

Review

**FEDERAL RESERVE BANK
OF ST. LOUIS • P. O. BOX 442 • ST. LOUIS 66, MO.**

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Bank Reserves and Credit Expand

TOTAL PURCHASES of goods and services rose moderately from the second to the third quarter of this year, according to preliminary data. The increase in gross national product over the first two

TABLE I
Three Recoveries Compared
Change in GNP During First Two Quarters of Recovery

	Trough Quarter ¹	Second Quarter from Trough	Per Cent Change
1961	500.8	526.0 p	5.0 p
1958	437.2	460.6	5.4
1954-55	362.0	384.3	6.2

¹ Trough quarters are first quarter 1961, second quarter 1958, and third quarter 1954.

p—Preliminary estimate

quarters from the trough quarter of the recent recession was somewhat smaller than during comparable periods of the 1958 and 1954 recoveries. The rate of expansion declined slightly from the second to the third quarter of the current recovery.

An unusual feature of the current recovery has been the lack of exuberance in consumer purchases. Though there has been some increase in personal consumption expenditures, chiefly in nondurable goods, the expansion has been more moderate than in corresponding periods of the two previous recovery periods (see Table II). Government purchases of goods and services have expanded about in pace with 1958 experience and much more rapidly than in the 1954-55 period. Inventory accumulation during the current recovery has been at about the same rate as during corresponding periods of the two previous recoveries.

Prices thus far in the recovery have changed little on balance; thus, most of the expansion in GNP reflects an increase in real terms. There were modest declines in wholesale prices from February through June of this year. Since June, both the wholesale and consumer price indexes have edged up slightly, largely reflecting higher prices for farm products and food.

Bank Reserves

Total reserves of member banks, seasonally adjusted, increased in recent months, offsetting the decline which occurred early in the year. Open market purchases of Government securities by the Federal Reserve System accounted for virtually all of the roughly \$370 million increase in total reserves in the four months ending in September; member bank borrowing from the Reserve Banks remained below \$100 million.

Excess reserves showed little net change in the past four months, fluctuating at about \$600 million. In this same period, however, Treasury deposits rose. As a result of the increase in Treasury balances, not all of the increase in reserves was available to support privately held deposits.

Bank Credit

Reflecting the increase in reserves, total loans and investments of commercial banks, seasonally adjusted, increased by an estimated \$3 billion from the end of May to the end of September. Most of the bank credit expansion was in investments, loans showing only a slight increase over the four-month period. During

TABLE II
Changes in Gross National Product by Major Expenditures Categories
During First Two Quarters of Business Recovery¹

Type of Expenditures	1961 p		1958		1954	
	In Billions of Dollars	Per Cent of Trough GNP	In Billions of Dollars	Per Cent of Trough GNP	In Billions of Dollars	Per Cent of Trough GNP
Personal Consumption	+ 8.6	1.7	+ 8.9	2.0	+10.7	3.0
Gov't. Purchases	+ 4.4	0.9	+ 4.7	1.1	+ 0.5	0.1
Net Exports	— 1.8	—0.4	— 0.9	—0.2	+ 1.1	0.3
Gross Private Domestic Inv.	+13.9	2.8	+10.6	2.4	+10.1	2.8
New Construction	+ 3.3	0.7	+ 2.5	0.6	+ 3.7	1.0
Producers' Durable Equip.	+ 1.6	0.3	+ 0.7	0.2	— 0.2	—0.1
Changes in Business Inv.	+ 9.0	1.8	+ 7.3	1.7	+ 6.5	1.8
Total GNP	+25.2	5.0	+23.4	5.4	+22.3	6.2

Totals may not add due to rounding.

