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MONEY MARKET IN SEPTEMBER

Money market conditions, which showed some slight strain during the early part of September, eased considerably by the middle of the month and remained easy through the remainder of September. Early in the month, a sizable outflow of currency into circulation was primarily responsible for a net drain upon member bank reserve balances that was only partially offset by a decline in required reserves. Subsequently, member banks acquired large reserve balances from the usual midmonth build-up in Federal Reserve float, from a net reduction in Treasury deposits at the Reserve Banks, and from a sizable post-holiday return flow of currency from circulation. As the month progressed, the customary contraction of float from its midmonth peak, complemented by the rebuilding of Treasury balances at the Reserve Banks, withdrew funds from the market, but by the month end free reserves held by member banks were still higher than the levels at the close of August. The level of member bank borrowing from the Reserve Banks fluctuated over a wide range during the month as banks borrowed or repaid borrowing in response to the net movement of other factors influencing member bank reserves. Purchases of Government securities by the Federal Reserve Banks constituted a steady source of reserve funds. For the month as a whole, the Federal Reserve Banks added 246 million dollars to their Government security holdings, an increase which was only partially offset by a decline of 28 million dollars in the holdings of the Federal Reserve Bank of New York under repurchase agreements.

Conditions in the New York money market tended to reflect the influences broadly affecting all member banks, but the ease that prevailed during the last three weeks in the month was not so marked in New York City as it was in the country as a whole. Nevertheless, money market conditions were quite easy in New York during the middle and latter portions of September and the rate charged for Federal funds during this period, reflecting the lack of demand for immediately available money, was quoted for several successive days at levels below 1 per cent.

An important influence in the market for Government securities in September was the Treasury's successful exchange of the nearly 8 billion dollars of maturing 2 per cent bonds for an optional offering to investors of one-year, 2⅝ per cent certificates or 3½-year, 2⅞ per cent notes. Holders of approximately 96.7 per cent of the maturing securities tendered their holdings in exchange for the new issues. Of the total, 3 billion dollars, or 39 per cent, were exchanged for the new 3½-year notes. The highly successful exchange operation in the early part of the month tended to lend further strength to the market and, along with other factors mentioned later in this report, probably contributed to the run-up in prices that occurred during the last two weeks of September. At the end of the month, Treasury bond prices were as much as 3⅛ points above their end-of-August quotations, and as much as 5¾ points above the low closing quotations on June 1.

Net loans of the weekly reporting member banks increased by 255 million dollars in the four weeks ended September 23, primarily reflecting a seasonal growth of 144 million dollars in commercial, industrial, and agricultural loans. But expansion in member bank lending was much more than offset by a reduction in the Government security portfolios of the weekly reporting banks amounting to 612 million dollars. The largest part of the net contraction in Government security holdings of these banks was centered in their Treasury bill portfolios and may have reflected, at least in part, the retirement by the Treasury of the 800 million dollars of tax anticipation bills that matured on September 18. Since the week ended July 15, when the weekly reporting banks increased their Government security holdings by about 4 billion dollars in connection with the sale by the Treasury of 5.9 billion dollars of tax anticipation certificates for cash, the Government security portfolios of the reporting banks have been reduced

CONTENTS

by approximately 1,933 million dollars, a reduction which has been only partially offset by increases of 674 million dollars in loans and 127 million dollars in holdings of other securities.

Member Bank Reserve Positions

During the first two statement weeks in September, through September 9, member banks lost more than 400 million dollars of reserves through the operation of factors other than Federal Reserve credit, as shown in Table I. Most of the drain upon member bank reserve balances during this two-week period was accounted for by the outflow of 375 million dollars of currency into circulation. This outflow reflected demands for currency over the month end and the Labor Day week end. In addition, gold and foreign account transactions drew more than 100 million dollars of reserves from the market. The reduction of member bank reserves as a result of these developments was only partly offset by a decline of almost 150 million dollars in required reserves and by a net outflow of about 95 million dollars as the result of Treasury operations. Purchases of Government securities by the Federal Reserve System, including 45 million purchased outright for the System Account and 64 million purchased by the Federal Reserve Bank of New York under repurchase agreements, were an offset to the loss of reserves at this time. The banks made frequent use of their discount privilege at the Reserve Banks to adjust for gains or losses of reserves from other sources, and at one point member bank borrowing approached 1 billion dollars. However, for the full two weeks through September 9 borrowing was reduced somewhat from the amount that had been outstanding at the end of the last statement week in August. Average daily borrowing during the two weeks, amounting to about 650 million dollars, was slightly greater than the average daily level of excess reserves.

Developments affecting member bank reserves during the last three statement weeks, while they involved massive movements of reserves in and out of the banking system, followed a roughly normal pattern for the month of September. During the statement week of September 16, the heavy float expansion provided, on balance, the largest part of the more than three quarters of a billion dollars in reserve balances accruing to the banking system. Treasury operations were another source of reserve funds at this time. As is customary at the quarterly tax collection dates, the Treasury during this week, in anticipation of cash tax receipts, did not call sufficient funds from its commercial bank deposits to cover expenditures from its balances at the Reserve Banks.[1] Tax receipts were somewhat slower than had been anticipated, and the resulting temporary decline in Treasury balances at the Reserve Banks below normal working levels released a sizable sum of money to the market. A return flow of part of the currency that had been drawn into circulation in the two preceding weeks and a net reduction in foreign official deposits at the Reserve Banks also released reserves to the banks. These factors, along with additional purchases of Government securities by the Federal Reserve System, much more than offset an increase in required reserves and enabled the member banks to reduce their indebtedness at the Reserve Banks by 181 million to 311 million dollars while increasing excess reserves to 918 million dollars.

The factors that had created the very substantial degree of ease in member bank reserve positions during the preceding week continued to put funds into the market during the first half of the September 23 statement week. By Friday, September 18, excess reserves held by member banks had grown to 1,151 million dollars and free reserves totaled 934 million dollars. In the last half of the week, however, a reverse movement began, and for the week as a whole, a reduction in float and a sizable loss of funds through Treasury operations more than offset the funds added to bank reserves by a further reduction of currency in circulation. As indicated in Table I, despite the fact that for the full week there was a net loss of reserves, average daily excess reserves were larger in the week of September 23 and average daily borrowing was smaller than in the preceding week.

The decline in member bank reserve balances that had begun in the last half of the preceding week was extended through the last statement week in the month. A further contraction of float was the most imporant factor drawing reserves away from the member banks in this week, but in varying degree nearly all of the factors affecting member bank reserves became a source of drain upon reserve balances. The most important offset to the reserve losses was an increase in direct Federal Reserve credit, both through additions to System security holdings and through expanded member bank borrowing from the Reserve Banks.

By the close of September, the supply of free reserves available to the member banks had been reduced substantially from the very high levels that were reached briefly at the middle of

Table I
Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, September 1953
(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended					Five weeks ended Sept. 30
	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30	
Operating transactions						
Treasury operations*	+126	− 29	+217	−261	− 30	+ 23
Federal Reserve float	+ 23	− 51	+384	−130	−128	+ 98
Currency in circulation	−135	−239	+144	+125	− 61	−166
Gold and foreign account	− 70	− 31	+ 62	− 35	− 20	− 94
Other deposits, etc	+ 24	− 30	− 41	+123	− 92	− 16
Total	− 32	−380	+767	−181	−328	−154
Direct Federal Reserve credit transactions						
Government securities						
Direct market purchases or sales	+ 25	+ 20	+ 50	+101	+ 50	+246
Held under repurchase agreements	+ 25	+ 39	+ 31	−123	—	− 28
Loans, discounts, and advances	−133	+100	−181	− 82	+101	−195
Total	− 83	+159	−100	−104	+151	+ 23
Total reserves	−115	−221	+667	−285	−177	−131
Effect of change in required reserves	− 25	+174	−131	+ 22	+ 4	+ 44
Excess reserves	−140	− 47	+536	−263	−173	− 87
Daily average level of discounts	506	802	541	227	318	479
Daily average level of excess reserves	586	701	783	955	547	714

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

[1] The Treasury in September deposited all of its third-quarter income and profits tax receipts directly to its Reserve Bank accounts; at most recent quarterly tax periods all or part of the larger tax checks have been credited to "X accounts" at depositary commercial banks.

the month, but the reserve position remained easier than it had been at the end of August. The expansion of member bank credit to private borrowers during recent months has been moderate, and banks have sold Government securities in a volume more than sufficient to offset the seasonal upturn in private credit since the peak reached in earning assets following the Treasury cash financing on July 15. As a result, required reserves have declined since the middle of July. In addition, security purchases by the Federal Reserve System have been sufficient to offset the largest part of the month-to-month loss of reserves from other factors, with the result that through the fall season thus far the money market has been singularly free of any degree of real tightness.

Treasury Finance and the Market for Government Securities

The Treasury's optional exchange offering on September 2 was well received in the market. The terms offered by the Treasury were in line with market expectations as they had evolved in the latter part of August, and the very broad acceptance of these terms against the backdrop of a market that had been gaining strength and confidence for a number of weeks signaled the likelihood of a favorable exchange. Immediately following the Treasury announcement, a fairly sizable volume of selling developed in the September 15 "rights", but dealers willingly absorbed into their own positions the maturing bonds reaching the market, and as the exchange period progressed selling tended to taper off. The market maintained a premium of ⅛ of a point or better on the rights and on the when-issued securities during the exchange. The indication of a strong demand for medium-term issues given by the large volume of exchanges for the new 2⅞ per cent notes tended to reinforce the firm tone that had been developing in the market.

Through the middle of September, prices of securities in the intermediate and long-term sector of the market tended to edge gradually higher on a relatively light volume of trading. Activity in long-term bonds at this time was confined mainly to small transactions in the 3¼'s of 1978-83 and reflected some investor buying on balance, while the light trading in the intermediate area consisted largely of switching transactions probably related for the most part to tax considerations. However, despite the underlying firmness in the market at this period and the general confidence in the pattern of rates, the extremely large volume of corporate and municipal offerings scheduled for the last half of the month and expected during the remainder of the year tended to have a restraining influence on prices. Much of the uncertainty from this source was allayed shortly after the middle of the month when the capital market, in a notable display of strength, absorbed the first large group of fall offerings. Several large corporate and municipal offerings that reached the market on September 15 and 16 met initially with only a fair reception, but shortly thereafter investor hesitation evaporated, and distribution accelerated at rising prices as investors who had been holding to the sidelines placed sizable orders for the new issues.

