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MONEY MARKET IN OCTOBER

After a period of relative ease in the last half of September, the money market had reverted by the opening days of October to the tightness that had characterized it during the summer months this year. At the beginning of the month, the banks lost a substantial volume of reserves, primarily through Treasury operations and an expansion of currency in circulation. Subsequently, further pressure on the money market developed as the banks were required to provide reserve backing for the expanded Treasury Tax and Loan balances growing out of the sale of the new issue of tax anticipation bills on October 8.

A slightly easier situation was caused temporarily at mid-month by a net outflow of funds from the Treasury's balances with the Federal Reserve Banks and the usual expansion of float. These influences were reversed in the last half of the month, however, and the market became steadily tighter in the closing days of October. Member bank borrowings and repayments from the Federal Reserve Banks were the principal offset to variations in the availability of funds from other sources, and over the month as a whole there was a substantial growth in the volume of discounts outstanding.

Despite the generally prevailing tightness in the money market, the market for short-term Government securities was firm through most of October as the result of a sizable nonbank demand for short-term investment. Toward the end of October, however, this demand tapered off somewhat and yields on most short-term securities increased moderately. Activity in the Government bond market was greater than in recent months, particularly because of expanded bank demand for eligible securities in the intermediate to longer-term range and switches between issues to establish losses for tax purposes. Rising prices for bank-eligible bonds tended to encourage similar price movements in the restricted bonds, despite a relatively thin market for these issues.

On October 3 the Treasury offered for competitive bidding 2.5 billion dollars of 161-day tax anticipation bills, dated October 8, 1952, and to mature on March 18, 1953. Tenders were received for 3,278 million dollars and the bills were allotted on accepted bids at an average rate of 1.720 per cent. Commercial banking institutions were the principal successful bidders, since the price paid the Treasury represented in part the value of the Tax and Loan Account to the bidder.

Member bank credit continued to increase seasonally during the four statement weeks ended October 22. Business loans of the weekly reporting member banks in this period went up by 547 million dollars, with the largest part of the increase—307 million dollars—centered in the New York City banks. Furthermore, holdings of Government securities by the weekly reporting banks, after showing a substantial reduction in the third quarter, increased as a result of Treasury financing operations in October.

MEMBER BANK RESERVE POSITIONS

On balance, most of the operating factors shown in the top section of the table on the next page absorbed funds during the five statement weeks ended in October. A small net gain in bank reserves resulted from a modest reduction in foreign balances with the Federal Reserve System. In effect, this reduction reflected a rather sizable net investment of foreign balances in United States Government securities which more than offset a further flow of funds into foreign official accounts in the Reserve Banks. But the gain to bank reserves from this source was insignificant by contrast with the reserves lost by the banks through an outflow of currency into circulation, an expansion of Treasury deposits with the Federal Reserve Banks,

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Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, October 1952
(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended					Five weeks ended October 29
	October 1	October 8	October 15	October 22	October 29	
Operating transactions						
Treasury operations*	−266	− 66	+388	−408	+ 22	−330
Federal Reserve float	− 17	− 23	+189	+183	−364	− 32
Currency in circulation	−170	−128	− 72	+106	− 29	−293
Gold and foreign account	+ 5	− 2	+ 48	− 10	+ 29	+ 70
Other deposits, etc.	−157	− 85	+ 69	− 63	+ 10	−226
Total	−605	−303	+621	−192	−332	−811
Direct Federal Reserve credit transactions						
Government securities	− 21	− 31	0	0	− 39	− 91
Discounts and advances	+143	+475	−247	+358	+ 41	+770
Total	+122	+444	−247	+358	+ 2	+679
Total reserves	−483	+141	+374	+166	−330	−132
Effect of change in required reserves	+ 92	+165	−445	+ 34	+ 62	− 92
Excess reserves	−391	+306	− 71	+200	−268	−224

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

and other factors. At the same time, required reserves moved higher, related largely to the increase in United States Government Tax and Loan Account deposits created by the sale of tax anticipation bills to the banking system.

Over the two weeks ended October 8, more than 900 million dollars of reserve funds were lost to the banking system, almost entirely through Treasury operations and currency outflows. To meet this drain, member banks increased their borrowing from the Federal Reserve Banks by over 600 million dollars, and an additional 250 million dollars in free funds were secured from a decline in required reserves. In the following statement week and for a few days thereafter, the usual mid-month growth in Federal Reserve float (checks which have been credited to the reserve account of the payee bank but which have not been debited to the payor bank's account), along with net outpayments from the Treasury's balances in the Reserve Banks, provided some measure of ease to bank reserve positions. Despite an increase of 445 million dollars in required reserves in this week (related mainly to payment for the tax anticipation bills), member banks were enabled to reduce their indebtedness to their Federal Reserve Banks by nearly 250 million dollars.

The banking system lost reserves over the last two statement weeks in October, with the greatest part of the loss attributable to Treasury operations and (in the final week) to declining float. To adjust for the loss of more than 500 million dollars in reserve balances through such influences during this two-week period, member banks again made use of the discounting privilege, borrowing some 400 million dollars from the Federal Reserve Banks. On October 29, discounts and advances at the twelve Federal Reserve Banks totaled 1,171 million dollars. Excess reserves were 523 million dollars on that date.

While the New York City banks were subject to the same general influences as those affecting bank reserve positions for the country as a whole, their borrowings at the Federal Reserve Bank of New York did not increase by the same proportionate amount as member bank borrowings at most of the other Federal Reserve Banks. Federal funds were available in the New York money market at rates of 1¼ to 1½ per cent on October 1, indicative of the existence of excess reserves earlier in that week. Throughout most of the rest of the month, except for the period of midmonth ease, Federal funds were quoted at the maximum rate, $1\frac{11}{16}$ per cent.

The Market for Government Securities

Yields on short-term Government issues, which had been rising toward the end of September, stabilized early in October, and then moved steadily lower. By October 21, most short-term securities were at the lowest yield levels since last June. A major part of the explanation for the firm short-term market was the active demand by nonbank investors and foreign accounts for short-period investments. Corporations invested substantial amounts of funds raised through recent financing operations and funds accumulated for tax and other purposes. At the same time, bank selling of these issues, while substantial, was not as great as might have been expected in view of the general tightness in the money market. Apparently, some banks at times deferred the sale of securities in the market for purposes of temporary reserve adjustment in expectation of funds arising from other sources. In the latter part of the month yields tended upward again, and by the end of October short-term yields were close to the levels at which they had opened the month. Nonbank demand tended to taper off and bank selling expanded slightly, accounting for the gradual upward adjustment in yields at that time.

The largest part of the new tax anticipation bills issued on October 8 was purchased initially by commercial banks. Their purchases were encouraged by permission to make payment, as in previous issues of such bills, through credits on their own books to the account of the Treasury. Therefore, the initial outlay to the individual subscribing bank was only a fraction —equal to the bank's percentage reserve requirement—of the actual allotment, and the net rate of return may thus be greater than indicated by the discount at time of issue. In a sense, the banks perform an underwriting function in this type of financing, bridging the gap between the Treasury's need to obtain funds in one operation on a given date and the more gradual accumulation of corporate tax accruals and other short-term funds. As these funds accumulate with nonbank investors, banks are enabled to sell tax anticipation bills to meet the demand for short-term investments. During the past three weeks a considerable volume of the new bills has moved out of bank portfolios in active market trading.

The market for intermediate and long-term Government securities also was firm in October, and the price increases on the fully taxable bond issues erased the largest part of the net declines sustained in September. Most of the increased activity in the market was centered in the bank-eligible bonds and notes, which were fairly consistently in demand at rising prices. Activity in these issues slackened somewhat and prices stabilized in the closing days of the month. Price gains of from ½ to 1½ points were recorded over the month on the bank-eligible bonds. Part of the expanded interest in this area is attributable to bank switching to lengthen portfolio maturities in line with the opinion advanced by various market commentators that, in view of the current outlook and at present prices for eligible bonds, such maturity extension is now desirable. Also, the usual seasonal switching by some banks to establish capital losses for tax purposes has added breadth to the market over the past month, particularly since some of this tax switching has also been related to a lengthening of portfolio maturities. Price increases ranging from 1 to 1⅜ points were registered for the long-term bank-restricted bonds in October on a minimum volume of actual trading. Trading in this area was frequently of a professional nature, although there was some demand for restricted bonds by institutional investors who had sold eligible bonds to meet the expanding demand for such issues.

Member Bank Credit

Business loans of the weekly reporting member banks increased by 547 million dollars in the four statement weeks ended October 22. In the similar period last year the increase was 394 million dollars. Reporting banks in New York City accounted for 307 million dollars of the total increase in this four-week period, while last year loans at these banks increased by 255 million dollars. The most striking difference between business loan developments this year and last lies in the distribution of the loans by industry groups. In 1951, throughout the summer and fall months metals and metal products firms were consistently large net borrowers, while this year these firms have tended to reduce indebtedness, with some notable recent exceptions. (The relatively large business loan increase in New York City during October was due in no small measure to an increase of nearly 100 million dollars in loans in the metals and metal products group in the week of October 15.) The seasonal loan expansion through October 22 of this year appears for the country as a whole to be concentrated largely in loans to the food, liquor, and tobacco industries and to commodity dealers—lines with heavy seasonal credit needs at this period of the year.

Bank credit statistics for *all* commercial banks indicate an interesting comparison between third-quarter credit developments this year and last. While total loans and investments of all commercial banks between June 25 and September 24 this year and between June 27 and September 26 last year increased by the same amount, about 2,300 million dollars, the increases in the two years occurred in different types of assets. In the third quarter of last year, Government security holdings of commercial banks expanded by 1,130 million dollars, while this year the increase was only 380 million dollars, despite the sale by the Treasury of more than 4 billion dollars of bank-eligible bonds on July 1. Conversely, the total of bank loans was up by 1,630 million dollars in the third quarter of this year, as contrasted with 920 million dollars in the same period last year. Thus, commercial bank credit expansion during the third quarter of 1952 has been centered more in private credit than was the case in 1951, despite the fact that Treasury new money borrowing for the third quarter was considerably greater this year than last.

