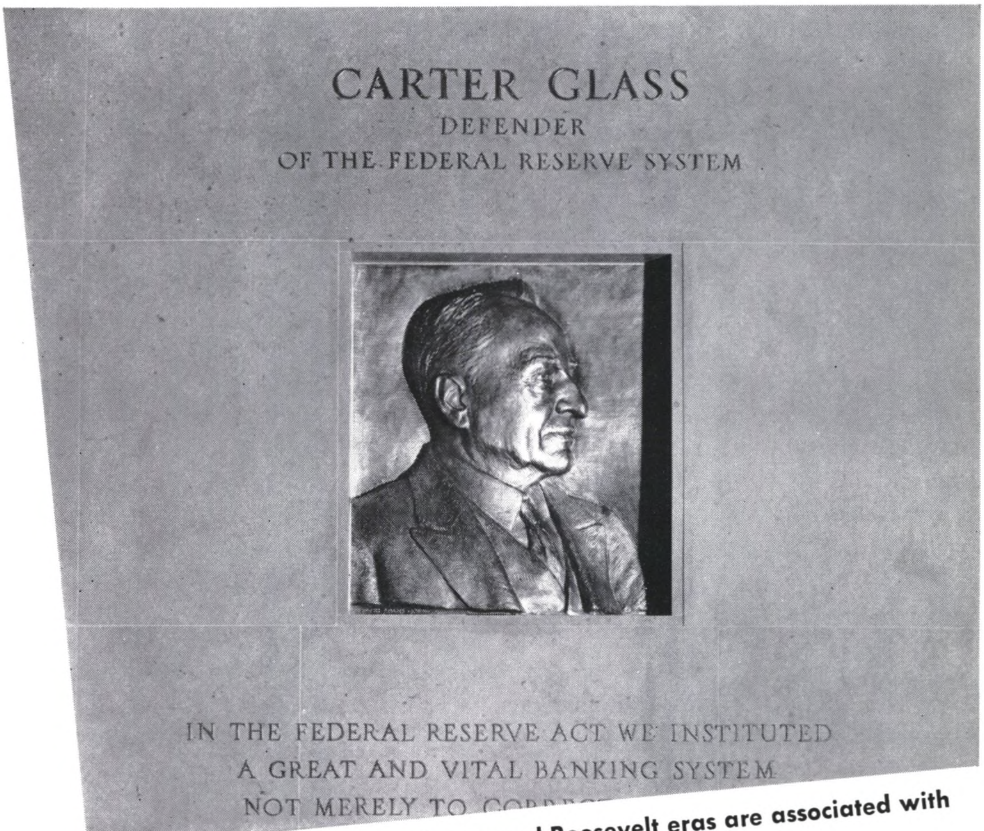
MONTHLY REVIEW



Monetary reforms of the Wilson and Roosevelt eras are associated with Senator Carter Glass of Virginia.

FEDERAL RESERVE BANK OF RICHMOND JUNE 1961

A new banking era was launched with cornerstone ceremonies like this one at the Federal Reserve Bank of Richmond in the year 1914.

REFORMING THE MONETARY SYSTEM

Does Economic Change Outmode Some Features Of Money And Banking Systems?

Money, wrote the sage, must serve man, not enslave him. This sentiment suggests that monetary systems should be adapted to the achievement of society's conscious economic goals, and should not be allowed to determine its destinies.

Reducing money to a state of servitude, however, is not an easy trick to arrange. Society's economic purposes, habits, and practices have a way of changing, sometimes drastically. Monetary arrangements that once seemed appropriate to the achievement of commonly accepted goals may, in the course of such changes, become a positive hindrance.

Not knowing how to establish once and for all the ideal system that would generate precisely the right amount of money under all conditions, most societies have resorted to what might be regarded as long-run monetary experimentation. Existing monetary institutions have been consciously reshaped from time to time, as experience has suggested that specific features no longer serve the goals sought. Adjustments have usually been made in the full knowledge that they were relatively temporary—that the dynamic economy would soon generate a new necessity for adjustment.

IS IT TIME FOR A CHANGE? The last major reshaping of the United States monetary system took place in 1935. In the quarter-century that has passed since that time numerous important changes have taken place in the American economy and in its network of financial markets. Rapid growth in the Federal debt and in Federal taxation and spending has made the U. S. Treasury a far more important factor in financial markets than it has ever been before. Debt management policy, as reflected in Treasury decisions respecting the maturity and other characteristics of outstanding Federal debt, has emerged as a major factor exerting direct influence upon financial markets and upon the ability of the banking system to provide new money and credit.

Over the same period, machinery for trading in Government and other securities has been greatly improved. Relatively new sources, channels, and uses of credit have come into prominence. Nonbank financial institutions, like savings and loan associations, insurance companies, and investment trusts, have experienced enormous growth and have assumed a new significance in the nation's finance mechanism. Finally, developments abroad have placed on this country new and heavy international financial responsibilities that have an important bearing on the way the monetary system functions domestically. (See this *Review,* May 1961.)

Some contemporary observers feel that these and other developments may have rendered our monetary system less well adapted to the achievement of such goals as full employment, price stability, and a high rate of economic growth. Fears are expressed that some of these developments may have given the system a permanent bias toward inflation, while others may have increased the likelihood of sudden, sharp monetary disturbances. A question, in brief, has been raised as to whether this country has once again arrived at a stage where an overhaul of some features of the monetary system is necessary.

To explore this question, the Committee for Economic Development, an independent association of businessmen and educators, sponsored in 1958 appointment of a special Commission on Money and Credit. After a three-year study, this Commission is now preparing to issue its final report and recommendations. Announcement of the impending report, which is expected to stimulate additional discussion and study, provides an appropriate occasion for a review of earlier reforms of this country's monetary system.