The striking shift in the corporate and municipal bond markets and the earlier success of the Treasury's exchange operation were influenced by the growing belief in the market that business credit requirements in the remainder of this year will place less upward pressure on interest rates than last year and that sufficient reserves will be made available to enable banks to meet seasonal credit needs. This outlook contributed to the setting for the sharp upward adjustment in Government bond prices during the last half of September. Another development influencing the market was the announcement early on September 17 that discount rates on private paper had been lowered at the Bank of England and the Bank of France. In trading on that day, Government security prices recorded gains ranging up to ¾ of a point throughout the intermediate and long-term list. The upward movement begun on the 17th was further extended in trading during the balance of the month, and, for the month as a whole, price increases of from 1½ to 3⅛ points were recorded on the intermediate and long-term taxable Treasury bonds. By the month end, the long-term 3¼ per cent securities were quoted at a bid price of 102⅜, and the newly issued 2⅞ per cent notes of March 1957 at 101⅛.

There was active trading in short-term Treasury securities during September, reflecting a steady volume of demand from nonbank investors and, to a lesser extent, commercial banks. Selling of Treasury bills was generally limited, and dealers were the main source of supply to the market. In the last half of the month, a volume of bills and other short-term securities was sold by nonbank investors shifting into Series B Savings notes. Sale of the Series B notes was terminated by the Treasury on September 25 pending the issuance of a new series of Savings notes on October 1 with interest rates revised downward to reflect recent changes in the Government security market. Activity in the new 2⅝ per cent certificates generally was confined to purchases by commercial banks and others of small amounts of the issue made available out of dealer inventories. The improved market psychology, however, encouraged dealers to retain their allotments of the new securities, and the selling from dealer positions was conducted at steadily rising prices. A premium of $^{17}/_{32}$ was quoted on the new one-year certificates at the close of September.

Prices and yields on other short-term Treasury securities fluctuated in a narrow range about the end-of-August levels during the first half of September. In the last half of the month, as a result of the easier money market conditions at that time, and the steady nonbank demand for investment of temporarily surplus funds, short-term rates fell sharply. The average rate of discount on accepted tenders for the Treasury bill issue dated September 24 was 1.634 per cent and the rate fell further to 1.583 per cent on the October 1 issue, the lowest averaging issuing rate in more than eighteen months and well below the average rates of 1.961 per cent, 1.953 per cent, and 1.957 per cent on the September 3, 10, and 17 issues, respectively. At the close of September the rate on three-month Treasury bills was nearly ½ of 1 per cent below the Federal Reserve discount rate.

Member Bank Credit

Total loans and investments of the weekly reporting member banks, exclusive of interbank loans, fell by 560 million dollars in the four-week period ended September 23, as recorded in Table II, compared with a decline of 23 million dollars in the four weeks ended September 24, 1952. This year, net loans of these banks grew by 255 million dollars, of which 144 million dollars represented an increase in commercial, industrial, and agricultural (business) loans. The increases in total loans and in business loans last year were, respectively, 721 million dollars and 674 million dollars. Similarly, Government security holdings of the reporting banks declined by 612 million dollars in the four weeks through September 23 this year, and by 556 million dollars last year. Possibly the most striking year-to-year contrast was the net decline of 42 million dollars in "all other" (largely consumer) loans this year, whereas, in the similar four weeks in 1952, such loans grew by 112 million dollars. The over-all growth in direct consumer loans of the weekly reporting member banks since June 24 of this year has amounted to only 25 million dollars. Between midyear and September 24, 1952, the increase in this category of lending at the weekly reporting banks was over 300 million dollars, and it continued to expand throughout the balance of 1952 to account for approximately 25 per cent of the total loan expansion at these banks during the last half of the year.

The much less rapid expansion of bank loan credit in the form of direct consumer loans during the third quarter of this year than in the third quarter of last year is also apparent in other loan categories. Real estate loans, for example, grew by 157 million dollars between June 25 and September 24, 1952, while between June 24 and September 23 of this year the increase amounted to only slightly more than half that amount, or 88 million dollars. Business loans, however, have displayed the most remarkable contrast with last year's third-quarter record. In 1952, business loans were increased by more than 820 million dollars in the three months ended September 24. In the three months ended September 23, 1953, business loans have grown by only 238 million dollars. Statistics for the business loans of reporting member banks classified on the basis of the industry of the borrower show that much the largest part of the difference between last year and this may be accounted for by the failure of the food, liquor, and tobacco industries and the commodity dealers to require the volume of credit they employed in the corresponding period last year. Loans to the food, liquor, and tobacco industries grew by 320 million dollars in the third quarter last year, and by only 165 million dollars in the third quarter of 1953. Loans to the commodity dealers were up 286 million dollars June to September 1952, and by only 44 million dollars in the June-to-September period this year. Also, sales finance companies, which borrowed net 73 million dollars last year, repaid 190 million dollars of borrowing this year. On the other hand, metal and metal products firms retired 208 million dollars of borrowing last year and borrowed net 65 million dollars this year, while public utilities reduced borrowing by 77 million dollars in the third quarter of 1952 but added to their borrowing by 61 million dollars in the most recent period.

Despite the tendency for loans of the weekly reporting member banks to lag behind last year's experience, particularly business loans and consumer loans, the increase in total loans and investments of the weekly reporting member banks has been much greater in the third quarter this year than last—nearly 2.9 billion dollars this year and 144 million dollars in 1952. The very large growth in the total of reporting bank earning assets during the past three months was made possible by the reduction in reserve requirements of member banks during July, which released about 1.2 billion dollars of reserve funds, and has principally been a reflection of the Treasury cash financing operation undertaken in July. This is illustrated by the fact that in the June-to-September quarter in 1952, Government security holdings of the reporting member banks were reduced by a little more than 800 million dollars, whereas this year their Government security portfolios have grown by about 2.2 billion dollars. It is interesting to note, however, that the large increment of Government securities added to the reporting banks' portfolios in the third quarter of this year, by contrast with the decline last year, has resulted exclusively from the fact that the Treasury's July cash financing was much larger this year. The net sales of Government securities by the weekly reporting member banks from the statement date in each year at which their holdings were greatest (July 2, 1952 and July 15, 1953) has been almost equal in each year, amounting to 1,917 million dollars between July 2 and September 24, 1952, and 1,933 million dollars between July 15 and September 23, 1953.

Table II
Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks
(In millions of dollars)

Item	Statement weeks ended					Change from Dec. 31, 1952 to Sept. 23, 1953
	Aug. 26	Sept. 2	Sept. 9	Sept. 16	Sept. 23	
Assets						
Total loans and investments	− 48	+ 84	−247	+344	−566	− 570
Loans, net*	− 47	+380	+ 32	+162	−319	+ 838
Commercial, industrial, and agricultural loans	− 49	+ 74	− 8	+338	−260	− 355
Security loans	− 58	+181	+166	−209	−195	− 465
Real estate loans	+ 10	+ 7	+ 7	+ 11	+ 9	+ 297
Loans to banks	+ 43	+108	−117	+ 32	+152	+ 678
All other loans (largely consumer)	+ 8	+ 11	− 17	− 11	− 25	+ 710
Total investments	− 1	−296	−279	+182	−247	−1,408
U. S. Government securities	− 93	−208	−285	+ 92	−211	−1,574
Treasury bills	− 59	−144	−183	+131	−203	−2,129
Other U. S. Government securities	− 34	− 64	−102	− 39	− 8	+ 555
Other securities	+ 92	− 88	+ 6	+ 90	− 36	+ 166
Loans net and other securities	*+ 45*	*+292*	*+ 38*	*+252*	*−355*	*+1,004*
Liabilities						
Demand deposits adjusted	+659	−271	− 25	+493	−726	−2,572
Time deposits except Government	− 17	+ 8	+ 60	+ 15	+ 25	+ 810
U. S. Government deposits	− 24	−389	−821	+ 69	+309	+ 616
Interbank demand deposits						
Domestic	−551	+530	+400	+569	−555	−1,189
Foreign	− 10	0	+ 11	+ 16	− 10	− 150

* Figures for various loan items are shown gross (i.e., before deduction of valuation reserves); they therefore may not add to the total, which is shown net.

SOME ECONOMIC PROBLEMS OF PAKISTAN

The state of Pakistan has been confronted, since it was established in August 1947 by the Partition of the Indian subcontinent, with many challenging economic problems. For some time after the outbreak of hostilities in Korea in mid-1950, certain of the country's economic difficulties were alleviated by the steep increase in the prices of jute and cotton, its main exports. During the last two years, however, these prices declined very sharply. The consequent fall in export receipts was followed by a rapid depletion of the country's foreign exchange reserves, since there was a long lag in the downward adjustment of imports from the unusually high levels to which they had risen after the beginning of the Korean war. The lowered level of foreign trade, moreover, significantly reduced the government's income, as export and import duties are its most important source of revenue. During this same period there occurred serious failures of the grain crops, which brought conditions of near-famine that have been relieved mainly by grants of wheat from the United States, Canada, and Australia. While assistance from abroad and government measures to restrict imports and increase exports, along with a recent rise in export prices, have alleviated some of the more obvious difficulties, lasting economic improvement will clearly require sustained grappling with more recalcitrant underlying problems, especially that of increasing productivity and output.

The Balance of Payments

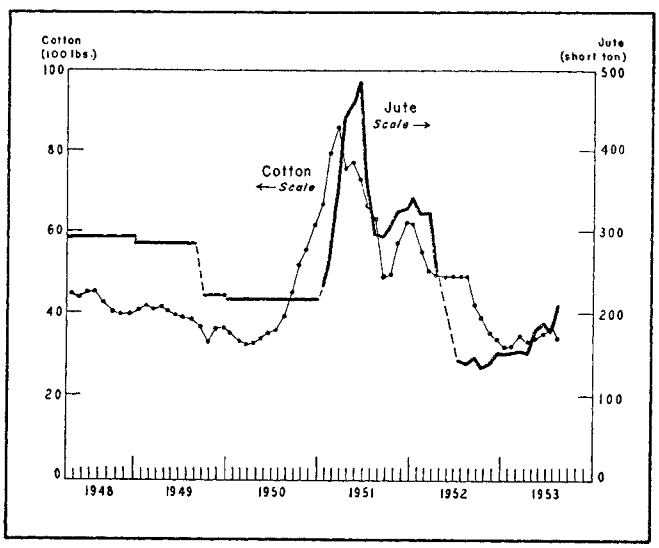
The Pakistani economy is almost exclusively agricultural. Before Partition, food and industrial crops from the areas comprising Pakistan had been shipped to the more industrialized parts of the subcontinent in exchange for manufactured commodities. Now all of this essential interchange has become transformed into foreign trade. Simultaneously, there have been important shifts in the direction of Pakistan's foreign trade, away from India.

The great dependence of Pakistan upon foreign trade makes developments in that field the keystone of all her other economic activities. Pakistan has had a favorable balance of payments in only one year—in 1951, when the value of her exports more than doubled as a result of the raw materials boom that followed the Korean outbreak. Pakistan's jute, which amounts to about 75 per cent of the world's total supply, rose from an average price in 1950 of 216 dollars a ton to 345 dollars in 1951, while the price of her cotton, which competes with jute as the country's most important export, increased from 41 dollars per 100 pounds to 67 dollars. The prices of most of her other exports, which together usually account for no more than 10 to 15 per cent of her total export earnings, also rose. The increased receipts were sufficiently large to permit a sizable net accrual of foreign exchange, although 1951 saw a great upsurge in imports of both consumer and capital goods under a liberal import-licensing policy.