The greatest part of the difference in loan expansion between the two years would appear to be accounted for by the growth in real estate and consumer loans over the June-September period this year. Loan data broken down into these categories are not available for all commercial banks. However, data for the weekly reporting member banks in the 94 larger cities show an increase in real estate loans of 153 million and in "other" loans—largely consumer loans—of 303 million dollars in the third quarter of 1952, by contrast with an increase of 75 million and a decrease of 32 million dollars, respectively, last year. The increase in business loans of the weekly reporting banks over the third quarter was nearly equal for the two years, totaling 822 million dollars this year and 858 million dollars in 1951.

Despite the over-all equality between the two years in total loan and investment growth for all commercial banks, the growth in the private money supply during the third quarter of this year has been at a much slower rate than in 1951. Private nonbank demand deposits at all commercial banks, after adjustment for changes in the level of cash items in the process of collection, grew by nearly 2.5 billion dollars in the third quarter of 1951, compared with an increase in such deposits of 570 million dollars in the third quarter of this year. On the other hand, Government deposits in the commercial banks decreased by more than 1 billion dollars over the June-September period last year but increased by 550 million dollars in 1952. One conclusion suggested by these differences is that despite the heavier schedule of Treasury borrowing this summer than last, the banking system has absorbed, on balance, a much smaller total of Government securities, and a much larger total has been moved into nonbank portfolios. In turn, the data indicate that both Government and private credit demands have been met this year with a minimum increase in the privately held money supply.

THE TREASURY AND THE MONEY MARKET

With the return of the Treasury to the market for considerable amounts of new money in addition to the usual large volume of refunding offerings, a general analysis of the various ways in which the Treasury's operations influence the flow of funds through the money market appears timely. The impact of debt management, or of the movement of receipts and expenditures through Treasury accounts, cannot be ascertained mechanically. The effects depend in part on how the debt is sold and how the taxes are paid; in the final analysis, they depend on what happens to bank reserves. Payment for securities by the tender of other securities—an exchange—obviously has no direct effect on money market funds, but cash payment for securities is another matter. Even securities sold for "cash", however, may not necessarily produce an immediate drain on bank reserves; the effects vary with the form of the payment to the Treasury. Nor is the collection of taxes necessarily an automatic drain on bank funds, since different taxes may be collected through different procedures, and the procedures may be varied from time to time.

Some of these considerations have been touched upon in a previous article in the *Review* on "The Treasury's Cash Balances"; other aspects have been mentioned in earlier articles on the "Marketing of Treasury Bills", and "Direct Security Purchases from the Treasury by the Federal Reserve Banks".[1] This article brings these together in an over-all survey of the effects of the Treasury's cash operations on the money market.

The Flow of Funds Through Treasury Accounts

The proceeds of taxes and of borrowing operations are originally collected either into Treasury accounts at some 11,000 commercial bank depositaries, or through direct payments into the Treasury's accounts at the Reserve Banks; but with minor exceptions all Treasury disbursements are made out of funds held on deposit in the Reserve Banks. Thus, nearly all the cash operating receipts and expenditures of the Government—about 70 billion dollars during the last fiscal year—and the receipts and expenditures connected with the debt sooner or later flow through the Treasury's accounts with the several Federal Reserve Banks. Each payment from the public into a Reserve Bank account represents a reduction of member bank reserves; each disbursement by the Treasury from a Federal Reserve account provides an equal increase in member bank reserves. Clearly the magnitude and the timing of the flow of funds through the Treasury's accounts at the Reserve Banks must inevitably be of major importance to the money market.

The impact of these money flows could be held to a minimum if the Treasury's operating balances in the Reserve Banks were kept at a constant figure, and if each day's inflow of funds were approximately offset by a corresponding amount of disbursements. While such a situation could represent a goal, the vast scale of the Government's operations, the diversity in the sources and uses of its funds, and unavoidable seasonal or mechanical characteristics of payments make such a neat balancing impossible. The likelihood of abrupt changes, resulting in intense stringency or sudden ease in the money market, can be lessened by the Treasury's current practice of initially funneling a considerable part of its receipts into its deposit accounts at commercial bank depositaries (known as Tax and Loan Accounts). In this way, the transfer of funds into Treasury accounts at the Reserve Banks can be regulated, within the limits permitted by expenditure requirements, so that reserves are withdrawn from the commercial banks for the briefest practicable period prior to their subsequent replacement through Treasury disbursements. To the extent it proves practicable to handle Treasury receipts in these two steps, that is, original collection in Tax and Loan Accounts followed by scheduled transfers to Federal Reserve accounts, the Treasury can largely neutralize the money market impact of the flow of funds through its accounts, or at least regulate the impact of Treasury operations on the money market in a way that will be least disturbing, taking into account the various other factors that influence the magnitude of bank reserves.

Treasury Outlays

Under present practices the Treasury has little control over day-to-day timing of disbursements from its balances with the Reserve Banks. The Government's suppliers of goods and services or its creditors have some potential discretion to delay or to speed up the presentation of their Treasury checks or redeemable debt instruments for payment, but as a practical matter the cashing of checks is rarely postponed. Some debt holders (or their agents), by taking advantage of the fact that some forms of debt may be redeemed directly at the Reserve Banks (without checks), can accelerate payment by the Treasury. In so doing, they bring about a quicker drain on the Treasury's balances than would be the case if checks were used.

Checks which are collectible at any Reserve Bank or any Reserve Bank branch—and at the Treasury Department—are used to pay for nearly all Governmental operating expenditures. Some outlays do pass through accounts maintained with commercial banks for the convenience of certain disbursing officers, such as a paymaster for a military post, but disbursements made in this way are relatively small in proportion to the total. On the other hand, only a small fraction of the expenditure connected with the debt involves the use of checks. Because of their nature, registered marketable securities—all of which are bonds—are redeemed by issuing a check

[1] These three articles appeared, respectively, in the *Reviews* for July 1951 (p. 99), October 1951 (p. 147), and August 1950 (p. 90).

to the owner in whose name the securities are registered, but registered securities are a very small portion of the marketable debt held by the public. On June 30, 1952 roughly 8 billion dollars of the total interest-bearing marketable debt of 140 billion were in the form of registered issues; the rest are "payable to bearer".

The greatest part of debt-connected disbursements, then, are made without the use of checks. Instead, banks obtain more speedy payment in the form of a direct credit to their accounts with the Reserve Banks upon presentation of redeemable bearer securities. Such maturing marketable issues are ordinarily forwarded by banks directly to their district Reserve Bank, sometimes by mail, sometimes by messenger. Some of the forwarded securities belong to the banks themselves, others belong to correspondent banks in outlying sections of Federal Reserve districts for which the banks are acting as agents. Still others belong to nonbank customers for which the banks also act as agents so as to obtain the deposits and to render a service to their customers.

Notwithstanding the fact that all nonmarketable bonds are registered in the name of the owner, many of them do not require the issuance of a check by the Treasury when they are redeemed. Series A to E Savings bonds may be redeemed (prior to cancellation of registration) by nearly 17,000 paying agents of the Treasury—mostly banks—located throughout the country; these agents are reimbursed by the Treasury from its accounts with the Reserve Banks upon presentation of the securities. In the fiscal year 1952, 98 per cent of the redemptions of Series A to E Savings bonds were handled in this fashion. Series F and G bonds, and their alphabetical descendants (Series H, J, and K), on the other hand, can be cashed only at Federal Reserve Banks and branches (and in Washington by the Treasurer of the United States); thus, a check on the Treasury's Reserve Bank account is involved. Savings notes and investment series bonds redeemed for cash also require a check in most instances. Savings notes that are tendered in payment of taxes, however, obviously do not.

Most expenditures for interest on the debt are also made without the use of checks; the banks present the interest coupons on bearer securities directly to the Reserve Bank. As in the case of securities being redeemed, the coupons are presented by the banks not only for their own account but also for the account of their customers.

In one sense, the distinction between Governmental expenditures made by check and those made without the use of checks is artificial. In both cases, the reduction of the Treasury's account with the Reserve Bank, when the instrument is presented for collection, is immediate. The corresponding rise in some other Federal Reserve account, nearly always member bank reserve balances, is also immediate. There is no deferred availability schedule for Treasury checks; they are immediately available funds. From the standpoint of the individual banks, however, there are real differences between payment by check and direct presentation of obligations. By direct action, the banks realize the advantages of speedier collection of funds, because this procedure eliminates the travel time involved in the journey of a check from the Treasury to the debt holder, thence to the bank, and finally to the Federal Reserve. The banks also have the assurance of obtaining the deposit. For the Treasury, such action means that the drain on its balances takes place sooner.

Treasury Receipts

As was indicated earlier, the Treasury's inability on any appreciable scale to quicken or slow down at will the flow of disbursements through its Reserve Bank balances does not extend to receipts. Through the Tax and Loan Account device much of the Government's revenues, as well as the proceeds of its sale of securities, may be diverted into a reservoir of funds with commercial banks to be tapped when the occasion demands. Obviously then, eligibility of receipts for credit to Tax and Loan Accounts is of considerable importance in determining the degree of control over the impact of receipts on Treasury accounts with the Federal Reserve and on member banks' reserve accounts. Were all Treasury funds to come directly into its Reserve Bank accounts, the build-up frequently would bring serious drains on bank reserves. At times, when the expenditure rate was rapid, the subsequent fall might also cause serious distortions in reserve positions. How great these distortions would be may be seen from a comparison of the variations in the movements of the two types of Treasury accounts shown in the chart on the next page. The variations in Reserve Bank accounts are already sizable, but, if the variations in the Tax and Loan Accounts were superimposed, it is easy to see how much greater they would be.

Payment for Treasury debt sold to the public for new money may usually be made with credits to Tax and Loan Accounts. Proceeds of nonmarketable securities absorbed by the public are uniformly eligible for credit to such accounts. Marketable issues also are ordinarily, but not always, sold for Tax and Loan Account credit. The principal exceptions to this rule are the 91-day Treasury bills, which are rarely sold for book credit.[2] Eligibility for credit to Tax and Loan Accounts does not guarantee that all payments will be made in this fashion but a large proportion of them are. Of the 11.8 billion dollars of new money issues—marketable (other than weekly bills) and nonmarketable—bought by the public in the fiscal year ended June 30, 1952, 81.6 per cent was paid for by Tax and Loan Account credits.