EARLY REFORMS Monetary reform is no stranger to American history. Virtually every generation of Americans since the founding of the republic has experienced at least one major reform. Extensive changes in the monetary system were especially frequent in the years before the Civil War. Between 1830 and 1860, for example, five major reform measures were instituted. They included a change in the gold content of the dollar; failure to renew the charter of the Second Bank of the United States, which had served for 20 years as an important regulator of the currency; the establishment of the Independent Treasury System as an automatic check on the money-creating operations of banks; the introduction of a new subsidiary coinage system; and the establishment of free-banking over much of the country.

THE NATIONAL BANKING SYSTEM In the 30 years before the Civil War, the greater part of the money in use in the United States was provided by banks operating under charters issued by the individual states. Money created by these banks took the form of both demand deposits and circulating bank notes. The latter were used chiefly as local currencies, and did not serve at all well the growing country's needs for an interregional medium of exchange. Some state banks were soundly managed. A few attempted to operate on a shoestring in terms of integrity as well as assets. Most were somewhere in between. Therefore, their notes exchanged in accordance with a complex system of discounts.

The National Banking Act of 1863, perhaps the most significant reform measure of the 19th century, radically altered this situation. It provided for Federally chartered banks which had the privilege of issuing circulating notes to be used along with coin as the public's hand-to-hand money. These notes were required to be redeemable in gold and silver coin of the United States and to be secured by specified issues of Government bonds.

The national bank notes were intended to provide a uniform national currency to replace state bank notes. Underlying the new system was the belief that the country was rapidly moving toward economic integration and could no longer be adequately served by state bank currencies. To end the issuance and circulation of state bank notes, supporters of the new system secured Congressional enactment of a 10% Federal tax on payments made with such notes.

This tax, levied in 1866, cleared the field and left the process of currency creation to the new National Banks and the United States Treasury. From that year until the establishment of the Federal Reserve System, national bank notes made up a large fraction of the public's pocket money. The remainder consisted of Treasury issues of gold and silver certificates, United States notes, Treasury Notes of 1890, and gold, silver, and other coin.

The years 1863-1914, referred to in monetary history as the National Banking Period, witnessed a remarkable expansion in the American economy. In this half-century, population tripled, rising to nearly 100 million. The frontier was pushed steadily out to the Pacific. Industrial development proceeded at an unprecedented pace, and was matched by a great expansion in agriculture and commerce. Gross National Product, in real terms, increased about seven times, while per capita output more than tripled. Over the same period the money supply rose from about \$1 billion to more than \$11 billion.

Despite this impressive performance, the period was not without its problems. In particular, it was

National bank notes were once widely used as "folding" money.

characterized by recurring episodes of severe monetary stringency, often followed by widespread business failures and sometimes by temporary business paralysis. Especially severe business and financial panics occurred in 1873, 1884, 1893, and 1907.

Important political groups felt that the National Banking System had a permanent deflationary bias and worked undue hardship on debtor classes. Cast in these popular terms, the monetary system became a major public issue which figured in every political campaign from 1875 to 1900. This period witnessed the Greenback and the Granger movements, with their heavy inflationary overtones, and a sharp political fight between advocates of "Free Silver" and champions of "Sound Money."

RESEARCH AND REFORM A little known feature of this period was its growing recognition of the need for systematic study as a basis for reform proposals. Interestingly, the lead in promoting such study came from private organizations rather than from Government sources.

Stimulated by the bitter Free Silver—Sound Money controversy, two private organizations, the Sound Currency Committee of the Reform Club of New York and the Monetary Commission of the Indianapolis Board of Trade, undertook, in the 1890's, extensive investigations into both historical and technical aspects of the United States monetary system. The work of these groups, which provides an interesting parallel to the current efforts of the Committee for Economic Development, was instrumental in securing passage of the Gold Reserve Act of 1900, which placed this country unequivocally on the gold standard. Their work also proved invaluable in the subsequent Congressional study which led to the founding of the Federal Reserve System.

THE ALDRICH COMMISSION Sentiment for monetary and banking reform grew sharply with each financial panic under the National Banking System. Following the short but extremely severe Panic of 1907, Congress responded to this sentiment by passing in 1908 the Aldrich-Vreeland Act. One provision of this Act called for the establishment of a National Monetary Commission to study the existing monetary system and to make recommendations for its reform. This Commission was appointed in 1908 and began its studies in the same year, under the chairmanship of Senator Nelson W. Aldrich, coauthor of the Aldrich-Vreeland Act.

The Aldrich Commission, as it came to be called, enlisted the aid of leading monetary and banking experts, and with their help undertook an exhaustive study not only of the American monetary system but also those of most other major countries. Their studies were historical as well as theoretical, and included extensive interviews with bankers and other monetary specialists of this country and of foreign nations. The product of their four-year study is embraced in 23 volumes of Senate documents, covering more than 15,000 pages and providing some of the best available systematic information on foreign and American monetary and banking history.

WEAKNESSES AND REMEDIES The Aldrich Commission's work was devoted chiefly to identifying weaknesses in the National Banking System and prescribing remedies. The weaknesses accorded greatest emphasis by critics of the system can be summarized as follows:

(1) The system lacked "elasticity" in that the volume of currency could not fluctuate with the changing requirements of business. This shortcoming was usually attributed to the linkage between the volume of national bank notes and the volume of Government bonds, which bore no relationship to the volume of currency needed in trade.

(2) The system lacked "flexibility" in the sense that it could not, without serious disturbances, accommodate shifts by the public between demand deposits and currency. When the public swapped deposits for currency, banks were deprived of reserves and correspondingly of capacity to supply the public with credit and with new deposit money. On the other hand, public swaps of currency for deposits provided new reserves and at times were of such magnitude as to promote excessive bank credit.

