than certificates have carried of late as they approached maturity. Prices on this issue and on the September 1 maturity closed just slightly above par on the last day of the month following the Treasury's July 30 announcement of the offering of a 2 per cent one-year certificate in exchange for these two issues. Yields on the other certificates ranged, according to maturity, between 1.83 and 1.91 per cent.

Treasury bill yields as the month progressed reacted to a substantial volume of commercial bank selling and moved to a range of approximately 1.80 to 1.90 per cent. Another factor in the pressure on the short-term market was the increase in interest rates to dealers posted by some of the money market banks. Average issue rates on new bills reflected the tightness in the market, increasing steadily from 1.788 per cent for the issue dated July 3 to 1.850 per cent for the July 24 and 1.877 per cent for the July 31 issues. Temporary investment of corporate and State funds acquired through new capital flotations and through tax accruals provided an important offset during July to the selling pressure in the short-term market. Security operations of the Federal Reserve System, especially in the form of sales-contract credit to dealers, also were a factor in easing the pressure on the short-term market. System operations in the Government security market during July included some purchases of short-term securities for System Account, and a moderate volume of switching from shorter to longer certificates in order to effect a better distribution of System Account holdings.

Prices of intermediate and longer-term bank-eligible issues in general moved somewhat lower over the month, again reflecting in part the absence of investable funds in commercial banks. The greatest decline was recorded by the 2¼'s of June 1959-62, off approximately 1 point, while the 2⅜'s of March 1957-59 and June 1958 were down about ½ of a point. There was some selling of the latter issue from weaker holdings as some of the money market banks increased their interest charges on loans to carry these securities to levels above the 2⅜ per cent return earned on the bonds. In the closing days of the month, this issue moved close to par and, for a short time, was quoted slightly below par.

Prices of restricted bonds tended to firm somewhat in a very thin market during the greater part of July, in response to a

limited volume of buying by State funds and other investors and a virtual absence of selling interest. These prices generally were ¼ to ⅜ of a point higher than end-of-June quotations until the last few days of July. This increase was lost in trading late in the month, however, as investors withdrew from the market, and prices followed the bank-eligible issues downward. Restricted securities were fractionally lower in price at the end of July than they had been at the beginning of the month. Partially tax-exempt issues continued to experience competitive pressure from new State and municipal offerings, and their prices extended the decline that has carried the longer issues in this category down as much as two points in the past three months.

Member Bank Credit

Total loans and investments of the weekly reporting member banks in 94 larger cities increased by more than two billion dollars in the week ended July 2, to approximately 77.5 billion dollars, the highest level on record. Practically the entire increase in this week occurred in their Government security holdings (specifically, Treasury bonds) and in their loans to brokers, dealers, and others for carrying securities, primarily Government issues. By July 23, reporting member banks had reduced their loan and investment credit outstanding by some 1,302 million dollars from the July 2 peak, largely through sales of short-term Government issues and a contraction of security loan credit.

Business lending by reporting banks, after declining in the opening week of July, showed a small net increase over the three statement weeks ended July 23, and on that date the total at 20,626 million dollars was down only 158 million from the June 25 level. In New York City, however, business loans declined 201 million dollars in the four weeks ended July 23, indicating a small net increase for the rest of the country. The "all other" category of reporting banks' lending, representing primarily consumer loans, continued the expansion initiated in early May after the abandonment of Regulation W, and climbed 97 million dollars between June 25 and July 23 to another new high at 6,402 million.

THE EUROPEAN PAYMENTS UNION AFTER TWO YEARS

The European Payments Union has been extended one year beyond its original termination date of June 30, through the action of its members in formally ratifying a series of amendments to the two-year-old charter. In general, these amendments should contribute to a smoother functioning of the EPU without involving, however, any basic modification of its purpose and scope of operations. The EPU, it will be recalled,[1] operates as a clearing house for intra-EPU payments, offsetting as far as possible the various surpluses and deficits of each individual member country with all of the other members. Every month, it reports the net debtor or creditor position of each country, which is settled, in accordance with certain rules, either in credit extended by or to the EPU against a prescribed quota or partly in credit and partly in gold or dollars. Since the gold and dollar outpayments by the EPU may temporarily exceed its gold and dollar receipts, the EPU has been endowed by the United States with a working capital fund of 361.4 million dollars (of which 350 million was committed in 1950 and 11.4 million in February 1952).

Achievements to Date

The immediate purpose of the EPU was to facilitate the expansion of trade and payments within the EPU area[2] by replacing the old maze of bilateral agreements with a system of interconvertibility of member currencies and by making possible a greater removal of import restrictions. Beyond this objective, the EPU was intended to help member countries toward financial independence and to ease the transition toward full convertibility of their currencies. As regards the first objective, intra-European trade has risen from an annual rate of 8.8 billion dollars in the second quarter of 1950 to one of 13.4 billion in the first quarter of 1952; about half of this increase was due to an increase in volume, the other half represented higher prices. Much of the credit for the rise in volume is due to the EPU, reflecting both the removal of many import restrictions and the ending of intra-EPU currency discrimination. While recent balance-of-payments difficulties have forced some retreat from the import-quota liberalization goal, the majority of the EPU countries still impose no quotas on 75 per cent or more of their private (i.e., nongovernment) intra-European imports.[3]

The EPU has also contributed to the expansion of trade by its clearing operations, which have enabled each member country, first, to use its monthly surpluses with some member countries to offset its deficits with others and, secondly, to offset net deficits in some months by surpluses in others. These EPU clearings have settled 75 per cent of the total of all monthly bilateral deficits and surpluses during the first two years of the agreement, compared with only 22 per cent similarly settled during the 21 months of the previous Intra-European Payments Agreements. In addition, the EPU has made possible a substantial scaling-down in the amount of United States funds used in the financing of intra-European trade, reducing the United States contribution to 684 million

[1] The functioning of the EPU was described in the September 1950 and September 1951 issues of the *Monthly Review*.

[2] The EPU area includes the overseas territories of member countries as well as the independent countries of the sterling area.

[3] I.e., on those goods which accounted for this proportion of their total intra-European imports in 1948.

European Payments Union Operations, July 1950-June 1952
(In millions of dollar equivalent)

Monetary areas	Offsetting operations			Settlement operations				
	Gross bilateral				Within quota‡			
	Surpluses	Deficits	Net surplus or deficit*	Outside of quota†	Credit extended to (+) or received from (−) EPU	Gold and dollars received from (+) or paid to (−) EPU	Total credit, gold, and dollars	Per cent of total quota utilized
Austria	+ 70.8	− 213.3	− 142.5	−125.0	−	− 17.5	− 17.5	−
Belgium-Luxembourg	+1,155.3	− 410.0§	+ 752.3	+336.5	+ 243.9	+171.9	+ 415.8	126
Denmark	+ 294.5	− 317.0	− 23.9	+ 5.0	− 28.9	−	− 28.9	15
France	+ 625.6§	−1,033.5	− 408.6	− 12.9	− 270.6	−125.0	− 395.7	76
Western Germany	+1,102.4	− 799.6	+ 299.2	− 11.9	+ 205.5	+105.5	+ 311.1	62
Greece	+ 19.8	− 243.3	− 223.5	−223.5	−	−	−	−
Iceland	+ 2.3	− 15.0	− 12.7	− 10.9	− 1.8	− 0.1	− 1.8	12
Italy	+ 523.6	− 359.1	+ 166.3	− 42.5	+ 124.9	+ 83.9	+ 208.8	102
Netherlands	+ 845.7	− 638.4	+ 205.2	− 30.0	+ 153.1	+ 82.1	+ 235.2	66
Norway	+ 253.7	− 312.9	− 59.9	− 60.4	+ 0.6	−	+ 0.6	0
Portugal	+ 172.1	− 85.6	+ 88.0	+ 3.0	+ 51.0	+ 34.0	+ 85.0	121
Sweden	+ 577.3	− 352.5	+ 225.8	− 5.6	+ 141.7	+ 89.7	+ 231.4	89
Switzerland#	+ 415.6	− 246.8	+ 170.6	−	+ 110.3	+ 60.3	+ 170.6	68
Turkey	+ 133.8	− 293.5	− 161.0	− 70.6	− 30.0	− 60.4	− 90.4	181
United Kingdom	+1,322.5§	−2,194.4	− 876.0	+243.1	− 636.0	−483.1	−1,119.1	106
Total	+7,514.9	−7,514.9	{−1,908.0* / +1,907.3*}	−593.3 / +587.6	− 967.3 / +1,031.0	−686.1 / +627.4	−1,653.4} / +1,658.4}	−

Note: Includes adjustments for opening of business July 1, 1952 (these adjustments are not included in the chart). Because of rounding, figures may not add to totals shown.

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

† Covers: (a) "existing resources", i.e., currencies of EPU members outstanding on June 30, 1950 (net); (b) initial debit or credit balances with EPU; (c) special United States aid to Austria, Greece, Iceland, and Turkey; (d) settlement of Belgium's surplus in excess of the total of its original quota and its first quota supplement; and (e) a part of the gold/dollar settlement of Portugal's surplus in excess of its quota.

‡ Including also amounts settled as follows outside of quotas: (a) fully in gold or dollars in the cases of Austria (whose debit quota is deemed to be zero), Turkey, and the United Kingdom; (b) half in gold or dollars and half in credit in the cases of Belgium (the first supplement to its quota) and Italy; and (c) two fifths in gold or dollars and three fifths in credit in the case of Portugal.