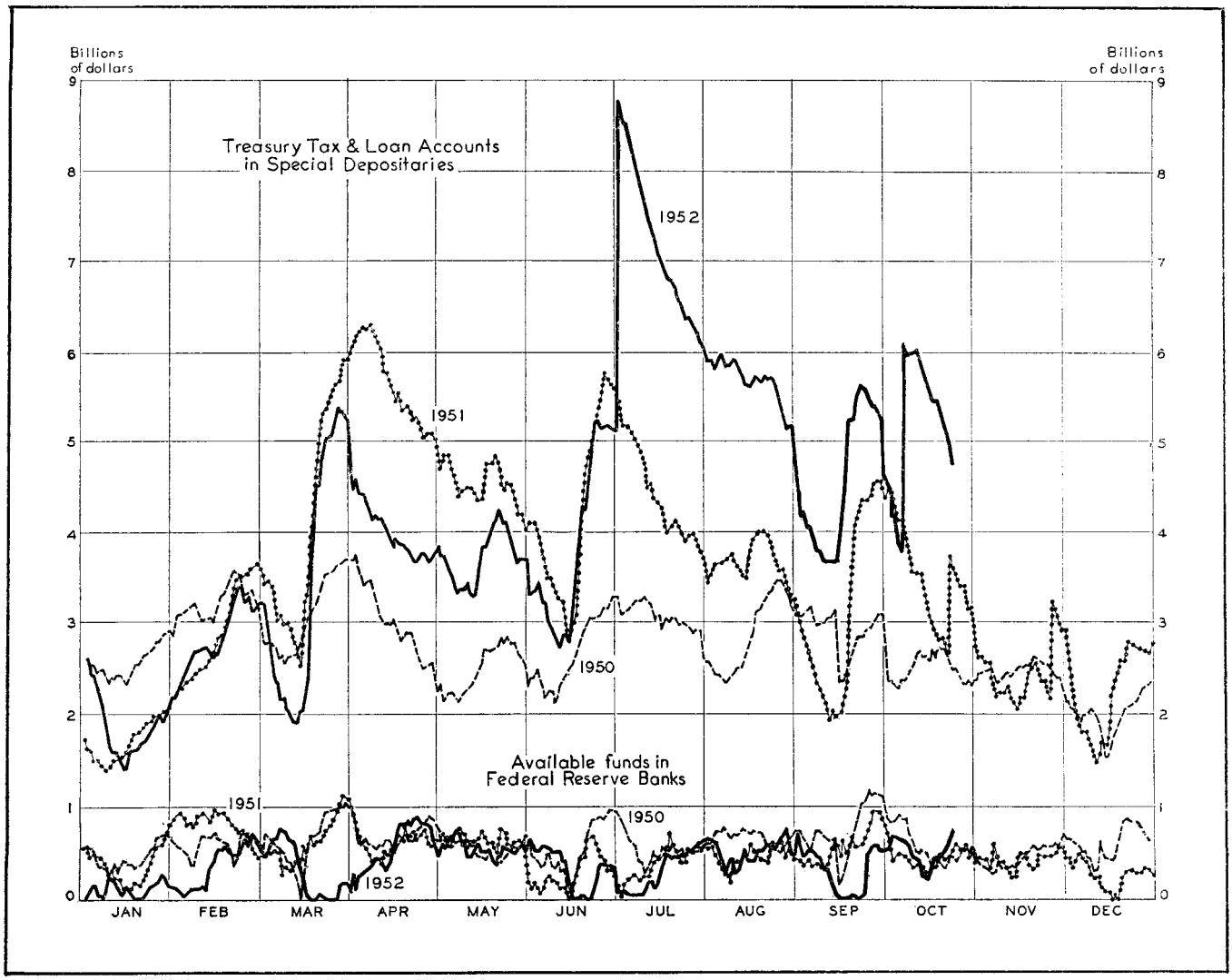
Not all securities sold to the public by the Treasury are new issues; sometimes the Treasury sells limited amounts of already outstanding issues in the market. These securities, usually held

[2] Each week a new issue of Treasury bills is sold for cash at the Reserve Banks and a maturing issue is redeemed. Ordinarily the weekly issue and redemption are approximately equal in amount, but even when the outstanding amount is enlarged by a relatively small amount, payment for new bill issues in cash at the Reserve Banks is almost always required. In fact, payment for such bills through credits at depositary banks was last used in 1942.

for the account of some Treasury trust fund, are always paid for by credit to the Treasury's Reserve Bank account. The Treasury occasionally also sells very short-term securities—special certificates of indebtedness—directly to the Federal Reserve System. The temporary funds involved are "created" by the Federal Reserve Banks and are credited to the Treasury's Reserve Bank account; they do not come from the public.

In contrast to debt proceeds, many types of taxes flow directly into the Treasury's balances with the Reserve Banks, because these taxes are regular in their flow and individually are small relative to total receipts. Others, however, arrive only after a sojourn in the Tax and Loan Accounts of commercial banks. Dollarwise, the relatively few types of taxes eligible to flow first into Tax and Loan Accounts constitute the bulk of the Government's revenues, but banks are not always in a position to exercise their option of receiving these taxes into Treasury accounts on their books (since the taxpayers sometimes send their payments directly to the Treasury). Withheld income and most social security taxes can be and are largely retained by the banks until the Treasury specifically calls for them by a withdrawal from Tax and Loan Accounts, and most corporate taxes—in quarterly months—are returned to the banks under an arrangement through which the proceeds of tax checks of $10,000 or more are returned to the banks on which they are drawn for credit to "X" balances of the Treasury in those banks. A modest amount of nonwithheld individual income taxes also comes under the "X" account procedure. During fiscal 1952, about 50 per cent of the Treasury's income and social security tax receipts were credited originally to Tax and Loan Accounts.

Treasury Deposits in Federal Reserve Banks and Special Depositaries
January 1950-October 23, 1952*



* Closing balances; Sundays and holidays omitted.
Sources: U. S. Treasury Department and Board of Governors of the Federal Reserve System.

The Influence of Treasury Operations on the Money Market

The influence of Treasury operations on member bank reserves and the money market depends upon the combined effect of the flows of receipts and expenditures through the Treasury's balance with Reserve Banks. If the flow of receipts is greater than the outgo, the Treasury's balance obviously goes up and member bank reserve balances are reduced. At times, such an increase occurs as a result of "natural" influences; that is, the rise takes place because cash collections through the Treasury's Federal Reserve accounts exceed cash disbursals without the withdrawal of funds from the Treasury's Tax and Loan Accounts in the commercial banks. Such occasions are few in number and they are short-lived. Before the rapid rise in defense expenditures during the past year or so and the introduction of the Mills plan for collection of corporate taxes which resulted in setting up the "X" balance procedure in March 1951, they occurred during January, March, June, September, and December, starting about the 17th or 18th of the month and lasting for approximately a week. Now, they seldom occur.

On balance then, and increasingly so since the climb in defense expenditures steepened, the Treasury's receipts which come directly to its Reserve Bank balances fall short of the amounts which must be paid. As a result, more or less continuous transfers from Tax and Loan Accounts to the Reserve Banks must be made. It thus becomes generally possible, by making the right calls on Tax and Loan Accounts, to prevent material changes in the Treasury's balance at the Federal Reserve and thereby minimize the corresponding effect on bank reserves which those changes exert. How much to withdraw from the commercial banks must be gauged in accordance with estimates of how large the needs of the Treasury are likely to be. This requires a calculation involving a forecast of the daily receipts and expenditures which flow in and out of the Reserve Bank balance of the Treasury. In order to make these forecasts, detailed studies are made of many individual categories of receipts and expenditures by both Treasury and Federal Reserve staffs. Withdrawals from Tax and Loan Accounts are normally announced twice a week, Monday and Thursday, and at these times the estimates, made independently by each of the two staffs, are compared. After any differences are resolved, the schedule of calls is fixed and notices are sent to the banks. Calls on Monday ordinarily are scheduled to be paid to the Treasury on the following Friday and on Monday of the next week; calls on Thursday usually cover three days, Tuesday, Wednesday, and Thursday of the following week. This procedure is followed with respect to calls on "B" depositaries (those holding Tax and Loan Accounts of more than $100,000 at the time of the most recent classification) and on "X" accounts; calls on "A" depositaries (those with $100,000 or less) are made less frequently, usually once a month.

The Treasury may at times, because of changes in the scale of its operations or for other reasons that are generally of a long-range character, find it necessary to alter the desired level of its working balances at the Reserve Banks. If the Treasury wishes its balance unchanged, of course, withdrawals from Tax and Loan Accounts are made with an eye toward matching the net outgo. When the Treasury's balance has, for any reason, fallen below the level required for operating convenience and it is desirable to restore it to a somewhat higher position, the withdrawals from Tax and Loan Accounts are scheduled so as to exceed the rate of net disbursements from all operations. When the Treasury's balance may have become too large at the Reserve Banks, or when the aim is to anticipate a subsequent rise in the Treasury's balance, the withdrawal of balances from commercial banks is slackened so that the Treasury's balance may decline. At times thought has also been given, within the limits permitted by all other considerations, to calling funds for transfer to the Treasury's balances at the Reserve Banks in such a way as to offset to some extent the effects of other factors influencing the volume of funds being placed at the market's disposal. In practice, however, very little range has been found for this kind of purposeful variation in Treasury calls, and attention has necessarily centered on minimizing the disturbing money market effects of these calls.

Depending on what needs to be achieved, variables other than Tax and Loan withdrawals may also be used. Special certificates of indebtedness may be purchased from the Treasury by the Reserve Banks under authorization of the Federal Open Market Committee if it is deemed desirable in a period of heavy tax payments to engage in a "smoothing-out" operation, providing bank reserves in advance of a later, unavoidable tightening. Such an operation is consistent with a general policy of maintaining Treasury balances as nearly level as possible, if the special certificates are purchased shortly in advance of a period when Treasury receipts, without calls, will exceed expenditures. Under such conditions, it may be desirable to reduce or suspend withdrawals from Tax and Loan Accounts, even though Treasury deposits with the Reserve Banks may already have been exhausted, so that the later pouring-in of receipts will not build the Treasury accounts with the Reserve Banks to an undesirably high level.