(3) The practice of holding reserves with other banks rather than with a central bank made for reserve immobility and for generally inefficient use of reserves in the system as a whole. Moreover, "pyramiding" of reserves in large city banks, especially those in New York, made the entire system vulnerable to any shock that might otherwise affect only small groups of banks.

(4) The method of handling collection items between banks was unduly slow and inefficient.

(5) The system failed to provide adequate banking and fiscal services for the Government.

In its recommendations to Congress, the Aldrich Commission proposed to correct these weaknesses by creating a central banking system to be owned and largely controlled by the commercial banking community. However, Congress rejected a bill embodying this proposal.

THE FEDERAL RESERVE SYSTEM The work of the Commission did not, however, go for naught. After the presidential election of 1912 a new bill, providing for a somewhat stronger central bank than that envisaged in the Aldrich Bill, was framed and approved by the next Congress. This bill became the Federal Reserve Act of 1913.

Like the Aldrich Plan, the Federal Reserve Act sought to remedy the defects of the National Banking System enumerated above. It undertook to introduce an "elastic" currency in the form of Federal

Reserve Notes linked to commercial paper instead of to Government bonds. It provided a central depository for bank reserves making them available for use where needed most in times of threatening crisis. Moreover, it empowered the new Federal Reserve Banks to act as lenders of last resort (see this *Review,* February 1961), i.e. to provide banks with needed reserves through rediscounting in times of monetary stringency in order to prevent an excessive drying up of bank credit. Finally, the Reserve Banks were authorized to act as a general clearing house for member banks and, on the Treasury's request, to act as the Government's fiscal agent, performing such services as distributing and redeeming securities, receiving tax money, and holding Government funds for disbursement against its checks.

THE FIRST 20 YEARS Less than 20 years after passage of the Federal Reserve Act, the monetary system was again the subject of serious reform discussion. These 20 years had seen one severe test after another imposed upon the new system. Scarcely had the Federal Reserve Banks begun operations when they were confronted with the international monetary confusion created by the first World War. This country's entry into the war soon afterward confronted the system with the additional problem of contributing to the financing of an unprecedentedly expensive war.

The problems generated by the war persisted long after peace had been concluded. Not until 1925 was some semblance of order restored in international banking and finance, and even then this important area remained on the shakiest grounds, ever threatened by the thorny reparations issue and by international suspicions aroused by the peace settlement. Rapid economic and social change at home, coupled with the radically altered situation abroad, soon made it evident that the new system was confronted with problems of a kind that could not have been anticipated by its founders.

REFORMS OF THE 1930's The economic and financial collapse of 1929-1933, culminating a decade of efforts to adjust to a totally new set of economic and financial conditions, set the stage for the monetary reforms of 1933-1935. These reforms were made under a greater sense of urgency than those initiated by the work of the Aldrich Commission. They were, however, the product of intensive study, chiefly by Congressional committees assisted by both "practical" and "academic" specialists. The reforms, perhaps as extensive as any ever introduced, included a re-

Crisis of 1873: such panic scenes recurred often before 1914.

valuation of the dollar, prohibition of domestic gold redemption and limitations on international redemption, a greater degree of centralization of authority in the Federal Reserve System, establishment of new regulatory agencies with extensive supervisory authority over securities trading, and institution of Federal insurance of commercial bank deposits.

The broad purposes of these reforms were to concentrate more policy-making power in the Board of Governors, to reduce the likelihood of disturbances from hoarding or exporting gold, to discourage or, when necessary, deal with public "runs" on banks, and to strengthen the hand of the monetary authorities to combat disturbances once they had developed.

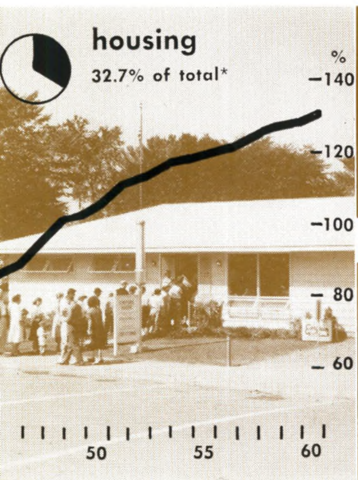
The legal basis for our present monetary system is provided by the Federal Reserve Act of 1913 as amended by the Banking Acts of 1933 and 1935, by the Gold Reserve Act of 1934, and by the Silver Purchase Act of 1934. Numerous minor amendments in all these acts have been made since the reforms of the 1930's, but they remain substantially as they were at that time. Any further major changes in the system will inevitably center around the provisions of these acts and may also involve new legislation covering financial areas not presently embraced in these laws.

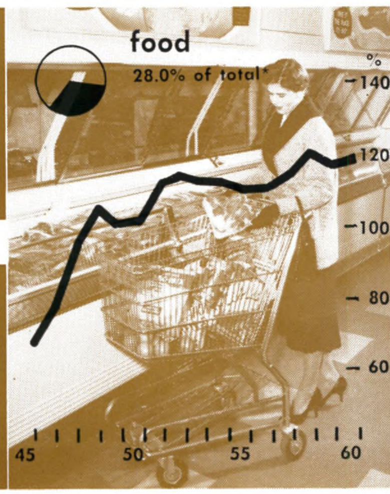
The Task of . . . MEASURING PRICE C

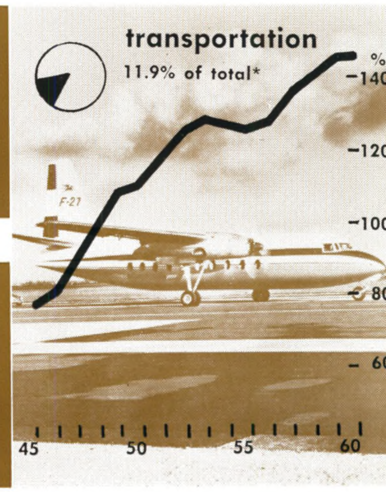
Cincinnati, Ohio, and Anchorage, Alaska, have something in common. Last year, trained personnel from the Bureau of Labor Statistics rang hundreds of doorbells in both cities, armed with detailed questionnaires on budgets and bills. It was only the beginning of an intensive five-year survey aimed at revising the Consumer Price Index—a statistic which measures changes in the price of goods and services customarily bought by typical workers in American cities.

