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THE MONEY MARKET IN JUNE

There were massive shifts in reserve funds during June, but throughout the month the money market was easier than it has been at any time since last June. Until considerably beyond the middle of the month, the principal source of funds was the Treasury, as it ran down its cash balances before the receipt of June taxes and also paid out funds, at times ranging up to one billion dollars or more, obtained through temporary sales of special certificates of indebtedness to the Federal Reserve Bank of New York. The Federal Reserve System made increasing weekly purchases of Treasury bills in the market in anticipation of later heavy pressures on the banks' reserves, and, in addition, the increase in Federal Reserve float over the middle of the month temporarily provided an unusually large volume of reserves to the banking system. Later in the month, float receded and the Treasury began withdrawing substantial amounts of tax collections from the banks for use in redeeming its special certificates held by this bank and in rebuilding its operating cash balances. These losses were offset, in small part, by continued open market operations of the Federal Reserve Banks. On June 25, as a further means of providing reserves that will be needed to prevent an unnecessary tightening of credit in connection with the heavy Treasury borrowing expected in July, and to help prepare for the seasonal expansion of business and agricultural loans that usually begins in July, the Board of Governors of the Federal Reserve System announced that reserve requirements would be lowered effective July 1 and July 9. The Board's announcement appears below on page 100.

Easier money market conditions during June were reflected in lower money rates in New York City. The rate charged for immediately available Federal funds, which in earlier months this year has remained almost constantly at or near the discount rate (2 per cent), was quoted below one per cent on most days through June 24, and frequently fell to a largely nominal quotation reflecting a virtual absence of demand for immediately available reserve funds. Similarly, yields on Treasury bills fell sharply from the highest levels of the past twenty years on June 1 to the lowest quotations in several months during the last half of June. Outstanding Treasury securities of intermediate maturity also displayed marked price increases (yields decreased). Prices of the longer-term Treasury issues moved higher during June after recovering from a sharp decline on the first day of the month. Following the System announcement which preceded the opening of business on June 25, market prices of Government securities advanced sharply. However, by June 29, the last complete day covered in this review, a combination of market influences had caused yields at all maturities, particularly in the short-term area, to turn upward.

Total loans and investments of the weekly reporting member banks in principal cities increased during the three statement weeks ended June 17 after declining during the preceding months of April and May. Part of the increase probably reflected an expansion of business loans related to the June tax payment, but the largest part grew out of bank purchases of new short-term Treasury securities. Treasury bill holdings of the weekly reporting banks increased 600 million dollars in the week ended June 3, reflecting bank purchases of the September tax anticipation bills issued by the Treasury on that day. For the three weeks as a whole, total loans and investments of the reporting banks increased by about 760 million dollars, including an increase of 149 million in business loans and of 753 million in Government security holdings.

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Member Bank Reserve Balances

On May 27, the end of the last statement week in May, excess reserves held by member banks totaled 345 million dollars and borrowing from the Federal Reserve Banks amounted to 571 million dollars. Two weeks later, on June 10, excess reserves had increased to nearly 750 million dollars while borrowing had declined to only slightly more than 450 million. The principal factor responsible for the marked improvement in member bank reserve positions over this two-week period was the net release of 349 million dollars from Treasury balances at the Reserve Banks, and the further net Treasury outlay, in excess of cash receipts and calls on the depositary banks, reflected in the sale of 451 million dollars of special certificates of indebtedness to the Federal Reserve Bank of New York. Net market purchases of short-term Government securities by the Federal Reserve System, amounting to 98 million dollars, were another source of reserves at this time. (These factors and the other factors influencing member bank reserve balances during the four statement weeks in June are summarized in the following table.) The principal offset to the reserve funds released by the Treasury or created by the System was an expansion of currency in circulation. An increase in demand deposits, resulting in part from the use by banks of Treasury Tax and Loan Accounts to make payment on June 3 for the new issue of September tax anticipation bills, caused a 160 million dollar increase in required reserves during the statement week ended June 10 and was another influence offsetting part of the new reserves flowing into the market.

Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, June 1953

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

Factor	Statement weeks ended				Four weeks ended June 24
	June 3	June 10	June 17	June 24	
Operating transactions					
Treasury operations*	+224	+125	+ 12	+ 4	+365
Federal Reserve float	+140	−139	+567	−594	− 26
Currency in circulation	−155	− 23	+ 33	+ 41	−104
Gold and foreign account	− 16	− 66	− 35	− 43	−160
Other deposits, etc	−140	+ 80	−135	+ 92	−103
Total	+ 53	− 24	+441	−499	− 29
Direct Federal Reserve credit transactions					
Government securities					
Direct market purchases or sales	+108	+110	+150	+210	+578
Special certificates of indebtedness	—	+451	+372	−527	+296
Held under repurchase agreements	− 75	− 45	− 5	—	−125
Discounts and advances	− 63	− 53	−168	+ 31	−253
Total	− 30	+463	+349	−286	+496
Total reserves	+ 23	+439	+790	−785	+467
Effect of change in required reserves	+100	−160	−291	+151	−200
Excess reserves	+123	+279	+499	−634	+267
Daily average level of discounts	624	543	394	281	461
Daily average level of excess reserves	548	713	966	1,187	854

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

* Includes changes in Treasury currency and cash.

The release of reserve balances to the market, which had already created substantially easy reserve conditions by June 10, was further accelerated in the following statement week. Treasury tax receipts, most of which customarily are not available to the Treasury for several days after the middle of the month, were inadequate to cover outlays until the final third of the month. Treasury interest payments on June 15, payments to holders requesting cash redemption of the bonds matured June 15, cash redemptions of the tax bills matured June 19, and regular Treasury outlays were met in part by further recourse to the sale of special certificates of indebtedness to the Federal Reserve Bank of New York. Also during this period, the customary middle-of-the-month increase in float provided 567 million dollars of reserve balances to the member banks and the System acquired an additional 145 million of short-term securities in the market. Drains on bank reserves were relatively small, and reserve balances increased by almost 800 million dollars in the week of June 17, despite the repayment of almost 170 million dollars of member bank borrowing during the week. About 290 million dollars of the net increase in reserve balances was absorbed by an expansion in required reserves, but the remainder, nearly 500 million dollars, was added to excess reserve positions. At the end of the June 17 statement week, therefore, member bank borrowing had been reduced to less than 300 million dollars and excess reserves amounted to nearly 1,250 million dollars. Free reserve balances (that is, the difference between excess reserves and member bank borrowing) were 960 million dollars, the largest volume available to member banks on any statement date since June 18, 1952.

In the last complete statement week in June, and over the balance of the month through June 26 (the last day for which bank reserve data were available at this writing), a combination of heavy Treasury withdrawals of funds from the market, lower levels of float, and an increase in currency in circulation absorbed nearly 1.5 billion dollars of member bank reserves. The largest part of this total drain of reserves from the banks was accounted for by the Treasury's use of cash tax collections and funds withdrawn from depositary banks to redeem the outstanding special certificates of indebtedness and to rebuild deposits at the Reserve Banks. The cash tax collections of the Treasury and the withdrawal of Treasury balances at commercial banks resulted in a partially offsetting decrease in required reserves, and security purchases in the market by the Federal Reserve System added 210 million dollars to bank reserves in the week ended June 24. As a combined result of these influences, the member banks closed the period covered by this review with excess reserves and borrowing approximately in balance.

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The Government Security Market

Yields on short-term Treasury securities had moved sharply higher and prices of intermediate to long-term issues had declined in the closing days of May, following the offering by the Treasury of 800 million dollars of September tax anticipation bills for payment on June 3. In a market already unsettled by rate adjustments which had brought outstanding Government security prices to new lows for these issues and which had caused the "when-issued" certificates of indebtedness of June 1, 1954 to settle below par, the uncertainty at this time as to future Treasury plans for cash financing and as to the source of reserve funds to support the Treasury borrowing and private credit needs exerted a depressing effect on the market. The regular weekly issue of Treasury bills offered on June 1 for payment June 4, which involved a 200 million dollar increase over the maturing issue, attracted a relatively small volume of tenders and was awarded at an average rate of 2.416 per cent, the highest average issuing rate in more than twenty years. Allotments of this issue to dealers and other subscribers substantially exceeded their expectations and, following upon the existing unease in the market, this development had a further depressing influence on market sentiment. Prices of Government securities throughout the list broke sharply lower in trading on June 1, with losses ranging up to ¾ of a point for the longer maturities.

The decline in Government security prices was extended in early trading on June 2, with investor demand limited exclusively to the shortest-term Treasury bills. At this time, as in the period of price decline over the preceding week, trading activity was very light outside the shortest sector of the market, and price adjustments were made mainly on a small volume of professional activity. In this market setting, the Federal Reserve System, early on June 2, made substantial purchases of three-month Treasury bills which helped to relieve the pressures on the market, and small purchases of long-term securities were made for Treasury account.

Subsequently, yields on short-term Treasury securities declined, and for most of the balance of the month yields on these issues moved to successively lower levels despite net Treasury borrowing in June of 1.0 billion dollars through additions to the regular bill maturities. A temporary firming of yields on Treasury bills occurred during the second week in June, however, on a moderate volume of selling by corporations seeking cash for June 15 tax payments. This selling had been completed by the middle of the month, and yields resumed a downward adjustment which continued through the 25th. Over the last half of June, the persistent ease in the money market, continuing security purchases for System Account, and the effects after June 24 of the announced reduction in reserve requirements, helped bring yields on all maturities of Treasury bills to below 2 per cent. The bill issue dated June 25 was awarded at an average rate of 1.954 per cent, despite the fact that the offering included 300 million dollars of new borrowing, in contrast to the 2.416 per cent rate on the issue dated June 4. Buying of certificates of indebtedness expanded over the month, notably the new 2⅝ per cent certificates due in June 1954. The latter issue traded at a premium after the opening days of the month, and on June 29 the bid price on the new certificates was 100$\frac{4}{32}$.