However, the prices of Pakistan's exports fell almost as quickly as they had risen (see chart). Jute, which reached a peak in June 1951, began to decline in July as the world-wide accumulation of inventories ceased, and by the end of 1952 had fallen 69 per cent, far below even the 1950 price. Similarly, cotton, which reached its peak in March 1951, began to drop fairly rapidly around the midyear, and by the close of 1952, under the additional pressure of large cotton surpluses elsewhere, had fallen 61 per cent below the 1951 peak. These decreases, combined with those in other export prices, were primarily responsible for the reduction of export earnings in 1952 to only 63 per cent of the 1951 total.

A second untoward development—failure of the grain crops in West Pakistan in 1951-52 and 1952-53 because of lack of rain—invoked the specter of widespread famine and made Pakistan realize for the first time that her normal food output left too little margin for safety, more especially in view of the rapid increase in her population; even if she had not exported her surplus wheat in the preceding years, the carry-over would have been insufficient to cover the shortfalls. The bad harvests necessitated large grain imports in the latter part of 1952, adding considerably to the year's import bill, which rose 18 per cent over 1951 and would have been even greater if the government had not introduced new import controls in mid-August and further tightened them in November. The rise in imports, which reached 741 million dollars' equivalent, and the severe decline in export receipts, which totaled only 515 million, resulted in a net deficit on current account for 1952 of 263 million (nontrade items remaining practically unchanged), in contrast with the 157 million surplus of the previous year.

Prices of Leading Pakistani Export Commodities
(In dollars)



Note: Latest data are for August.
Cotton: Monthly average price (including export duty) per 100 pounds at Karachi.
Jute: Monthly average price (including export duty) per short ton at Narayanganj; prices for 1948-50 are averages for periods indicated. No price averages published by the International Monetary Fund for September 1949 and May and June 1952.
Source: International Monetary Fund, *International Financial Statistics.*

These radical shifts in Pakistan's foreign trade have brought about very sharp fluctuations in her foreign asset holdings. The division of foreign assets between Pakistan and India after Partition had given Pakistan assets in gold, dollars, and sterling that amounted to 428 million dollars' equivalent at the end of 1948. As a result of the unfavorable balance of payments in the early years, when the newly-created country found it necessary to import heavily although its export trade was not yet functioning smoothly, the balances were drawn down to 285 million by the end of 1950.[1] The Korean boom, however, enabled them to be built up again during 1951 beyond the end-1948 level. Then during 1952 they were more than halved, standing at the end of December at only 183 million dollars' equivalent. Pakistan obviously would have found it difficult to finance by herself the wheat imports required during the current year, most of which are consequently being provided by foreign grants: the million-ton grant from the United States is valued at 80 million dollars, while the Canadian and Australian grants total 9.5 million dollars; together, the three grants equal almost one half of Pakistan's foreign assets at the end of 1952.

During the last quarter of 1952 and the first quarter of 1953 a distinct improvement occurred in Pakistan's trade position, which actually showed an export surplus; but during the second quarter of 1953 there was again a downturn, although a surplus was still maintained. The earlier improvement was a consequence in part of a rise in exports that was largely seasonal, but that may also have reflected the disposal of government stocks of jute and cotton accumulated under the price-support programs in effect for most of 1952; to an even larger extent, however, the improvement was the result of the curtailment in imports, especially after the more stringent restrictions of November took effect. The seasonal decline in export volume during the second quarter of 1953, which was only slightly offset by a small rise in prices, was accompanied by a further contraction of imports as a result of another turn of the import-restriction screw in March; however, the drop in imports was not sufficient to match the fall in exports.

The Deterioration in the Government's Finances

The drastic decline in foreign trade during 1952 and 1953 made a big dent in the government's revenues, since receipts from customs duties—on both imports and exports—had been contributing about two thirds of the government's tax revenues (see table). For the 1951-52 financial year (ended March 31), customs receipts amounted to 822 million rupees, but for 1953-54 the government anticipates no more than about 318 million; this is less than half of the budgeted tax revenues, which in their entirety amount to only 57 per cent of the 1950-51 tax revenues. While the fall in receipts from import duties is attributable solely to the decline in import volume, the reduced income from export duties has been due mainly to sweeping cuts in the duties. These cuts were presumably motivated by the need to put Pakistan's exports on a competitive basis, and to an extent were required in order to offset the effect on export prices of the maintenance of the rate for the Pakistani rupee when the pound sterling was devalued in September 1949. Receipts from sales taxes, another important source of tax revenues, also are being adversely affected by the curtailment of imports. Sales taxes are estimated in the 1953-54 budget at only 62 million rupees, compared with receipts of 144 million in 1951-52.

By severely paring expenditures in the "ordinary" (non-capital) budget to the level of expected receipts, the Finance Minister was able to present an ordinary budget for 1953-54 that is in virtual balance at 986 million rupees. However, the capital budget of 782 million shows a gap of 582 million, and there is accordingly an over-all budget deficit equivalent to one third of total ordinary and capital expenditures; nevertheless,

Government Revenues and Expenditures
(In millions of Pakistani rupees; fiscal year ended March 31)

	1948-49*	1949-50*	1950-51	1951-52	Revised budget estimate 1952-53	Budget estimate 1953-54
ORDINARY BUDGET						
Revenues:						
Import and export duties	329	422	787	822	619	318
Income and corporation taxes	66	116	134	172	170	156
Sales taxes	42	87	67	144	113	62
Excise taxes	53	52	69	71	64	71
Other duties and taxes	49	40	54	63	61	126
Railways; Posts and Telegraphs (net)	36	20	27	24	56	69
Other	93	149	139	155	164	185
Total	668	886	1,277	1,450	1,246	986
Expenditures:						
Civil administration	109	142	165	201	245	215
Defense	462	615	656	792	672	601
Other	77	96	427	448	327	169
Total	647	853	1,248	1,442	1,244	985
Surplus	21	33	30	8	2	1
CAPITAL BUDGET						
Expenditures:						
Defense	211	247	135e	88	293	199
Economic development	49	106	83	172	301	369
Development loans to local governments	60	62	77	102	76	192
State trading	4	11	—	—	177	—
Other	278	656	230	587	19	22
Total	602	1,082	525	949	866	782
Revenues:						
State trading	—	—	51e	67	—	97
Various government funds	†	†	†	23	115	103
Total	—	—	51	90	115	200
Capital deficit	602	1,082	474	859	751	582
Financed by:						
Ordinary surplus	4‡	2‡	30	8	2	1
Special resources. including foreign grants	140	65	338	225	53	44
Sale of wheat granted Pakistan	—	—	—	—	—	143
Drawings on cash balances	−291	359	−202	222	295	130
Increase in public debt	529	654	308	404	401	264
Special transactions	220	—	—	—	—	—
Total	602	1,082	474	859	751	582

Note: Because of rounding, figures may not add to totals shown.
e Estimate.
* Capital budget data for 1948-49 and 1949-50 represent revised budget estimates only; actual data are not available.
† Revenues from "Various government funds" are deducted from "total expenditures" in 1948-49, 1949-50, and 1950-51.
‡ The "ordinary" surpluses shown in the revised estimates of the capital budgets for 1948-49 and 1949-50 are smaller than the actual results shown under the ordinary budgets.
Sources: Adapted from *Budget of the Central Government of Pakistan*, 1952-53 and 1953-54; *Statistical Digest of Pakistan*, 1950; *Economic Observer*, April 1, 1953.

[1] The writing down of part of Pakistan's foreign exchange holdings that was necessitated when sterling was devalued in September 1949 was more than offset by the receipt from India during 1949 of additional foreign assets owed to Pakistan as a result of Partition.

this deficit is much lower than during the two preceding years. There is a slight increase in appropriations for defense and development, which together have been absorbing between one half and two thirds of actual disbursements under recent combined budgets. Defense appropriations are being cut by one sixth to an amount equal to 45 per cent of total expenditures, but a somewhat larger sum is being added to development outlays, which now amount to 32 per cent of the total. That these two items alone exceed combined revenues by 175 million reveals not only the crucial significance of the development and defense expenditures for the government's financial position, but also the great inflationary potential they carry.

The government expects to cover as much as 143 million rupees—one quarter of the 1953-54 deficit—with the proceeds from the sale of part of the wheat granted to Pakistan (some of the wheat being distributed free). It is also counting on more than 100 million rupees in other foreign grants and loans. Already a sterling credit of 28 million dollars' equivalent (93 million rupees) has been made available by Great Britain for the purchase over a two to three-year period of capital goods to increase agricultural output; and a 12.2 million dollar grant (40 million rupees) is being provided by the United States for technical assistance. Even if grants and loans come up to expectations, however, the government will have to obtain about 320 million rupees from purely internal sources. It hopes to borrow 38 million in the form of postal and other small savings, but virtually all of the rest will have to be financed by drawing down its cash balances and by an increase in the domestic long-term or floating debt.

In June the government floated two development loans, maturing in 1958 and 1961, which brought in total subscriptions of 466 million rupees. This represented only 147 million of new cash, however, since 296 million consisted of conversions of a 1953-54 issue that had been floated in 1948, and 23 million had to be used to redeem the portion that investors did not convert. From the published data it would seem that large portions of the new issues had to be taken up by the central bank, despite considerable idle cash resources currently available in the country.

Price Developments

While the increasing shortages of imported goods, the insufficiency of domestic food supplies, and the deficit-spending by the government have all constituted strong inflationary forces during the last year, they so far have been largely offset by deflationary forces of similar strength. Many firms have reportedly curtailed or suspended operations as a consequence of the reduced level of business activity brought about by the decline in foreign trade, the upsurge in the prices of such limited supplies of producer goods as are available, and the uncertainty regarding the government's future import and price policies. Furthermore, the incomes of agricultural producers also declined, mostly because of lower export prices. The resulting decline in purchasing power apparently mitigated the pressure on short supplies of consumer goods. Thus the Karachi cost-of-living index, which had risen 9 per cent during the three months from December 1952 to March 1953—i. e., from 111 to 121 (1950=100)—receded to 116 by June. However, the following month it started to rise again, primarily as a result of sharp increases in the prices of most food items.

The continuing upward movement in the domestic prices of imported goods led the government in August to impose price controls on many of the more important industrial goods, and even to introduce rollbacks in the prices of iron and steel. In the consumer goods sphere the only significant improvement has been in the price of wheat, which fell about 10 per cent after the first shipload arrived from the United States in July. The government has been considering the opening of "fair price shops" in certain parts of the country in order to keep the prices of other consumer goods from being forced up unnecessarily, but until now these plans have apparently resulted in little concrete action.