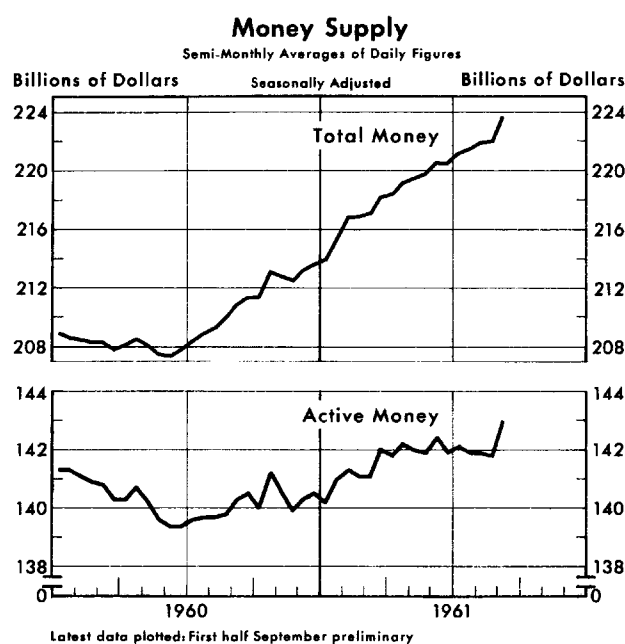
¹ Changes from first quarter to third quarter 1961, second to fourth quarter 1958, and third quarter 1954 to first quarter 1955.

p Preliminary estimates of the Federal Reserve Bank of St. Louis.

the similar phase of the two previous recoveries loan demand was apparently much stronger, and bank loans increased at a more rapid rate.

Money Supply

The rate of monetary expansion in recent months has been somewhat less than in the winter of 1960-61. During the five and one-half month period ending in



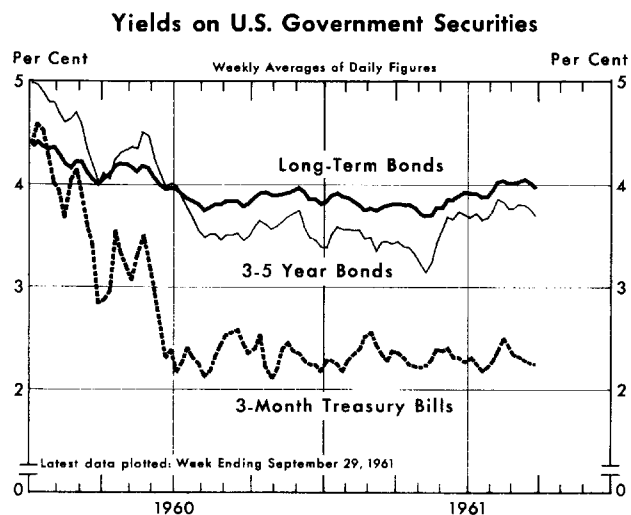
the first half of September the active money supply, seasonally adjusted, increased at a rate of 1.5 per cent per annum compared with an increase of 4.5 per cent from late November to late March. During the same period the seasonally adjusted total money supply (active money plus time deposits) increased at a rate of 5.5 per cent per annum compared with 8.0 per cent from the last of November to the last of March.

In the comparable months of the previous recoveries active money expanded more rapidly. The rate of expansion in the total money supply, however, has been comparable to the growth in the two previous business upturns.

Interest Rates

The relative stability of interest rates since mid-1960 continued in September.¹ Yields on three-month Treasury bills averaged 2.28 per cent in September, down slightly from the previous month. Rates on long-

term Government bonds, which averaged 4.00 per cent in September, were about unchanged from August. Although business appears to be expanding fairly



rapidly in the present recovery, the stability of rates probably reflects a weaker demand for credit in the current business upturn than in the previous recoveries.

Corporate stock prices, which had risen markedly since late 1960, declined in September. Standard and Poor's 500 composite stock index declined about 2 per cent from early September to early October. In spite of the decline in stock prices, the earnings price ratio remained at a relatively low level.