The open market action by the System on June 2, supplemented by the small volume of purchases of long-term bonds for Treasury investment accounts, modest buying by an institutional investor, and some reported covering of short positions in such bonds, had an important influence on market sentiment in the intermediate and longer-term areas, and in subsequent trading prices recovered rapidly. The longest-term 2½ per cent issues had moved up in price by as much as 1½ points by Friday, June 5, and smaller increases were recorded throughout the intermediate to long-term maturity range. Thereafter, until June 24, price changes on these issues were mixed and irregular with increases of as much as ½ a point on certain intermediate issues and small gains or losses on the longer maturities. Activity in the long-term market remained at a low level during the price recovery and in subsequent trading through June 24, and was comprised largely of small inter-dealer and broker transactions. Activity in the intermediate issues, on the other hand, expanded moderately as the month progressed. The increased volume of trading in intermediate issues was due principally to switching operations by commercial banks and others and apparently included some extension of maturities in the short-to-intermediate areas by some commercial bank investors.

The announcement that reserve requirements of member banks were to be lowered in early July had an immediate effect on quotations in the Government security market. In opening trading on June 25, prices of long-term Government bonds were marked up as much as ½ a point above the previous close, and quotations on the 3¼ per cent bonds of 1978-83 rose temporarily to par. Later that day, further upward price adjustments were made on some longer-term issues. However, the announcement failed to stimulate the more active demand for intermediate and long-term Treasury securities that had initially been expected in some market quarters, and by June 29 prices of most of these issues had drifted below the peak prices attained on June 25. Market sentiment was generally cautious at this time, particularly at the shorter maturities, awaiting the outcome of the Treasury borrowing operation expected in July. At the close of business on June 29, taxable long-term Government bonds, except for the new 3¼'s, were quoted at prices that were higher by from 1⅝ to 2 points than the end-of-May quotations, and intermediate-term securities were up from ½ to 1¼ points.

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Member Bank Credit and the Money Supply

The seasonal contraction in commercial bank credit since the beginning of the year had, by May 27, resulted in a decline of more than 3.6 billion dollars in the total loans and investments of the weekly reporting member banks. Loans during this five-month period had increased by about 435 million dollars, and Government security holdings of the reporting banks had declined by nearly 4.2 billion. During the three statement weeks ended June 17, the contraction in the earning assets of weekly reporting banks was reversed, and net loans of these institutions increased by 113 million dollars while their Government security holdings rose by 753 million.

Treasury cash financing in June, including on June 3 the issue of 800 million dollars in September tax bills for Tax and Loan Account credit and a combined increase of 1 billion dollars for the month as a whole in regular bills for cash payment, was partially responsible for the increase in Government security holdings at the reporting banks. Most of the relatively small growth in total loans of these banks was centered in credit advanced to business borrowers; commercial, industrial, and agricultural loans expanded by 149 million dollars in the three statement weeks through June 17, bringing the total of such loans to a level only 405 million below that on December 31, 1952. An increase in business borrowing from banks is a customary seasonal development over the June tax period.

The increases in business lending shown by the reporting banks in the first three weeks in June were broadly scattered among most types of business borrowers. Sales finance companies were the largest net borrowers for the period, largely because of a sharp expansion of their borrowing from New York City banks in the week of June 17. Metals and metal products industries were also substantial net borrowers during June, while the reductions in business borrowing that occurred were mainly in the food, liquor, and tobacco industries; the commodity dealers; and the petroleum industry.

New York City banks accounted for the largest part of the growth in total loans and investments of all reporting banks during the first three statement weeks in June, with an expansion of earning assets totaling 407 million dollars. Business loans at the weekly reporting New York City banks rose by 158 million dollars over this period, while their Government security portfolios were enlarged by 422 million dollars. In the week ended June 24, however, business loans at the New York City banks fell by 146 million dollars, nearly canceling the net increase in the previous weeks.

Estimates for all commercial banks in the United States indicate that the seasonal contraction in bank credit through May 27 of this year (the latest data available) was centered in the weekly reporting member banks. Total loans and investments of commercial banks outside the reporting centers were virtually unchanged over this five-month period, while loans and investments of the reporting banks fell by 3.6 billion dollars. Loans of all commercial banks increased by 1.3 billion dollars during the period, of which only 437 million represented loans of the weekly reporting banks. Holdings of securities other than those of the United States Government increased by more than 200 million dollars for all commercial banks, most of which represented acquisitions by the weekly reporting banks. All commercial banks over this five-month period disposed of 5.1 billion dollars of Government securities, of which 4.2 billion were sold by the weekly reporting banks.

The over-all decline in commercial bank credit outstanding in the first five months of this year was reflected in a substantial reduction of the money supply. Between December 31, 1952 and May 27, 1953, on the basis of preliminary data, private nonbank deposits (adjusted) at all commercial banks were drawn down by 3.0 billion dollars. Time deposits adjusted grew by about 1.0 billion dollars over the five months, while

DECREASE IN RESERVE REQUIREMENTS

The Board of Governors of the Federal Reserve System released the following statement for publication Thursday, June 25, 1953:

The Board of Governors has reduced reserve requirements on net *demand* deposits of all member banks, as follows:

Effective July 1—from 14% to 13% at country banks.
Effective July 9—from 20% to 19% at reserve city banks, and from 24% to 22% at central reserve city banks.

The present and the new requirements on demand deposits are as follows:

	All member banks	Central reserve city banks	Reserve city banks	Country banks
	(In millions of dollars)			
Present requirements:				
Percentage	—	24	20	14
Amount[1]	17,229	5,981	6,886	4,362
New requirements:				
Percentage	—	22	19	13
Amount[1]	16,073	5,482	6,541	4,050

[1] Estimates are based on net demand deposits as of the last half of May, and do not include requirements against time deposits.

This step was taken in pursuance of Federal Reserve policy, designed to make available the reserve funds necessary to meet the essential needs of the economy and to help maintain stability of the dollar. The reduction, releasing an estimated $1,156,000,000 of reserves, was made in anticipation of the exceptionally heavy demands on bank reserves which will develop in the near future when seasonal requirements of the economy will expand and Treasury financing in large volume is inescapable. The action is intended to provide assurance that these needs will be met without undue strain on the economy and is in conformity with System policy of contributing to the objective of sustaining economic equilibrium at high levels of production and employment.

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demand deposits adjusted declined by 4.0 billion. During the same period, the amount of currency in circulation outside banks fell by 500 million dollars. The supply of currency and demand deposits available to individuals and business was, therefore, lowered by approximately 4.5 billion dollars over the first five months of 1953. Over the similar period in 1952, it is estimated that the privately held money supply (currency and demand deposits) fell by 3.2 billion dollars. The year-to-year increase in the money supply, as defined here, between the end of May 1952 and the end of May 1953 amounted to about 3.2 billion dollars, of which 2.2 billion represented an increase in demand deposits adjusted. The combined growth of demand deposits adjusted and currency outside banks was at a rate of less than 3 per cent for the year; demand deposits adjusted increased by 2.3 per cent and currency by 3.8 per cent.

REVIEW OF THE CAPITAL MARKETS IN THE FIRST HALF OF 1953

The capital markets provided a larger volume of new money financing in the first half of 1953 than in any half-year period since the war. All told, aggregate intermediate and long-term capital raised by various seekers for funds—business corporations, State and local governments, real estate mortgagors, and the Federal Government—amounted to approximately 11 billion dollars this year through June (net of retirements), about 1½ billion more than in the comparable period last year. The public's savings in liquid form also continued to expand considerably, as indicated by the rate of accumulation in major savings institutions which, in the first half of 1953, was about three quarters of a billion dollars greater than in the same period a year ago.

Despite the expansion in savings, the near record volume of flotations and placements contributed to a marked acceleration of the upward movement of longer-term interest rates which began in 1950. Prices of all types of investment instruments, bonds, stocks, and mortgages, declined substantially, particularly in the second quarter of 1953, and the markets at times encountered difficulties in digesting the enlarged volume of offerings. The Treasury's offering dated May 1 of a one billion dollar long-term bond issue, at an interest rate competitive with other bond yields, placed added strain on the long-term capital market. Expectations concerning the size of future demands for funds by the Treasury also contributed to the rise in interest rates. Well before midyear it had become apparent that the Treasury would require from 9 to 12 billion dollars over the last half of the calendar year to cover net Government expenditures and net redemptions of outstanding securities, and the uncertain impact of this demand upon the capital market led to anticipatory upward pressure on interest yields.

Where the added funds would come from in an already tight market became a matter of concern to investors and issuers. Doubts concerning the role that the nation's banks might be called upon to assume in the satisfaction of the aggregate borrowing demand, as augmented by the Treasury's needs, were a further tightening element. These doubts were fostered, in some measure, by the fact that the banking system had already reduced its holdings of short-term Government issues considerably over the first four months of the year (while the Federal Reserve Banks were also reducing their Government security holdings to offset the seasonal decline in currency circulation and other factors affecting bank reserves). The market was uncertain as to whether adequate bank reserves would become available for seasonal credit needs and whatever demands Treasury financing might make on the banking system. Some of these uncertainties, with their implications of stronger pressures on the markets in the second half of the year, were relieved when the Federal Reserve System began the purchase of Treasury bills in mid-May. The announcement on June 25 of a reduction in the required reserves of member banks, effective early in July, gave further confidence to the market.

Rising financing costs as a general reflection of tight capital market conditions created difficulties in marketing long-term debt instruments and led to some cancellations and postponements of corporate and State and local government issues and to further tightness in some segments of the mortgage market. Uncertainties concerning the business outlook, as well as the general improvement in bond yields relative to stock yields, exerted a similar restraining influence upon new equity financing.

Market Conditions and Financing Costs

In freely functioning markets, the combination of various forces at work had the effect of accelerating markedly the upward movement of interest rates which had begun early in 1950 and became pronounced after the Treasury-System accord in March 1951. The advance of yields over the six months since December 1952 added more than 40 basis-points (0.4 per cent) to the average yield of a selected group of outstanding Aaa corporate bonds, as compiled by Moody's Investors Service. In contrast, a rise of only somewhat more than 30 basis-points (0.3 per cent) was recorded in the twenty-two months from the end of February 1951 to the end of December 1952.