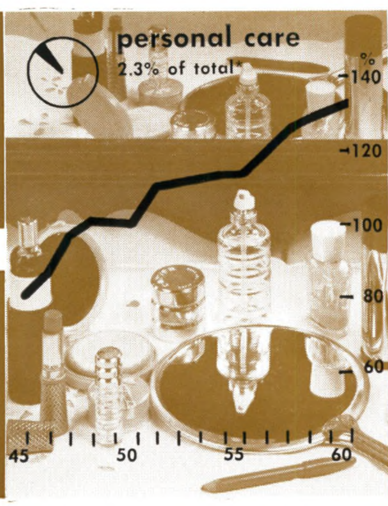
During 1961 and 1962, 64 cities throughout the country will be sampled. Families will be asked to keep a detailed record of their purchases—the type of purchase, the number bought, the quality, and the amount they spend for each item. This information will be used to compile a list of items most commonly purchased. Prices of representative items will be regularly checked in 50 cities, and from them the revised Consumer Price Index will be published every month.

The current Consumer Price Index—already becoming obsolete—is based on a survey completed in 1952. Expenditures listed in this survey were grouped into eight general categories—food, housing, apparel, transportation, medical care, personal care, reading









*based on relative importance as of December 195

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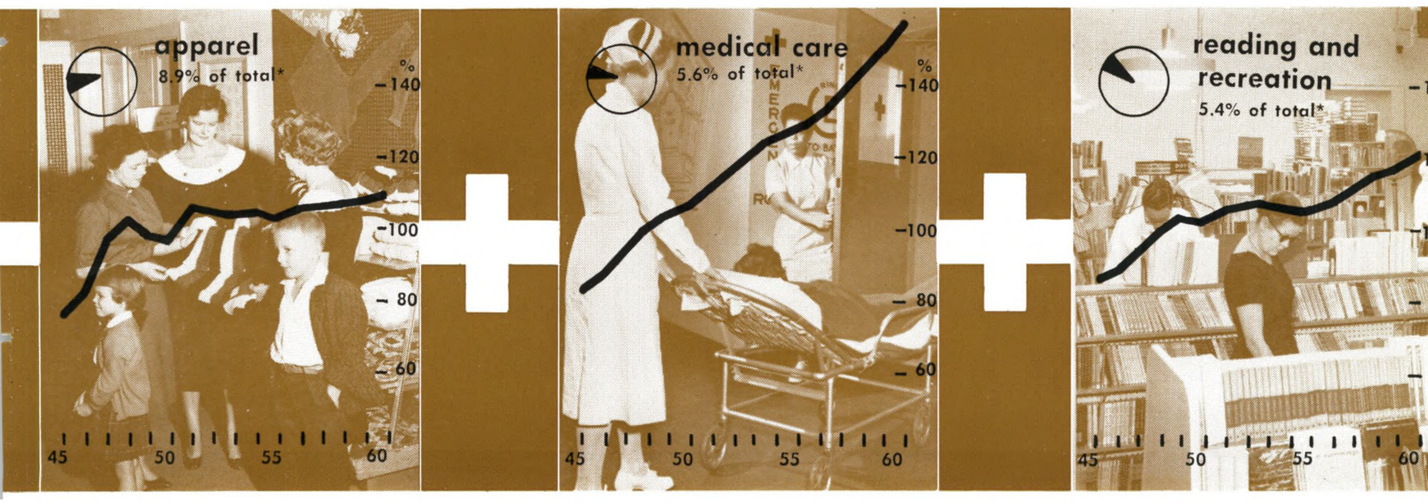
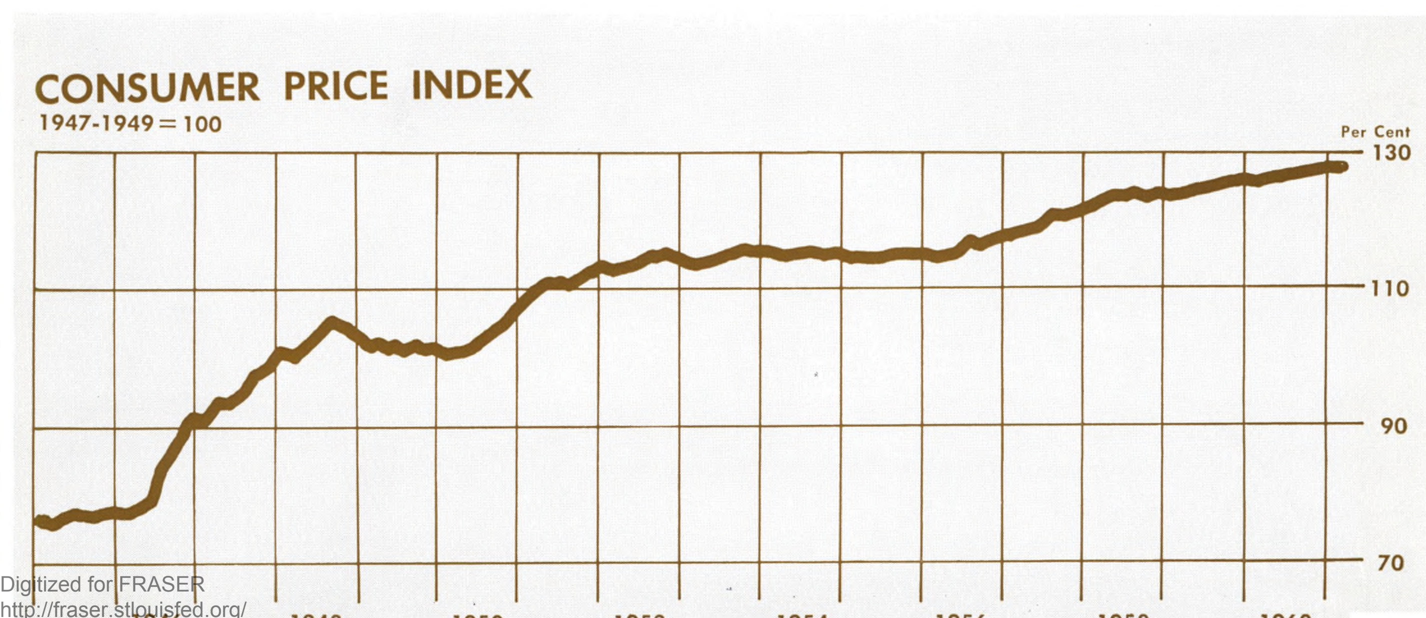
and recreation, and other goods and services. Each category was then "weighted" according to its relative importance in the consumer's budget, so that a price change in total food would have far more effect on the over-all Index than a price change in recreation, for example. The value of the Index for the average of prices during the years 1947 through 1949 was set at 100; thus, any later increase in prices causes the Index to rise above 100, and a decrease causes it to drop below 100. The charts below are based on the 1947-1949 period and show price changes from 1945 through 1960 in all the major Index categories.