Increasing Production

In September 1950 the Pakistani Government presented a six-year development program to the Commonwealth meeting in Colombo, Ceylon, that listed the numerous projects regarded as necessary for the development of the economy. The plan was a strong affirmation of the government's eagerness to industrialize the country as rapidly as possible in order both to raise the national income and to render the economy less vulnerable to external influences. While this six-year plan projected larger expenditures on agricultural development (including irrigation), and on transport and communications, than were allotted for industry or for power, a subsidiary two-year plan, which was to take care of what was regarded as Pakistan's most urgent needs, ranked industry at the very

DOMINICAN MONETARY AND BANKING LEGISLATION

A limited number of copies of a monograph on *Monetary and Banking Legislation of the Dominican Republic, 1947* will shortly be available free of charge at the Federal Reserve Bank of New York. The authors are Henry C. Wallich, a former member of the staff of this bank, and Robert Triffin, formerly on the staff of the Board of Governors of the Federal Reserve System. The monograph contains an unofficial English translation of the monetary, central banking, and commercial banking legislation adopted by the Dominican Republic in 1947, on the basis of the recommendations of Messrs. Wallich and Triffin; the reports that the two authors submitted in connection with their legislative recommendations; and background information on the Dominican economy and on its financial history and structure. Copies of the monograph may be obtained by writing to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y.

top and agriculrure far down. Most of the proposed industries were to be based on the country's own resources, and included jute, cotton, and woolen mills, and the manufacture of leather, cardboard, cement, fertilizer, caustic soda, drugs, glass, and ceramics. After a new government was brought in on April 17, 1953, however, the attainment of self-sufficiency in food was given clear priority over industrialization. Concomitantly the six-year and two-year development plans were jettisoned, and the government is now working on a substitute five-year plan that is scheduled to take effect in April 1954.

Agricultural expansion in Pakistan is very closely tied up with the settlement of certain of the country's politico-economic difficulties with India, since Pakistan's vital irrigation system depends chiefly on rivers originating in India and Kashmir. The International Bank for Reconstruction and Development surveyed the situation last year and is now working with engineers from both Pakistan and India on a program that could offer a technical solution to the problem, provided political conditions permit. The development of an improved agricultural position, for which there is ample room in view of the very low acreage yields, also depends, however, upon the further extension of the various irrigation systems, some of which tap underground water, and on the draining of waterlogged areas, as well as on the control of locusts, the expanded employment of fertilizers, the use of better seeds, and in certain locations, mechanization.

Desirable as would seem the particular direction of Pakistan's initial ventures into industrialization—i.e., into textile fields which require relatively little capital and utilize domestic raw materials—there are problems even here. The development of mills for the manufacture of jute products could eventually lead to an oversupply of jute manufactures, for not only has India been increasing her own jute production to supply her own mills, but good progress is apparently being made in other countries in the growing of jute substitutes. In the field of cotton textiles, the present and projected rates of investment indicate that output will probably surpass domestic consumption within two or three years. However, it may not be easy for Pakistan, whose own domestic market has had to be protected against foreign textile imports by a 60 per cent tariff, to compete with the well-established exporting industries of other countries.

While these two particular industries have proved attractive to private Pakistani capital, the government has expressed its keen disappointment regarding the failure of domestic capital to flow into other fields. It has always hoped that the major part of industrial financing would come from private enterprise, and has taken action along several fronts to promote such investment—the establishment of an Industrial Finance Corporation in 1949 to provide long and medium-term loans, the granting of significant concessions in the way of depreciation allowances and income-tax reductions, the imposition of protective tariffs, and the abolition of import duties on capital goods and such basic materials as iron and steel. As in many other countries in the process of development, however, those who have capital have generally preferred to invest in commerce rather than in industry.

The government has shown much interest also in attracting foreign capital, which is being given equality of treatment and is allowed to remit profits without restriction. Pakistanis must be given the opportunity, however, to subscribe to 51 per cent of the capital investment (only 30 per cent in the oil industry), and training facilities must be provided to ensure eventual participation by Pakistanis at both administrative and technical levels. As with domestic capital, the government's hopes have not been fulfilled here, and so far foreign capital has shown interest only in the oil and tobacco industries.

Because of the reluctance of private capital to venture into industry, the government has established an Industrial Development Corporation to further the development of nine specified industries considered vital for the country—jute, fertilizer, paper, iron and steel, shipbuilding, heavy chemicals, cement, sugar, and textiles. Where necessary, firms are to be set up that will be government-owned and operated, but with the intention that they be transferred to private hands as soon as possible. In those industries for which some, although still insufficient, amounts of private capital are available, there are to be joint government-private enterprises; however, this type of partnership has thus far appeared only in the building of jute mills.

The Outlook

Pakistan appears now to be entering upon a new phase of its brief but eventful economic history. The heady days of the Korean commodity boom ended two years ago, and since then the country has become increasingly aware of the adjustments required by its present circumstances. Today, because the terms of its foreign trade are so much less favorable than in 1950 when the original development plan was drawn up, the real costs of development are considerably greater than had been anticipated. Consequently, with the balance of payments in its current difficult position, the problem of financing the development schemes looms large. When to the development costs are added the heavy costs of the country's defense program, the demands upon her limited resources appear even more burdensome. It seems inevitable, therefore, that if defense expenditures remain at their current high level, expenditures for development will have to be stretched out.

Meanwhile the crisis that had been shaping up over the past two years has been averted. The most urgent problem, the food shortage, has been solved by the gifts of wheat from Australia, Canada, and the United States. These supplies have, in the words of Pakistan's Prime Minister, "dissipated the feeling of anxiety and tension due to fear of famine and distress". The wheat grants have also enabled Pakistan to conserve its remaining foreign exchange reserves; the government, furthermore, will be able to secure sizable revenues through the sale of such wheat. Fortunately, the prospects for the coming crop year are reportedly good, and there consequently should be no serious food shortages in 1954.

The attainment of the present balance in Pakistan's foreign trade, even though largely a result of the government's measures to restrict imports, is another favorable sign. While the low level of imports entails many hardships, this may encourage the establishment of new industries that could satisfy the home demand without undue increases in prices. The government, moreover, is displaying a sense of urgency regarding the needed increase in food production. Although such developments may in time lessen Pakistan's present heavy dependence upon imports, the achievement of a sound international position would appear to require also an expansion of such output as can earn additional foreign exchange, as well as the realization of domestic financial stability. Progress in these various fields will require vigorous action along several fronts. While foreign aid can be of strategic significance in helping Pakistan attain economic stability, it can never be more than a marginal contribution, only supplementing what she must accomplish by her own efforts.

POSTWAR SMALL-HOME MORTGAGE FINANCING

A large backlog of demand inherited from the depression and war years, a marked growth of population and number of households, high incomes and liquid savings, and favorable credit terms combined to bring about an unprecedented increase of both new home construction and home mortgage debt in the postwar years. In this development, favorable credit terms have played a key role. The ready availability of mortgage loans with low (or no) down payments and long maturities at low interest rates made home ownership possible for many middle and lower-middle income families. Over the postwar period through mid-1953, sufficient funds were provided to finance construction and purchases of about 6½ million private new small homes[1] and a record-breaking turnover of existing homes at rising prices; and a more than twofold increase in total mortgage indebtedness on one-to-four family homes resulted.

The exceptionally large demand for mortgage credit together with other heavy postwar demands for capital was not entirely financed out of the public's savings; part was financed by bank credit. But when the volume of credit available to the capital markets became more limited as competing demands for credit expanded sharply after the Korean outbreak and when the pegging of Government security prices was terminated, funds for financing home purchases became less easily obtainable. Although conventional mortgages, on which rates rose, continued to attract credit funds in substantial volume, the availability of credit for mortgages guaranteed by the Veterans' Administration (VA) or insured by the Federal Housing Administration (FHA) tended to be restricted by the maintenance of low official rates until the spring of 1953. Funds continued to be available to the mortgage market in large volume, however, until early this year when competition with other types of investment reduced the flow somewhat. Since that time the number of housing starts has declined moderately, but has remained within the general range of the past two years and well above the period prior to the middle of 1949.

In view of the importance of residential construction as a source both of employment and of large related demands for consumer goods and local governmental facilities, an analysis of the postwar boom in home mortgage financing may be helpful in providing some background to the question whether the recent leveling-off of new housing starts represents a temporary development or, reflecting the satisfaction of the most urgent deferred and new postwar demands for housing, the beginning of a more marked adjustment.

[1] Including multifamily structures, total housing starts numbered 7.7 million in this 7½-year period.

Postwar Demand for Housing

At the end of World War II, all the influences that have a bearing on the demand for housing favored a boom in construction. Erection of new dwelling units had fallen substantially below the growth in the number of households during the depression decade 1930-40, and, in the war years, building of new housing had been confined principally to emergency war housing, while the number of households continued to grow as marriages and the birth rate spurted in the early years of the war. The generally prosperous wartime conditions coupled with restraints on consumption led to substantial accumulation of liquid savings by the public, permitting many families living together during the depressed thirties to move into separate quarters. Living space, therefore, grew progressively scarcer. Furthermore, the regional dispersion of war contracts as a protection against air attack and for other reasons encouraged shifts in population which created additional demands for housing, irrespective of the growth in total population and in net family formation.

Developments in the postwar years added further to the demand for housing, and particularly single-family residences. Especially significant was the fresh spurt in the population and net family formation after the war, as returning veterans married and the birth rate again rose. According to data of the Bureau of the Census, net new family formation averaged approximately 520,000 households a year between April 1940 and July 1945. The average annual rate more than doubled (to 1,200,000) in the succeeding period of roughly five years ended April 1950, and then fell to an estimated annual average of 1,000,000 households in the next two years.

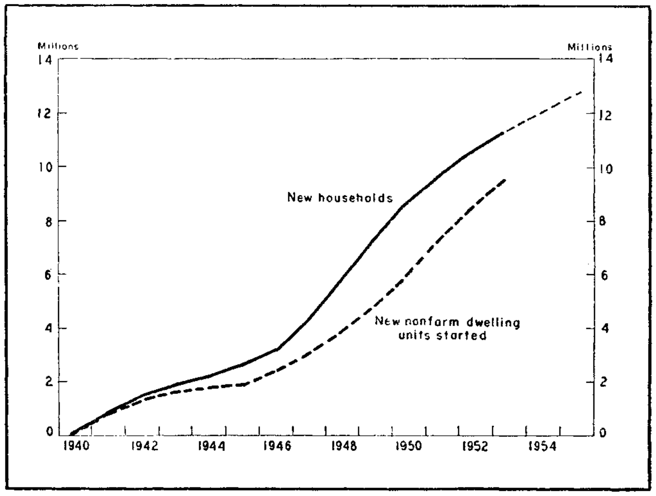
After the war, population movements within the nation were stepped up markedly, further contributing to the housing boom. The accelerated postwar expansion of civilian and defense plants, much of it in the same geographic areas in which large wartime plant expenditures took place, induced further migration of the population away from the older industrial centers. In addition, the war and prewar movement of population from farms to cities and suburbs continued, while urban population movements to the suburbs and rural nonfarm areas accelerated in reflection of the widespread preference of American families for home ownership rather than rented shelter (available principally in the larger cities). Among other factors affecting housing needs, the growth in the size of individual families, as evidenced by a substantial increase in the birth rates of second-through-fourth children, increased the need for larger quarters. These and other factors created elements of demand for housing which existed and still exist regardless of the trend of family formation.