§ Adjusted to include 50 million dollars' equivalent of credit extended by Belgium, half to France and half to the United Kingdom, in partial settlement of Belgium's surplus with the EPU in excess of Belgium's original quota. This credit is to be liquidated by deliveries to Belgium of defense equipment over the next two years.

Switzerland included only from November 1950.

Source: Organization for European Economic Cooperation.

dollars[4] from 1,380 million under the IEPA, or to 9 per cent of all monthly bilateral deficits from 34 per cent.

Recent Difficulties

The expansion in intra-European trade since the second quarter of 1950 was achieved despite the grave disturbances to the world economy that followed the outbreak of hostilities in Korea. The EPU helped to absorb these shocks by providing credit facilities to finance heavy increases in the imports of a number of countries and by assisting members in serious difficulty to devise remedial measures. The EPU could hardly, however, have been expected to overcome completely the exceptional difficulties that followed the Korean outbreak, and it was therefore not surprising that on occasion its operations were severely strained. The strains on the mechanism first resulted from the uneven impact of Korea and rearmament on the member countries, and were accentuated by the more rapid pace of inflation in some countries than in others.

These developments increased the intra-EPU imbalances and, together with the heavier load of trade and payments carried by the EPU, led to an intensive use of most quotas and a complete exhaustion of some, especially in the second year. As the dollar shortage continued and was intensified, debtor countries became increasingly unwilling, and indeed unable, to make large gold or dollar payments to the EPU. At the same time, some creditor countries increasingly relied on it as a source of dollars to finance their dollar-area deficits, and became more reluctant to extend additional credits to the pool since they feared that such action would have inflationary repercussions upon their domestic economies. Under these conditions, the program of trade liberalization has suffered setbacks. Debtors faced with unwieldy deficits resorted to new import restrictions, seemingly the quickest way to prevent large gold and dollar losses to the EPU. Thanks mainly to the EPU's system of advice and consultation, however, these restrictions have not provoked retaliation. Some creditors also felt it necessary to reduce their EPU surpluses, unfortunately not so much by increasing imports as by restricting exports to the EPU debtor countries.

The development of intra-EPU payments in the second year of the EPU's operations also revealed the vulnerability of its gold and dollar resources. During the first year the creditors were in the main a few countries which had large quotas, under which they extended substantial lines of credit to the EPU, so that the pool paid out to them a relatively small proportion of gold and dollars for their surpluses; the debtors were numerous, with small quotas and thus small credit facilities, and had to settle a large proportion of their deficits by payment

[4] This amount consisted of: (1) 189 million dollars in so-called conditional aid to establish initial balances; (2) 207 million in special aid allocated to four chronic debtors; (3) 50 million in transfers to the United Kingdom as agreed reimbursement for gold and dollar losses caused by the repayment through the EPU of old sterling balances; and (4) 238 million in EPU drawings on the 361 million working-capital fund established by the United States, of which 123 million remains undrawn on the books of the United States Treasury.

of gold and dollars into the pool. The EPU's reserves were consequently left unimpaired. During the second year, however, the constellation of debtor and creditor positions became such as to cause a net drain on the EPU's reserves. After two years of operations the EPU's reserves stood at 351 million dollars (compared with the 361 million contributed directly by the United States) only because the United States contributed 207 million dollars indirectly by financing up to that amount the EPU deficits of four chronic debtors—Austria, Greece, Iceland, and Turkey.

All these difficulties were accentuated by one weakness inherent in the EPU's structure. The EPU, by establishing interconvertibility of the currencies of its members, has made all their currencies in a sense "equal", while in actual fact some currencies still are "harder" than others. This has set up movements of trade and capital that tend to increase both the EPU surpluses of the stronger countries and the deficits of the weaker ones.

The British Experience

During the two years of EPU operations, five countries—Belgium, France, Western Germany, the Netherlands, and the United Kingdom—accounted for two thirds of the gross bilateral surpluses and deficits settled through the EPU. The development of the intra-EPU balances of these countries is shown on the chart; the positions of all member countries at the end of the EPU's second year are shown in the table.

The United Kingdom (whose position reflects the transactions of the whole sterling area except Iceland) was on June 30 the EPU's largest debtor, in contrast to a year previously when it had been the largest creditor. From the establishment of the EPU until April 1951 the United Kingdom continuously showed large surpluses, reflecting mainly the boom in the overseas sterling area's primary-commodity exports, the large speculative movements into sterling and the related anticipatory buying caused by rumors of sterling appreciation, the continued relatively low level of sterling area imports, and the continued rise in British exports. In May 1951, however, the United Kingdom registered its first clearing deficit, and continued to show deficits to the end of the EPU's second year. This change was due primarily to: (1) the decline in overseas sterling area exports as commodity prices fell and the volume of stockpile purchasing tapered off, accompanied by a slowing-down in the expansion of British exports; (2) the rise in sterling area imports, due to increased relaxation of import restrictions and the spending of previously inflated export proceeds by the overseas sterling area; (3) the usual seasonal weakness in sterling area payments; and (4) rumors of sterling devaluation.

The Conservative Government, after its election in October 1951, had little choice but to stem British gold and dollar losses to the EPU by imposing emergency import restrictions. After the turn of the year the overseas sterling area countries also restricted their imports, Britain cut imports further, and the new British anti-inflationary monetary policy instituted in November 1951 was intensified. Although the British monthly EPU deficits have been sharply reduced below the levels of late 1951, the United Kingdom has not yet succeeded in closing the gap. As a result, it has exhausted its quota, and now has to settle its deficits fully in gold or dollars. In order to reduce this drain, the British Government announced late in July that imports will be further limited in the second half of 1952. During the year ended June 30, 1952 the United Kingdom lost 566 million dollars to the EPU, or more than one quarter of the total British gold and dollar losses in that period. However, as a result of a 1950 agreement with the United States to protect it from any gold and dollar losses resulting from the settlement through the EPU of old sterling balances held by other EPU members, the United Kingdom has received 50 million dollars from the United States for that purpose and is due to receive a further 40 million.

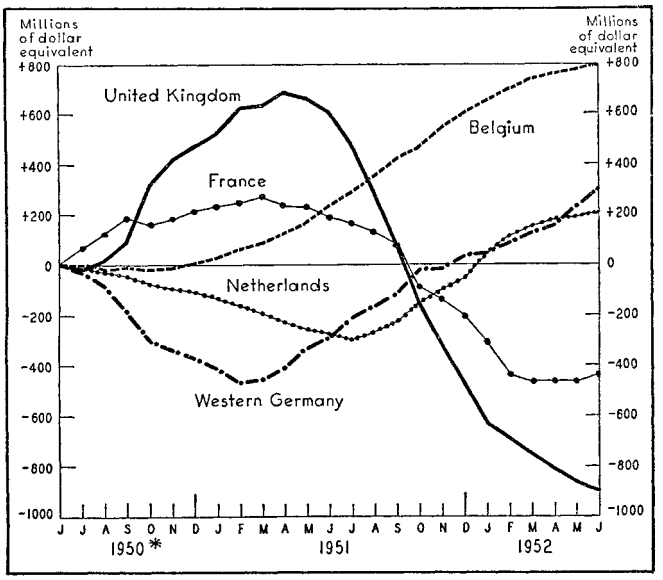
France and Germany

France's balances in the EPU fluctuated in a similar manner, though the swings were less extreme. During the first nine months of the EPU, France accumulated a large surplus. The initial effect of Korea on the French economy was relatively mild and made possible an expansion of exports while keeping imports from rising unduly. But in the spring of 1951 imports started rising more rapidly, mainly as a result of a rebuilding of stocks of imported commodities at higher prices coupled with the reappearance of instability in the French economy. With the renewal of inflationary pressure, French exports began falling and a flight from the franc developed. By February 1952 the French EPU deficit had risen so much that the French Government was obliged to reimpose licensing for all imports from the EPU area. With the help of an EPU short-term credit of 100 million dollars' equivalent (now repaid), the French dollar/gold payment to the EPU was temporarily reduced. Meanwhile, the French import cuts took effect rapidly, and largely as a result of these cuts the French EPU deficit declined sharply in March. In April and May France's monthly EPU position was almost in balance, and in June it showed a substantial surplus.

In contrast to the British and French experience, Western Germany has shifted from the role of the EPU's leading debtor to that of a dominant creditor. After exhausting its original quota and the greater part of a special EPU short-term credit, Western Germany suspended the issuance of new import licenses in February 1951. The effect of these import restrictions was striking. Imports dropped abruptly while exports continued to rise; the German accounts in the EPU began to show surpluses in March 1951. Western Germany was then able gradually to relax its import restrictions, and as of April 1, 1952 raised to 75 per cent the so-called liberalization of its imports—the proportion wholly free of quota restric-

Cumulative Net Intra-EPU Payments Balances of Certain EPU Members

(As of end of month)



*July-October 1950 excludes balances with Switzerland.

tions. The resulting import increases were outpaced by the continued export expansion, however, and the end of West German EPU surpluses is not yet in sight.