When all the data for the new survey has been accumulated, the same general procedure as in the 1952 survey will be followed, probably using as a base period the years 1957 through 1959, which were recommended by the Bureau of the Budget for Federal Government indices.

Although the task of the price statistician is rather like that of the dog chasing his tail— he's always running a little bit behind himself—through revision and expert analysis he is able to keep the Consumer Price Index a useful measure of the average change in prices of goods and services purchased by the typical worker.





FEDERAL FUNDS IN THE FIFTH DISTRICT

"Federal funds" was added to the vocabulary of younger bankers during the 1950's as rapidly as "A-okay" is entering that of would-be astronauts now. Bankers who were of age in the 1920's already knew the phrase, although they had little need for it during the two intervening decades. Following the renewal of trading in Federal funds after World War II the market grew rapidly, and by 1960 the larger Fifth District member banks that were active in the market were buying and selling a total of $80 million per day on the average.

WHAT ARE FEDERAL FUNDS? Federal funds are primarily reserve balances that member banks have on deposit with Federal Reserve Banks. These balances have two characteristics which make them particularly desirable to commercial banks and certain other participants in the money market. They can be used by commercial banks to satisfy legal reserve requirements, and they are immediately available funds. A bank receives credit in its reserve account with the Federal Reserve immediately upon depositing a claim against another bank's reserve account. In contrast, deposit of a check drawn on an account in a commercial bank would be credited to the bank's reserve account one or two days later under the System's time schedule for giving credit for checks in the process of collection.

"Buyers" of Federal funds generally are interested in obtaining them because of the benefits to be derived from one of these two characteristics. "Sellers" of Federal funds are interested in obtaining some interest income on reserve funds over and above those necessary to meet reserve requirements. The interest income which sellers of Federal funds obtain is explained by the fact that "sales" are actually loans and "purchases" are actually borrowings. Most of these loans are overnight loans and must be repaid with interest on the following business day.

A NATIONAL MARKET The Federal funds market is a national market today. It originated in the early 1920's from local beginnings centering in New York City. At that time some New York City banks had substantial excess reserves, while others were borrowing from the Federal Reserve. In this situation banks with excess reserves began lending them to banks with reserve deficiencies. Other local markets appeared in several large cities, and there were limited transactions among banks in Richmond. Some trading developed among Federal Reserve Districts.

In the 1930's however, the market became inactive, as practically all banks came to have excess reserves. There was no renewal of significant trading in Federal funds until the 1950's, when more restrictive credit policies forced member banks to rely to a greater extent upon borrowing, and higher interest rates encouraged banks with excess reserves to sell them in order to obtain the additional interest income.

Potential buyers and sellers of Federal funds contact each other through large New York City banks, a stock exchange firm, their correspondent banks, or directly. Transactions are usually negotiated by telephone and confirmed later by wire or letter. Transactions between banks within one Federal Reserve District usually are effected by instructions to the Federal Reserve Bank of that District to transfer funds from the selling bank's account to that of the buying bank. In transactions between banks in different Federal Reserve Districts, the funds usually are advanced and repaid over the System's wire transfer service.

PARTICIPANTS IN THE MARKET Since Federal funds consist of deposits with Federal Reserve Banks, held largely by member banks, and since these deposits are used by member banks to meet legal reserve requirements, it is not surprising that commercial banks with excess reserves are the principal sellers and commercial banks with reserve deficiencies the principal buyers.

The purchase of Federal funds is only one way in which a bank with a reserve deficiency may cover the deficiency. As alternatives, a bank might borrow at a Federal Reserve discount window, draw down correspondent balances, or sell securities. Individual banks choose among the alternatives on the basis of their attitudes toward borrowing at the Federal Reserve, convenience, and cost.