These basic housing needs were translated into effective demand by (1) the large accumulations of liquid savings during and after the war, (2) the continued very high levels of income, and (3) the availability of mortgage credit on terms favorable to both the borrower and to the lender. The borrower was attracted by low interest rates, small or no down payments, long maturities, and monthly amortization payments, which make home ownership easier to finance, while the lender was encouraged by provision in most mortgages for gradual amortization (thereby progressively decreasing the loan-to-property value ratio) and by Government insurance or guarantee of the fulfillment of the mortgage contract (with respect to FHA and VA mortgages). Thus, practically all the ingredients favorable to a housing boom were present during the postwar years.

The response to this favorable climate of housing demand was a record volume of new housing construction, principally of one-family houses, a record turnover of existing homes, a marked rise in real estate values, and a sharp increase in mortgage debt on small houses. The number of new nonfarm dwelling units on which construction was begun (new housing starts) including units in multifamily dwellings, rose from an average of 200,000 a year during the war (1942-45) to an annual average of 800,000 in the early postwar years 1946-48, and to a yearly average of more than 1 million units in all subsequent years, with a peak of 1.4 million units in 1950. More than four fifths of the postwar total consisted of one-family structures.

Despite the spectacular expansion in new home construction, the total volume of new nonfarm housing starts (including multiple dwelling units) did not keep pace with the growth of net family formation. Total starts numbered approximately 6,400,000 from July 1945 through April 1952, while the number of households increased about 8,000,000 (net) in the comparable period. The gap between construction and household formation of about 1.6 million dwelling units would be even larger if the war years were included in the comparison.[2] As shown in the accompanying chart, starts (8,300,000) fell more than 2,000,000 units behind the growth of households between April 1940 and April 1952, but some portion of the need for housing since the prewar period has been met through the utilization of vacant dwellings and remodeling of old ones—sometimes into multifamily dwellings. Although the volume of construction has exceeded new household formation since April 1950, the postwar "housing-gap" still represents a substantial backlog of demand and an element of strength for the entire economy as long as high levels of income and employment are maintained. In turn, this basic housing demand is an important factor contributing to such high levels.

New Households and Nonfarm Dwelling Units Started
(Cumulated beginning May 1940*)



* Except for the projected data to 1955, data are cumulated for irregular periods ranging from 11 to 15 months.

Source: New nonfarm dwelling units started, U. S. Department of Labor, Bureau of Labor Statistics. New households, U. S. Department of Commerce, Bureau of the Census; April 1953 estimated by the Federal Reserve Bank of New York, projected data for 1955 represent the Bureau of the Census medium estimates based on high level but not full employment.

In addition to the expansion of home building, the urgent demands for housing accommodation also led to increased offerings of existing small homes on the market. As a result the number of homes for rent actually declined between 1940 and 1950 despite large-scale building. Nonfarm mortgage recordings of 20,000 dollars or less (which include recordings of mortgages on new homes) reached the record-breaking total of 18 billion dollars in 1952, in contrast with 5.7 billion dollars in the last year of the war, and the number of mortgage recordings exceeded 3 million in 1952 in contrast with 1.6 million in 1945. Small home values more than doubled as compared with the immediate prewar years, although this growth has flattened out considerably since 1951. Construction costs and rents have continued to rise through most of the postwar period; the Boeckh index of residential building costs in 1952 was 2.4 times that in 1940, but has shown little further rise through the summer of 1953.

Postwar Expansion of Mortgage Debt

It was the combination of large-scale new construction, increased sales of existing homes, rising real estate values, and easy mortgage credit terms which brought on the unprecedented growth of small-home mortgage indebtedness over the postwar years. As of the end of 1952, mortgage debt on one-to-four family nonfarm houses was estimated at 58.2 bil-

[2] The data are not precisely comparable since the figures include only nonfarm housing starts while those for households include the entire population. Inasmuch as the number of farm households has declined, the postwar housing gap is probably understated.

lion dollars, compared with 18.5 billion at the end of 1945 and 17.3 billion at the end of 1940. Mortgage indebtedness increased another estimated 3.3 billion in the first half of 1953.

The postwar period of very active new home building and mortgage financing resulted in a further extension of home ownership—to 54 per cent of nonfarm homes according to the latest Federal Reserve Board Survey of Consumer Finances[3]—in continuation of a long-term trend that had been temporarily reversed during the depression of the thirties. This development was a natural consequence of the concentration of new dwelling construction on one-family houses. It also reflected substantial purchases of homes formerly for rent. With the growth of home ownership, the proportion of homes mortgaged rose and according to the latest consumer finance survey reached 47 per cent in early 1953.[4] Nevertheless, owing to substantial net debt repayments during the war and early postwar years this proportion was not much larger than in 1940 (45 per cent).

Of the growth of the total small-home mortgage debt over the years after World War II, at least two well-defined characteristics deserve specific mention. First, FHA-insured and VA-guaranteed mortgages outstanding increased about 22½ billion dollars and accounted for over half the increase in total mortgage debt outstanding between 1945 and mid-1953. In turn, over two thirds of the growth of Federally-underwritten mortgages outstanding represented guaranteed loans to GI's, loans carrying easy down-payment provisions (in a number of cases no such payments were required) and long maturity terms. In contrast to the more than fivefold expansion in outstanding Government-underwritten mortgages over this period, "conventional" mortgage loans (uninsured and not guaranteed by the Federal Government) increased a little less than 1½ times, and by June 30, 1953 accounted for 57 per cent of the total debt in contrast to 77 per cent at the end of 1945. Second, financial institutions—savings and loan associations, life insurance companies, commercial banks, and mutual savings banks—absorbed seven eighths of the postwar increase in small-home mortgage debt,[5] and held approximately four fifths of the total mortgage debt on small homes at the end of 1952. Judging from current reports on recordings of small mortgages (20,000 dollars or less), the institutional share of small-home debt as of mid-1953 was much the same as that for the year end. Prior to the depressed thirties, this group of institutional lenders held little more than 62 per cent of the small-home debt, a proportion which fell to 57 per cent before the war (end of 1939) and then recovered to 66 per cent at the end of 1945.

Other less well-defined characteristics of the home mortgage credit structure of the country include elements of both strength and potential weakness. The former stem principally from the increased proportion of Government-insured or guaranteed debt, the widespread use of the amortizing method of repayment that results in constantly larger reductions of principal during the life of the mortgage, and the greater share of mortgages owned by institutional investors whose financial strength and lending practices should tend to prevent a recurrence of the deepening and prolongation of depressions which come from weak holdings of debt instruments. Conversely, a former element of weakness in the mortgage market, the individual or speculative lender, has declined significantly as a source of funds. Furthermore since the twenties, risky second and third mortgages, formerly attractive to individual lenders because of their high effective yields, have shrunk substantially in importance as financial devices, mainly because of the easy terms of Government-underwritten mortgages. Although the second mortgage as a method of financing has not disappeared altogether in the years since the end of the Second World War, it remains relatively insignificant. A large part of the second mortgages outstanding are those guaranteed by the Veterans' Administration under the original "GI" loan program (the first mortgages were insured by the FHA).

Partly offsetting these elements of strength in the mortgage loan structure are a few aspects of the situation that have given rise to some concern. For example, it has been pointed out that many homes have been bought in recent years with small or even no down payments at peak prices and that in the event of a downturn in real estate values insufficient time may have passed for many borrowers to build up sizable equities. The Federal Reserve Board has estimated that roughly one third of the owner-occupied homes have been bought since 1948. Any sizable decline in prices to a point where equities of a considerable number of mortgagors were seriously impaired or wiped out might result in defaults on such loans and the abandonment of homes for cheaper quarters.

It has also been pointed out that among the institutional lenders, that group—the savings and loan associations—which has expanded its lending most actively and has placed more funds (net) in small-home mortgages than any other institutional group has the least diversification of asset holdings, the smallest proportion of its assets in the form of cash and Government securities, and the smallest share of its mortgage holdings in VA and FHA loans. However, most of these institutions, as members of the Federal Home Loan Bank System, are able to borrow from the regional Home Loan Banks to meet sudden withdrawals of shareholders' capital. This capital is further safeguarded through insurance by the Federal Savings and Loan Insurance Corporation.

Another element of possible concern over the mortgage debt structure is suggested by the very marked expansion of small-home debt which has raised doubts of some observers as to mortgagors' ability to meet necessary debt service payments, including amortization and interest, in the event of a shrinkage in their incomes.

The anomaly about the burden of the mortgage debt, or any

[3] See *Federal Reserve Bulletin,* August 1953, p. 817.

[4] *Ibid.,* p. 819.

[5] If the increase in the holdings of Federal National Mortgage Association (FNMA) of small-home mortgages is included with those of the financial institutions, 90 per cent of the source of small home mortgage funds in the postwar years is accounted for.

debt for that matter, is that it may become burdensome only when it starts to decline. For a decline in mortgage debt under most circumstances would be a reflection of a decline in new construction activity, which, in turn, might be one element in a general decline in industrial activity, employment, and incomes. Under such conditions, monthly mortgage payments would become more burdensome for many families, and a deterrent to other forms of spending.

However, it is far from clear that the small-home mortgage debt has as yet become burdensome; in fact, on balance, the available information seems to point to some lightening of that load. A simple comparison of mortgage debt with personal disposable income shows the former not to be unduly high as compared with most prewar years, although somewhat higher than the 1929 relationship. The real test of the ability of debtors to meet their debt service, however, is the relationship of their interest plus amortization and other fixed payments such as taxes and hazard insurance, to their income. Data collected by the Federal Housing Administration indicate that mortgage payments on home loans insured under Section 203 of the Federal Housing Act in 1952 and previous years were not excessive. On new single-family houses they averaged 64 dollars a month in 1952, or 15 per cent of mortgagors' effective income,[6] compared with 17 per cent in 1940. On existing homes the proportion was somewhat less than on new homes and was also below the 1940 ratio. Monthly payments on VA mortgages may be lower in amount because of the longer maturity of such loans and lower interest rates (up to May 1953), but perhaps somewhat higher in relation to veterans' incomes. Those on conventional loans may be lower relative to income, owing to higher incomes of such mortgagors and larger down payments, although shorter maturities and higher interest rates may tend to increase monthly payments. Available data from the 1950 housing census suggest that the average burden varies only slightly by type of mortgage.