It is clear, however, that management of the Treasury's Reserve Bank balance, so as to avoid large shifts in bank reserves, is dependent on rather precise use of the various methods of accomplishing that variation, and there are definite limitations to such methods. First among these limitations are those set by operating considerations. For example, although full freedom to vary the balance may demand that all receipts be made eligible for credit to Tax and Loan Accounts, it is not practicable to do so. Take the case of declarations of estimated income taxes filed by individual taxpayers. In the first quarter of every year about five million of such declara-

tions are filed. Probably no more than 50,000 of these are accompanied by checks in amounts of $10,000 or more. It would be an enormous, unrewarding task to attempt to return the huge volume of smaller checks to the banks upon which they were drawn, although this is done with the larger checks credited to "X" accounts. Thus flexibility—the power to vary at will the level of the Treasury's balance with the Federal Reserve Banks—is circumscribed by the limits imposed by considerations of practicability.

Another operating consideration relates to the fact that there are certain minimum levels needed in Tax and Loan Accounts to keep the system working. Were the Treasury consistently to hold only small balances in Tax and Loan Accounts, such accounts would become unprofitable and unattractive to the banks. Thus, the Treasury can not allow its balances in those accounts to remain very low. On the other hand, operating considerations also call for the maintenance of a certain amount of funds with the Federal Reserve Banks. If less than 200-250 million dollars is kept in its General Account balance, the Treasury is exposed to the necessity of frequent shifting of funds among Reserve Banks, and its staff is compelled to pay undue attention to the regional pattern of receipts and expenditures so that sufficient balances are available in each Federal Reserve district to cover expenditures in that district; a balance of 400-500 million gives a margin of safety. The carrying of a balance of some size is also needed in order to avoid unnecessary borrowing from the Federal Reserve Banks in the event that the estimates go awry.

In fact, the margin of error in the estimates permits only an imperfect control over the Treasury's balance for the purpose of neutralizing disturbances that result from the large and variable flow of funds through the Treasury's accounts. Despite the earnest efforts of the various staffs engaged in making such estimates, the margins of error are at times sizable. The problems of estimating collection of tax checks during March may illustrate the reasons for the miscalculations. The volume of daily income tax receipts at such a time depends not only on the taxes due but also on the Revenue Bureau's ability to process the returns and to forward checks to the Reserve Banks; this ability has varied greatly. Whether the taxpayer will take refunds on the previous year's liability in the form of a credit on the current year's bill or in the form of a refund check, whether the corporate taxpayer finds it more advantageous to use Savings notes for payment or to sell marketable securities and pay the bill by check, whether the bank wishes an "X" balance credit, indeed, whether a taxpayer uses more than one check in payment (thus bringing each check under the $10,000 minimum for credit to "X" accounts) are also important factors bearing on the reliability of estimates. So long as the behavior of the taxpayer is relatively stable, the forecasts may be fairly good; sometimes, however, taxpayers have shown considerable deviation from their "normal" practices.

Conclusion

The range of variation in the Treasury's balance with the Reserve Banks may at times be large enough to introduce undesirable changes in the volume of bank reserves. The increased attention given to the management of the Treasury's cash balances in recent years, however, has materially reduced accidental or sudden swings in member bank reserves that would otherwise arise in the normal course of the Treasury's collecting and disbursing operations.

THE CANADIAN ECONOMY IN 1952

Recent economic developments in Canada have attracted world-wide attention. During the past eight months, the Canadian dollar has risen to a significant premium over the United States dollar, reflecting not only the substantial improvement in the Canadian trade position but also widespread foreign confidence in Canada's economic prospects and a willingness to invest in that country. This confidence in the Canadian economy has been greatly strengthened by the general success of the government's fiscal and monetary policies, which have maintained economic balance despite the strong expansionary pressures generated by the Korean war, the Canadian defense program, and the swift pace of economic development. Meanwhile, the growth potentialities of the Canadian economy continue to inspire new and far-reaching plans for the exploitation of Canada's abundant natural resources. The challenge of these new horizons, the venturesome spirit that now seems to pervade the Canadian economic scene, and the rapidity of the country's postwar economic expansion, all suggest that Canada stands at the threshold of a new era of economic progress.

Internal Conditions and Policies

In common with most other countries, Canada experienced an inflationary expansion following the outbreak of hostilities in Korea, as illustrated by the economic indicators shown in Table I. Although inflationary pressures appear to have gathered momentum somewhat more gradually than in the United States, the same basic expansionary factors—consumer-buying bulges, rapid inventory accumulation, increased government spending, stepped-up private capital outlays, credit expansion, rising wages, and fears of shortages and rising prices—were at work in both countries. By mid-1951, however, a rough balance emerged as these pressures were offset by the anti-inflationary measures of the government and by a number of other disinflationary forces.

The government's anti-inflationary program, according to Finance Minister Abbott, was "designed to guide the economy in the right direction without dictating the details of economic activity". In other words, Canada did not adopt a program of direct price and wage controls, but relied rather on a number of indirect restraints such as higher personal and corporate

income taxes, higher sales and excise taxes, the firm regulation of consumer credit, the restraining of credit expansion by a voluntary agreement between the Bank of Canada and the ten chartered banks, the discouragement of less essential investment projects by the discriminatory tax treatment of depreciation allowances, and an anti-inflationary debt-management policy. The only direct control measure was the allocation of strategic materials in short supply. Accompanied by a high and rising output, these inflation control measures helped to bring about—and were in turn reinforced by—a reduced rate of consumer spending, a slackening in the pace of inventory accumulation in some lines, and a general improvement in the psychological atmosphere.

Although both the wholesale price and the cost-of-living indexes have shown gradual declines during the first three quarters of this year, the Canadian economy remains buoyant. Consumer incomes and (after April) consumer spending have increased sharply, private capital expenditures and government outlays have continued to rise, and the balance of trade has shown large monthly surpluses, while modifications in the credit restraint program have allowed an increase in bank credit. These expansionary forces appear to have been offset mainly by the following factors: the strong upward trend in industrial production (a July setback was due almost entirely to the United States steel strike); the high level of food and other agricultural production; curtailment of the housing boom; a decline in prices of many types of raw materials; the substantial budgetary surplus, attributable mainly to seasonal and special factors, that was achieved in the first six months (April-September) of the current fiscal year; and the anti-inflationary cushion provided by the high volume of most types of inventories at the beginning of 1952.

To wedge a large rise in defense spending into an economy already strained by the almost full utilization of existing resources has been one of the chief economic problems confronting the Canadian Government. Early in 1951, Canada undertook a three-year defense program. Although bottlenecks, scarcities of key raw materials, and other obstacles have kept the rate of defense spending somewhat below the rates projected in budgetary forecasts, actual defense outlays have increased from a monthly average of about 30 million dollars in the second quarter of 1950 to an average of 130 million in the third quarter of 1952. To meet the rising cost of the defense program, new taxes were imposed and existing taxes were increased; moreover, the tax program was designed not merely to keep the over-all budget in surplus but also to provide additional revenue in a manner specifically calculated to dampen inflationary pressures.

Although Finance Minister Abbott budgeted for a surplus of only 30 million dollars for the 1951-52 fiscal year, rising income and retarded defense spending led to an actual surplus of 248 million. For the 1952-53 fiscal year, a surplus of 9 million dollars, with revenues of 4,279 million and expenditures of 4,270 million (2,106 million for defense), was forecast last March. During the first half of the current year (April-September), however, a surplus of 291 million dollars has been recorded, with expenditures of 1,709 million (732 million for defense) and revenues of 2,000 million. Despite fiscal accounting changes this year which have spread certain fixed charges more evenly through the fiscal year, the seasonal pattern of a higher ratio of revenues to expenditures during the first half of the year has apparently continued to prevail. This pattern, when linked with the rising trend of defense spending, may bring the budgetary accounts fairly close to an over-all balance for the entire 1952-53 fiscal year.

As previously noted, monetary policy has been an influential factor in the achievement and maintenance of economic balance in Canada. The Bank of Canada increased the discount rate from 1½ per cent to 2 per cent on October 17, 1950. Although this was largely a symbolic move in the sense that bank borrowing from the Bank of Canada had been negligible, it led to an upward adjustment in the level of interest rates and served as a clear indication that the central bank's open market operations in government securities would continue to be undertaken with a view to exercising monetary restraint. Further increases in interest rates took place in 1951 and 1952;

Table I

Canadian Economic Indicators

Quarter or month	Industrial production (1935–39 = 100)	Cost of living (1935–39 = 100)	Wholesale prices (1935–39 = 100)	Average hourly wages in manufacturing (cents per hour)	Unemployment* (per cent)	Retail sales (millions of Canadian dollars)
1950—I	187.2	162.1	201.1	101.1	6.1	602.1
II	197.8	164.5	206.6	102.6	2.9	771.7
III	197.8	168.6	218.0	104.2	1.9	805.6
IV	210.2	170.8	223.8	106.5	2.2	845.9
1951—I	213.7	175.8	237.5	110.3	3.3	749.9
II	220.1	182.6	242.3	114.3	1.6	910.2
III	207.2	188.8	241.7	119.4	1.4	884.8
IV	206.9	190.9	238.8	123.3	1.9	936.8
1952—I	208.0	190.5	233.4	127.3	4.1	771.4
II	216.9*p*	187.6	226.1	129.4	2.0	983.9
July	210.8*p*	188.0	225.5	128.9	—	965.4
August	n.a.	187.6	223.9	129.0	1.6	n.a.
September	n.a.	186.5	n.a.	n.a.	—	n.a.

p Preliminary. n.a. Not available. * In March, June, August, and November.
Source: Dominion Bureau of Statistics.

yields on most intermediate and long-term government securities, for example, are now approximately 1 per cent above their immediate post-Korea levels. In addition, in February 1951 a voluntary agreement was concluded between the Bank of Canada and the ten chartered banks for restraining the rapid growth in bank credit, under which the banks not only were to apply certain qualitative criteria to their lending operations beyond the normal standards of creditworthiness but also were to establish quantitative credit limits which would avert any further increase in the aggregate outstanding volume of their private loans and investments. Finally, consumer credit controls, which were originally imposed in November 1950, were further tightened in March 1951.