Government securities dealers have a need for Federal funds which arises out of their securities transactions. At present nearly all transactions in short-term and many in long-term Government securities are settled in Federal funds. Because nonbank Government securities dealers do not have accounts with the Federal Reserve, they have made arrangements to have two large New York City banks clear their Federal funds transactions for them.

Dealers automatically receive Federal funds when they borrow from out-of-town banks to finance their portfolios of Government securities. This is because the lending banks advance the loan out of their accounts with the Federal Reserve over the System's wire transfer service. Similarly, when dealers finance their positions by borrowing short-term funds from corporations, the transaction generally takes the form of a transfer of Federal funds from the commercial bank with which the corporation has its account to the dealer in the form of Federal funds over the System's wire transfer service.

Corporations find these loans to dealers attractive because they result in short-term investments with specified maturity dates, which call for repayment on the day the corporation will need cash for its own use. Frequently these loans, initially disbursed in Federal funds, are for more than one day.

Others who sometimes sell Federal funds include agencies of foreign banks, mutual savings banks, and a few nonmember banks. These other participants in the market very rarely buy funds.

Fifth District banks ordinarily make all of their purchases of Federal funds from other banks, but they sell about 20% of their funds to Government security dealers. About 70% to 75% of the purchases made by Fifth District banks are from New York. A slightly higher proportion of sales are made to New York. There is some trading in Federal funds between banks within the District, but this is well under 5% of the total. The remainder of the purchases and sales are made with banks in other Federal Reserve Districts.

FORMS OF TRANSACTIONS Federal funds transactions can take several forms. The most common is the one-day transaction, which in the District accounts for over 95% of all purchases and nearly as large a percentage of the volume of sales.

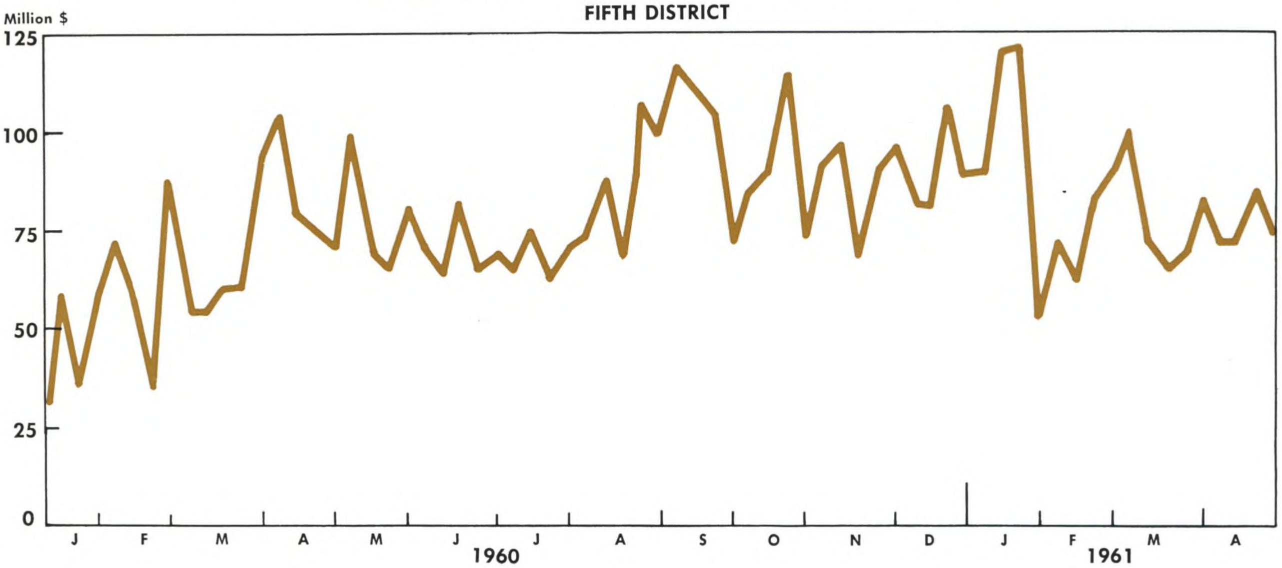
The "straight" or unsecured loan is the most common type of one-day transaction. It accounts for about 95% of total purchases and about 35% of total sales. A modification of this type, the secured one-day transaction, accounts for less than 2% of Fifth District purchases but for 30% to 40% of sales.

Repurchase agreements, in contrast to secured loans, involve actual transfer of ownership of securities. Under a repurchase agreement the seller of Federal funds buys securities at a certain price, and his payment for the securities constitutes the transfer of the Federal funds he is selling. At the same time he receives from the purchaser of Federal funds (who sold him the securities) an agreement to repurchase the securities on a specified future date at a stated price. In the Fifth District repurchase agreements account for less than 1% of purchases but for a substantial part of sales. In 1960 sales under repurchase agreements constituted about 20%, and in early 1961, about 30%, of total sales.

Although the daily average volume of total purchases and sales by Fifth District banks active in the market has continued to fluctuate within a range of about $50 to $130 million since the beginning of 1960, there was a shift from net selling to net buying of funds in June 1960. Between January 1960 and April 1961 there were 27 weeks in which Fifth District banks were net purchasers of Federal funds; 18 of these occurred during the first five months of 1960 when the System as a whole had net borrowed reserves. In those months the effective rate on Federal funds (the rate at which the greatest volume of trading takes place) was usually at or near the 4% discount rate. When reserves became more plentiful and discount rates were lowered after May 1960, the effective rate declined substantially and on some days fell below 1%.