While mortgage payments may not be burdensome by themselves, it must not be forgotten that there are many other forms of expenditure connected with home ownership which are equally necessary. Heating expenses, necessary repairs (especially on older houses), and in many instances commutation expenses raise the cost of home ownership, and affect mortgagors' ability to meet their debt service. Still, these costs have probably not increased enough over the postwar years to make over-all housing costs unduly large in relation to homeowners' incomes.

[6] *Sixth Annual Report,* Housing and Home Finance Agency, 1952, Table 18, page 266. Effective income is defined as the estimated amount of mortgagor's earning capacity likely to prevail during approximately the first third of the mortgage term, and represents pre-tax income.

FULL EMPLOYMENT AND STABLE PRICES

For the past year, this country has been enjoying the unusual combination of full employment and relative stability in the general price level. More Americans were at work this summer than ever before in the nation's history. Their wages were higher also, with the result that income from wages and salaries rose to new record levels. Even after taxes, people had more money at their disposal than ever before, and by far the largest part of the past year's increase in income was spent on consumer goods and services. At the same time, businessmen were investing record sums in new plant and equipment, while governmental bodies were spending heavily both for defense and for public works. Such developments in the past have often been linked to an inflationary spiral of wages and prices. No such spiral was in evidence this time, however. In the past year, consumer prices rose less than one per cent, while the general level of wholesale prices edged about one per cent lower. This relatively slight over-all movement in prices reflects, as much as anything else, the tremendous output of goods from the nation's factories and farms—enough to meet the very high level of demand from consumers, businessmen, and government. In the past few months, however, the appearance of a few scattered lines in which production appears to be outstripping demand has aroused some concern over the prospects for maintaining the current peak rates of employment and national output.

The total number of persons employed in early August (the latest date for which such figures are available) was at an all-time peak of 63.4 million persons. The increase of over a million workers since August 1952 not only absorbed the entire year-to-year growth in the civilian labor force of 690,000 persons, but it also drew down the number of unemployed by 364,000. As a result, only 1,240,000 persons were estimated to be out of jobs and looking for work in August 1953, the smallest number since the end of World War II. Less than 2 per cent of the civilian labor force was without jobs, much less than what was once considered the minimum level for "frictional" unemployment.

However, the civilian labor force (the total of all those with jobs or actively seeking jobs) is still no larger than it was in June 1950 at the outbreak of the Korean war. The expansion of the armed forces by over 2 million persons during the three years of that conflict exceeded to some extent the normal growth in the total labor force. Consequently, the increase between June 1950 and August 1953 of 3.7 million persons working in nonagricultural jobs was made possible only by reducing the number of unemployed to unusually low levels, by the shift of many farm workers to nonagricultural employment, and by attracting into the labor force many women, older persons, and youngsters who ordinarily would not have been in the market for jobs.

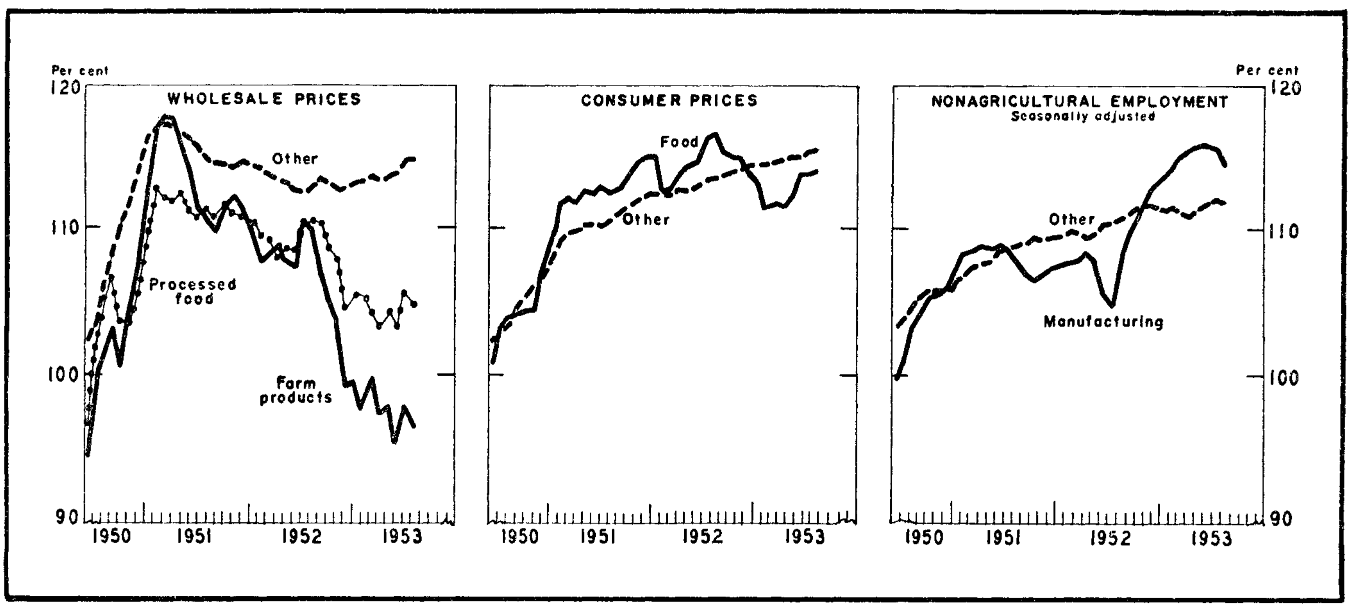
Total employment has been sustained at peak levels for approximately a year now. Employment in September 1952 was greater than in any previous September, and in each of the succeeding months employment has been the highest on record for that particular month. Similarly, in each of the months since September 1952, unemployment has reached a new postwar low for the month. Such a situation is indeed one of "full" employment. In fact, the presence in the labor force of many who are ordinarily nonworkers, the subnormal levels of unemployment, and the need for many industries to extend the scheduled workweek have led certain observers to characterize this as an "overtime economy". In other words, some reduction in employment and overtime operations could occur and the nation's labor force could still be described as fully employed. Nevertheless, the labor supply is not unduly tight except in a relatively few areas, such as Hartford, Connecticut. There are even a few areas, principally some Northeastern textile manufacturing and coal mining regions, which are still plagued with chronically high unemployment.

The rise in employment since the start of the Korean war has been a general one, but durable goods manufacturing has accounted for the largest part of the increase. Trade, finance, construction, and government service also increased their working forces substantially in the first two years of the Korean war. In this past year, employment in trade and finance has continued to gain, but the construction and mining industries have reported declines. So far, the reductions in the number of Federal Government civilian employees (133,000 fewer were employed in August 1953 than a year earlier) have been more than offset by a continued growth in State and local government employment. Although the number of nonagricultural employees has set new records in each of the last eight years except 1949, manufacturing employment has as yet not quite matched its World War II peak. In August 1953, total manufacturing employment was 17.2 million, the greatest number in over nine years, but still short of the record of 17.9 million at the height of the war production effort in November 1943.

Manufacturing employment rose very sharply indeed in the first nine months of the Korean war; nearly 1.4 million factory workers were added between June 1950 and March 1951, over a million of them in durable goods factories. When it became apparent that the defense program would not build up as rapidly as many had expected and when, instead of the anticipated shortages, embarrassingly large inventories appeared in many lines, a period of readjustment followed. Between March 1951 and August 1952, gains in over-all factory employment were minor. In the general revival of business which followed the temporary dip caused by the 1952 steel strike, employment in durable goods manufacturing rose by approximately a million workers between August 1952 and June 1953, while nondurable goods employment declined less than the normal seasonal amount in the same period. From June to August, however, the slight further gain in factory employment failed to measure up to seasonal expectations.

In the six months ended in August (the latest date for which figures are available), the net changes in factory employment have been minor; actual employment rose by about one half of one per cent, and on a seasonally adjusted basis it declined by a similar percentage. The food, lumber, and paper industries made seasonal gains, and there were small further increases in such defense industries as ordnance and instruments. However, certain other industries which previously had also contributed strongly to the over-all rise are now showing a tendency to cut back their working forces. The machinery industry, in particular, reduced employment by more than 80,000 in the six months' period. All major classes of non-

Prices and Employment since the Start of the Korean War
(1947-49 average=100 per cent)



Source: U. S. Bureau of Labor Statistics. Indexes of "other" consumer prices and nonagricultural employment computed at the Federal Reserve Bank of New York from Bureau of Labor Statistics data.

electrical machinery have reported reduced employment since March; farm machinery, household equipment, and engine and turbine manufacturers have made the largest cuts. The electrical machinery industry as a whole maintained employment fairly well, but manufacturers of communications equipment (which includes radio and television) reduced employment during the second quarter. Small, but significant, declines in employment have also been reported since March in such key industries as steel, metal fabricating, automobiles, aircraft, and chemicals.

Although weaknesses appear to be developing in some sectors of nonagricultural employment, the marked rise in the past year was a sign of the basic strength of the economy. Similar signs of strength could be found in the behavior of prices. Retail prices of consumer goods and services on the whole stabilized at peak levels, while wholesale prices of industrial commodities (all commodities other than farm products and foods) advanced slightly following the 1951-52 period of downward readjustment. On the other hand, prices of farm products and processed foods appear to have been more greatly influenced by the abundant supplies of most crops and livestock and by the marked decline in export demand than by the generally high levels of business activity and consumer demand. By mid-1953, farm products had lost all but 1 per cent of the 25 per cent price increase which followed the outbreak of war in Korea. Wholesale food prices have retained only about half of the 17 per cent rise in the opening months of the Korean war. Nevertheless, partly as a result of Government support operations, the decline in farm products and foods has been slower since the beginning of this year, and the general level of wholesale prices has shown relatively little change since last November. Instead, it has zig-zagged within a narrow range; in each of the last ten months the direction of change in the wholesale price index has been different from that in the previous month.

The consumer price index advanced in August for the sixth successive month and reached a new all-time high. This may sound characteristic of an inflationary situation, but in reality the changes have been quite small and the general level of retail prices has been unusually stable. In August 1953, the index was 115.0 per cent of the 1947-49 average, compared with 114.3 in August 1952, and the range between the high and low points in the index over the past fifteen months has been only about 1½ per cent. As the chart shows, retail food prices largely accounted for such fluctuations as there were during the past year. Although the percentage rise in the index of retail food prices from June 1950 to its Korean war peak (16 per cent) was approximately the same as that in wholesale food prices, the peak for the former was not reached until much later (August 1952) and the decline during the next twelve months was less pronounced (2 per cent at retail through August 1953, compared with 5 per cent for wholesale prices of processed foods). The failure of food prices to decline as much at retail as at wholesale is attributable in part to offsetting increases in distribution costs, including higher wages and freight rates. Meat prices have accounted for the major share of the fluctuations in food prices; the index of retail prices of meat, fish, and poultry dropped about 10 per cent between September 1952 and April 1953, then subsequently recovered over a third of that decline.