During the first quarter of the year, the course of corporate bond yields was upward but only gradually so, although increases were more rapid than in the preceding year or two. During the second three months, however, the rise steepened.

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Early in April the Treasury announced a program of new money borrowing that included a one billion dollar long-term bond issue with a coupon rate of 3¼ per cent, making it competitive with then-prevailing market yields on other types of long-term bonds. The announcement of this issue confirmed the new Administration's intention to begin the funding of some of the short-term debt and to place as much as possible of the new public debt with long-term nonbank investors. The issue itself, of course, was in direct competition with heavy corporate and State and local government new security issues, thus adding to the pressure on the long-term capital market, and the amount of "free riding" accompanying the issue presaged an uncertain secondary market. Concerned over the effects on future capital values and yields of the Treasury's actual and prospective financing, superimposed on the already heavy private capital demands and the substantial bank liquidation of Treasury issues, and uncertain as to how far the Federal Reserve System might go in attempting to prevent further intensification of credit pressures, investors became even more apprehensive when the new 3¼ per cent Treasury bonds sold below par in "when-issued" trading toward the close of April. In consequence, they demanded higher compensation before further investing their funds. Thus, the rate of increase in outstanding high-grade corporate bond yields, which had been running at about one basis-point a week in the first thirteen weeks (three months) of the year, just about tripled in the next twelve weeks until the peak was reached on June 22.

In June, the combination of factors promoting money market ease, and limited purchases of longer-term Government securities for Treasury investment accounts, contributed to a change in market psychology which turned long-term bond yields downward. The recovery carried through the last three weeks of June for Treasury bonds, but was less apparent in corporate and municipal bond yields which rose somewhat further until late in the month. Yields on all types of bonds declined, after the announcement on June 25 of the decrease to be made in member bank legal reserve requirements in July.

The course of preferred stock prices and yields more or less followed the pattern set by the bond market. Common stock price trends, on the other hand, set a course of their own. Other factors than money costs, namely, the outlook for business activity and the possible effects of a Korean truce on that outlook, were apparently predominant. Whatever the reasons, the entire postelection increase in common stock prices was more than wiped out by early June. As measured by Standard and Poor's average of 90 common stocks, prices fell about 12 per cent from the January 5, 1953 peak to the June 10 low point. The effective yields on common stocks, however, rose not only as a consequence of lower prices but also as a result of increased dividend payments.

The expansion of margin trading following the reduction of margin requirements from 75 to 50 per cent of market values

Rate of Return on Long-Term Investments
Selected Dates, February 1951-June 1953
(In per cent per annum)

Type of investment	Yield or rate			Increase		
	Feb. 28, 1951	Dec. 31, 1952	June 24, 1953	Feb. 28, 1951-Dec. 31, 1952	Dec. 31, 1952-June 24, 1953	Feb. 28, 1951-June 24, 1953
Government bonds						
U. S. Government...	2.40	2.80	3.09	.40	.29	.69
Municipal high grade.	1.65*	2.42	3.14	.77	.72	1.49
Corporate bonds						
Aaa...............	2.69	2.99	3.42	.30	.43	.73
Baa...............	3.17	3.50	3.90	.33	.40	.73
Stocks						
Common†..........	6.53	5.14	5.68‡	−1.39**	.54	− .85**
Preferred..........	3.88	4.13	4.47	.25	.34	.59
Mortgages						
FHA††............	4.25	4.25	4.50	—	.25	.25
VA................	4.00	4.00	4.50	—	.50	.50

* February 27, 1951.
† Industrial stocks.
‡ Average for week ended June 19.
** Decrease.
†† Exclusive of the ½ of 1 per cent insurance fee.
Source: Government bonds, United States Treasury; corporate bonds and common stocks, Moody's Investors Service; municipal bonds and preferred stocks, Standard and Poor's Corporation; mortgages, Federal Housing Administration and Veterans' Administration.

—an action taken by the Board of Governors of the Federal Reserve System effective February 20, 1953—was too small to have any noticeable sustaining effect on prices. Customers' debit balances of New York Stock Exchange member firms rose roughly 300 million dollars in the first five months of the year, causing a similar increase in broker borrowings from the banks.

Thus, the upward adjustment of the rate of return on long-term and equity funds was widespread and reached most types of investment instruments. As shown in the accompanying table, the rise in bond and stock yields in the first half of 1953 ranged between 30 and 70 basis-points, with the increases in Government bond and preferred stock yields at the lower end of the range, municipal and common stock yield gains at the higher end, and corporate bond yields in between. Rates on Veterans' Administration-guaranteed (VA) and Federal Housing Administration-insured (FHA) mortgages were raised ½ and ¼ per cent, respectively, to 4½ per cent on May 2, and those on "conventional" mortgages also rose about ½ per cent to a prevailing rate in the Northeastern States of 5 per cent.

New Issue Marketing Difficulties

The rise in bond and stock yields had significant consequences for investment bankers and investment banking practices and for mortgage originators. The marketing difficulties encountered by investment underwriters of publicly offered corporate security issues were compounded from time to time as one new issue after another fell below the initial offering price to the public. Thus market conditions placed a premium on speed in the distribution of new security flotations, and the period under review provided a test for the registration procedures of the Securities and Exchange Commission and for the

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practice of competitive bidding. In order to avoid substantial losses, investment banking groups adopted a policy of minimum price support of new issues, early breakups of syndicates, and quick sellouts by individual syndicate members of the unsold portion of underwritten issues at prices usually below initial offering quotations. These conditions widened the spread in yield between the new and the outstanding (or "seasoned") issues during 1953 as compared with that prevailing during 1952. Over a large part of the first half of the year, investors were able to obtain rates of return on new corporate bond issues ranging from 25 to as much as 50 basis-points higher than on outstanding bond issues of comparable grades.[1]

The difficulties of marketing new issues led investment bankers in some instances to refrain from bidding for new issues or to advise potential issuers to postpone their proposed offerings until a more opportune time. More frequently, corporate issuers, dissatisfied with the rates of interest required, voluntarily withdrew their issues. One compilation of new, publicly offered corporate bond issues that were either reduced, postponed, or canceled altogether during the first half of 1953 totaled approximately 250 million dollars. The proposed sale of several large stock issues was also canceled. The combined total of bond and stock issues that were virtually "ready to go", and were then delayed or dropped, may have equaled as much as 7 per cent of gross new corporate security flotations. Refundings, of course, were at a minimum.

The dollar volume of withdrawn issues, however, did not mean an equal dollar curtailment of business capital programs. Some of these capital projects were subsequently financed through intermediate-term bank loans, while some of the canceled issues were to have been offered for the purpose of paying off bank loans. Data cannot readily be assembled to indicate whether any planned capital expenditures were actually dropped, before they reached the new issue stage, because of financing considerations. Although the latest (May 1953) SEC-Commerce Department survey of planned business capital outlays showed a moderate increase over that for the previous survey (February and early March), this increase might have been considerably larger but for the tight bond market conditions.

The experience of investment bankers with new State and local government securities was similar to that of the underwriters of new corporate bond issues. If anything, their marketing problems were more acute. Municipal bond houses had the task of broadening the relatively narrow market for tax-exempt securities in order to move an increased supply of new issues. At the same time, they had to overcome some contraction of a segment of their established market, as the commercial banks, important investors in short-term "municipals", reduced their purchases (net) because of the squeeze on their reserves.

As in the corporate bond market, market prices of a number of new issues in the municipal market fell below public offering prices, and markdowns of unsold portions of newly underwritten issues were substantial in many instances. Investment bankers in municipal securities likewise refrained at times from bidding for new issues and advised postponement until more settled market conditions appeared; some issuers on their own initiative also withdrew or postponed some offerings rather than pay the current high rate of interest. A tabulation of proposed issues which were not sold at first offering totaled about 175 million dollars in the period under review, or about 6 per cent of total offerings. Of this total, one issue alone accounted for close to 100 million dollars. In some cases, particularly where new schools were to be built with the proceeds of a new offering, issuers decided, because of the urgency of the need, to go ahead with the financing despite the high rates that had to be paid. Thus, a number of issues were postponed for only a short time and were subsequently reoffered to the public.

Marketing of new mortgages, principally Government insured and Government guaranteed, also slowed up with advancing interest rates, and commitments for future loans became more difficult to obtain. Mortgage originators, mainly mortgage brokers, met with increasing difficulties in finding permanent buyers for Government-insured and guaranteed mortgages held either in their own portfolios or temporarily on loan with commercial banks pending final placement with permanent lenders (so-called "warehouse" loans). Among the permanent lenders, life insurance companies reduced their net purchases of "Government" mortgages markedly in the first several months of the year, and their future commitments declined in line with the rate of their actual purchases. The savings banks curtailed substantially their commitments on VA loans on other than local properties, first because of a pending increase in the official rate and subsequently because they considered the resulting increase on May 2 as "too late and too little". Some also reduced commitments because their mortgage holdings had become disproportionately large in relation to their total resources. At the same time, they reduced their current (net) acquisitions of "Government" mortgages other than those for which they had previously made commitments. Funds for conventional mortgages continued to be available in fairly good supply, but at somewhat higher rates. The savings and loan associations, in effect, took up some of the slack by increasing their own mortgage loans, but as these institutions generally make their loans directly to builders and home owners, the increase in their portfolios did not materially help the mortgage brokers nor free the funds of warehouse lenders for further operations. The latter became in

[1] To some extent, however, this advantage of new issues over old was overstated owing to the nominal character of the quotations on outstanding bonds. During a large part of the first half of the year, and particularly in the second quarter, it was difficult for sellers of corporate bonds to obtain bids on large blocks of seasoned issues.

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some instances permanent lenders. Tight money market conditions and bank reserve positions also played a part in restricting commercial bank real estate lending, particularly in the second quarter of the year.