It is difficult to assess the effectiveness of these measures, owing to the fact that by mid-1951 a number of special nonmonetary factors were tending to weaken credit demands. However, the credit restraint program undoubtedly contributed significantly to the abatement of the inflationary pressure. By early 1952, the central monetary authorities apparently became convinced that there was no longer any serious threat of a new inflationary outburst of credit creation. Consumer credit regulations were accordingly relaxed in January and abolished in May, and in the latter month the Bank of Canada announced the suspension of all but one of the special credit restraints included in its February 1951 agreement with the chartered banks; only the higher margin requirements against bank loans secured by corporate stocks were retained. At the present time, therefore, virtually all selective and voluntary monetary measures have been abandoned in Canada, and monetary control apparently is being exercised only in general quantitative terms.

Trade, Balance of Payments, and Exchange

In per capita terms, Canada's trade is one of the largest in the world. In 1951, exports and imports together totaled over 8 billion dollars, compared with a gross national product of about 21 billion. Last year, the United States market absorbed approximately 60 per cent (2.3 billion Canadian dollars) of total Canadian exports, while supplying about 70 per cent (2.8 billion Canadian dollars) of total Canadian imports.

During most of the postwar period, Canada has had large over-all trade surpluses. In 1950, however, there was a small deficit, and in the first half of 1951 a heavy deficit was recorded, primarily owing to strong import demands abetted by fears of scarcities and rising prices (see Table II). In the latter part of 1951, a significant reduction in imports from the United States, along with a rise in Canadian exports to both the United States and the United Kingdom, resulted in a reappearance of trade surpluses. These have continued during 1952 as the unfavorable balance of trade with the United States has been more than offset by high and rising exports to, and stable or lower imports from, the United Kingdom, Latin America, and some Western European countries. Exports for the first half of this year established a new record of 2.1 billion dollars and were 17 per cent in volume and 20 per cent in value above the first half of 1951. The increase was centered mainly in wheat and other grains, iron and iron products, and nonferrous metals. Newsprint, wheat, wood pulp, and lumber, in that order, remain the four most important Canadian exports.

Table II
Canadian Foreign Trade
(Monthly rates in millions of Canadian dollars; excluding gold)

Period	Total trade	Trade with United States	Trade with United Kingdom	Trade with Other
Exports:				
1950-Year	263.1	170.8	39.4	52.9
1951-First half	293.8	187.8	42.4	63.6
Second half	366.8	201.2	63.6	102.0
1952-First half	352.4	188.7	66.1	97.6
July	375.7	192.0	69.4	114.3
August	350.3	181.0	71.6	97.8
Imports:				
1950-Year	264.5	177.5	33.7	53.3
1951-First half	350.4	245.2	37.4	67.8
Second half	330.4	223.7	32.8	73.9
1952-First half	325.1	243.0	26.9	55.2
July	343.2	246.6	34.1	62.5
August	302.9	212.8	32.4	57.7
Balance:				
1950-Year	− 1.4	− 6.7	+ 5.7	− 0.4
1951-First half	− 56.7	− 57.4	+ 5.0	− 4.3
Second half	+ 36.4	− 22.5	+ 30.9	+ 28.0
1952-First half	+ 27.3	− 54.3	+ 39.2	+ 42.4
July	+ 32.5	− 54.6	+ 35.3	+ 51.8
August	+ 47.5	− 31.9	+ 39.2	+ 40.2

Source: Dominion Bureau of Statistics.

One of the chief factors in the re-emergence of trade surpluses has been an extremely sharp improvement in the Canadian terms of trade. The index of the terms of trade showed an improvement of approximately 16 per cent from the second quarter of 1951 to the second quarter of 1952. A large part of this rise is traceable to the substantial increase in the exchange value of the Canadian dollar, which has tended to cheapen imports and increase the prices of exports.

On over-all balance-of-payments account, the Canadian position has been strongly influenced in recent years not only by the trade developments outlined above but also by major variations in the balance on current invisible account, and more especially in capital movements. Thus, in 1950 a capital inflow of over 1 billion Canadian dollars and a trade surplus of 10 million more than offset the 340 million current invisibles deficit, providing an over-all payments surplus of 694 million. In 1951, on the other hand, the capital inflow fell to 563 million dollars and the invisibles deficit widened to 371 million, while a trade deficit of 153 million was recorded; accordingly, the over-all payments surplus dropped sharply to 39 million.

Thus far in 1952, the over-all payments position appears to have remained in surplus. If so, this is largely attributable to the improvement in the current account balance. On capital account, the sharply rising rate of direct foreign investment in Canada (particularly by the United States) may well have been roughly offset by other types of capital transactions, such as

the liquidation of foreign-held Canadian securities (largely "profit-taking" at a favorable exchange rate), the substantial decline in Canadian bond flotations and the accelerated retirement of Canadian bonds in the New York market, and a significant increase in holdings of exchange abroad by Canadians.

The changes that have been taking place in Canada's external position have been reflected in the movements of that country's reserves of gold and United States dollars, which at the end of 1951 totaled approximately 1,780 million United States dollars. During 1952 they have continued to increase to a record 1,856 million on September 30 (see Chart I).

When the Canadian dollar was unpegged in October 1950, its rate rose sharply (as shown in Chart II) from US$0.91 to US$0.95. The rate fluctuated around the new level during the last quarter of 1950 and the first quarter of 1951, but then dropped to US$0.93 by mid-1951. Since then it has moved irregularly upward, reaching par with the United States dollar in February 1952 and a peak (the highest since 1933) of US$1.04 11/32 in August. Continued strength in September was followed by some weakening in the rate during the past month.

The substantial rise in the Canadian dollar, which has been made possible by the government's official policy of permitting the rate to fluctuate in response to market forces, was the result of a variety of circumstances. One of the most fundamental factors has been the confidence in the currency instilled by the government's measures for maintaining a strong fiscal position and by its generally restrictive monetary policy. These sound financial measures, in turn, permitted the removal of all existing exchange controls in December 1951—an expression of official confidence in Canada's exchange position that produced an immediate upward movement in the exchange rate.

In this setting, the recent large demands for Canadian dollars —arising partly from speculative and seasonal forces, but mainly from the favorable trade balance and from heavy inflows of American capital seeking to participate in the country's industrial expansion and resource development—inevitably generated strong pressures for a rise in the exchange rate.

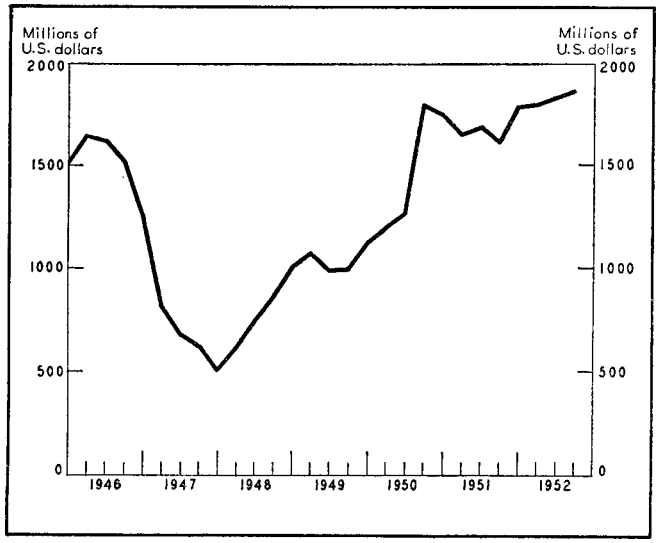
New Horizons

The current strong demand for Canadian exports (especially in United States markets), the present high level of both foreign and domestic investment, and the existing framework of incentive policies have sharply stimulated Canadian economic expansion. Preliminary efforts are already being made to tap some of the abundant new resources discovered in the past few years, while high raw material prices are intensifying efforts to develop mineral deposits already known, particularly those which until recently were regarded either as uneconomical to work or as "inaccessible". Increased exploitation of these resources should strengthen Canada's international economic position not only by expanding exports now in heavy demand abroad, but also by helping to meet Canadian demands for items that now must be imported. The main fields of present and prospective Canadian development are in oil and natural gas, iron ore, nonferrous metals, hydroelectric power, and uranium.

In the last five years, extensive exploratory and developmental activities in western Canada have already led to a thirtyfold increase in Canada's proven oil reserves. Canadian oil production has increased from 21,000 barrels per day in 1947 (8 per cent of Canadian needs) to 132,000 in 1951 (almost one third of the much larger Canadian needs in that year). Extensive oil pipeline facilities have been completed

Chart I

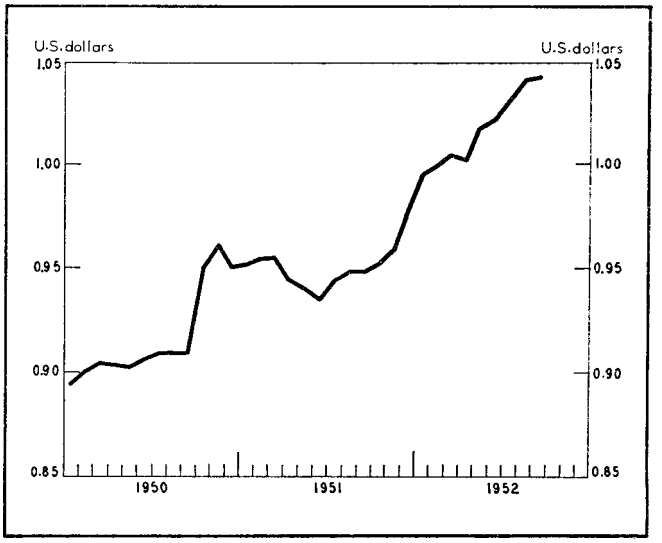
Canadian Official Holdings of Gold and United States Dollars
(End of quarter)



Source: Bank of Canada *Statistical Summary.*

Chart II

Value of the Canadian Dollar in United States Dollars
(Monthly averages of New York daily closing offered rates for cable transfers)



Source: Federal Reserve Bank of New York.

and more are under way. In addition, proposals have been made for the transportation of low cost natural gas from Alberta to both eastern Canada and Vancouver. These various developments are especially important in terms of their recent and prospective effects in improving Canada's balance-of-payments position vis-a-vis the United States. It has been estimated, for example, that the increase in Canadian oil production from 1948 to 1951 saved approximately 350 million United States dollars through the replacement of imported crude petroleum. Moreover, United States interest in oil and natural gas exploration and development has brought a significant inflow of United States capital. Judging by present trends, Canada may become a net exporter of oil by the latter part of this decade.