Recent Treasury Refunding

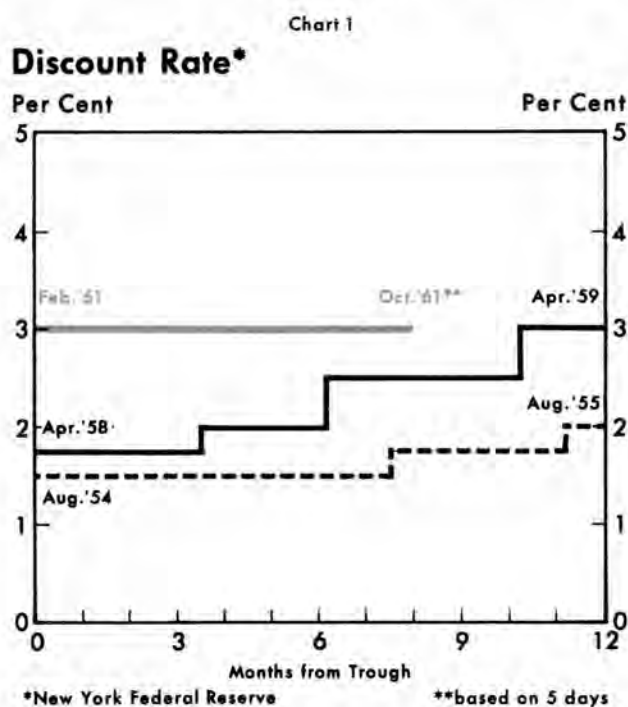
The Treasury in September conducted an advance refunding of Government bonds in a move to lengthen the maturity structure of the Federal debt. The holders of \$7.6 billion of 2½ per cent bonds due in March 1970 and in March 1971 were given an opportunity to exchange their holdings for 3½ per cent bonds due in 1980, 1990, or in 1998. The Treasury estimated that investors not taking advantage of the exchange offer would, at the maturity of the 1970 and 1971 bonds, have to obtain yields equal to 4.28 to 4.36 per cent to match the terms of the exchange offer. About half of the eligible bonds, or \$3.7 billion, were exchanged for the 1980, 1990, or 1998 bonds. This refunding lengthened the average maturity of the debt but most likely had little effect on the liquidity of the public. Prices of intermediate-term, as well as long-term, bonds fluctuate so greatly with modest interest rate movements that investors seldom rely on these issues to meet liquidity needs. For this reason, investors are not likely to view the 1980, 1990, and 1998 bonds much differently from the 1970 or 1971 bonds.

¹ See "A Year of Interest Rate Stability" in the August issue of this *Review*.

The Discount Mechanism in the 1961 Recovery

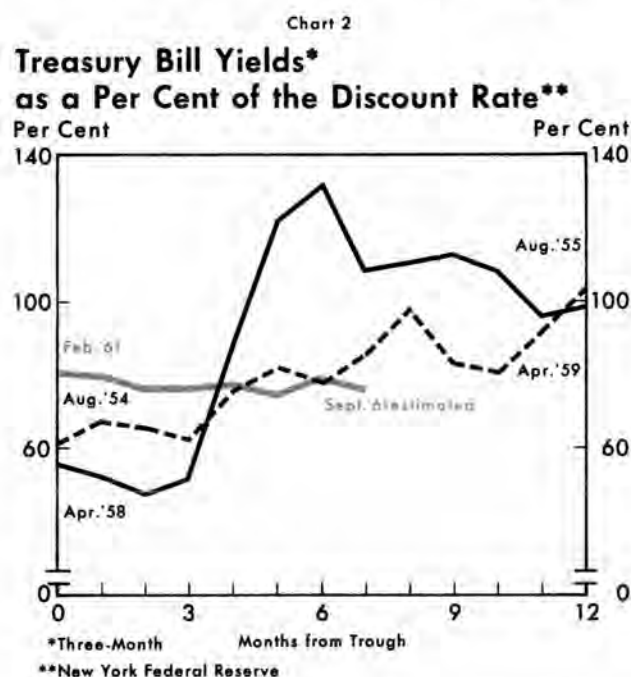
THE DISCOUNT RATE has remained at 3 per cent thus far in the 1961 business recovery. The discount rate is the rate of interest which Reserve Banks charge member banks for borrowing reserve funds. Member banks usually borrow reserves only temporarily from Reserve Banks to meet unexpected deposit drains or special loan demands.

During the early 1954-55 and 1958-59 recovery periods, the discount rate was lower than it has been during the current business upturn. On the other hand, the discount rate was raised early in the two previous recovery periods in contrast to stability in the current economic upswing. Chart 1 shows the



path of the discount rate for twelve months starting from the trough of each of the last three recessions.