Of the factors contributing to the curtailment in lending activity in VA and FHA mortgages, probably the most important was the fact that rates of return on such instruments continued to be regarded as unattractive in relation to the yields currently available on alternative investments, even after both the VA and FHA authorized increases to 4½ per cent on May 2. New regulations of the VA, designed to prevent the sale of the new mortgage loans below par, tended to prevent competitive adjustments with other yields. Moreover, in May and June there was a large overhang of VA mortgages made at the old rate, being offered for sale by brokers at discounts that provided a greater yield than the new 4½ per cent loans. The rise in the official rate on Government mortgages in turn accelerated the tendency for conventional mortgage loan rates to increase.

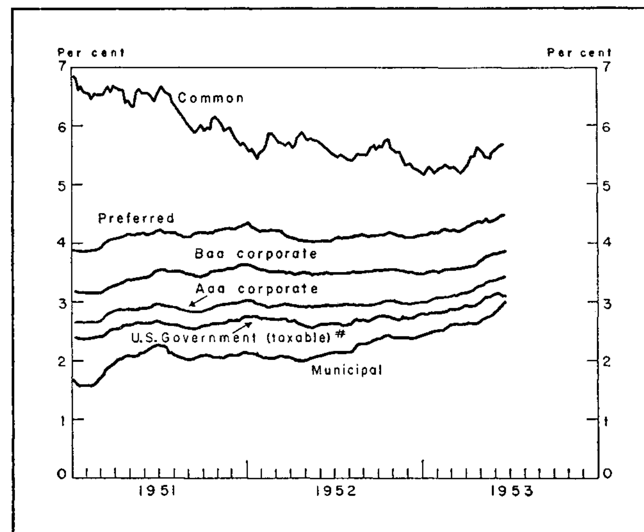
Since the major cutback in mortgage lending took the form of a scaling-back of purchases from intermediaries of mortgages recently acquired and paid for by them, and of *commitments* to make *future loans,* the tightness in the mortgage market affected principally the availability of funds for new housing rather than the financing of construction already under way, and primarily housing construction dependent upon Government-guaranteed and insured mortgages.

INVESTMENT POLICY OF VARIOUS LENDERS

The rise in interest rates also had significant effects on the investment policy of both institutional and individual investors. Some of these effects were no doubt only temporary. As always in a period of rising rates and market uncertainty, many long-term nonbank investors sought refuge from declining investment values in short-term securities, including Treasury bills, short-term municipal warrants, and early maturities of new railroad equipment obligations and municipal bond issues, and in fact nonbank investors absorbed substantial amounts of short-term Treasury securities sold by the commercial banks.

The longer-range consequences for investment policy, however, were more difficult to appraise during the first half of 1953. The unevenness in the rise in yields is shown in the table above and in the accompanying chart. The shifts shown in the rate of return on the various investment instruments marked a reversal of the direction of interest costs prevailing during the preceding 15 to 20 years of declining or low interest rates. In this earlier period, investors "traded down" by reaching out for lower quality, riskier investments, including the lesser grades of bonds, mortgages, and stocks, in order to obtain yields adequate for their requirements. The need for higher yields was apparently recognized by changes in the laws governing investments, which were gradually relaxed to

Chart I
Yields on Long-Term Bonds and Stocks
(January 1951 to June 1953, weekly*)



* Data for corporate and Government bonds are weekly averages of daily figures; all others are based on specific days, Wednesday (preferred stocks and municipal bonds) or Friday (common stocks). Latest data are for week ended June 19; Wednesday, June 17; or Friday, June 19.

Fifteen years and over up to April 1, 1952; twelve years and over thereafter.

Source: U. S. Government bonds, Treasury Department; high-grade noncallable preferred stocks and municipal bonds, Standard and Poor's Corporation; Aaa corporate bonds, Baa corporate bonds, and 125 industrial common stocks, Moody's Investors Service.

permit certain institutions subject to regulation by the States to acquire more diversified types of investments, including limited amounts of common stocks. With the advance in interest rates since 1950, and the marked increases of yields on "senior" securities, some investors were reported to be "trading up" their portfolios. Thus, certain investment institutions which are not taxable and customarily purchase "blue chip" common stocks were reported shifting into contract-interest types of obligations, particularly higher-grade corporate bonds which had begun to provide yields enabling them to meet their investment requirements. Certain institutions were led to prefer corporate security issues over mortgages; some reduced the amount of their available funds going into FHA and VA mortgages and increased the proportion going into the conventional type, upon which yields were higher and the terms more attractive. Individual investors were increasingly attracted to municipal securities, on which the taxable equivalent yields became progressively more favorable in relation to the dividend return of common stocks. Over all, these recent developments tended to improve the demand for corporate and municipal debt obligations at the expense of common stocks and mortgages.

SUPPLY OF AND DEMAND FOR FUNDS

Continued expansion of personal incomes and, perhaps more important this year than in the past, higher interest rates contributed to the growth of savings during the first six months

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of the year. According to preliminary estimates, savings accumulated in life insurance companies and in savings institutions including savings banks, savings and loan associations, and commercial bank thrift accounts totaled 7½ billion dollars in the first half of 1953, about three quarters of a billion more than were accumulated in these institutions in the first half of 1952. Judging from the national income estimates, which indicated that personal savings averaged 15 to 20 per cent higher than last year, other forms of liquid savings may also have risen sizably.

Reflecting the needs of a booming economy, net demand for long-term debt and equity capital in the period under review reached a new record total of roughly 11 billion dollars, according to preliminary estimates, as compared with an estimate of 9½ billion dollars for the first six months of 1952. Corporate requirements for capital apparently were little changed, but the demands of mortgagors and of government at all three levels, Federal, State, and local, all expanded. Of the total for the first half of 1953, the Federal Government accounted for about one billion dollars as compared with 300 million in the corresponding period a year ago. Despite the tightness in the mortgage market, mortgage borrowers increased their net indebtedness by roughly 4.5 billion dollars this year through June as against 3.8 billion in the first six months of 1952.

In view of the fact that total loans and investments of the banking system declined substantially, reflecting principally a marked decline in short-term Government security holdings, it appeared on balance that all satisfied demands for capital in the first half of the year were financed, in effect, through nonbank investors' funds.

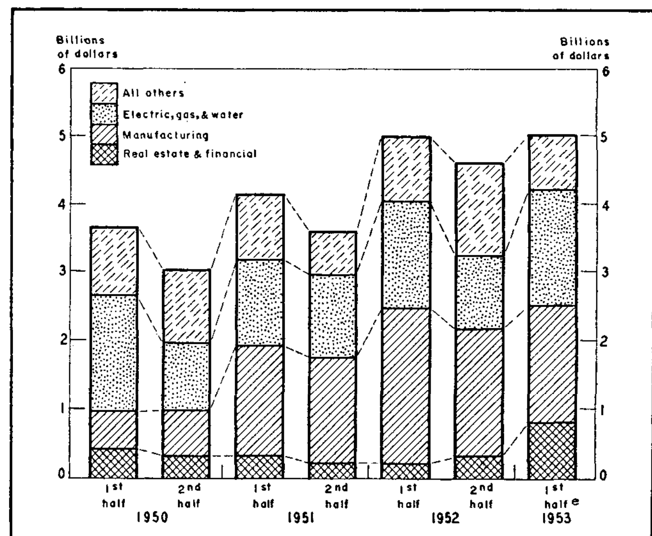
Corporate Finance

Corporate security flotations in the first six months of 1953 were no greater in volume than in the corresponding period a year previous, in spite of increased corporate capital outlays and the necessity for providing funds to meet seasonally heavy Federal income tax payments (80 per cent of the tax bill on 1952 income was due in the first half of this year). Larger retained profits and increased depreciation allowances reflecting accelerated amortization on new defense plants coming into production provided for most of the growth in corporate needs for funds.

Gross cash security flotations of new corporate issues in the market (exclusive of investment company issues) amounted to an estimated total of approximately 5 billion dollars in the first six months of 1953, about the same volume offered in the corresponding months of 1952. Approximately 90 per cent of this total, or an estimated 4½ billion dollars, represented securities offered to finance added plant and equipment and larger working capital needs. The volume of these so-called "new money" issues was likewise virtually unchanged from year-ago figures. Refunding and other issues were small, the former reflecting the fact that higher security yields precluded any refunding of issues in advance of maturity in order to effect interest savings. Allowing for cash security sales not covered in the data on formal market offerings—for example, the securities sold directly to officers, directors, and employees —and allowing also for retirements of outstanding securities out of general corporate cash balances, the net addition to outstanding corporate security issues appears to have totaled 4.0 billion dollars, practically unchanged from the volume for the first six months of 1952.

According to preliminary estimates for the first half of 1953, there was little change from the corresponding period in 1952 in the proportionate amounts of new security issues by class or form of security. As in 1952, about four fifths or 3.9 billion dollars of the gross cash offerings by corporations in the market were debt issues. Direct placements of new corporate issues with institutional investors, mainly fixed-interest obligations, came to 1.8 billion dollars, or approximately 40 per cent of gross cash offerings. Common and preferred stock offerings of 800 and 300 million, respectively, continued to account for only about 15 and 5 per cent, respectively, of the total volume. Apparently, despite recent shifts in yields which raised the cost of bonds relative to equity financing, high Federal income and excess profits taxes still were an important factor causing corporations to favor debt issues. Most of the equity security offerings were issued by electric and gas and other public utility corporations so as to maintain a balanced capital structure, as well as, of course, to raise necessary funds. Inasmuch as public utility service rates are usually set to return a specified

Chart II
Gross Proceeds of Corporate Security Issues by Industry
(Semiannual totals, 1950—first half 1953)



e First half of 1953 partly estimated by the Federal Reserve Bank of New York.
Source: Securities and Exchange Commission.

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rate of profit on investment after all taxes, for most such enterprises Federal taxes are not so strong a factor affecting financing as they would be for corporations in other industries.