Other EPU Members

The Netherlands' experience in the EPU is a striking example of the efficiency of internal measures in correcting external disequilibrium. As the Netherlands' EPU quota was being rapidly used up by a succession of deficits during the early months of the EPU's operations, the Dutch Government instituted a number of anti-inflationary measures, both monetary and fiscal, in the spring of 1951. Immediate results were not of course to be expected, but by August 1951 the Netherlands registered its first monthly EPU surplus. From then on as imports fell off and then remained relatively stable, and exports rose significantly, the Netherlands has shown surpluses without interruption, and by the end of the EPU's second year had become the EPU's third largest creditor.

Belgium (including Luxembourg) resumed its dominant creditor position in intra-EPU payments at the beginning of 1951 after a six months' interlude of almost even balance. By August 1951 Belgium's original quota of credits to the EPU pool had been fully utilized, and since Belgium's surpluses continued, a series of arrangements was negotiated, providing for their settlement part in gold or dollars and part in further extensions of Belgian credit to the EPU. The large Belgian EPU surpluses were in the main accounted for by: (1) the economic policy of the Belgian Government, which reduced the inflationary pressures on the Belgian economy, at the same time that these pressures continued in the other EPU countries; (2) the especially large benefits Belgium received from the liberalization of intra-EPU trade and payments, since it previously had suffered most from discrimination; (3) the booming exports of the Belgian steel industry in the sellers' market created by Korea and rearmament; and to some extent (4) a speculative inflow of capital from EPU countries whose currencies were under suspicion. In addition, there seems to be some "structural" tendency for Belgium to register surpluses in its payments within the EPU area while running deficits outside it. In order to reduce its EPU surpluses and the accompanying enforced extension of credit to the EPU, the Belgian Government took measures to reduce Belgian exports to and increase imports from other EPU countries, to limit the speculative capital inflow, and to stimulate Belgian capital investments in the EPU area. Imports, however, did not increase significantly, while exports remained at a high level. But during the second quarter of 1952 Belgium's EPU surpluses declined to more manageable proportions, apparently owing to a decline in exports as the British and French import cuts and the textile recession in the EPU area began to take effect; a possible further factor may have been a tapering-off of such capital inflow as arose from speculation against the pound sterling and the French franc.

The EPU balances of the remaining member countries were much less extreme. Of the creditors, Italy and Portugal exceeded their quotas but, partly as a result of import liberalization, they began reversing their positions in the spring of 1952 and actually registered some monthly deficits.

The One-Year Extension of the EPU

For the EPU to continue beyond June 30, 1952, a number of difficult problems had to be solved, especially the inadequacy of the EPU's gold and dollar resources, and the settlement of Belgium's past and future surpluses in excess of its original quota. The EPU's gold and dollar resources were never sufficient to cover the maximum drain that was theoretically possible under the most unfavorable constellation of debtor and creditor positions that could occur even within the quotas, and became even less adequate as the surpluses of some creditors exceeded their original quotas. After the EPU managing board's suggestion during the spring of 1952 that the EPU's reserves should be increased by some 200 million dollars, the United States Government made it clear that it would not add to its direct contribution to the EPU's working capital and that the EPU would have to rely on its own resources to safeguard its reserves.

This was finally accomplished this past June by two changes in the EPU mechanism. First, the dollar/gold-payment obligations of debtors, effective July 1, have been increased in the

lower and reduced in the higher segments of their quotas,[5] leaving unchanged at 40 per cent the aggregate gold and dollar payments within the quota when the latter is fully utilized. This change not only significantly reduces the theoretically possible maximum drain on the EPU's reserves, but also increases the incentives to debtors to correct their deficits in their early stages. Secondly, member countries will make temporary gold or dollar contributions to the EPU's reserves in proportion to their quotas, with the creditors contributing first, should these reserves fall below 100 million dollars, thus in effect assuring that the latter will never fall below 100 million.

With respect to the Belgian problem, that country had extended, during the EPU's first two years, credits of 223 million dollars' equivalent to the EPU in excess of its original quota, and desired to realize as much of this amount as possible in gold or dollars. The EPU, on the other hand, wanted to limit any special gold and dollar outpayments in order to protect its reserves. An agreement was finally negotiated that settled the excess credits by: (1) an EPU payment to Belgium of 80 million dollars on July 1, 1952; (2) the funding of 50 million dollars' equivalent to be repaid in five annual instalments of 10 million dollars beginning July 1953[6]; (3) deliveries to Belgium within two years of defense equipment of 50 million dollars' equivalent, half by Britain and half by France[7]; and (4) a credit of 43 million dollars' equivalent extended by Belgium to the EPU in addition to the credits under its quota. In connection with this agreement, the United States assured Belgium that it would place orders for "offshore" military purchases in Belgium of about 50 million dollars to offset the effects on Belgium's economy of receiving arms from Britain and France instead of manufacturing them itself. In addition, Belgium received a stand-by line of credit of 50 million dollars from the International Monetary Fund which assured it of being able to obtain in advance, if needed, the equivalent of the above 50 million funded credit to the EPU.

Agreement was also reached with Belgium regarding new surpluses that it might have with the EPU in the year beginning July 1952, up to a total of 250 million dollars' equivalent, which are to be settled half in gold or dollars and half in credit. In this way the EPU's reserves are reasonably well protected, while Belgium is assured of a more or less satisfactory mode of payment for its surpluses. A similar future settlement (half in gold or dollars, half in credit) has been agreed upon for any surpluses that three other EPU creditors—Italy, Portugal, and Switzerland—may run in excess of their quotas during the EPU's third year, up to 100 million, 55 million, and 125 million dollars' equivalent, respectively.

Conclusions

The recent revisions of the EPU charter seem on the whole to have strengthened the EPU's capacity to deal with future strains arising out of imbalances in intra-EPU payments. The development in several countries of more flexible and effective policies for maintaining domestic economic stability further encourages the hope that extreme debtor and creditor positions may be avoided during the coming year.

The short-run objective of a smoothly functioning EPU mechanism should not, however, be confused with the longer-term goal of a sound pattern of intra-European trade. Since the EPU is only a regional grouping, there is no inherent tendency toward a complete equilibrium of payments among its members. On the contrary, it probably is natural for some countries to run consistent deficits in their intra-EPU payments and others to run surpluses. Such a pattern would cause no difficulties if the EPU debtors could feed a steady flow of gold or dollars into the EPU, but they have not developed surpluses in convertible currencies, such as the dollar, outside the EPU area that would enable them to do so. Meanwhile, until the key European currencies become fully convertible, the EPU has a highly useful role to play in facilitating intra-European trade and payments and in fostering European cooperation. The Western European countries, for their part, by pursuing appropriate domestic economic policies can both help the EPU operate successfully and speed the return to convertibility.

[5] Denmark, whose gold and dollar reserves are very small, is provisionally exempted from the new requirements. The old and new scales are as follows:

Per cent of quota utilized	Per cent of increment in cumulative deficit payable in gold or dollars	
	Old scale	New scale
0- 10	0	0
10- 20	0	20
20- 40	20	30
40- 60	40	40
60- 80	60	50
80-100	80	70

[6] This arrangement assures Belgium of a full gold or dollar payment of each instalment only if the EPU has exhausted by the time of payment the credit facilities given it by Belgium for the relevant period.

[7] Britain and France thus assumed a bilateral debt to Belgium but were given equivalent credit in the EPU. In effect, they received payment in gold or dollars (Britain fully, France partly) in advance for defense items to be delivered over two years. If these deliveries are not completed on schedule, Britain and France will have to settle with Belgium in Belgian francs.

TREASURY FINANCE IN THE FISCAL YEAR 1952

In many ways, the record of the financial operations of the Government during the past fiscal year (ended June 30) marked a transition toward a full-fledged defense economy. Defense and related expenditures, which had risen around 9 billion dollars from pre-Korea levels in the first year of rearmament, jumped more than 21 billion dollars to nearly 44 billion dollars during the past fiscal year, well on toward the ultimate goal of around 60 billion to be reached in fiscal 1954. Total cash expenditures of the Government, which rose but little in the first year of the Korean conflict because much of the increase in defense disbursements was offset by a fall in nondefense outlays, showed the full effect of the enlarged defense outlays, expanding over 22 billion dollars last year. Receipts, too, reached the late stages of upward adjustment to the full impact of both increased tax rates and the rise in personal incomes and corporate profits since the outbreak of hostilities. The Government's tax "take" in the past year jumped almost 15 billion dollars, or somewhat more than the 12.5 billion rise during the first year of rearmament.

The net result was a near balance between cash receipts and expenditures during the 1952 fiscal year, as shown in Table I. This, too, was transitional, since a cash deficit impends for the year ending next June. According to the President's midyear *Economic Report,* the cash deficit is tentatively expected to reach 6.0 billion dollars in fiscal 1953. In the first year of defense preparation, inflationary pressures generated rising wages and profits in the private sector of the economy which, when coupled with tax increases under two revenue measures and an acceleration in the payment of corporate taxes under the Mills plan,[1] enlarged receipts by 12.5 billion dollars. Because the fall in nondefense outlays offset a large part of the enlarged defense expenditures, these receipts resulted in a cash surplus of 7.6 billion dollars for the fiscal year ended in June 1951.