Rich iron ore deposits have been discovered on the Labrador-Quebec border and north of Lake Superior, and operations have begun for bringing these ore bodies into production. Aluminum production will be doubled upon the completion of the aluminum-hydroelectric project in northern British Columbia. At the same time, a very large expansion is also projected for nickel, copper, zinc, lead, tungsten, and other nonferrous metals. Finally, several uranium mines have been established in the northwestern part of the country, and a further expansion in this field is likely in the near future in view of the critical importance of radioactive materials under present world conditions.

Canada is also forging ahead rapidly in the development of its hydroelectric resources. A number of major projects are currently under construction and will add about 25 per cent to Canada's generating capacity as they come into production over the next three or four years. Additional projects, including those related to the St. Lawrence Seaway, are still in the planning stage.

The decision of the Canadian Government to proceed alone with the controversial Seaway project promises not only the improvement of navigation on the St. Lawrence River so that the inland ports of the Great Lakes will be accessible to ocean-going vessels, but also a series of hydroelectric power developments on both the Canadian and the United States sides of the river. The government's decision to push the project has evidently been influenced by the possibilities it would offer both for low cost shipment of Quebec-Labrador iron ore and prairie wheat, and for the easing of the critical power shortage, especially in Ontario. On October 29, 1952 the hydroelectric aspects of the plan were approved by the International Joint Commission (established under the Boundary Waters Treaty of 1909 to pass, among other things, upon schemes involving the waters common to both countries). Although a power authority must still be appointed in the United States to cooperate with the Province of Ontario in these power developments and this authority must be granted a license by the United States Federal Power Commission, before the Seaway can become a reality, the Canadian Government is apparently hoping that its construction may be started some time in 1953.

In summary, upon the base of an enormous industrial expansion in Canada during World War II, there has been superimposed an extremely rapid industrial growth during the postwar period. A substantial flow of immigrants has helped to meet industry's mounting labor needs, while a very large volume of domestic and foreign capital has been placed at the disposal of both old and new enterprises.[1] The accelerated development of natural resources has stimulated a rapid growth of secondary industries—for example, in the chemical industry in the western oil field area—as well as a diversification in both the geographical location and the composition of Canadian industry.

Finally, government policies have fostered rapid economic development in Canada. During the past two years, of course, when defense requirements and inflationary pressures have placed critical strains upon the economy, official policies have attempted to channel the continuing expansion in industrial and primary production into "more essential" lines. But many factors suggest that Canada may be moving toward new horizons in a general economic atmosphere conducive to enterprise and individual initiative.

[1] Projected public and private investment in 1952, according to the latest estimate, is 5,181 million Canadian dollars, or 23 per cent of the estimated gross national product; this represents an increase of 13 per cent in dollar terms and 8 per cent in real terms above actual investment in 1951. Of the 1952 total, foreign investment in Canada will probably constitute somewhat more than 10 per cent.

NONAGRICULTURAL EMPLOYMENT

The table of Selected Economic Indicators includes each month four comprehensive series on employment. Both the number of persons employed in all nonagricultural industries and those engaged in manufacturing (which accounts for approximately one third of all nonfarm workers) are shown for the United States and the Second District after adjustment for seasonal variations.

Sources and Nature of the Statistics

Basic data on nonagricultural employment are collected monthly by the U. S. Bureau of Labor Statistics, with the assistance of cooperating State and Federal agencies, and cover all full and part-time employees who worked or received compensation for the pay period ending generally nearest the 15th of the month.[1] Persons on paid vacations or on holidays or sick leave for which they are being paid are considered

[1] Government employees are the notable exceptions. The pay period for State and local government employees is the last one in the month while, for Federal employees, it is the one just preceding the first of the reporting month. For example, September data are based on the last pay period in September for State and local employees and on the last pay period in August for Federal Government employees.

employed, but not those on leave without pay during the reporting period. Thus, these statistics tend to overstate somewhat the number actually on the job, particularly during July when paid plant-wide vacations are numerous. Excluded from these statistics, in addition to agricultural workers, are proprietors, self-employed persons, unpaid family workers, domestic servants, and members of the armed forces. Total estimates for the United States are currently based on reports from approximately 42,000 manufacturing firms and about 107,000 nonmanufacturing establishments, supplemented by information from such agencies as the Interstate Commerce Commission, which furnishes data on railroads, and the U. S. Civil Service Commission and the Bureau of the Census, the principal sources for government employment statistics.

The B.L.S. classifies reporting establishments into appropriate industry groups on the basis of major product or activity during the preceding calendar year as determined by sales data. The definitions and industrial groupings adopted for manufacturing industries are those established by the Bureau of the Budget in the *Standard Industrial Classification Manual* (November 1945); for nonmanufacturing industries the classification structure is determined by the *Industrial Classification Code* of the Social Security Board (1942). In addition to estimates of the number of persons employed in all nonagricultural industries and in the important manufacturing segment, separate series are compiled for seven other major industry groupings, including mining, contract construction, transportation and public utilities, trade, finance, service, and government. Likewise, detailed data are published on wage and salaried workers for individual manufacturing and nonmanufacturing industries and industry groups as well as on production workers for the manufacturing and mining industries. However, most of the series for individual industries, particularly those in the manufacturing sector, are comparable only as far back as January 1947.

Monthly estimates for each individual industry are computed by the B.L.S. on the basis of relative changes in employment for an identical sample of reporting establishments.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1952			1951	Percentage change	
		September	August	July	September	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	225*p*	214	193	218*r*	+ 5	+ 3
Electric power output*	1947-49 = 100	145	148	140	135	− 1	+ 8
Ton-miles of railway freight*	1947-49 = 100	—	103	82	110	+26	− 2
Manufacturers' sales*‡	billions of $	23.4*p*	21.9	21.9	20.9	+ 7	+12
Manufacturers' inventories*‡	billions of $	43.3*p*	43.1	42.7	42.1	#	+ 3
Manufacturers' new orders, total	billions of $	—	23.7*p*	22.6	21.5*r*	+ 5	+ 3
Manufacturers' new orders, durable goods	billions of $	—	11.1*p*	11.2	10.3*r*	− 1	+ 1
Retail sales*††	billions of $	14.0*p*	13.4	13.6*r*	13.0	+ 4	+ 8
Residential construction contracts*	1947-49 = 100	—	193*p*	196	168	− 2	+10
Nonresidential construction contracts*	1947-49 = 100	—	217*p*	165	133	+32	+52
Prices, wages, and employment							
Basic commodity prices†	Aug. 1939 = 100	290.8	293.6	293.3	325.7	− 1	−11
Wholesale prices†	1947-49 = 100	111.7*p*	112.2	111.8	113.4	#	− 1
Consumers' prices†	1935-39 = 100	190.8	191.1	190.8	186.6	#	+ 2
Personal income (annual rate)*	billions of $	—	267.1*p*	263.9	257.3	+ 1	+ 4
Composite index of wages and salaries*	1939 = 100	—	237*p*	235	227	+ 1	+ 4
Nonagricultural employment*	thousands	47,096*p*	46,900	46,153*r*	46,465*r*	#	+ 1
Manufacturing employment*	thousands	16,054*p*	15,865	15,351*r*	15,801*r*	+ 1	+ 2
Average hours worked per week, manufacturing†	hours	41.1*p*	40.6	39.9	40.6	+ 1	+ 1
Unemployment	thousands	1,438	1,604	1,942	1,606	−10	−10
Banking and finance							
Total investments of all commercial banks	millions of $	75,890*p*	76,240*p*	77,040	72,590	#	+ 5
Total loans of all commercial banks	millions of $	61,200*p*	60,210*p*	59,720	55,960	+ 2	+ 9
Total demand deposits adjusted	millions of $	96,360*p*	95,750*p*	95,730*r*	91,950	+ 1	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,284	29,145	29,086	28,157	#	+ 4
Bank debits (U. S. outside New York City)*	millions of $	91,075	83,822	91,674	81,196	+ 9	+12
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	114.5	116.7	113.4	116.1	− 2	− 1
Consumer instalment credit outstanding†	millions of $	15,252*p*	14,940	14,745	13,167	+ 2	+16
United States Government finance (other than borrowing)							
Cash income	millions of $	6,897*p*	4,877	3,593	6,555	+41	+ 5
Cash outgo	millions of $	6,063*p*	5,622	6,233	4,862	+ 8	+25
National defense expenditures	millions of $	4,394	3,534*r*	4,367	2,970	+24	+48
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	131	131	124	127	#	+ 3
Residential construction contracts*	1947-49 = 100	—	168*p*	164	145	+ 2	+ 9
Nonresidential construction contracts*	1947-49 = 100	—	142*p*	147	132	− 3	+ 1
Consumers' prices (New York City)†	1935-39 = 100	186.0	185.7	185.9	182.5	#	+ 2
Nonagricultural employment*	thousands	—	7,480.4*p*	7,474.3	7,360.5*r*	#	+ 1
Manufacturing employment*	thousands	2,710.1*p*	2,692.4	2,677.0*r*	2,625.8*r*	+ 1	+ 3
Bank debits (New York City)*	millions of $	52,423	48,501	58,216	43,771	+ 8	+20
Bank debits (Second District excluding N. Y. C. and Albany)*	millions of $	4,040	3,759	4,062	3,502	+ 7	+15
Velocity of demand deposits (New York City)*	1947-49 = 100	131.7	134.7	134.0	120.8	− 2	+ 9