There was some variation in changes between the first half of 1952 and 1953 with respect to new security offerings by industry of issuer. Reflecting the gradual completion of the defense plant program, a larger proportion of which was financed with external funds than was the case for other types of facilities, new financing by manufacturing enterprises declined approximately 20 per cent. The proportion of total security offerings by manufacturing issuers dropped from over two fifths in the first six months of 1952 to over a third in the January-June 1953 period. On the other hand, security offerings of electric, gas, and water companies increased 10 per cent, and accounted for 35 per cent of all flotations this half year as compared with 30 per cent in the first six months of last year. One other noteworthy development in the corporate new issue market was the marked growth of new security flotations by finance and real estate companies. New issues in this category rose nearly four times between the first half of 1952 and 1953, and became the third largest industry group, accounting this year for about a sixth of the total. Preliminary estimates place the amount at over 800 million dollars. For the most part, the rapid growth of such flotations represented the financial needs of the sales finance companies, which in turn reflected the substantial growth of consumer instalment credit since the suspension of Regulation W in May 1952. The volume of and the year-to-year changes in new issue financing of other industries were comparatively small.

Municipal Financing

The market for new State and local government security issues appears headed for a record-breaking 5 billion dollar year. Aggregate cash flotations for the first half of 1953 totaled approximately 2.6 billion dollars, of which refunding issues amounted to 100 million. In the corresponding months of 1952, the total was 2.5 billion dollars, of which 300 million were refunding issues. "New capital" issues thus rose 14 per cent. The sinking funds and trust and investment accounts of State and local governments made some market purchases, and retired some maturing issues for cash, thus reducing the market impact of the huge volume of new offerings.

The very heavy State and local government financing was basically an indication of the urgent needs of all levels of regional government for capital facilities. However, it appears that new financing increased more rapidly than actual construction expenditures by State and local governments during 1953, just as in 1952. Thus, it would seem to be implied that, in the past year and a half, tax money covered a smaller proportion of capital outlays than in previous years. In part, this development reflects the hesitancy to raise taxes on the State and local level, and in part it is the result of the growing use of the revenue bond technique for financing certain types of capital projects.

POSTWAR MONETARY POLICY IN BELGIUM

Monetary policy has played a more important role in economic developments in postwar Belgium than in most other countries.[1] At the outset of its postwar reconstruction, Belgium effected a sharp reduction in the excess liquidity that had remained as an aftermath of the war, and this decisive action in turn made possible an effective application of the official discount rate and other instruments of monetary policy. Over most of the early postwar period, Belgium's overriding objective was to combat inflation. Subsequently, Belgium's monetary policy appears to have gradually shifted toward preservation of the stability that had been achieved by mid-1951 both domestically and in the country's international payments. As a consequence, Belgium began to relax the monetary restraint previously imposed by making in July 1951 the first of a series of gradual reductions in the official discount rate.

The Reduction of Excess Liquidity

Economic activity in Belgium has been particularly sensitive to the availability of bank credit since the war because money became "scarce" much earlier and to a much greater degree there than in most other countries. This "scarcity" basically reflected two crucial steps taken by the monetary authorities after the liberation. The first step was the currency reform of October 1944, under which the excess purchasing power accumulated during the war was drastically reduced by the blocking of a substantial part of the note circulation and bank deposits.

The second step was taken in 1946. Despite the currency reform, the money supply increased rapidly in late 1944 and 1945, mostly as a result of a large bank-financed government budgetary deficit, the provision of local currency to the Allied Forces stationed in Belgium, and the gradual release of the "temporarily" blocked currency to meet the needs of industry and commerce. Under these conditions, government debt steadily increased, as short-term securities were issued to raise the necessary funds. At the same time, business demanded credit accommodation, and the commercial banks began to sell large amounts of the newly issued government securities to the central bank in order to increase their loanable funds. To prevent the excessive monetization of government debt, the monetary authorities early in 1946 strengthened the credit

[1] For a brief account of monetary policies abroad, see "Recent Monetary Policy Measures Abroad", *Monthly Review,* March 1951, pp. 35-38, and "Recent Monetary Developments Abroad", *Monthly Review,* July 1952, pp. 100-105.

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control functions of the central bank by establishing a system of combined cash and security reserve requirements for all commercial banks[2]—the first formal regulation of this type in any European country.

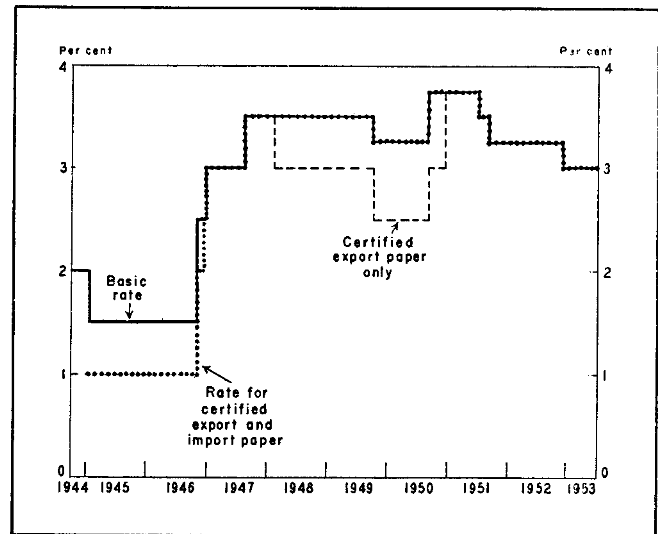
These reserve requirements, it should be noted, were adopted as the most practicable means of preventing the commercial banks from obtaining loanable funds merely by selling government securities to the central bank; they were not conceived as a device for finding lodgment for government securities and for keeping down the cost of government borrowing. As a result of these requirements, commercial bank liquidity was greatly reduced, and this left rediscounting at the central bank as the principal means by which commercial banks could acquire additional reserves needed for credit expansion. The commercial bill consequently recovered its traditional function as the principal credit instrument in Belgium; almost three fifths of the total bank credit to the private sector in December 1952 was in the form of commercial bills, as against only about one tenth shortly after the war.

Discount Policy

As the discount rate became effective, it was gradually raised from 1½ per cent in 1946 to 3½ in late 1947 (see Chart I)—a rate higher than was then in force in most other Western European countries. This rate remained in effect until October 1949, when it was reduced ¼ per cent; at that time business activity had slowed down somewhat, but Belgium had achieved for the first time since the war a surplus in its over-all balance of payments on current account. Following the Korean outbreak the discount rate was raised to 3¾ per cent in September 1950, primarily in order to counter, along with other measures, the speculative inventory accumulation and other inflationary pressures that generally prevailed throughout the Western world at that time. Finally, from July 1951 onward, when these pressures had subsided and Belgium had again achieved a surplus in its current-account balance of payments, the discount rate was gradually lowered to 3 per cent; the last change took place in December 1952. Altogether, Belgium made eight changes in the official discount rate between 1946 and mid-1953.

Belgium was thus the first European country to raise its discount rate during the early postwar years, and the second one (after Denmark) following the Korean outbreak; and it was likewise the first to make reductions both during the slowing-down in business activity in 1949 and after the post-Korea inflationary outburst had run its course in early 1951. The Belgian authorities also allowed government security prices to find their own level. The yield on the 4 per cent tax-free perpetual issue, for instance, rose from 4 per cent in 1945 to nearly 5 per cent in 1948; since then it has fallen to about 4½ per cent.

Chart I
Selected Discount Rates of the National Bank of Belgium Since October 1944



Data shown through June 30.
Source: Banque Nationale de Belgique, *Bulletin d'Information et de Documentation.*

In addition, the central bank established preferential discount rates for particular types of transactions, especially those involving certified export and import paper (see Chart I). By varying these rates, and also by revising the eligibility rules applicable to various types of discountable paper, the authorities sought to influence the availability of credit for special purposes; thus, the discounting of import and export paper was made more strict or more liberal as balance-of-payments conditions and requirements changed.

Although Belgian discount policy had certain selective features, the principal emphasis throughout most of the postwar years was on the use of general credit measures, i.e., measures designed to affect the aggregate volume and availability of credit. Some of the more narrowly qualitative controls were nevertheless imposed. At the time of the currency reform, the commercial banks were required to inform the authorities of every request for credit in excess of one million francs; this, however, did not call for prior approval. In September 1950 the central bank issued new instructions to curtail consumer credit, which had expanded after the Korean outbreak, but there was no attempt to regulate the terms of such credit. The bank also inaugurated a voluntary credit restraint program.

In an economy in which real output was rising, some credit expansion was of course desirable and necessary. The total volume of bank credit supplied to the private sector actually increased from 9 billion francs in 1944 to 27 billion in 1949; at the end of 1950, six months after the Korean outbreak, it

[2] These requirements called for compulsory reserves equal to 50-65 per cent (depending on the size of the bank) of deposit liabilities; four fifths of these were to be held in the form of government securities. These requirements have, with minor modifications, remained in force ever since.

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stood at 36 billion, and it subsequently rose to 38 billion in 1951 and to 40 billion in 1952. Despite this expansion in bank credit to the private economy, the rise in the money supply during the postwar years was, on the whole, moderate (Chart II). The rapid growth in bank credit to the private sector in the earlier postwar years primarily reflected the necessity of replenishing the working capital of industrial and commercial enterprises which had been greatly impaired by the wartime inflation and the currency blocking after liberation. The sharp increase after the Korean outbreak was presumably related in part to the increased volume of imports and the expanding inventories of imported commodities. Throughout most of the postwar years the growth in bank credit to business has taken place in an environment of rising industrial and agricultural production, with prices generally advancing less than in most other industrial countries.

Some Fundamental Features of Belgian Monetary Policy

Belgian postwar monetary policy appears to have been directed at restoring and maintaining monetary stability rather than any predetermined interest rate pattern, although at times this necessarily resulted in higher interest charges on the government debt. As stated in the central bank's report for 1951, such policy has not been motivated by "rigid doctrinal preconceptions and it accordingly has often been modified in response to the needs of the moment. It is in fact wise not to lay down any general rule of either cheap money or dear money, but to apply them each in turn as circumstances require."