Table I
Government Financing, Fiscal Years 1951 and 1952
(In billions of dollars)

Source of funds and change in debt	1951	1952
Cash income	53.4	68.1
Budget receipts	*47.9*	*62.0*
Trust receipts	*5.6*	*6.1*
Cash outgo	45.8	68.0
Budget expenditures	*41.8*	*62.6*
Trust expenditures	*3.8*	*5.0*
Clearing Account	*0.2*	*0.4*
Net cash income	+ 7.6	+ 0.1
Change in General Fund	+ 1.8	− 0.4
Cash redemptions (−) or borrowings (+)	− 5.8	− 0.5
Government corporation debt	+ 0.4	− 0.1
Direct public debt	− 6.2	− 0.4
Nonmarketable*	− 2.4	− 2.1
Marketable	− 3.8	+ 1.6
Attrition	− 3.9	− 2.0
Scheduled borrowing (+) or repayment (−)	+ 0.1	+ 3.7
Direct cash borrowing	− 6.2	− 0.4
Direct noncash borrowing	+ 4.0	+ 4.4
Direct public debt	− 2.1	+ 3.9
Balance in the General Fund, June 30	7.4	7.0

Note: Because of rounding, figures do not necessarily add to totals.
* Includes market purchases of Treasury securities by Government corporations and trust funds.
Source: *Daily Statement of the United States Treasury* and *Treasury Bulletin.* Partly estimated by the Federal Reserve Bank of New York.

Comparison with the Budget Forecasts

The small cash surplus of around 100 million dollars in fiscal 1952 compares with a 4.0 billion cash deficit expected in January when the President submitted his *Budget Message for Fiscal 1953.* The marked improvement over expectations reflects a substantial lag in disbursements. In fact, cash receipts at 68.1 billion dollars were nearly 600 million below official estimates, largely as a result of lower-than-expected tax collections on corporate income and profits; but cash outlays, at 68.0 billion dollars, were some 4.7 billion less than anticipated in January. Spending for defense and related programs alone was about 3.1 billion less than anticipated, reflecting the difficulty in scheduling these outlays. Other spending was about 1.5 billion below the official estimate; the several major aid programs, including farm price support, veterans' benefits, and international economic aid, required less than expected, and at the same time some savings were obtained from the continuing economy drive.

Budget Accounts

Budgetary receipts in the past fiscal year ended in June amounted to 62.1 billion dollars and, since expenditures of 66.1 billion dollars were charged to these accounts, the Treasury recorded a budgetary deficit of 4.0 billion dollars (as contrasted with the over-all cash surplus of 100 million dollars). Nearly all of the budgetary receipts are obtained from the public, but a sizable amount of the budgetary expenditures, including transfers and interest payments to the trust accounts and the net accrued interest on Savings bonds, is not paid to the public (at least not currently) and the budget also omits cash transactions with the public in the trust and clearing accounts. Thus, while the Treasury recorded a budgetary deficit of 4.0

[1] This plan, which was adopted in 1950, provides that by calendar year 1955 most corporations will pay in the first six months 100 per cent, instead of only half, of the taxes due on the previous year's income. Since the speed-up to a six-month payment basis is being made over a five-year period, corporations are paying 10 per cent more of their taxes in the first half of each successive calendar year and 10 per cent less in the second half, until 1955. In fiscal 1951, when the plan first became effective, corporations paid 50 per cent of their taxes on 1949 profits in July-December of 1950, and 60 per cent of their taxes on 1950 profits in January-June 1951. Thus, for the fiscal year the Government collected 10 percentage points more of taxes than in fiscal 1950. In fiscal 1952, there was no increase in tax collections over fiscal 1951 as a direct result of the Mills plan. The Government again collected 110 percentage points: 40 per cent on 1950 profits in the first half of the fiscal year (July-December 1951) and 70 per cent on 1951 profits in the second half (January-June 1952).

billion dollars, the cash deficit in the regular budget accounts amounted to only 600 million dollars and this deficit was offset by a net cash surplus of 700 million dollars in the trust and clearing accounts.[2]

Variation within the Year

Treasury operations showed considerable variation within the fiscal year, reflecting the concentration of tax payments in the January-June period under the influence both of the Mills plan for bringing corporation tax payments forward into the first half of the calendar year and the normal concentration of individual income tax payments in the January-March period. During the first half of the fiscal year (July-December 1951)—the low collection period—the Treasury spent nearly 5.5 billion dollars more than it collected in taxes and other operating revenue. This excess of expenditures was financed, in effect, by drawing over 3.0 billion dollars from its General Fund and by net borrowings of nearly 2.5 billion dollars. In the second half of the fiscal year, a cash surplus of almost 5.6 billion dollars was obtained. This money was used, in effect, to redeem 3.0 billion dollars of debt held by the public and to rebuild the Treasury's General Fund balance to 7.0 billion dollars.

At the outset of the fiscal year the Treasury held almost 7.4 billion in the balance in its General Fund, but funds were needed to provide not only for the anticipated large deficit in the months following but also for the attrition on the heavy schedule of maturing and callable marketable issues and the continuing drain of funds resulting from the excess of redemptions of Savings bonds and notes over sales of these securities. (Aside from the attrition on three issues maturing on July 1, which had been refunded in the preceding month, the Treasury had to cover in this period the attrition on the refunding of six other maturing or called issues which were outstanding in an amount of 20.3 billion dollars.) Preparations for new financing began immediately and in the first quarter of the fiscal year, July-September 1951, almost 2.0 billion of new money was raised by offering 200 million dollars more of new Treasury bills than was required to refund 10 of the 13 weekly maturing issues. This new money was sufficient to cover both the cash redemption of the unexchanged portion of maturing and called marketable issues and the net redemption of Savings bonds and notes and several minor issues, as well as part of the operating deficit, and by the end of September the Treasury still had over 6.9 billion in its General Fund balance. For the most part, the exchange offerings were well received as the Treasury had attuned its financing to the higher yield level which developed after the Treasury-System accord in March 1951.

In the next quarter (October-December), a new type of bill, designated Tax Anticipation Series, was offered to enable the Treasury to attract some of the funds being accumulated for tax payments due in the next six months. Two issues of these TABS (tax anticipation bills)—one maturing March 15, the other June 15—were sold for a total of nearly 2.5 billion dollars. Despite this borrowing, the Treasury's balance fell to about 4.3 billion dollars, as cash operating expenditures exceeded receipts by nearly 4.3 billion dollars in these three months and over 800 million was required to cover the net redemption of other issues, mainly attrition on maturing issues and a small net redemption of Savings notes and bonds.

During the third quarter (January-March), receipts soared as final payments by individuals and first payments by corporations on the record 1951 income and profits were made, and an operating surplus of about 5.0 billion dollars was obtained. Nearly half of this sum was required, in effect, to cover the net redemption of debt, so that the Treasury was able to add only slightly over 2.5 billion to its available funds. Sales of Savings bonds continued to lag somewhat behind redemptions, and the net redemption of Savings notes rose substantially as corporations redeemed these securities to pay part of their record March tax bill. At the same time, the Treasury paid out 1.2 billion dollars to holders of the tax bills maturing in March and some 500 million dollars for attrition, the net redemption of Government corporation debt, and other minor debt transactions. Only one small 2½ per cent bond issue was redeemable in this period, and most investors accepted the Treasury's offering of a 2⅜ per cent bond of March 15, 1957-59 in exchange.

In April and May, Treasury receipts again fell considerably short of Government disbursements, but the net outlays in those months were more than covered by the operating surplus in June. Sales of Savings bonds and notes again lagged behind redemptions but by a smaller amount than in the preceding quarter. Also, in this period the Treasury again entered the market for new money and borrowed 1.6 billion dollars by increasing eight of its weekly bill issues and raised around 300 million dollars from sales to the public by reopening the 2¾ per cent investment Series B bonds of 1975-80 (first issued in April 1951 following the Treasury-Federal Reserve accord) to investors for cash and in exchange for its four longest restricted marketable bonds. (Subscriptions to this issue could be paid in four instalments, but almost all investors chose to pay on June 4, the first instalment date; only about 35 million cash remains to be paid.) This new money, in effect, covered the redemption of the unexchanged portion of the certificate of indebtedness maturing on April 1 and the 1.2 billion of TABS maturing on June 15. The Treasury closed the fiscal year with a balance of 7.0 billion dollars.

[2] For a more detailed explanation of the difference between the budget and cash position, see "The Nature and Significance of the Government's Cash Budget", in this *Review*, February 1952.

Receipts

Income and profits taxes provided the Treasury with over 51 billion dollars, or nearly 85 per cent of all budget receipts in the past fiscal year and over 75 per cent of total cash receipts. In fiscal 1950, before the outbreak of the Korean conflict, the taxes paid on individuals' income and corporation profits accounted for only three quarters of budget receipts and less than 70 per cent of all Treasury cash income. These taxes alone in fiscal 1952 were some 13.6 billion dollars higher than in fiscal 1951. Higher personal incomes and an increase in tax rates applicable during eight months of the year added some 6.8 billion dollars to individual income taxes, and raised the proceeds of these taxes to over 30.0 billion dollars. At the same time, record profits, and the imposition of higher tax rates on excess profits and ordinary corporate income, raised collections of corporate taxes by about another 6.8 billion dollars to 21.3 billion dollars.

The rather nominal rise of 500 million dollars in other budgetary receipts in 1952 reflected higher excise collections, increased estate and gift taxes, and larger retirement contributions by railroads and their employees. Excise taxes, at around 8.9 billion dollars, provided only 200 million dollars more than in fiscal 1951, the rise in tax rates being offset to some extent by a decline in spending following the war-inspired spending sprees of both business and consumers in the preceding year. The rise in railroad contributions reflected higher taxable payrolls.