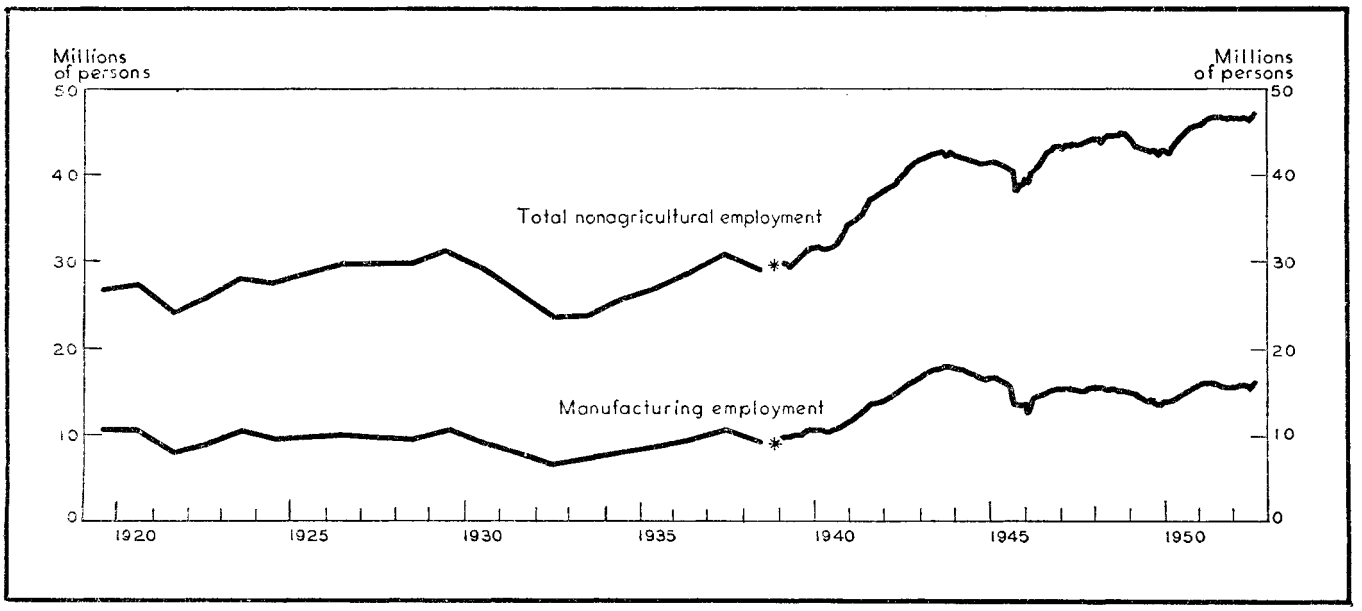
Note: Latest data available as of noon, October 31.
p Preliminary. *r* Revised. # Change of less than 0.5 per cent.
* Adjusted for seasonal variation. ‡ Series revised 1949 to date.
† Seasonal variations believed to be minor; no adjustment made. †† Revised back to January 1951.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

Separate industry data are aggregated to obtain industry groups, major industry groupings, and composite data for all industries except agriculture. Since the reporting sample accounts for nearly two thirds of total employment in all manufacturing industries and smaller proportions for most of the other seven broad industry divisions, the Bureau periodically adjusts its series to independent estimates of total employment or benchmark data. The principal source of these benchmarks since 1939 has been employer-contribution reports to the unemployment insurance and old-age and survivors insurance agencies. For industries not covered by social security data, special benchmarks are obtained from the Interstate Commerce Commission, the U. S. Civil Service Commission, and the Bureau of the Census. Adjustment to new benchmark data is primarily important to correct for the downward bias inherent in all series based on a reporting sample of this type. Reports from newly opened firms, which generally are expanding more rapidly than the average, are ordinarily not available until some time after they begin operations, and consequently there is some delay in introducing these firms into the sample. On the other hand, the sample may include some firms whose business is on the downgrade and thus doing worse than the average.

The B.L.S. employment data for all nonagricultural industries, manufacturing, and the seven other major industry categories for the United States are adjusted for normal seasonal variations by the Board of Governors of the Federal Reserve System. These series are available, beginning with January 1939, from the Division of Research and Statistics of the Board and are published regularly in the *Federal Reserve Bulletin* and the *Survey of Current Business*. Annual data as far back as 1919 were released by the Bureau of Labor Statistics in the October 1949 issue of the *Monthly Labor Review*. Monthly index numbers of total nonagricultural employment, with 1947-49=100, are also available back to January 1929 from the Board of Governors.

Total nonagricultural employment and manufacturing employment for the Second District are estimated by this bank from data furnished by the Division of Employment of the New York State Department of Labor, the New Jersey Department of Labor and Industry, and the Employment Security Division of the Connecticut Department of Labor. Detailed monthly employment data by industry for these States are also released by these agencies; these statistics conform to the standards established by the Bureau of Labor Statistics for inclusion in the national totals. Although these sources compile data for areas within the States, they do not assemble data on employment on a monthly basis for the twelve northern counties in New Jersey and Fairfield County in Connecticut which, in addition to New York State, comprise the Second Federal Reserve District. Therefore, employment estimates for the counties in both States are derived separately as proportions of their respective State totals from numerous employment and other economic series which are published less frequently (e.g., the *Census of Manufactures*) and for which county data have been compiled. From these series, representative ratios have been determined for the portions of New Jersey and Connecticut located in the Second District. The ratios for the areas in both States have been remarkably consistent for different types of data over prolonged periods

Chart I
Employment in Nonagricultural Establishments in the United States
1919-September 1952



* Annual averages prior to 1939; seasonally adjusted monthly data beginning in 1939.
Sources: U. S. Bureau of Labor Statistics and Board of Governors of the Federal Reserve System.

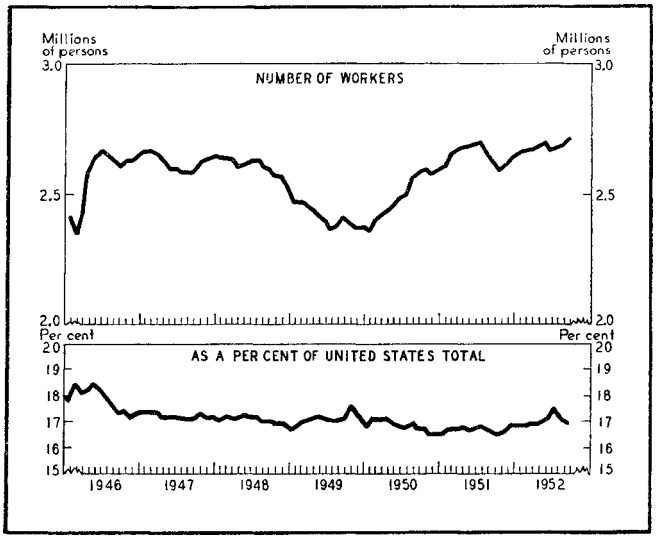
of time. The resulting percentages—80 per cent of New Jersey as representative of the twelve northern counties and 25 per cent of Connecticut as indicative of Fairfield County—are the bases for estimating employment in all nonagricultural industries and in manufacturing for these portions of the Second District. These estimates when combined with New York State aggregates yield the two Second District totals. Both series, with and without adjustment for seasonal variations, are available from January 1946 to date on request from the Domestic Research Division, Research Department.

Nonagricultural Employment as an Economic Indicator

The movements in nonagricultural employment follow closely the expansion and contraction of the general business cycle, reaching peaks and troughs roughly coincident with those for over-all economic activity. As shown in Chart I, employment gains during the twenties were centered in nonmanufacturing industries, since there was no apparent rise in the number of manufacturing workers between 1919 and 1929. The lowest depression levels in employment were reached in 1932 when 7.7 million fewer persons held nonfarm jobs than in 1929; half of this decline occurred in manufacturing. However, during the recovery years that followed, nonagricultural employment expanded continuously to a peak in 1937 close to the 1929 high of 31 million persons. During the business recession of 1938, the number of nonfarm workers dropped below 29 million, but reached new all-time high levels toward the end of the following year; further sharp gains were made in the early war years. As the need for civilian workers became especially acute to meet the demands of a nation at war, the number of nonfarm workers, and particularly manufacturing workers, climbed to unprecedented levels in 1943.

Since the end of World War II, when there was a brief but sharp drop in employment as layoffs in war industries became widespread, the number of nonagricultural workers has risen further to levels surpassing the wartime high. Except for a contraction during the recession of 1949, this advance was continuous until a year after the outbreak of war in Korea. Thereafter, nonagricultural employment (on a seasonally adjusted basis) was maintained close to 46.5 million workers until layoffs in manufacturing industries resulting from the steel strike caused a decline to 46.2 million in July. In the two months following the settlement of the strike, however, the number of nonfarm workers has expanded to a new all-time high of over 47 million. In contrast to the further growth of employment in all nonagricultural industries during the postwar years, the number of manufacturing workers, adjusted for seasonal variations, has not matched the World War II high of 17.8 million persons, despite the stimulus of defense activity in the last two years. The postwar high in manufacturing employment established in April 1951 was 1.7 million workers below the record wartime level.

Chart II
Manufacturing Employment in the Second District
(Adjusted for seasonal variation)



Manufacturing employment in the Second District has made a somewhat less favorable showing than that in the rest of the country during the postwar years. As is indicated in Chart II, the proportion of manufacturing employees in this District to the total for the country gradually edged downward each year since 1946 (except for a brief spurt during the steel strike in 1949) to a low point of 16.5 per cent reached in late 1950 and early 1951. There has been some slight rise, however, since that time. The relative gains in employment in other nonagricultural industries in this District have been more nearly in line with those for the nation as a whole over the postwar period.

Comparison with Census Estimates of Nonagricultural Employment

Another measure of nonagricultural employment is released regularly by the Bureau of the Census in its *Monthly Report on the Labor Force.* This series is based each month upon information obtained on employment activity in personal interviews with a scientifically selected sample of households. Data from the Census Bureau are not available in comprehensive detail, nor are they directly comparable with the Bureau of Labor Statistics estimates of total nonagricultural employment. In September 1952, the Census Bureau reported total nonagricultural employment of 54.7 million while the B.L.S. estimated that employees in nonagricultural establishments totaled 47.6 million.