Another distinctive feature of Belgian monetary policy has been the endeavor of the authorities to maintain a fairly constant and reasonably high ratio between their gold and foreign exchange reserves and the money supply. "The central bank . . . has long sought to prepare the ground for full convertibility", according to the bank's report for 1952. "The essential requirement for convertibility restoration . . . is that adequate monetary reserves shall be kept, and that the money supply shall be controlled, by restricting within reasonable limits the granting of credit to business as well as to the government and foreign countries." The prewar requirement that the bank maintain a reserve in gold and convertible exchange equal to at least 40 per cent of its sight liabilities has not, however, been formally restored.

Monetary conditions in Belgium also appear to have been affected by the revision in the central bank's statute in 1948. The government acquired 50 per cent of the bank's share capital at that time, but the preamble to the 1948 legislation specifically provided that the bank should be kept free of direct government control to insure that its actions should have the flexibility indispensable for assuring the growth of the national economy. The preamble also stressed that the government should exercise its prerogatives in such a way as to safeguard the bank's independence and freedom of action unless some sacrifice should be required for overriding reasons of state.

Difficulties of Monetary Policy

Belgian monetary policy had to be carried out in the face of two serious difficulties: continuing government budgetary deficits and the financing of large Belgian credits to other countries. Up to early 1946 the government deficit was largely financed by the central bank, but in 1948 the latter's government security holdings were funded in the form of an interest-free loan, and at the same time a limit of 10 billion francs was fixed on additional lending to the government; on June 11, 1953 such lending amounted to 8.1 billion francs. The authorities endeavored to place as large a part of the government debt as possible in the hands of nonbank investors and to borrow abroad, mostly in the United States and Switzerland.

Since the budgetary deficit was due mainly to the extraordinary budget, which for the most part concerns capital outlays, the net result was to limit the volume of government investment essentially to the amount of noninflationary funds that the government was able to raise. A further consequence was that the increased Treasury demands upon private investors apparently limited to some extent the supply of investment funds that were available to business in the capital market. It may also be recalled here that Belgium received relatively little direct American aid under the European Recovery Program, and the government accordingly had no counterpart funds on which to draw for investment purposes; the aid it received was mostly so-called conditional aid, which was contingent upon Belgium's extending equal aid to other ERP countries.

The extension of credits to Belgium's trade partners—directly up to mid-1950, and largely though by no means exclusively thereafter through the European Payments Union—also exerted a marked impact on Belgian monetary conditions and policies. Belgian business and banks sought to rediscount with the central bank the bills of their foreign customers; while as regards intergovernment credits, the Belgian Treasury, because of its over-all budgetary deficit, likewise had recourse to the central bank. However, the latter was anxious to limit such financing, principally on the ground that its statutes required its liabilities to be covered by self-liquidating short-term assets. Under an agreement with the government concluded in March 1951, the central bank therefore limited to 10.1 billion francs its financing of the portion of the country's EPU surplus that was not to be settled in gold and dollars by the EPU. After this limit was actually reached in September 1951, the further growth of Belgium's claims on the EPU was financed in part by the Belgian Treasury and in part by a partial blocking of export proceeds. Belgian claims on the EPU reached a peak of 21.2 billion francs (424 million dollars) in April 1952; in the following June a portion was repaid in gold and another part was funded. Both because of these arrangements and because of the decline in Belgian EPU

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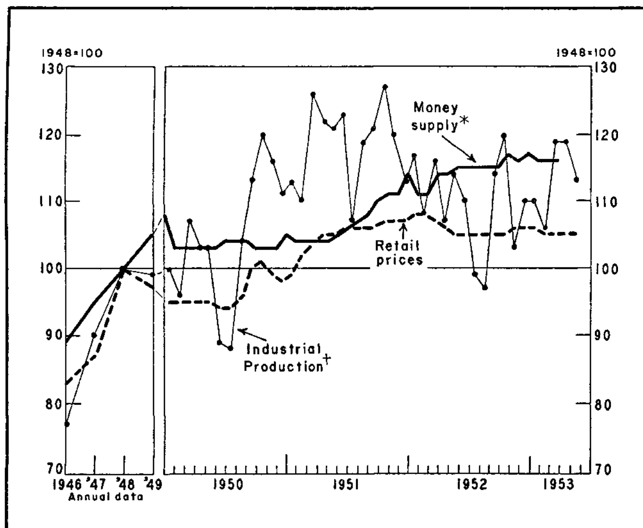
surpluses in the latter part of 1952 and the emergence of actual deficits in the early part of 1953, these claims stood at 11.9 billion francs (237 million dollars) in May 1953. The difficulties arising from the internal financing of the EPU surplus accordingly subsided, even though the central bank's claims on the EPU have remained substantial.

Domestic Achievements and Problems

Despite these difficulties, Belgium was the first European country among the World War II belligerents to achieve reasonable monetary stability—primarily as a result of credit restraints together with a cautious fiscal policy and a policy of importing liberally from the cheapest markets. The increase in the money supply was kept within moderate limits through 1950 (see Chart II), and even though the rise became somewhat more pronounced in 1951, it slackened again toward the end of 1952. Wholesale prices had remained stable on the whole from 1948 through mid-1950; they rose thereafter up to the spring of 1951, when they began to decline with the fall in world commodity quotations. Retail prices (see Chart II) have risen slightly more than 25 per cent since 1946, a considerably smaller increase than elsewhere in Europe, except in Portugal and Switzerland. Belgian wages appear to have increased somewhat more than retail prices. This relative stability of the price and wage structure was achieved within the framework of a generally free economy; direct controls and consumer rationing had been dropped gradually in the early postwar years, and even after the Korean outbreak much less resort was had to direct controls than in most other countries.

Chart II
Belgian Money Supply, Retail Prices, and Industrial Production



Latest data shown: money supply, end of March; retail prices and industrial production, May.

* Money supply: 1946-49, based on averages of data for beginning and end of year; 1950-53, based on end-of-month data.

† Index of the Agence Economique et Financière.

Source: Ministère des Affaires Economiques, Institut National de Statistique, *Bulletin de Statistique;* International Monetary Fund, *International Financial Statistics.*

Industrial output rose rapidly during the early postwar years, reaching the prewar level by 1948 (see Chart II). In 1949 and during most of 1950 when industrial production continued to expand in most European countries, output remained generally stable in Belgium; from September 1950 onward, however, Belgian output rose rapidly, and in 1951 exceeded 1948 and 1949 by almost 20 per cent. Even though output fell in Belgium in 1952, as in most other European countries, it remains distinctly higher than in 1950. This recent slackening of industrial output, in a country where economic activity depends to the extent of nearly 40 per cent on export trade, appears to reflect mainly the fall in the external demand for Belgian products, as a result of the subsidence of inflationary conditions in much of the Western world, the re-establishment of quantitative import restrictions by some of Belgium's trade partners, and increased competition by other countries in world markets.

From 1946 to mid-1948 there was very little unemployment in Belgium. Thereafter, as the exceptional postwar demand for goods in Belgium and elsewhere fell off and certain Belgian consumer goods industries were compelled to reduce output, the number of unemployed increased considerably. Unemployment declined after the Korean outbreak, when most branches of Belgian industry were faced with a rapid increase in demand at home and abroad, but subsequently it rose again. In the spring of 1953 the number of totally unemployed, although somewhat larger than in 1951, was about the same as in the spring of 1950. On the whole, Belgian unemployment has been relatively high in recent years as compared with most other countries.

The reasons for Belgium's continued unemployment are complex. They include, among other factors, a longer-run as well as a cyclical slowdown in its older industries such as textiles, leather, and glass, which now find it more difficult to retain their export markets in Europe and elsewhere; technological displacement due to continuing mechanization, better production methods, and increased productivity; and some immobility of labor as among the different parts of the country and among the various occupations (which explains why Belgium, despite unemployment, is using foreign labor, especially in the coal mines). The Belgian unemployment problem thus apparently calls for further structural readjustments within the economy, rather than merely for measures to inflate aggregate demand for the kinds of goods that Belgium has produced in the past. This presumably is why the central bank holds, in its report for 1952, that "the use of monetary means to deal with unemployment would be justifiable only if it were certain that such means would be effective and would not impair the stability of our currency: but that is not the case."

Even though the economic resources immediately available for noninflationary expansion do not appear to be very large,

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and seem to be relatively localized, the Belgian authorities are seeking to make an economical and effective use of them. Such a policy appears the more necessary because new investment in Belgium has been somewhat lower since the war than in most European countries. Various measures to help expand investment and output have recently been adopted or are being officially considered: tax exemptions for approved expansion of industrial capacity; relaxation of the conditions under which the government may guarantee loans made by the semi-government lending agency specializing in long-term credit to industry; and the creation of a national investment corporation, which would participate in the financing of approved new productive capacity up to 50 per cent of the total cost. Personal savings have increased since mid-1952, and fresh funds appear now to be seeking investment in increased amounts. Partly as a reflection of these developments, there has been recently some decline in medium and long-term interest rates.

Over-all External Balance With Persisting Dollar Disequilibrium

The subsidence of inflation in the early postwar years, at a time when seemingly intractable inflationary pressures persisted in most other European countries, helped Belgium greatly in attaining the over-all external balance that was reached in 1949.[3] It is true that, because of its rapid liberation in 1944, Belgium emerged from the war with relatively less impairment of its productive capacity than did the neighboring countries; in addition, it benefited from the influx of foreign exchange consequent upon the establishment of Allied bases, as well as from its continued close ties with the Congo. However, it is also true that its policies have helped Belgium to make the most of its good fortune.

In 1950 the current-account balance of payments shifted to a deficit, mainly as a result of a deterioration in the terms of trade, as prices of Belgium's imports rose faster than those of its exports. The terms of trade improved again in 1951 because of the rise in Belgium's export prices, and, since the export volume also increased, the 1951 balance showed a large surplus; this surplus was, however, considerably reduced in 1952. The lesser degree of inflation in Belgium after the Korean outbreak also contributed importantly to the improvement in the country's international position. In particular, it was a major factor in the rapid rise in Belgium's payments surplus with the European Payments Union.