Trust account receipts in fiscal 1952, at 8.8 billion dollars, included nearly 1.0 billion dollars in interest and 1.7 billion in transfers and other payments from the budget accounts. Cash receipts, at 6.1 billion dollars, exceeded cash receipts in fiscal 1951 from these accounts by 500 million dollars, largely because of the first annual payments by the self-employed to the Old-Age and Survivors Insurance Fund under the 1950 revision in that program.

Total cash receipts from both budgetary and trust accounts, at over 68 billion dollars, constituted 24 per cent of national income in the past fiscal year. In fiscal 1950, total cash receipts, at nearly 41 billion dollars, amounted to less than 19 per cent of national income.

Expenditures

Defense expenditures alone in fiscal 1952 amounted to almost 43.7 billion dollars, or nearly two thirds of all cash outlays. Spending for international economic aid, veterans' aid, and interest required another 11.3 billion dollars, or 17 per cent, of total cash expenditures. The remaining cash programs (including the trust disbursements) and the administrative costs of operating the Government amounted to almost 13.1 billion dollars, nearly a fifth of all cash disbursements, while the noncash budget expenditures amounted to 3.6 billion dollars.

The outlays for defense and related programs in fiscal 1952 were 21.3 billion dollars higher than in the preceding year, and this rise accounted for virtually all of the increase in both total cash disbursements and in budget expenditures. (The slight rise in nondefense budget expenditures reflected a 600 million dollar increase in noncash payments which was almost offset by a 400 million dollar decline in cash disbursements for these purposes.) Substantial changes occurred, however, in the several budget programs. Spending for international economic aid dropped sharply as the military aid program got under way, and a sizable decline occurred in cash expenditures by the Veterans' Administration as benefits for many veterans expired. The declines in economic aid and veterans' benefits were sufficiently large to more than offset the increase in cash disbursements arising from a shift to net expenditures (from net receipts in the preceding year) in transactions by Government corporations and from larger cash outlays for other budget programs.

The rise in noncash budget outlays reflected primarily higher noncash interest payments on the growing investments of the trust funds and on Savings bonds (the bulk of which are drawing higher returns as they advance toward maturity), a small increase in transfers by the Veterans' Administration to the National Service Life Insurance Fund to cover the costs of the free insurance now given to members of the Armed Forces, and a small rise in the noncash transfer to the railroad retirement account reflecting the increase in tax collections arising from higher payrolls.

Cash payments to the public by the trust funds in fiscal 1952 were almost 1.2 billion dollars higher than in the preceding year. Benefit payments by the old-age fund alone were 500 million higher than in fiscal 1951, reflecting in part the normal growth in this program but more importantly a full year's payment of higher benefits to the larger numbers qualified under the revision enacted in August 1950, as compared with revised payments for only eight months in the preceding year. A sizable increase also occurred in payments by the National Service Life Insurance Fund to cover the distribution of its second special dividend to veterans holding policies during the three years, 1948-50, and to provide benefits to the survivors of Armed Forces casualties in the Korean conflict. Unemployment benefit payments also showed some rise primarily as a result of an increase in benefit levels in many States.

Rise in Defense and Related Programs

Defense expenditures, including spending for strategic and critical materials, atomic energy, mutual defense assistance, and several smaller but related programs, as well as the military activities of the Defense Department, jumped from 22.4 billion dollars to around 43.7 billion dollars in fiscal 1952. While the increase in fiscal 1952 in defense spending was more than double the increase in the preceding year, a considerable slackening occurred during the year in the rate of increase

in these outlays. Our Armed Forces reached their planned manpower goals early in the year and a sharp drop occurred in the rate of increase in operating expenditures of the military establishment (pay, subsistence, clothing, etc.) which was only partly offset by the rising rate of disbursements for hard goods procurement and other programs. In the second half, January-June, defense spending increased less than 4.0 billion dollars and only about a fourth of the rise went for military operating expenses, whereas in each of the two preceding six-month periods spending had risen by nearly 6.0 billion dollars and over three fifths of the increase in outlays had been used to cover the rising operating costs of the growing military establishment. Also, by the end of the year the spread between spending and obligations had narrowed considerably. In the last quarter (April-June), expenditures for the military activities of the Defense Department and military assistance to our allies (for which contract information is available) were running at an average monthly rate of 3.8 billion dollars, compared with 2.4 billion dollars in the comparable months of fiscal 1951, while contracts were being placed at an average monthly rate of around 5.5 billion dollars in both periods.

Changes in the Public Debt

Cash redemptions of debt and market purchases amounted to nearly 500 million dollars, net, as shown in Table I. Noncash borrowing, mainly from the trust funds, and the net increase in accrued interest, however, amounted to nearly 4.4 billion dollars. Thus, the public debt increased nearly 3.9 billion dollars, and on June 30 amounted to 259.1 billion, or 16.5 billion dollars less than the statutory limit.

Attrition on maturing or called securities alone required 2.0 billion dollars, while the net redemptions of Savings bonds and notes required over 1.9 billion dollars. Also, market purchases by Government corporations mainly for investment purposes required another 300 million dollars. The Treasury, in effect, financed most of this substantial reduction in debt held by the public by borrowing nearly 3.7 billion dollars more on its regular weekly bill issues than was required to refund the maturing issues. By early June, the outstanding issues of regular bills had reached a new record level of 17.2 billion dollars. The Treasury also raised around 300 million dollars from the public by the special sale of its 2¾ per cent convertible investment Series B bonds, but much of this borrowing was offset by payments to the Postal Savings System which redeemed some of its special issues to cover public withdrawals from its accounts.

Substantial changes were made during the year in the composition of the debt, as shown in Table II. Marketable obligations increased, net, by 2.5 billion dollars, as the sales of new money issues and a net increase in marketable issues as a result of exchanges or conversions exceeded the attrition on maturing and called issues. During the year, nearly 2.1 billion of investment Series B bonds issued in April 1951 were converted, mainly by the Reserve System, into 1½ per cent marketable notes. In June 1952, on the other hand, under a special offering almost 1.2 billion of the four longest restricted marketable bonds were exchanged for investment Series B bonds. Thus, on balance, the investment Series B bonds declined almost 500 million dollars, as the amount converted into marketable notes exceeded the June increase arising from the cash as well as the exchange subscriptions to this series.

Table II
Changes in Public Debt, Fiscal Years 1951 and 1952
(In millions of dollars)

Classification	1951	1952
Marketable obligations	−17,351*	+2,512†
U. S. Savings bonds‡	+ 155	+ 23
Treasury Savings notes	− 657	−1,209
Investment series bonds—Series B–1975–80	+13,574	− 478
Special issues	+ 2,297	+3,086
All other obligations	− 153	− 50
Total	− 2,135	+3,883

* Includes 13,574 million dollars of Treasury bonds of June and December 1967-72 exchanged for investment series bonds.
† Gives effect to exchange of 1,174 million dollars involving four issues of bank-restricted, marketable Treasury bonds for a like amount of investment series bonds; also takes into account issuance of 2,068 million dollars of 1½ per cent marketable Treasury notes in exchange for investment series bonds issued on April 1, 1951 (2,000 million dollars of this was exchanged by Federal Reserve System).
‡ Including discount accrued during the year on all unredeemed Savings bonds.
Source: *Daily Statement of the United States Treasury.*

Savings notes in fiscal 1952 were redeemed, net, to the extent of 1.2 billion dollars as corporations drew on their holdings of these securities to cover part of their tax bill, while Savings bonds rose only nominally in redemption value as the interest accrued on the outstanding amount was about matched by net redemptions (issue price plus accrued discount). In the preceding year when fewer securities matured, redemptions had been smaller and Savings bonds had shown a somewhat greater increase, despite a smaller increase in accrued interest in that year. To overcome the continuing excess of redemptions, the Treasury moved in April to improve the competitive position of the several series of Savings bonds by raising the rate slightly on new issues of the existing Series E bonds and on outstanding Series E bonds maturing after May 1, 1952, if held beyond maturity, by improving the redemption schedules of these issues, and by offering a companion new current interest Series H bond, as well as somewhat higher rate Series J and K bonds in place of the old F and G bonds. The limits on annual purchases of the several series were also raised. Sales of the new issues showed some improvement in June, but they were still not high enough to cover redemptions.

In a somewhat novel move, as stated earlier, the Treasury last fall sold two issues of TABS to raise nearly 2.5 billion dollars to help meet its cash needs until the anticipated large tax payments replenished its balances in the second half of the year (January-June). These bills could be used for tax payments or redeemed in cash. The TABS matured on March 15 and June 15, and thus do not appear in the final debt figures.

TON-MILES OF RAILWAY FREIGHT

The index of ton-miles of railway freight published in the table of Selected Economic Indicators is designed to measure changes in the amount of railway freight movement. When business is good, the volume of products moving to and from the nation's factories, farms, and mines is large; as business contracts, this volume becomes smaller. Since railroads are the most important carriers of the country's products, the amount of freight service being rendered by railroads can be expected to reflect the state of business in general.

The index is computed at this bank by using basic data collected monthly by the Interstate Commerce Commission on total ton-miles of revenue freight carried by "Class I steam railways". Ton-mileage refers to the weight of a shipment multiplied by the number of miles over which it is hauled. Nonrevenue freight, such as coal hauled by railroads for their own use, is not covered by these figures. Class I steam railways are those with annual operating revenues above one million dollars.[1] During the period covered by this bank's index, over 99 per cent of all ton-miles of revenue freight was carried by roads in this classification. Electric and diesel, as well as steam, operations of these lines are included.