There has been a gradual but steady rise in retail prices of other goods and services as a whole during the past year. The prices of most major classes of goods, such as housefurnishings, have, in general, shown little change during the year. Although fuel prices rose 4 per cent, apparel prices receded gradually to the lowest level in 2½ years. Meanwhile, the cost of services has been advancing steadily. Rents have risen without interruption since the end of World War II, and increased 6 per cent further between August 1952 and August 1953. As a result of the ending of Federal rent control on July 31 (except for defense areas), the rent index is likely to continue its upward trend in the months ahead. In the past year, the costs of medical care, household services, and public utilities have also been advancing.

The general level of prices of industrial materials is currently about the same as it was two years ago. A moderate decline of 2 per cent in the year ended July 1952 has been offset by a corresponding rise in the year ended July 1953. In subsequent months, the index has remained virtually unchanged. The rise since mid-1952 has been a fairly general one, except for prices of textiles and rubber products, which continued to decline in 1952-53, reflecting lower raw materials prices. In August, the commodity groups showing the largest price increases over a year earlier (about 4 or 5 per cent) were fuels (in part the recent advance in crude oil and gasoline prices, and in part higher coal prices), hides and leather, nonmetallic building materials, and metals and metal products.

Most of the recent advance in metal prices reflected the increase in steel prices, both in the base price and in the "extras" paid for finishing steel in the desired size, shape, quantity, and alloy. Nonferrous metal prices in general rose following the easing of restrictions on the use of strategic materials and the lifting of price controls. Lead, tin, and zinc declined sharply early this year and, after a partial recovery, have again eased; copper has receded from its spring peak. The metals situation will be a significant one to watch in the months ahead. Already steel scrap prices have dropped sharply in the last few weeks, indicating ample stocks at steel mills and uncertainty over the level of operations in the fourth quarter. In recent weeks, some steel consuming industries have experienced a reduction in their costs (which may not appear in the price indexes) since they can now get adequate steel supplies direct from the mills instead of having to pay premium prices for imported steel, conversion deals (in which semifinished steel is purchased from one mill for processing to the customer's specifications at another), or purchases from warehouses or small, high-cost mills. These smaller mills which have been charging premium prices throughout the period of steel shortage are now facing the necessity of paring prices or perhaps absorbing freight charges in order to meet competition. Such developments foreshadow a generally more competitive market for both basic metals and their products in the months ahead.

Farm prices remain one of the most critical spots in the whole price picture. A decline of 12½ per cent from August 1952 to August 1953 has been reported both for prices received by farmers, as compiled by the Bureau of Agricultural Economics, and for wholesale prices of farm products, as compiled by the Bureau of Labor Statistics. However, most of this decline took place in the latter part of 1952. Since December 1952, the BLS index of farm products has fluctuated between 95 and 100 per cent of the 1947-49 average, and in mid-September the index (at 97.8) was about the same as it was in February. The near-record grain harvest and the greatly increased cattle marketings have contributed to the weakness in prices of farm products. Winter wheat dropped to a price approximately one-fifth below Federal price support levels at midyear, partly as a result of limited storage space for this year's large crop; since then there has been a partial recovery. Corn prices have been more stable but are still somewhat below support levels. Livestock prices reflect opposing price movements for hogs and steers. Hog prices rose by approximately one half after the start of the year and reached a five-year peak in mid-July, but they subsequently declined somewhat, with the beginning of seasonally heavy marketings. Steer prices declined about one third during the first half of 1953 (following an equally rapid drop in the price of cows in the latter half of 1952), as heavy marketings from increased herds drove prices down. In July and August, Federal drought relief measures helped steer prices to recover about half of this decline. Prices of milk are moderately lower and supplies somewhat greater; egg production is about the same as last year, but prices are higher. Cotton prices have been maintained at a fairly constant level near the support price so far in 1953.

Of course, the fact that the general price level has been fairly stable in the year just past does not necessarily mean that such over-all stability will continue. As the previous dis-

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1953			1952	Percentage change	
		August	July	June	August	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	236*p*	232	240	215*r*	+ 2	+10
Electric power output*	1947-49 = 100	169	165	164	148	+ 3	+14
Ton-miles of railway freight*	1947-49 = 100	—	101*p*	102	103	− 1	+21
Manufacturers' sales*	billions of $	25.5*p*	26.5	26.2	21.9	− 4	+16
Manufacturers' inventories*	billions of $	46.2*p*	45.8	45.5	43.1	+ 1	+ 7
Manufacturers' new orders, total*	billions of $	22.8*p*	24.4	25.6	21.9*r*	− 7	+ 4
Manufacturers' new orders, durable goods*	billions of $	9.8*p*	11.1	12.5	10.0*r*	−12	− 2
Retail sales*	billions of $	14.1*p*	14.5	14.4*r*	13.4	− 2	+ 6
Residential construction contracts*	1947-49 = 100	181*p*	175	174	193	+ 3	− 6
Nonresidential construction contracts*	1947-49 = 100	201*p*	170	166	217	+18	− 7
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	88.8	87.9	87.2	96.2	+ 1	− 8
Wholesale prices†	1947-49 = 100	110.6*p*	110.9	109.5	112.2	#	− 1
Consumer prices†	1947-49 = 100	115.0	114.7	114.5	114.3	#	+ 1
Personal income (annual rate)*‡	billions of $	—	288.1*p*	286.3	271.3*r*	+ 1	+ 8
Composite index of wages and salaries*	1939 = 100	—	249*p*	248	237	#	+ 6
Nonagricultural employment*	thousands	49,313*p*	49,498	49,468*r*	46,970	#	+ 5
Manufacturing employment*	thousands	17,103*p*	17,273	17,303*r*	15,924	− 1	+ 7
Average hours worked per week, manufacturing†	hours	40.5*p*	40.4	40.7	40.5*r*	#	#
Unemployment	thousands	1,240	1,548	1,562	1,604	−20	−23
Banking and finance							
Total investments of all commercial banks	millions of $	77,090*p*	77,560*p*	72,931*p*	76,340	− 1	+ 1
Total loans of all commercial banks	millions of $	66,040*p*	65,630*p*	65,025*p*	60,210	+ 1	+10
Total demand deposits adjusted	millions of $	97,480*p*	97,390*p*	96,892*p*	97,760	#	#
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,227*p*	30,225	30,163	29,146	#	+ 4
Bank debits (U. S. outside New York City)*	millions of $	91,639	98,202	96,613	81,710	− 7	+12
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 $	21,058	20,854	20,489	16,728	+ 1	+26
United States Government finance (other than borrowing)							
Cash income	millions of $	5,537*p*	3,615	10,185	4,878*r*	+53	+14
Cash outgo	millions of $	6,730*p*	6,001	7,932	5,662*r*	+12	+19
National defense expenditures	millions of $	3,877*p*	4,509	4,587	3,554*r*	−14	+ 9
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	142	142	141	131	#	+ 9
Residential construction contracts*	1947-49 = 100	—	159*p*	174	169	− 8	− 3
Nonresidential construction contracts*	1947-49 = 100	—	204*p*	206	141	− 1	+35
Consumer prices (New York City)†	1947-49 = 100	112.7	112.1	112.0	112.2	+ 1	#
Nonagricultural employment*	thousands	—	7,677.3*p*	7,683.1	7,513.9	#	+ 3
Manufacturing employment*	thousands	2,796.8*p*	2,835.8	2,845.0	2,709.8	− 1	+ 3
Bank debits (New York City)*	millions of $	51,142	52,856	52,429	48,065	− 3	+ 6
Bank debits (Second District excluding New York City)*	millions of $	4,131	4,714	4,239	3,718	−12	+11
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, October 1.
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.
# Change of less than 0.5 per cent.
‡ Revised series.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

cussion has indicated, the general appearance of stability was the result of balancing out widely divergent but offsetting price movements in individual lines. In a sense, this does offer some encouragement for the months ahead, for all through the past year and more, individual industries have been going through the process of readjustment to changing markets in which shortages and backlogs of demand were no longer determining factors. It is significant that the end of price controls and other regulations in the spring of 1953 was marked by little more than a ripple in the over-all level of prices, and the end of the Korean war had even less effect. The cautious, "wait-and-see" attitude of most businessmen and their conservative purchasing and inventory policies have helped to reduce the swings in prices. Employment and consumer demand are likely to continue at very high levels over the next few months, even if they do stop setting new records. In such a situation, changes in the general level of prices are likely to be gradual.

DEPARTMENT STORE TRADE

The sales outlook at Second District department stores remained clouded during the first two weeks of September as high temperatures, the later date of Labor Day, and the earlier occurrence in the month of religious holidays depressed retail activity. In the third week, however, sales turned sharply upward and continued substantially above year-ago levels for the remainder of the month. It is estimated that sales exceeded the September 1952 figure by 1 per cent.

The influence of the weather, the shift of the date of Labor Day, and later opening of schools also adversely affected the normal seasonal build-up of sales in Second District department stores during August. Apparel sales were particularly disappointing. "Back-to-school" and "back-to-work" promotions, which herald the opening of the fall apparel season in August, were less successful this year than last in stimulating apparel sales. In fact, aggregate sales of women's and misses' apparel, which had been above year-earlier levels for three consecutive months, dropped 2 per cent below the August 1952 figure. Within this group, junior coats, suits, and dresses was the only department to achieve substantial gains above year-ago figures (13 per cent). Sales of women's and misses' coats and suits, furs, and girls' wear decreased 1, 22, and 11 per cent, respectively, below year-ago levels.

Sales during the initial weeks of a season are regarded as a barometer of consumer preferences. Since merchants were uncertain that the later occurrence of Labor Day and the weather provided a complete explanation of the decline of sales during August, they were led to exercise caution in placing orders. Both the failure of sales in August to meet expectations, which reduced the need for reorders, and this conservatism are reflected in an 11 per cent drop below year-earlier levels in the amount of new orders for additional merchandise placed during August. In addition, the aggregate dollar volume of outstanding orders decreased 5 per cent below August 1952—the first decline recorded this year. In spite of the curtailment of future commitments, however, the dollar value of stocks plus outstanding orders remained above the year-ago level (3 per cent).