Despite its over-all external balance, Belgium has had throughout the postwar years a persistent dollar deficit; even though it has been a creditor of most of the European countries, it has incurred a dollar debt. Indeed, it has been able to maintain its traditional pattern of trade—selling its manufactures primarily to Western Europe, and purchasing its food and raw materials mostly in the Western Hemisphere—mainly because of exceptional or nonrecurrent receipts. In the earlier postwar years these comprised receipts from Allied military outlays, foreign loans, and American aid (mostly conditional, as already noted, upon Belgium's own aid to other countries), and after mid-1950 Belgium received gold and dollars from the European Payments Union. Before the war Belgium had encountered no payments difficulties, because of the general convertibility of currencies. In view of its traditional position as a country with highly developed basic industries dependent on materials from the cheapest markets, it retains a vital stake in the restoration of multilateral trading and currency convertibility. Nevertheless, if the greater part of its surplus with its European trading partners should remain inconvertible into dollars, some redirection of its external trade and some further changes in the structure of its production might eventually be necessary.

Conclusions

The postwar experience of the Belgian economy and the important influence exerted throughout this period by an active monetary and credit policy suggest three conclusions.

First, for a small country located at the crossroads of Europe, dependent on foreign trade, and especially sensitive to any change in world conditions, the re-establishment and continuance of domestic monetary stability has played a major role in averting the inflationary distortions that developed repeatedly in other countries over the postwar years. By maintaining quantitative control over the money supply and the availability of bank credit, Belgian monetary policy has helped create an environment in which needed shifts can take place in the country's use of its productive resources—while preserving domestic economic stability and strengthening Belgium's international economic position.

Second, monetary restriction as flexibly applied in Belgium, supplemented or reinforced by other measures, has significantly influenced current economic activity—largely through the effect of such restraint upon lenders and the availability of credit—without giving rise to substantial increases (or wide fluctuations) in interest rates.

Third, the record of Belgian monetary policy also indicates how the direction of monetary policy, once its foundations have been firmly laid, can be altered at short notice in response to changing economic conditions. The discount rate has been raised or lowered, as circumstances have required, and the response to such changes in the credit markets, and the economy as a whole, has been relatively prompt. Indeed, this reversibility of the discount rate instrument has been a distinguishing characteristic of the Belgian credit controls, accounting for much of the effectiveness of the policies pursued throughout the postwar years.

[3] Belgium forms an economic union with Luxembourg; the following discussion of the balance-of-payments developments accordingly deals with the union as a whole.

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SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1953			1952	Percentage change	
		May	April	March	May	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	241*p*	241	243	211	#	+14
Electric power output*	1947-49 = 100	161	159	159	142	+1	+14
Ton-miles of railway freight*	1947-49 = 100	—	102*p*	102	98	#	+ 1
Manufacturers' sales*	billions of $	—	26.7*p*	25.5*r*	23.2	+ 5	+13
Manufacturers' inventories*	billions of $	—	44.3*p*	44.1	43.1	#	+ 2
Manufacturers' new orders, total*	billions of $	—	25.9*p*	24.6*r*	22.7	+ 5	+ 7
Manufacturers' new orders, durable goods*	billions of $	—	12.7*p*	12.0*r*	11.0	+ 5	+ 2
Retail sales*	billions of $	14.4*p*	14.4	14.4	13.9	#	+ 4
Residential construction contracts*	1947-49 = 100	—	179*p*	176	186	+ 2	− 5
Nonresidential construction contracts*	1947-49 = 100	—	179*p*	178	156	+ 1	+13
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	88.1	88.0	90.1	98.4	#	−10
Wholesale prices†	1947-49 = 100	109.8*p*	109.4	110.0	111.6	#	− 2
Consumer prices†	1947-49 = 100	114.0	113.7	113.6	113.0	#	+ 1
Personal income (annual rate)*	billions of $	—	283.1*p*	282.8	264.5	#	+ 8
Composite index of wages and salaries*	1939 = 100	—	246*p*	246	234	#	+ 5
Nonagricultural employment*‡‡	thousands	49,192*p*	49,090	49,095*r*	47,670	#	+ 3
Manufacturing employment*‡‡	thousands	17,280*p*	17,229	17,165*r*	16,082	#	+ 7
Average hours worked per week, manufacturing†	hours	40.6*p*	40.8	41.1	40.2	#	+ 1
Unemployment	thousands	1,306	1,582	1,674	1,602	−17	−18
Banking and finance							
Total investments of all commercial banks	millions of $	72,550*p*	73,120*p*	74,780*p*	74,540	− 1	− 3
Total loans of all commercial banks	millions of $	65,490*p*	65,330*p*	65,220*p*	58,520	#	+12
Total demand deposits adjusted	millions of $	97,490*p*	98,000*p*	97,370*p*	95,310	− 1	+ 2
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,110*p*	30,022	29,962	28,787	#	+ 5
Bank debits (U. S. outside New York City)*§	millions of $	95,055	96,299	95,323	87,075	− 1	+ 9
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	n.a.	n.a.	n.a.	n.a.	—	—
Consumer instalment credit outstanding†‡‡	millions of $	—	19,666*p*	19,267	15,308	+ 2	+34
United States Government finance (other than borrowing)							
Cash income	millions of $	5,296*p*	3,215	11,042	4,722	+65	+12
Cash outgo	millions of $	6,662*p*	6,443	6,970	5,751	+ 3	+16
National defense expenditures	millions of $	4,220*p*	4,470	4,503	4,235*r*	− 6	#
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	141	140	139	125	+ 1	+13
Residential construction contracts*	1947-49 = 100	—	183*p*	181	186	+ 1	− 7
Nonresidential construction contracts*	1947-49 = 100	—	194*p*	198	168	− 2	+18
Consumer prices (New York City)†	1947-49 = 100	111.4	111.1	111.2	110.7	#	+ 1
Nonagricultural employment*‡	thousands	—	7,615.4*p*	7,627.3	7,478.5	#	+ 2
Manufacturing employment*‡	thousands	2,813.2*p*	2,802.4	2,805.4	2,703.4	#	+ 4
Bank debits (New York City)*§	millions of $	51,281	53,100	50,372	49,827	− 3	+ 3
Bank debits (Second District excluding New York City)*§	millions of $	4,164	4,343	4,344	3,821	− 4	+ 9
Velocity of demand deposits (New York City)*	1947-49 = 100	n.a.	n.a.	n.a.	n.a.	—	—

Note: Latest data available as of noon, June 30.
p Preliminary.
r Revised.
n.a. Not available. Series in process of revision.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ The seasonal adjustment factors for this series have been revised.
# Change of less than 0.5 per cent.
§ Revised series.
‡‡ Revised series. Back data available from the Board of Governors of the Federal Reserve System.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

DEPARTMENT STORE TRADE

During the early part of June, Second District department stores experienced a decline in sales as compared with the same period last year (owing in part to the shift in the date of Father's Day, June 21, 1953 and June 15, 1952). However, a substantial improvement in the third week brought sales to the year-earlier level. Taking into account the effect of one more trading day this year, total dollar volume is expected to exceed that of June 1952 by about 4 per cent.

Final figures show that for the first five months of 1953 the dollar volume of department store sales in the Second District as a whole was equal to the total for the comparable period last year. Sales in most localities within the District were more favorable during the January-May period in comparison with last year than would seem to be indicated by the District average, which was affected adversely by a 4 per cent decline of sales in New York City. Dollar volume as indicated by the bank's index of average monthly sales in New York City was the lowest for any January-through-May period since 1945. Outside New York City, however, sales at Second District department stores exceeded the January-May level of 1952 by 4 per cent. The average for the first five months of the monthly index of department store sales in Syracuse reached the highest level on record, while the volume of consumer purchases of department store merchandise in Rochester and Buffalo surpassed all previous levels for the same period with the exception of the record year of 1951.

Preliminary data suggest that some segments of the ready-to-wear groups were influential in holding total sales for the January-May period up to last year's level for the District as a whole. According to the departmental report, main store

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sales of men's and boys' wear increased 2 per cent, while sales in women's and misses' accessories and apparel rose 1 per cent over the January-May level a year ago. Sales of men's clothing and men's and boys' shoes rose 4 and 5 per cent, respectively, the largest gains for the five-month period achieved within the men's and boys' wear group. Although aggregate January-May sales of women's and misses' accessories were just equal to those of the like period last year, sales in women's and misses' apparel showed a gain of 2 per cent. The sales records of the component departments within the apparel group suggest a changing emphasis in consumer preferences. Demand for blouses, skirts, and sportswear showed a marked rise during all but one of the first five months of this year, causing sales to increase 5 per cent over the same period a year earlier. Consumer interest in dresses was generally disappointing throughout most of the period, although the abrupt rise of sales in May pushed the aggregate January-May total 1 per cent above the year-ago figure.

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

Item	1953			1952
	May	Apr.	Mar.	May
Sales (average daily), unadjusted	99	93	91	95
Sales (average daily), seasonally adjusted	101	98	100	97*r*
Stocks, unadjusted	119	119	115	113*r*
Stocks, seasonally adjusted	116	114	110	111*r*

r Revised.