To compute the indexes, the averages of ton-mileage per working day are first determined for each month (Sundays and some holidays are not counted as working days). These averages are then divided by the daily average for 1947-49, and the indexes obtained are adjusted for seasonal variations (in this, as in all other statistical series, the seasonal adjustment is an approximation; it is not, and cannot be, a precise measure of seasonal influences). Freight volume is usually relatively small during the winter months. It expands in late spring when the shipment of iron ore to various railheads on the Great Lakes is resumed, and after that, the volume of crops moved becomes increasingly large. By fall, crop and ore traffic starts to decline but is still fairly large, and with shipments of livestock and manufactures at their seasonal peaks, freight volume is normally greatest during October. Elimination of the broad effects of normal seasonal fluctuations and the accidental effects of variation in the number of working days per month improves the utility of the index as an indicator of underlying business conditions.

The index has been computed for a period going back to 1920. Tabulations of the monthly and annual indexes from January 1920 to date are available on request from the Domestic Research Division of this bank.

[1] Companies are not reclassified every year; a road whose revenues fall below one million dollars is retained in Class I if the reduction in revenue is regarded as temporary.

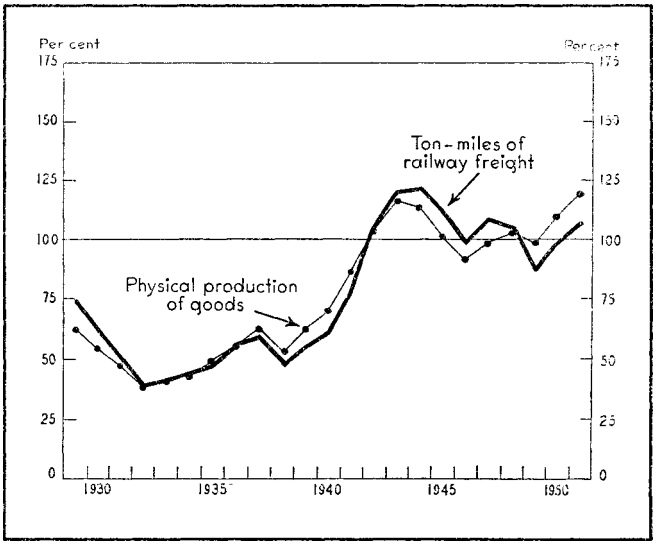
The Ton-Miles Index as an Economic Indicator

In the period covered by our index, ton-miles of railway freight have generally been a reliable indicator of the level of business activity, despite the fact that some shift of transport activity to other types of carriers has occurred over the past three decades. Peaks and troughs in traffic coincide roughly with those of the business cycle; the volume of freight shows no consistent lead or lag at cyclical turning points. The accompanying chart shows that movements of the ton-miles index have been closely related to the volume of physical production of goods.

There are a number of reasons why the two indexes shown in the chart may diverge. A divergence may reflect a change in the relative amounts of different types of goods produced. In the physical production index, goods which are highly fabricated have more importance, ton for ton, than those which have undergone little processing. If an increase in the production index is accompanied by a growth in the proportion of highly fabricated products, the rise in the production index will be greater than the relative increase in the physical weight of the nation's output. But it is the change in weight which affects the index of ton-miles of railway freight. As an illustration of this point, the physical production index would be raised more by the production of an additional ton of steel than by an additional ton of bituminous coal, but the shipment of either would have the same effect on

Ton-Miles of Railway Freight and Physical Production of Goods, 1929-51

(Annual indexes; 1947-49 average=100 per cent)



Source: Ton-miles of railway freight, Federal Reserve Bank of New York; physical production of goods, President's Council of Economic Advisers. The physical production index (which includes not only industrial production but also agricultural production, construction, and output of gas and electric utilities) has been converted to a 1947-49 base and the 1951 figure estimated by the Federal Reserve Bank of New York.

the freight index. Then, too, the proportion of goods shipped by rail may vary in relation to that carried by truck, ship, pipeline, and plane. In addition, ton-miles are a product of the length of haul as well as of the volume of goods handled.

It is probable that these factors frequently offset each other to some extent. For example, during the business contractions of 1929-32 and 1937-38, the share of the supply of goods carried by rail dropped sharply in favor of trucks, probably because trucks can compete more successfully for small loads than for large and are used for carrying nondurable goods more than durables. As usually happens during recessions, output of nondurables was reduced less than that of durable goods. On the other hand, the average length of haul of railway freight increased, because the relative loss of traffic to other carriers was greater in the short-haul category.

Another series on railway freight which is often used as an indicator of business activity is that on the number of freight cars loaded, published by the Association of American Railways. These figures are in some respects more useful than the ton-miles series. They are published weekly and are available much more promptly than the monthly ton-miles series, and a breakdown by type of commodity is available for carloadings, whereas only total ton-miles are published monthly. Furthermore, carloadings are not affected by the length of haul, which is determined by patterns of distribution rather than by production. However, they do have an important shortcoming; they take into account only the number of cars loaded, and, since the amount loaded in each car may vary considerably, they do not always reflect accurately the volume of goods handled, a fact which became particularly apparent during World War II. From 1920 until the beginning of World War II, fluctuations in freight carloadings were generally very similar to those of the ton-miles index. However, from 1941 to 1944 (the wartime peak year) ton-miles increased 55 per cent, compared with an increase of only 2 per cent in freight carloadings. The difference was accounted

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1952			1951	Percentage change	
		June	May	April	June	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	203*p*	211	216	221	− 4	− 8
Electric power output*	1947-49 = 100	141	140	141	133	+ 1	+ 6
Ton-miles of railway freight*	1947-49 = 100	—	99*p*	103	104	− 4	− 3
Manufacturers' sales*	billions of $	21.9*p*	23.1	23.3	22.1	− 5	− 1
Manufacturers' inventories*	billions of $	42.1*p*	42.4	42.5	39.0	− 1	+ 8
Manufacturers' new orders, total	billions of $	22.5*p*	21.7	23.1	24.1	+ 4	− 7
Manufacturers' new orders, durable goods	billions of $	10.9*p*	10.5	11.9	13.3	+ 4	−18
Retail sales*	billions of $	13.0*p*	13.1	12.7	12.2	− 1	+ 6
Residential construction contracts*	1947-49 = 100	—	191*p*	189*r*	174	+ 1	+15
Nonresidential construction contracts*	1947-49 = 100	—	153*p*	158	217	− 3	−27
Prices, wages, and employment							
Basic commodity prices†	Aug. 1939 = 100	293.3	296.5	295.8	351.2	− 1	−16
Wholesale prices†	1947-49 = 100	111.3*p*	111.6	111.8	115.1	#	− 3
Consumers' prices†	1935-39 = 100	189.6	189.0	188.7	185.2	#	+ 2
Personal income (annual rate)*‡	billions of $	—	263.4*p*	262.5	254.3	#	+ 5
Composite index of wages and salaries*	1939 = 100	—	234*p*	233	225	#	+ 5
Nonagricultural employment*	thousands	46,375*p*	46,589	46,513*r*	46,626*r*	#	− 1
Manufacturing employment*	thousands	15,575*p*	15,886	15,919*r*	16,097*r*	− 2	− 3
Average hours worked per week, manufacturing†	hours	40.4*p*	40.2	39.8	40.7*r*	#	− 1
Unemployment	thousands	1,818	1,602	1,612	1,980	+ 13	− 8
Banking and finance							
Total investments of all commercial banks	millions of $	75,200*p*	74,540*p*	74,120*p*	71,224	+ 1	+ 6
Total loans of all commercial banks	millions of $	59,570*p*	58,520*p*	58,220*p*	54,821	+ 2	+ 9
Total demand deposits adjusted	millions of $	95,800*p*	95,300*p*	95,120*p*	88,960	+ 1	+ 8
Currency outside the Treasury and Federal Reserve Banks*##	millions of $	28,988	28,787	28,689	27,686	+ 1	+ 5
Bank debits (U. S. outside New York City)*	billions of $	89.0	89.4	89.6	85.7	#	+ 4
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	118.3	118.3	114.5	118.3	#	#
Consumer instalment credit outstanding†	millions of $	14,404*p*	13,811	13,319*r*	12,955	+ 4	+11
United States Government finance (other than borrowing)							
Cash income	millions of $	9.989*p*	4,722	4,689	7,367	+112	+36
Cash outgo	millions of $	6,983*p*	5,751	5,972	5,223	+ 21	+34
National defense expenditures	millions of $	4,024	4,237	4,227	2,875*r*	− 5	+40
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	124	124	127	122	#	+ 2
Residential construction contracts*	1947-49 = 100	—	193*p*	205	166	− 6	+ 9
Nonresidential construction contracts*	1947-49 = 100	—	168*p*	181	158	− 7	+17
Consumers' prices (New York City)†	1935-39 = 100	183.6	183.2	183.5	180.5	#	+ 2
Nonagricultural employment*	thousands	7,429.9*p*	7,447.1	7,439.0	7,392.1*r*	#	+ 1
Manufacturing employment*	thousands	2,664.2*p*	2,696.5	2,689.3	2,685.4*r*	− 1	− 1
Bank debits (New York City)*	billions of $	50.9	50.5	53.1	45.0	+ 1	+13
Bank debits (Second District excluding N. Y. C. and Albany)*	billions of $	4.0	4.0	4.0	3.7	#	+ 7
Velocity of demand deposits (New York City)*	1947-49 = 100	140.0	133.6	132.5	124.9	+ 5	+12

Note: Latest data available as of noon, August 1.
p Preliminary. *r* Revised. # Change of less than 0.5 per cent.
* Adjusted for seasonal variation. ‡ Revised back to January 1949.
† Seasonal variations believed to be minor; no adjustment made. ## The seasonal adjustment factors for this series have been revised.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

for by increases in average haul and in tonnage loaded per car. The average haul was increased by the war in the Pacific and the growth of industry in the Western States; both developments greatly expanded the volume of transcontinental traffic. An increasing proportion of larger-capacity cars was being put into service, and all cars were being loaded more nearly to capacity; in fact, regulations of the Office of Defense Transportation established minimum loads which might be carried.