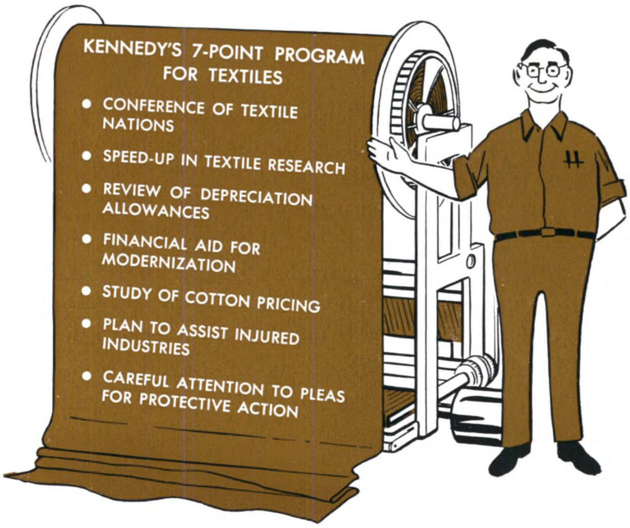
VOLUME OF FEDERAL FUND TRANSACTIONS

FIFTH DISTRICT



A PLAN FOR THE TEXTILE INDUSTRY

The President takes a look at the industry's problems



The textile industry in the United States includes over 7,000 manufacturing establishments and employs more than 900,000 people. It processes cotton, wool, and a growing variety of man-made fibers into yarn, woven cloth and knitted goods—both fabrics and garments. Annual production of woven fabrics alone during the past decade averaged nearly 12.6 billion linear yards, enough to span the distance between the earth and the moon about thirty times.

In recent years, especially during last year's period of cyclically higher prices, imports of textile products have grown rapidly. The 1960 volume of textile imports was at an all-time high—about 6% of domestic production and, for the first time, greater than the volume of textile exports. Even though price declines in recent months have been accompanied by marked declines in imports, it is apparent that an increasing number of countries with growing textile industries are ready to move into our markets when conditions improve. Thus, spokesmen for the textile mills have vigorously argued for a product-by-product and country-by-country schedule of import quotas. They believe that less drastic measures would be ineffective in view of the cost advantages possessed by other countries.

Foreign producers have a distinct advantage over domestic manufacturers in two big factors of production—materials and labor. A Commerce Department study has compared the importance of the two in various countries. Virtually all foreign producers benefit from this country's cotton price supports and export subsidies, but in varying degrees. When Japan's lower payments for labor as well as material were considered, typical items surveyed were found to cost 25% to 50% less in that country than in the United States. In India higher cost and less efficient use of capital have tended to offset lower wage levels. Lower cotton costs were, therefore, given full credit for India's over-all cost advantages relative to this country. Greater productivity per employee in the United States has also tended to offset lower foreign wage rates in other countries. Many are making rapid progress in their own modernization programs, however, so that greater economy in the use of labor is declining as a decisive factor in the cost race.

Measures that can be taken to improve the situation are limited by concern for international friendships. Thus, the President's seven-point plan assigns various aspects of the textile industry's problem to the departments of the Federal executive organization best suited to deal with them. The State Department is to arrange a conference of textile nations to seek an international understanding which recognizes established industries. The Commerce Department has been asked to sponsor and assist in an enlarged program of technical and economic research. The Treasury Department is to review the present tax rules covering depreciation and obsolescence of textile machinery, and will examine the possibility of allowing additional tax credits favoring new investment. The Small Business Administration will examine its credit function with a view to helping textile firms finance modernization. The Department of Agriculture has been asked to deal with the industry's most obvious competitive disadvantage—the government-supported differential between domestic and export cotton prices.

Congress has been asked to consider ways of determining actual or impending injury caused by increased imports, and to study means of assisting industries thus injured. Finally, the President gave assurance that any application by the textile industry for protective, governmental action under existing statutes would be "carefully considered on its merits." Indications are that the preliminary studies necessary to implement virtually all parts of the plan are under way. Each new report will be received with keen interest by the textile industry.

THE FIFTH DISTRICT

The upswing in Fifth District business activity continued through May. However, patterns of improvement remained mixed, thus closely resembling those of the previous month. The District's most diverse, least predictable, and ultimately most important group of purchasing agents, the consumers, continued their week-to-week vacillations, but maintained average buying levels that compared favorably with those of a year ago. Automobile sales, which tended to lag a little in April, picked up again in May, but both automobiles and appliances were moving at a disappointing pace as far as most dealers were concerned. What zip there has been in consumer buying lately has been pretty much confined to soft goods.

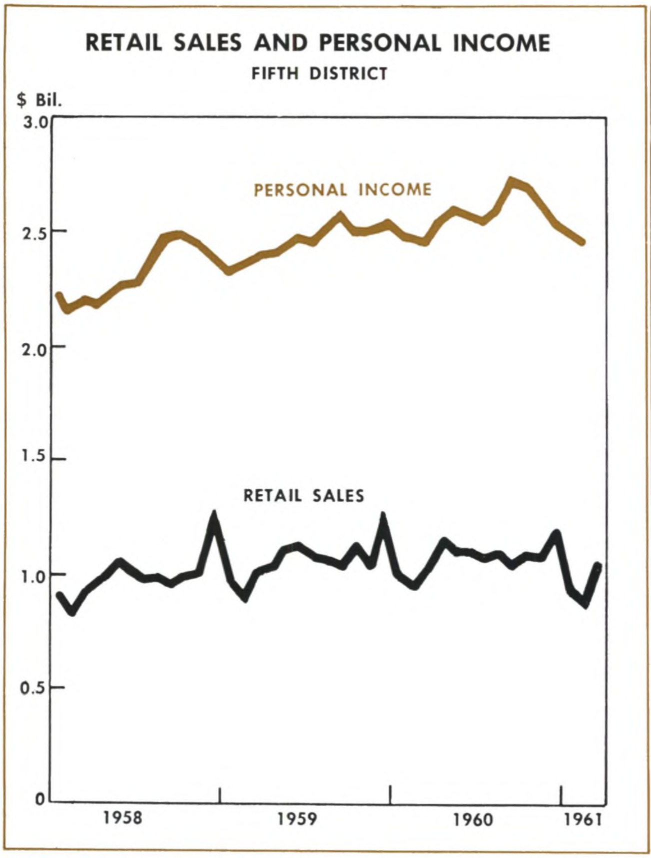
PERSONAL INCOME DECLINE ENDS As the chart on the next page indicates, personal income in the Fifth District turned down last October and the decline continued through February. Income in March reversed that trend with a somewhat stronger than seasonal gain over the preceding month. District personal income for the first three months of this year, however, remained very slightly below the 1960 figure. The other series on the chart, sales of retail stores with one to ten outlets, which handle over 80% of retail sales, contains a strong seasonal element which accounts for most of the decline this year. Neither series yet displays the consistent upward trend that characterized the early months of the last recovery period in 1958.