Several reasons account for the differences in the level and month-to-month movements in nonagricultural employment as

published by these two agencies. Proprietors, self-employed persons, unpaid family workers, and domestic servants are included in the Census series but not in B.L.S. data. In addition, the Census Bureau counts persons with a job during the calendar week containing the eighth day of the month, whether or not they worked or were paid during that period, thus including persons on strike or temporarily laid off. The B.L.S. includes only those who worked or received pay for any part of the pay period ending generally nearest the 15th of the month. As a very slight offset to the greater inclusiveness of the Census estimates, however, persons who were employed in more than one establishment during the reporting period are counted only once in the Census surveys but more than once by the B.L.S.

DEPARTMENT STORE TRADE

Although department store sales for the year 1952 to date have been equal to or larger than comparable 1951 dollar volume in many localities within the Second District, sales for the District as a whole for the year through October are estimated to have been 6 per cent below sales for the first ten months of last year. The District decrease is due primarily to relatively large declines in New York City sales. Average daily sales in October, however, increased much more than seasonally from their relatively low level in September, and according to preliminary estimates reached the highest point (after adjustment for seasonal fluctuations) for any month since August 1951. After an unusually warm September, cool weather in middle and late October apparently provided the required stimulus for fall apparel buying to send the Bank's index of daily average sales for the month ahead of 1951 figures for the first time this year.

Apparel prices in New York City were reported by the Bureau of Labor Statistics to have been between 3 and 4 per cent lower this September than a year earlier, while house-furnishing prices showed a decline of approximately 3 per cent. In view of this year-to-year decline in prices, it seems likely that the actual increase in physical volume of merchandise sold by department stores in October was greater than indicated by the estimated increase of 3 per cent over the dollar volume of last year's sales.

Stocks held by Second District department stores on September 30 increased slightly less than seasonally from the end of August, although there had been a continuous greater-than-seasonal increase in orders outstanding at the end of each month from June through September. Dollar volume of additional merchandise received by stores during September was up 14 per cent from that in September 1951, the first year-to-year increase in receipts in 1952 (with the exception of a moderate increase in April due to the shifting date of Easter).

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

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

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
	Sept.	Aug.	July	Sept.
Sales (average daily), unadjusted	100	76	69	105r
Sales (average daily), seasonally adjusted	95	102	95	100r
Stocks, unadjusted	116	107	102	129
Stocks, seasonally adjusted	110	111	116	123r

r Revised.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial output rose to new postwar highs in September and October, and construction activity continued close to record levels. Retail sales generally expanded. Wholesale commodity prices declined somewhat further after mid-September, and consumers' prices are now slightly below their August peak reflecting mainly lower food prices.

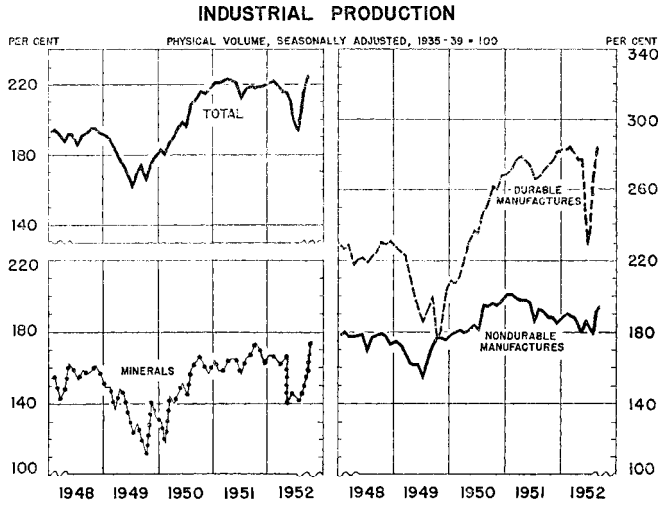
Industrial Production

The Board's index of industrial production in September rose substantially further to 225 per cent of the 1935-39 average, as compared with 214 in August and 218 in September a year ago. In addition to recovery of activity in metalworking industries to earlier advanced rates, output of some nondurable goods and of mineral fuels showed large further increases. In October the total index is likely to rise somewhat further, with gains in many lines partly offset by a substantial decrease in coal mining.

Steel production has continued to rise sharply and in October was scheduled at the record annual rate of about 116 million ingot tons. Passenger auto assembly in October continued at about the high September rates. Output of household durable goods expanded in September, owing mainly to a sharp rise in production of television sets to a rate almost double the curtailed second-quarter volume. Activity in industrial and military equipment lines generally increased.

The increase in nondurable goods output in September to a level slightly above a year ago resulted mainly from continued gains at textile and paper mills. Activity at chemical plants reached a new postwar peak, and there was a considerable rise in output of rubber products.

Crude petroleum and coal output rose substantially in September, and total minerals production was at record levels.



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

In October, petroleum output rose further, while coal mi was considerably reduced, owing in part to work stoppag the latter part of the month.

Construction

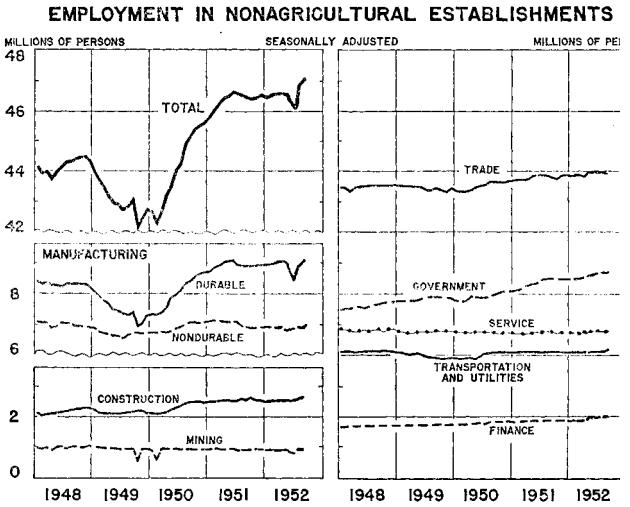
Value of construction contracts awarded increased sh in September, reflecting two large awards for atomic en projects totaling 923 million dollars. Value of work pu place was maintained at the close-to-record summer l Housing starts totaled 98,000, as compared with 99,00 August and 96,000 in September 1951.

Agriculture

Cattle marketings have expanded further in recent w in part influenced by drought in some areas, and hog ma ings have also risen seasonally. Total meat productio October has been almost 15 per cent above the same m last year. Crop prospects have improved and on the basi October 1 conditions were forecast at 3 per cent above 1951 level.

Employment

The labor market strengthened further in September. sonally adjusted employment in nonfarm establishments to a new high of 47.1 million, 500,000 above the spring l Substantial gains in employee working time in both dur and nondurable goods industries brought the average w week at factories to 41.1 hours, the highest level for the y average hourly earnings rose more than 2 cents to $1.69. employment declined in early September to 1.4 million, lowest of the postwar period.



Bureau of Labor Statistics data adjusted for seasonal variation by Fe Reserve. Proprietors, self-employed persons, and domestic servant not included. Midmonth figures, latest shown are for September.

Distribution

wing a decline in September, seasonally adjusted sales 'tment stores increased in the first half of October and ›se to the high August level. Automobile sales showed ial recovery in September, and in early October were h level for this season of the year; dealers' stocks rose Total department store stocks, seasonally adjusted, :d to show little change in September according to ıary estimates; however, for furniture, television, and ld appliance departments a marked rise in stocks is 1.

Commodity Prices

ıverage level of wholesale prices has declined some- October, as a few basic commodities—notably lead, l cotton—developed new weakness and prices of live- ıd meats continued to decrease. Prices of such basic lities as hides and wool, which had dropped sharply onths ago, have recently been sustained, and prices of and household goods have increased somewhat.

.verage level of consumers' prices has declined slightly id-August, reflecting decreases in retail food prices ffset by rising tendencies for other consumer goods ′ices.

Bank Credit

credit outstanding at banks in leading cities increased ably between mid-September and mid-October. The art of the increase reflected bank purchases of Treasury cipation bills offered in early October. Bank loans to es also expanded, primarily for seasonal needs. Food ırs, commodity dealers, trade concerns, and metal manu- ; were important borrowers.

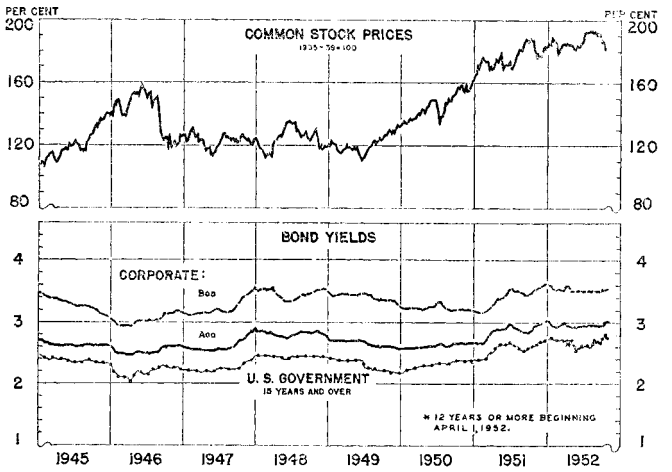
·st rates charged by commercial banks on short-term loans averaged 3.49 per cent in the first half of September, compared with 3.51 per cent in the first half of June. Rates rose very slightly in New York City but declined elsewhere.

Bank reserve positions, which had eased temporarily in mid-September, again tightened somewhat in late September and early October. Required reserves of member banks increased sharply in early October as deposits expanded in connection with bank payments for Treasury tax bills.

Security Markets

Influenced by an active nonbank demand for short-term issues, yields on most U. S. Government securities declined substantially during the first three weeks of October. Yields on high-grade corporate bonds increased somewhat. Common stock prices continued to decline from their August highs.

SECURITY MARKETS



Stock prices, Standard & Poor's Corporation; corporate bond yields, Moody's Investors Service; U. S. Government bond yields, U. S. Treasury Department. Weekly figures; latest shown are for week ended October 15.