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

Locality	Net sales			Stocks on hand May 31, 1953
	May 1953	Jan. through May 1953	Feb. through May 1953	
Department stores, Second District	+ 1	0	0	+ 4
New York—Northeastern New Jersey Metropolitan Area	− 1	−2	−1	+ 3
New York City*	− 3	−4 (−2)	−3 (−2)	+ 2
Nassau County	+15	—	—	+16
Westchester County	+ 3	+4	+5	+ 2
Northern New Jersey	+ 5	+4	+4	+ 4
Newark	+ 4	+2	+3	+ 3
Fairfield County	+ 5	+3	+5	+ 5
Bridgeport	n.a.	n.a.	n.a.	—
Lower Hudson River Valley	+ 7	+5	+6	+ 4
Poughkeepsie	+ 6	+6	+6	+ 6
Upper Hudson River Valley	− 3	0	+1	+ 7
Albany	− 4	0	+1	+ 8
Schenectady	− 1	+1	+1	+ 5
Central New York State	+ 8	+6	+5	+ 7
Mohawk River Valley	+ 6	+4	+3	+12
Utica	+ 6	+4	+4	+17
Syracuse Metropolitan Area	+ 8	+7	+6	+ 5
Northern New York State	+ 5	+9	+8	+16
Southern New York State	+ 1	+1	+1	+ 4
Binghamton Metropolitan Area	0	+1	+1	+ 4
Elmira	+ 6	+4	+4	+ 3
Western New York State	+ 4	+4	+3	+ 6
Buffalo Metropolitan Area	− 1	+3	+2	+ 7
Buffalo	− 1	+2	+2	+ 7
Niagara Falls	+ 2	+4	+3	—
Rochester Metropolitan Area	+13	+6	+5	+ 4
Apparel stores (chiefly New York City)	+ 1	+1	+1	+ 4

n.a. Not available.

* The year-to-year comparisons given in parentheses exclude the data of a Brooklyn department store that closed early in 1952.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, June 26, 1953)

Industrial production continued in May and June at a level slightly below the March high. Construction activity remained close to earlier record levels, with private nonresidential building activity showing further gains. Sales at department stores and other retail outlets were maintained at advanced levels. Consumer prices rose slightly in May. In June prices of steel and petroleum were raised, while prices of farm products declined.

Industrial Production

The Board's industrial production index in May was 241 per cent of the 1935-39 average, unchanged from April and 2 points below March. The index is also estimated at 241 in June.

A slight decline in durable goods production in May reflected mainly some further curtailment in household goods production, a substantial reduction in truck output and a temporary sharp cut in passenger auto assembly in the last half of the month. There was also some further decline in production of building materials. Activity in most industrial equipment and military equipment lines was maintained at the advanced first-quarter level. Aluminum production continued in record volume. Steel production in May was at rated capacity but in June has declined somewhat. Auto assemblies have recovered in June to about earlier high levels, while truck production has continued at reduced rates. Television output has been further curtailed as stocks have continued to rise.

Output of nondurable goods was again in record volume in May. Textile production expanded, with output of wool cloth showing a substantial gain, and chemicals production increased further. Activity in paper and rubber products industries was maintained at advanced rates. Meat production in June has continued substantially above a year ago.

Mineral fuels production rose in May and early June as crude petroleum output turned up and coal mining increased further from earlier reduced levels. Iron ore mining continued at advanced levels.

Construction

Value of construction contract awards declined somewhat in May, but continued larger than a year earlier for the fifth consecutive month. The number of housing units started declined contraseasonally to 107,000. This compares with 110,000 both in the preceding month and in the corresponding month a year ago. Value of nonresidential construction put in place increased somewhat in May, after allowance for seasonal factors, reflecting further gains in construction for private business purposes.

Employment

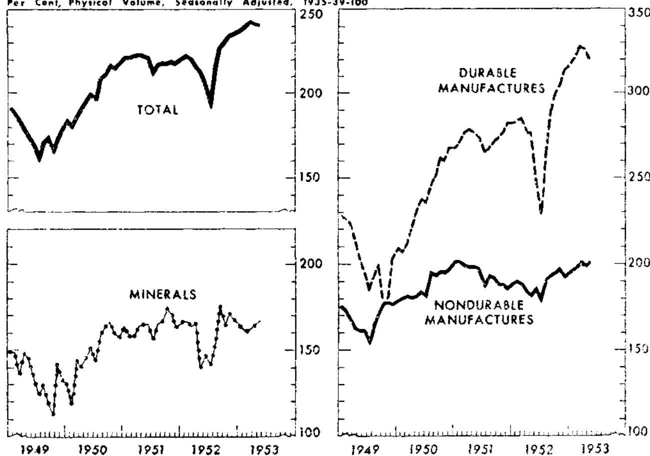
Seasonally adjusted employment in nonagricultural establishments was at a new record of 49.2 million in May, slightly above the high levels of other recent months. At factories, the average work week was reduced slightly further to 40.6 hours, and average hourly earnings continued unchanged at $1.75. Unemployment declined further in May and at 1.3 million was a postwar low for the month.

Distribution

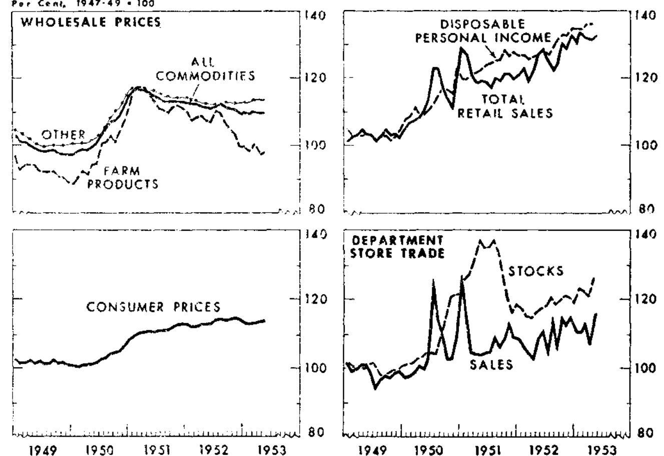
Seasonally adjusted sales at department stores in the first three weeks of June continued near the advanced May level. Automotive sales in May were little changed from the high levels of other recent months, and apparel sales strengthened again following some slackening in April. Stocks at department stores are estimated to have increased slightly further in May after allowance for seasonal variation.

Commodity Prices

Steel prices were raised about 4 per cent in June following conclusion of a wage agreement, prices of steel scrap firmed somewhat, and lead increased further. Crude petroleum prices were advanced about 10 per cent and gasoline and fuel oil



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



Seasonally adjusted series except for prices. Price indexes compiled by Bureau of Labor Statistics. Total retail sales and disposable personal income, Federal Reserve indexes based on Department of Commerce data. Department store trade, Federal Reserve indexes. Monthly figures, latest shown are for May except income (April) and department store stocks (April 30).

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were raised, while prices of most other finished products continued to show little change. Average prices of farm products declined in June, as feeder cattle decreased sharply and wheat dropped reflecting in part larger crop prospects.

The consumer price index rose 0.3 per cent from April to May, reflecting chiefly a small increase in food prices and a continuing advance in rents and services.

Bank Credit and Reserves

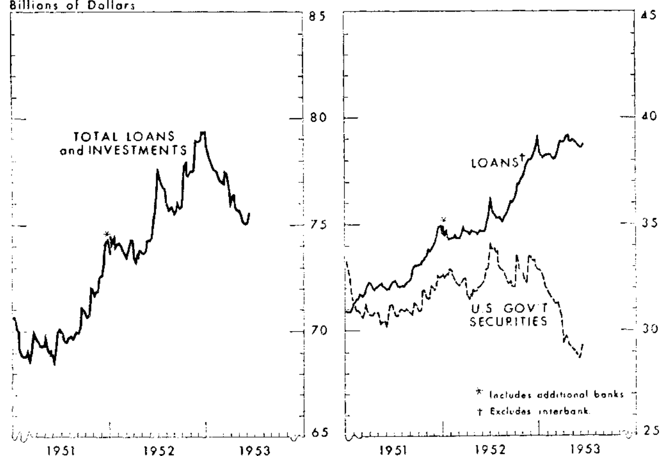
Loans, investments, and deposits at banks in leading cities, which had declined earlier in the year, rose somewhat in the first three weeks of June. Banks increased their holdings of Treasury bills, including the new tax anticipation issue. There was also some expansion in business borrowing associated in part with quarterly income tax payments. Real estate and other loans (largely consumer) increased further.

Bank reserve positions were relatively easy in the first three weeks of June. Prior to the mid-June inflow of tax receipts, the Treasury drew down its balance at the Federal Reserve Banks and sold special certificates to the Federal Reserve. Substantial additional reserves were also supplied by Federal Reserve purchases of Treasury bills.

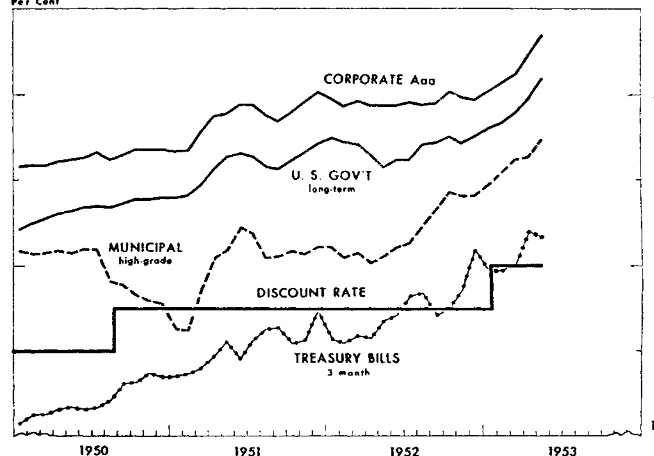
In anticipation of heavy demands on bank reserves in the near future from the seasonal requirements of the economy and large Treasury financing, the Board announced on June 24 a reduction in reserve requirements on demand deposits of 1 percentage point at reserve city and country banks and 2 percentage points at central reserve city banks. The action becomes effective July 1 for country banks and July 9 for central reserve and reserve city banks.

Security Markets

Yields on most Treasury securities reached new highs on June 1 but moved lower during the first three weeks of the month. Market rates on three-month Treasury bills declined sharply to the lowest point this year. Yields on high-grade corporate bonds rose somewhat further. Common stock prices declined to mid-June and subsequently advanced moderately.



Federal Reserve data. Weekly figures, latest shown are for June 10.



Figures except for Federal Reserve discount rate are monthly average market yields. Corporate Aaa bonds, Moody's Investors Service; U. S. Government long-term (excludes 3¼ per cent bonds issued May 1, 1953), U. S. Treasury Department and Federal Reserve; municipal high-grade bonds, Standard and Poor's Corporation; Treasury bills, Federal Reserve. Latest figures shown are for May.

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