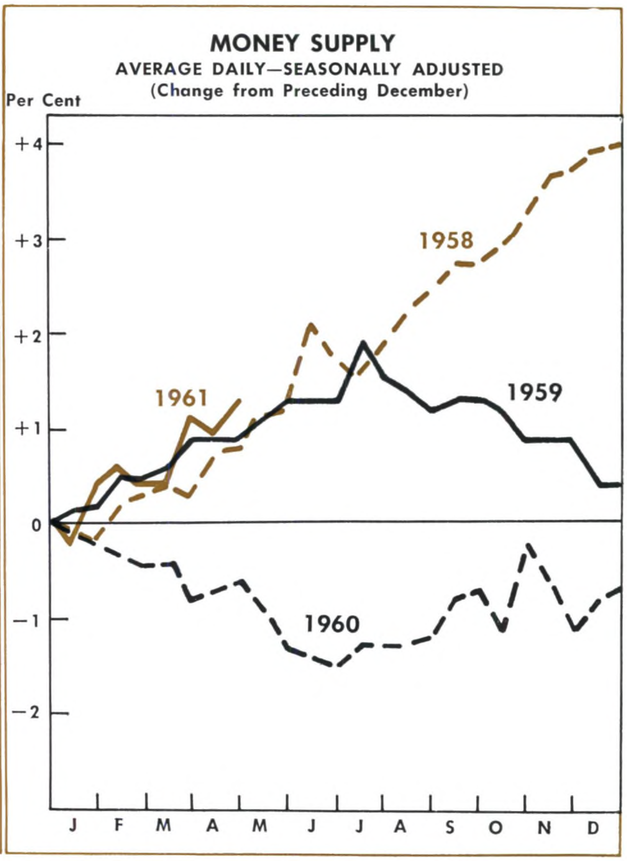
CONSTRUCTION Except for a few brief intervals, construction has been an element of strength in the District economy for the past several years. Last summer brought a definite slowdown in residential building, and contract awards for business and public works slumped early in the fall. However, each time that it seemed as if contractors might soon be left with little more than projects in process on which to keep going, there was a revival of contract awards. Residential awards gained, apparently more than seasonally, in each of the first three months, and in March were about even with the average level for 1959, the best recent year for housing. Contracts for nonresidential construction and public works have continued to be awarded in sufficient average volume to compare favorably with the last two years, each of which must be regarded as a very good year.

MANUFACTURING STRONGER Most of the District's principal manufacturing industries continued to gain strength during May. There were intermittent reports of rising demand and stronger prices in textile markets. A rising volume of new orders paved the way for good increases in employment and hours of work in the production of metals, machinery, and transportation equipment. Improvement among nondurable goods manufacturers centered in chemicals, paper, and the yarn and knitting sector of textiles. Furniture makers, however, continued to occupy the unenviable position of "bottom men" on the District's industrial totem pole. New factory orders for furniture remained slow and offered little hope for a reversal of the trend in employment and man-hours, which had been down for nearly a year.

BANKING AND THE MONEY SUPPLY District banks maintained a position of substantial ease throughout April and early May, and appear to be amply prepared to accommodate increased loan demand as

Though appliance showrooms are often crowded, dealers say that purchases of these durables have been disappointing recently.





business recovery proceeds. Comfortable reserve positions were reflected in borrowings at the discount window well below those for the comparable weeks of any recent year.

Total investments of the District's weekly reporting member banks during the eight weeks ending May 24 rose 1.0% as contrasted with substantial declines in the same weeks of 1959 and 1960. Much of this year's increase has been in U. S. Government securities of under one-year maturity. Such securities comprised 7.2% of total assets of District weekly reporters in mid-May as compared with 6.6% at the end of March and 6.3% at the beginning of the year.

Over the same seven weeks gross loans of District weekly reporting banks increased 0.6%, about the same as the rise which occurred in the comparable weeks of last year, but considerably below that of the like period in 1959. Most of this year's rise came in the first half of May. Most major loan categories showed greater strength this year than in the same weeks last year. The chief exceptions to this rule were loans to financial institutions (other than banks) and to consumers.

Business loans, watched by many as a rough indicator of current business conditions, moved up strongly in the first half of May following a slight decline in April. These loans have shown better-than-seasonal strength since the first of March, up roughly 5% as of May 24.

For the nation as a whole expansions in bank loans and investments and a decline in U. S. Government deposits have brought about a significant increase so far this year in the seasonally adjusted money supply, as is shown in the above chart. Preliminary data indicate a $500 million gain in April, bringing the total increase this year to more than $1.5 billion. This compares with a sizable decline over the same months last year, when the economy was heading into a mild recession. The increase so far this year has been at a somewhat more rapid pace than that in either 1958 or 1959, both strong recovery years.

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