Under the impetus of the preparedness program prior to our entry into World War II, ton-miles of railway freight almost doubled from their low point in 1938 until the attack on Pearl Harbor in December 1941. After that, the index increased another 58 per cent to a peak of 133 per cent of the 1947-49 average in April 1945. In the subsequent period of reconversion and labor unrest, the ton-miles index dropped to 75 in May 1946. Two years later it had risen to 111. The index declined 36 per cent in the contraction of 1948-49, but had recovered a good part of this loss even before the Korean war, and after June 1950 it continued to rise until the spring of 1951. Since that time, it fluctuated within a fairly narrow range around the level of the 1951 average of 107 until, starting in June, the steel strike resulted in declines first in shipments of steel, iron ore, coal, and coke, and later in fabricated steel products.

DEPARTMENT STORE TRADE

Consumers spent less in Second District department stores in July (on a daily average basis, after seasonal adjustment) than during the first six months of 1952. Incomplete information also indicates that the dollar volume of sales in July fell approximately 4 per cent below last July's sales figures, in spite of the advantage of one more trading day this year. A record-breaking spell of hot weather undoubtedly kept many customers away from the stores, although the prolonged heat did stimulate sales of seasonal merchandise, necessitating some reordering of summer apparel lines. Some of the durable goods departments showed a slight narrowing during July of the sizable gap which has existed for some months between 1952 and 1951 sales.

The Average Value Per Transaction at New York City Department and Apparel Stores

As changes in the dollar volume of sales alone are not fully comprehensive indicators of changes in retail activity, data which are more indicative of fluctuations in the frequency of consumer purchases are often needed. Data on sales transactions reported to this bank by representative groups of New York City department and apparel stores provide a measure of the number of actual purchases in these types of retail outlets, while changes in the average value per transaction (sales divided by transactions) indicate consumer tendencies toward the purchase of higher or lower-priced merchandise. Of course, movements in the level of retail prices must be considered in any analysis of changes in average value per transaction over time. It should also be noted that a moderate but well-defined seasonal pattern influences month-to-month fluctuations in the average value per transaction. Year-to-year comparisons, however, are not generally affected by seasonal influences.

Department Stores

As the table shows, dollar sales and the number of gross transactions at New York City department stores during the first six months of 1952 were well below the level of the first half of 1951. Sales volume fell much farther than did transactions, however, as a result of the fact that the average value per transaction ($4.79) was lower—by 6 per cent—than the value for the first six months of last year ($5.11). The influence of price changes on this decline in the value of the average sales check cannot be clearly ascertained but was probably very moderate. Retail prices, measured by the Bureau of Labor Statistics indexes of apparel and homefurnishings prices in New York City (see footnote to table), averaged 1 per cent above the year-earlier level for the six-month period ended June 15; however, these indexes do not take into account the full effects of temporary price reductions resulting from short-run promotions and "special purchase" sales of goods. Thus, it is altogether possible that the actual selling prices of department and apparel store merchandise may have declined slightly in this period.

The decline in the size of the average sales check may have been partly, but not wholly, attributable to special circum-

Gross Transactions, Net Dollar Sales, and Average Value per Transaction New York City Department and Apparel Stores, January-June 1952
(Percentage change from preceding year)

Period	Department stores*				Apparel stores			
	Gross transactions	Net dollar sales	Average value per transaction	Consumers' prices†	Gross transactions	Net dollar sales	Average value per transaction	Consumers' prices†
January	− 8	−18	−11	+ 5	+ 1	− 7	− 8	+ 6
February	+ 2	− 8	−10	+ 2	+ 5	0	− 5	+ 4
March	− 5	− 9	− 4	+ 1	− 6	− 8	− 2	+ 2
April	+ 8	+ 3	− 5	0	+15	+ 9	− 5	+ 1
May	0	− 2	− 3	− 1	+ 1	+ 3	+ 2	+ 1
June	−12	−18	− 6	− 1	+ 3	+ 1	− 1	+ 1
January-June	− 3	− 9	− 6	+ 1	+ 3	− 1	− 3	+ 3

* The per cent changes for department stores are based on data for a constant sample of New York City department stores and hence exclude data of a Brooklyn department store which closed earlier this year. Inclusion of that store's figures in 1951 totals would alter somewhat the year-to-year changes in total sales and gross transactions but would have no appreciable effect on the value of the average transaction.

† Computed from U. S. Bureau of Labor Statistics indexes of consumers' prices in New York City. For department stores, the apparel price index was given a weight of 2 and the homefurnishings index a weight of 1; for apparel stores, only changes in the apparel price index are shown.

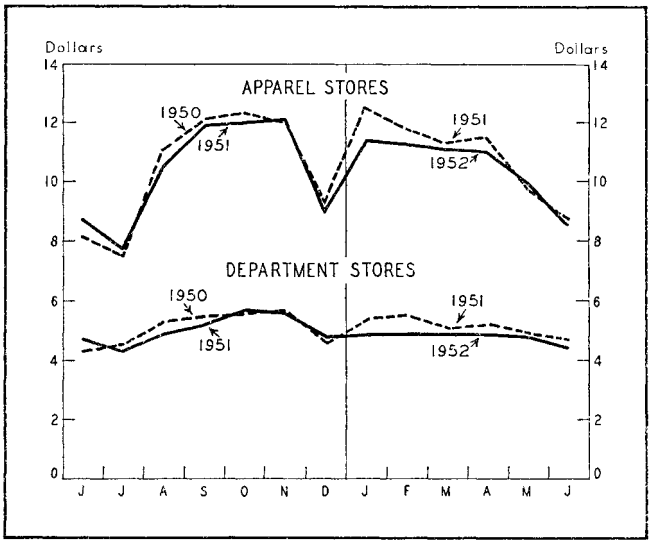
stances. The magnitude of relative declines in the dollar volume of sales and the number of transactions at New York City department stores for the first half of 1952 was due, in part, to the sharp year-to-year decreases in two out of the six months. Both sales volume and transactions during January and June of this year were expected to (and did) show marked declines from year-ago figures, which were swollen by the buying wave of January 1951 (induced by the military reverses of the United Nations forces in Korea), and by the price war of June 1951. From February through May, however, the number of transactions actually averaged 1 per cent higher than during the comparable four months of 1951, but dollar sales still showed a decline of 4 per cent. The average value per transaction was 5 per cent lower than the average for the same four months a year earlier, only a slightly smaller decline than that registered for the entire first half of 1952.

The decline in the value of the average sales check was largely accounted for by the lag in demand for "big ticket" durables. However, there seems to be a continuation of the tendency on the part of consumers to "trade down", even on nondurables, which had first manifested itself last summer in the relatively more favorable showing of the basement departments of New York City department stores.

APPAREL STORES

New York City apparel stores have apparently been fairly successful in attracting as many customers as they did last year, but in the apparel stores for which transaction data are available, the effects of consumer "trading down" are also noticeable. The average value per transaction made in the City's apparel stores from January through June ($10.44) declined 3 per cent from the average value for the comparable period in 1951 ($10.80). The number of gross transactions averaged 3 per cent higher than in the first half of last year; and, with the exception of March, each month in the first half of 1952 showed an increase in number of transactions over the comparable month a year ago. (The decline in March and the fairly large increase in number of transactions during April were probably due to the changing date of Easter—March 25, 1951 and April 13, 1952.) The dollar volume of sales in apparel stores was one per cent lower from January through June than it was in the first half of 1951, although retail apparel price indexes averaged 3 per cent higher. Here again, however, substantial sales of cut-price merchandise (not reflected in the price indexes) may have affected the comparisons.

Estimated Average Value per Transaction of New York City Department and Apparel Stores*
(June 1950-June 1952)



*Value of the average transaction may be somewhat understated, since data on the number of transactions are reported gross whereas sales figures are net of returns and allowances.