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

Item	1953			1952
	August	July	June	August
Sales (average daily), unadjusted	75	75	99r	78
Sales (average daily), seasonally adjusted	99	104r	102r	103
Stocks, unadjusted	118	107	111	109r
Stocks, seasonally adjusted	122	121r	118	113r

* Sales and stock indexes have been revised to improve coverage by including several additional stores. Revised tabulations of the sales index from 1948 and the stock index from 1946 to date and the revised seasonal factors are available upon request from the Domestic Research Division of this bank.
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 August 31, 1953
	August 1953	Jan. through August 1953	Feb. through August 1953	
Department stores, Second District	− 3	+1	+ 1	+ 8
New York—Northeastern New Jersey Metropolitan Area	− 4	0	0	+ 7
New York City*	− 5	−2 (−1)	−2 (−1)	+ 5
Nassau County	n.a.	—	—	n.a.
Westchester County	− 5	+3	+4	+11
Northern New Jersey	− 3	+4	+4	+ 8
Newark	− 3	+2	+2	+ 7
Fairfield County	−10	+2	+3	+16
Bridgeport	n.a.	n.a.	n.a.	—
Lower Hudson River Valley	− 3	+4	+4	+15
Poughkeepsie	− 2	+5	+5	+15
Upper Hudson River Valley	− 8	0	0	+14
Albany	−11	−2	−1	+21
Schenectady	− 3	+2	+2	+ 6
Central New York State	− 3	+6	+5	+17
Mohawk River Valley	− 1	+4	+4	+21
Utica	+ 2	+5	+5	+24
Syracuse Metropolitan Area	− 4	+7	+6	+15
Northern New York State	− 5	+5	+5	+21
Southern New York State	− 8	+1	0	+10
Binghamton Metropolitan Area	− 7	+1	0	+13
Elmira	− 8	+3	+2	+ 9
Western New York State	+ 1	+5	+5	+11
Buffalo Metropolitan Area	+ 2	+4	+5	+ 9
Buffalo	+ 3	+4	+5	+ 9
Niagara Falls	− 3	+5	+5	—
Rochester Metropolitan Area	− 1	+6	+6	+16
Apparel stores (chiefly New York City)	− 4	+1	+1	+ 9

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

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, September 30, 1953)

Industrial production declined slightly in September following substantial recovery in August from the usual vacation letdown in July. Construction activity declined slightly further from earlier peaks. Crop prospects declined in August and on September 1 the crop was forecast somewhat below last year's large harvest. Retail sales declined somewhat in August and, at department stores, dipped further in early September but subsequently advanced. Consumer prices rose slightly further in August, while wholesale prices in August and September showed little change.

Industrial Production

The Board's index of industrial production rose 4 points in August to 236 per cent of the 1935-39 average, as activity in nondurable goods and minerals industries recovered to about June levels after showing the usual July vacation curtailments. Output of durable goods in August remained below earlier high levels and in September is estimated to have declined moderately. Reflecting mainly an easing in some durable goods industries, the total index for September is estimated at 234.

Steel output was reduced in the first three weeks of September to about 90 per cent of capacity, as compared with 94 in August, but increased again in late September. Passenger auto assembly has declined moderately in August and September from earlier exceptionally high rates, while television set production began a strong seasonal rise. Activity in producers' machinery lines has declined somewhat, owing mainly to curtailment of farm machinery output.

Activity at textile mills showed somewhat less than the usual seasonal pick-up in August, while output of paper and paperboard rose substantially and continued at advanced levels in early September.

Minerals production was at a high level in August and early September. Iron ore mining continued in exceptionally large volume, and coal output increased somewhat. Beginning in September, crude petroleum output has been curtailed moderately from earlier advanced levels.

Construction

Value of construction contract awards declined substantially in August from the unusually high July total which had included several large awards. The number of nonfarm housing units started declined further to 94,000, as compared with 96,000 in July and 99,000 in August 1952. Value of all new construction work put in place, after allowance for seasonal changes, declined somewhat further during August and was about 6 per cent below the early spring peak.

Employment

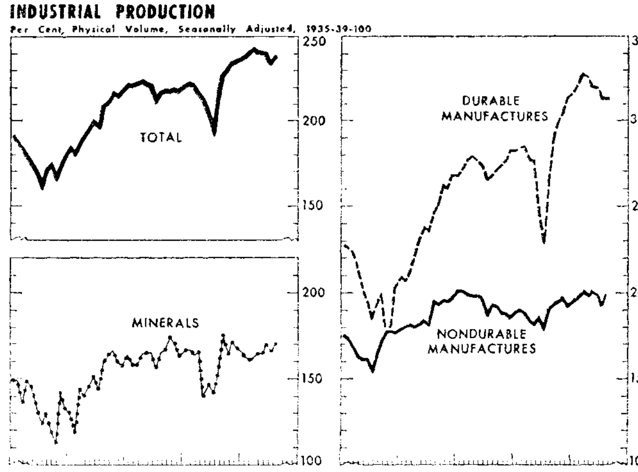
Seasonally adjusted employment in nonagricultural establishments at 49.3 million in August was moderately below the record midyear level, as employment in a number of durable and nondurable manufacturing industries showed somewhat less than the usual seasonal increases. The average workweek at factories of 40.5 hours was little changed from July and below levels reached earlier this year. Average hourly earnings continued at $1.77. Unemployment at 1.2 million in early August was as low as at any time in the postwar period, but in early September, initial claims for unemployment compensation were rising and were well above year-ago levels.

Agriculture

Hot, dry weather in important growing areas in August reduced somewhat over-all crop prospects for the year. As of September 1 they were forecast at 1.5 per cent below the large crop last year, owing primarily to reductions in wheat, corn, and tobacco harvests. Output of livestock and products this year, however, is expected to exceed last year's volume. Meat production through September has increased about 9 per cent from the corresponding period in 1952, with an increase of close to one third in beef production more than offsetting a decline of about one eighth in pork output.

INDUSTRIAL PRODUCTION

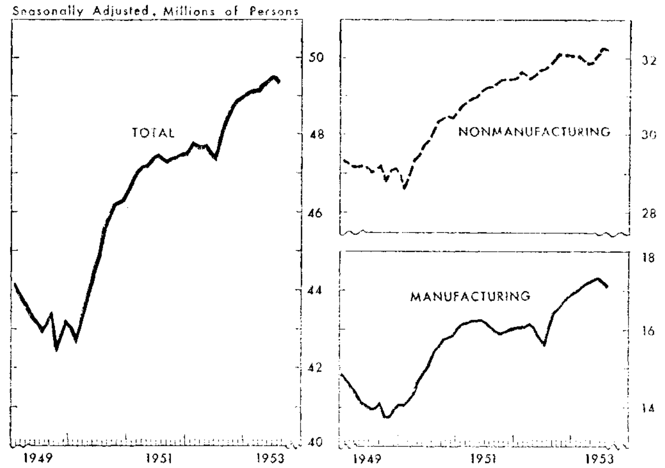
Per Cent, Physical Volume, Seasonally Adjusted, 1935-39=100



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

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS

Seasonally Adjusted, Millions of Persons



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

Distribution

Seasonally adjusted retail sales declined somewhat in August and sales for the month at most retail outlets other than auto dealers were at about their year-ago levels. In September, sales at department stores continued to lag early in the month but subsequently advanced and in the third week exceeded year-ago levels by 6 per cent. Seasonally adjusted stocks at department stores are estimated to have changed little in August following a substantial rise from April through July.

Commodity Prices

Wholesale prices have generally continued to change little from mid-August through September. Steel scrap prices have dropped sharply and some declines have occurred in nonferrous metals and textiles. Prices of a few manufactured products, such as paper products and television, have been advanced. Dairy products and eggs have risen, while prices of most other farm products and foods have shown little net change.

Consumer prices advanced again in August as foods increased further, average rents rose by 1.1 per cent, and services continued to advance.

Bank Credit and Reserves

Total loans and investments at banks in leading cities changed little from mid-August to mid-September. Banks continued to sell U. S. Government securities. Business loans increased but the increase was considerably less than in the same period last year, reflecting in part a smaller volume of seasonal borrowing by commodity dealers and food processors. Real estate loans also continued to increase moderately but "other loans", largely consumer, showed little change in contrast to substantial increases prior to midsummer.

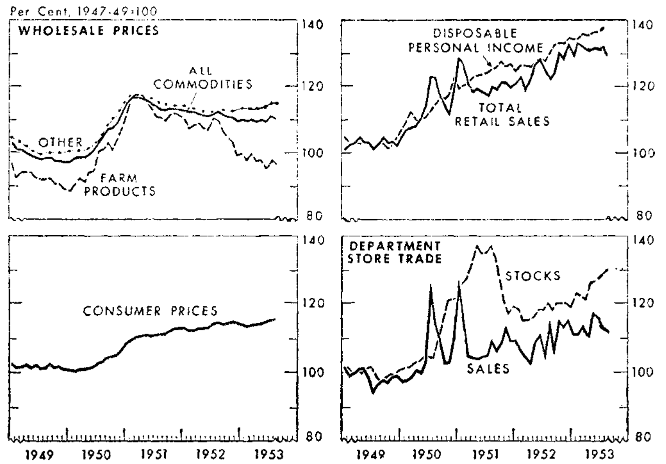
Member bank reserve positions eased considerably in the first three weeks of September. Reductions in Treasury deposits at the Reserve Banks and Federal Reserve purchases of U. S. Government securities provided reserves to banks. Part of these funds were drained off through a currency outflow. During most of the period member bank excess reserves exceeded member bank borrowing at the Federal Reserve.

Security Markets

Yields on Government securities held steady during the first half of September and declined sharply in the following week. Yields on other high-grade bonds increased somewhat during the first three weeks of the month. Common stock prices declined sharply in mid-September and then recovered somewhat.

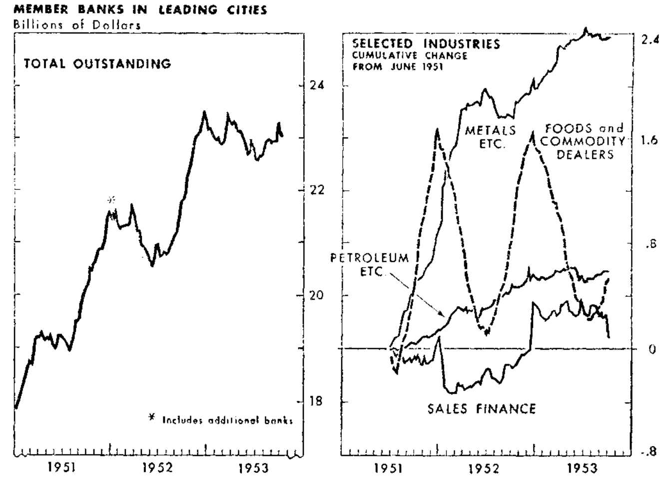
The Treasury offered 1-year, 2⅝ per cent certificates of indebtedness or 3½-year, 2⅞ per cent notes in exchange for 8 billion dollars of bonds maturing on September 15. Subscriptions totaled nearly 5 billion dollars for the certificates and 3 billion for the notes. On September 25 the Treasury discontinued sales of Series B Savings notes and announced that a new Savings note would be offered on October 1.

PRICES AND TRADE



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 August except income (July) and department store stocks (July 31).

COMMERCIAL LOANS
MEMBER BANKS IN LEADING CITIES



Data for selected industries reported by over 200 of the largest member banks. Metals, etc., includes machinery and transportation equipment. Foods and commodity dealers include liquor and tobacco. Petroleum, etc., includes coal, chemical, and rubber products. Wednesday figures, latest shown are for September 23.