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

Locality	Net sales		Stocks on hand June 30, 1952
	June 1952	Jan. through June 1952	
Department stores, Second District	−13	− 8	−15
New York City*	−19 (−17)	−12 (−10)	−17 (−14)
Nassau County	n.a.	n.a.	n.a.
Northern New Jersey	− 6	− 7	−18
Newark	−10	− 7	−19
Westchester County	−17	− 1	+ 2
Fairfield County	− 2	+ 1	− 4
Bridgeport	− 3	+ 1	—
Lower Hudson River Valley	− 1	− 1	−10
Poughkeepsie	0	− 2	−12
Upper Hudson River Valley	− 3	− 2	− 7
Albany	− 3	− 6	−11
Schenectady	0	+ 3	− 2
Central New York State	0	− 4	− 8
Mohawk River Valley	− 2	− 3	−15
Utica	− 2	0	−17
Syracuse	0	− 4	− 5
Northern New York State	+ 2	− 1	−12
Southern New York State	+ 2	0	−10
Binghamton	+ 3	− 1	−12
Elmira	− 1	0	− 3
Western New York State	− 1	− 2	−12
Buffalo	− 1	0	−13
Niagara Falls	+ 3	+ 3	—
Rochester	− 1	− 6	− 9
Apparel stores (chiefly New York City)	+ 1	− 2	−11

n.a. Not available.
* The year-to-year comparisons given in parentheses exclude the 1951 data of a Brooklyn department store that closed early in 1952.

Indexes of Department Store Sales and Stocks Second Federal Reserve District
(1947-49 average=100 per cent)

Item	1952			1951
	June	May	April	June
Sales (average daily), unadjusted	95	95	94	105
Sales (average daily), seasonally adjusted	98	96	96	108
Stocks, unadjusted	105	115	116	122
Stocks, seasonally adjusted	113	112	111	131

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, July 30, 1952)

Industrial production and rail freight traffic decreased sharply further during June and most of July, owing mainly to the effects of the steel dispute, but recovery began following settlement of this dispute towards the end of the month. Activity in construction and other industries was generally maintained in June and July. Wholesale prices changed little, and consumer prices rose to a new high.

Industrial Production

The Board's production index in June was 203 per cent of the 1935-39 average, as compared with 211 in May and 222 in February. The further drop in June reflected work stoppages at steel works and iron ore mines. In July the index is expected to decrease about 10 points, reflecting curtailments in steel-consuming industries and reduced operations because of vacation schedules in some other industries.

Durable goods production declined 10 per cent in June, as steel mill activity was curtailed to 18 per cent of capacity as compared with 90 per cent in April and May. Steel production was scheduled at about 15 per cent of capacity during most of July but increased substantially at the end of the month. Activity in most steel-consuming industries was maintained through June, and inventories were reduced rapidly. Passenger auto assemblies were virtually unchanged but in July have been reduced almost three fifths to about 175,000 units. Activity in machinery industries held steady in June at a level somewhat below the first quarter, and output of aircraft and other military equipment continued to increase.

Output of nondurable goods rose in June, reflecting a further expansion in activity at textile mills and resumption of operations at oil refineries. Activity in most other nondurable goods industries changed little.

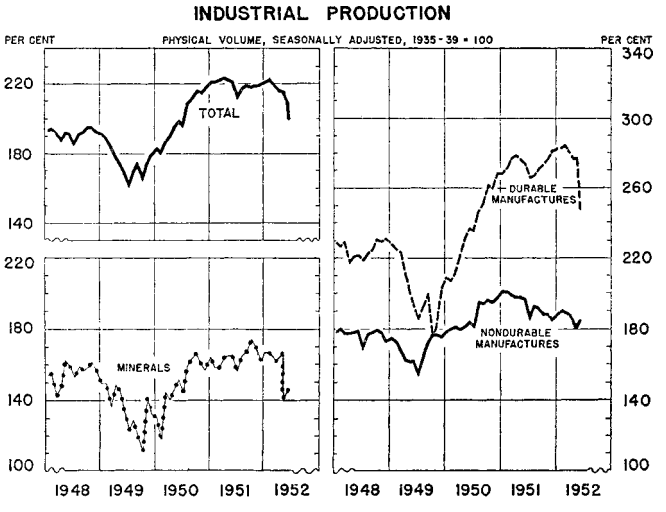
Minerals production in June and July, while above the sharply reduced May level, was more than 10 per cent below April, as iron ore mining was curtailed to levels about four-fifths below a year ago and coal output was reduced further. The drop in crude petroleum production during the refinery shutdowns in May was considerably greater than estimated earlier, and in June and July crude oil output has remained moderately below the April level.

Construction

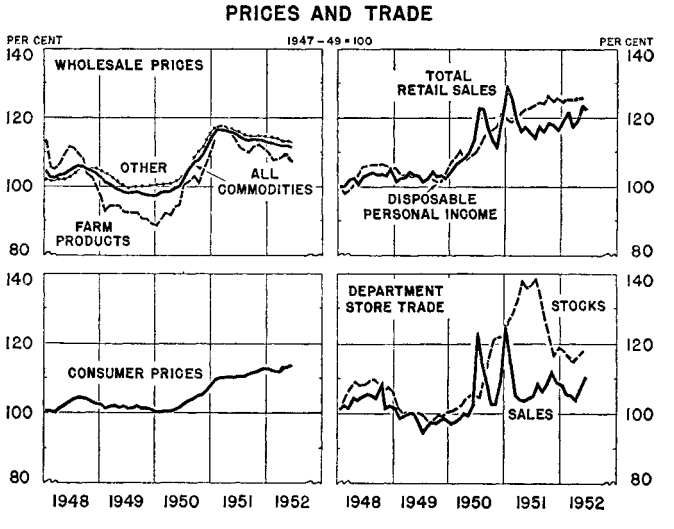
Value of construction contract awards declined slightly in June, reflecting a decrease in private awards. New work put in place continued close to record levels. The number of housing units started, at 106,000, was little changed from that in each of the three preceding months.

Employment

Seasonally adjusted total employment in nonagricultural establishments showed only a small decline in June, as employment outside the steel industry was generally maintained. The average work week at manufacturing plants rose somewhat to 40.4 hours, and average hourly earnings remained at $1.66. Unemployment increased seasonally by about 200,000 in June, but was 150,000 below a year ago. By mid-July, claims for unemployment compensation were substantially above the June level, mainly because of layoffs in various steel-consuming lines.



Federal Reserve indexes. Monthly figures, latest shown are for June.



Seasonally adjusted series except for prices. Wholesale prices, Bureau of Labor Statistics indexes. Consumer prices, total retail sales, and disposable personal income, Federal Reserve indexes based on Bureau of Labor Statistics and Department of Commerce data. Department store trade, Federal Reserve indexes.

Agriculture

Crop production in 1952 is expected to be about 4 per cent larger than last year, according to official reports based on July 1 conditions. Marked increases are forecast in output of wheat and corn, with some rebuilding of stocks in prospect. Milk and egg output decreased in June, reflecting largely above normal temperatures. Meat production in July has remained somewhat above year-ago levels.

Distribution

Department store sales in the first three weeks of July were slightly above year-ago figures but were down somewhat from June on a seasonally adjusted basis. Sales of television sets and appliances continued strong. Department store stocks showed about the usual seasonal change through June. Sales of passenger autos decreased in June and, owing mainly to the reduced supplies of new cars, a further more marked drop apparently occurred in July.

Commodity Prices

The general level of wholesale commodity prices changed little from mid-June to the fourth week in July. There were advances in prices of foodstuffs—particularly eggs and hogs—textile products, and nonferrous metals, while steel scrap, rubber, cotton, burlap, tallow, and feedstuffs declined. Following settlement of the steel dispute, ceiling prices for finished steel were raised about 6 per cent.

The consumers' price index rose 0.3 per cent in June to a new high. Prices of foods—meat and eggs—rose seasonally and rent and other services advanced further, while prices of housefurnishings declined.

Bank Credit

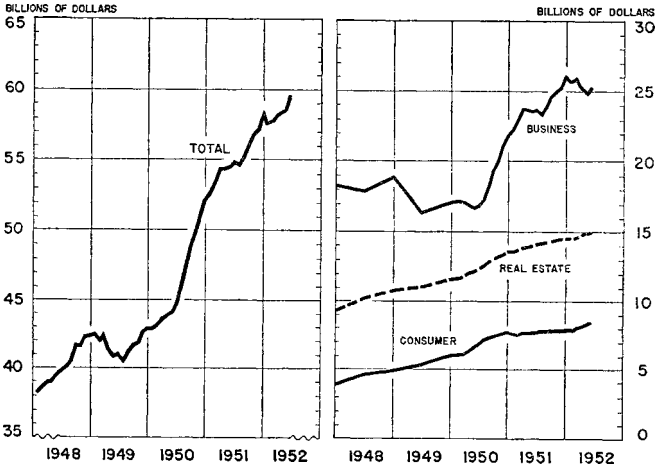
Bank credit expanded substantially in the early part of July, reflecting financing associated with Treasury borrowing and further increases in instalment borrowing by consumers, State and local government financing, real estate financing, and farm borrowing. Bank reserve positions continued generally tight in late June and the first half of July, owing in large part to a currency outflow and an increase in required reserves associated with seasonal Treasury financing operations. Discounts at the Federal Reserve Banks increased and the rate on Federal funds remained high.

Interest rates charged by commercial banks on short-term business loans averaged 3.51 per cent in the first half of June, compared with 3.45 per cent in the first half of March. The largest rate increases occurred in the southern and western sections of the country, while rates declined in some northern and eastern cities.

Security Markets

Common stock prices generally rose during the first half of July, reaching on July 16 their highest level since April 1930. Yields on short-term U. S. Government securities rose during the latter part of June and the first three weeks of July, the rate on new Treasury bill issues reaching 1.88 per cent, the highest level since early January.

LOANS AT COMMERCIAL BANKS



Federal Reserve data. Monthly figures, latest shown are for June.