The level of the discount rate by itself offers little guidance as to the degree of monetary restraint prevailing. Since banks usually have alternative methods of meeting temporary reserve deficiencies, such as selling short-term Government securities, borrowing Federal funds, or borrowing from a correspondent, the relationship of the discount rate and other money market rates is usually more meaningful than the actual level of discount rates alone. Chart 2 shows the relationship of the discount rate to the three-month Treasury bill rate. In this chart the three-month bill rate is plotted as a percentage of the discount rate for the three most recent recovery periods.



Both the discount rate and money market yields have been virtually unchanged in the first seven months of the current recovery. The discount rate has remained about 25 per cent above the bill rate (see Chart 2). At the trough of the previous two recessions, the discount rate was higher relative to bill rates. However, as the previous two recoveries progressed, market yields rose relative to the discount rate, despite increases in the discount rate. Hence, since mid-summer the discount rate has been higher relative to market yields than during the comparable months of the two previous recoveries. The cost of borrowing reserves at Reserve Banks has remained constant while other considerations which typically prompt member banks to borrow as recoveries progress have also apparently remained about unchanged.

Chart 3, on page 11, shows the borrowing of member banks from Reserve Banks during each of the last three recoveries. Borrowing from Reserve Banks has remained at a relatively nominal level in recent months. By contrast, the volume of member bank borrowing rose markedly in the like periods of both the 1954-55 and the 1958-59 recoveries. The large spread between the discount rate and other money market yields is not the only factor in the relatively low level of member bank borrowing from Reserve Banks. The demands for commercial bank credit have probably been less in the current economic recovery

(Continued on page 11)

Changes in Selected Liquid Assets

1951-1961

Introduction

CHANGES in the quantity of money and of short-term Government securities held by the public are of strategic importance in the economic system.¹ Money and short-term Government securities are highly liquid assets whose quantity is most directly influenced by Government policy. However, active money, time deposits, and short-term Governments may satisfy the liquidity desires of the public in varying degrees.

There are many factors influencing the public's decisions to acquire or to reduce liquid asset holdings. Spending and saving decisions, income expectations, interest rates, past spending patterns, and stock market prices are among these factors. It is useful, analytically, to think of these factors as affecting the public's desired liquid asset balances. Changes in the rates of spending and investing reflect discrepancies between desired and actual balances. Therefore, it is of considerable economic importance that the public has available to it the amount of liquid assets which it wishes to hold. If the quantity of these assets is greater than the public wishes to hold, total demand for goods and services may increase and, if business activity is already at a high level, inflation may ensue. If the quantity of liquid assets is less than the public wishes to hold, total economic demand is likely to decline and underemployment of resources may result.

Such a view of the economic process has important implications for economic stabilization policy. Briefly stated, when total market demand is inadequate, business activity may be stimulated by a more rapid expansion of liquid assets. On the other hand, when total demand is excessive, inflationary price rises may be prevented or limited by a smaller rate of expansion of liquid assets.

The foregoing may be expressed somewhat differently. An increase in the desire of the public to hold liquid assets relative to the supply of these assets may be viewed as an aspect of economic recession. Likewise, a decline in the public's desired holdings relative

to the supply of liquid assets may be viewed as an aspect of economic expansion. Accordingly, an objective of public policy should be to create more liquid assets than the public wishes to hold during recession in order to stimulate spending. During periods of excessive demand the quantity of these assets should be reduced, or increased at a lesser rate.

Method of Analysis

The following charts, tables, and text examine the experience of the past ten years with respect to changes in the quantity of demand deposits and currency, time deposits, and short-term Government securities during various phases of the business cycle. These are the liquid assets that are largely under the influence of national economic stabilization policies.

The decade is examined with a view to determining when the rate of increase of particular classes of liquid assets changed. Because of wide short-run fluctuations in rates of change in the quantity of liquid assets, determining the occasions of change involves somewhat arbitrary decisions as to when one rate of increase ended and another began. Different students might divide the decade somewhat differently. Nevertheless, it is believed that most analysts would find substantially similar periods of rate of change of each asset series.

The average annual rate of change has been determined for each period in which the rate of change seemed to stay within a rather uniform range. The rates of change for each period are presented in the tables; in the charts they are represented by bars superimposed upon the line charts (see pages 6 and 7).

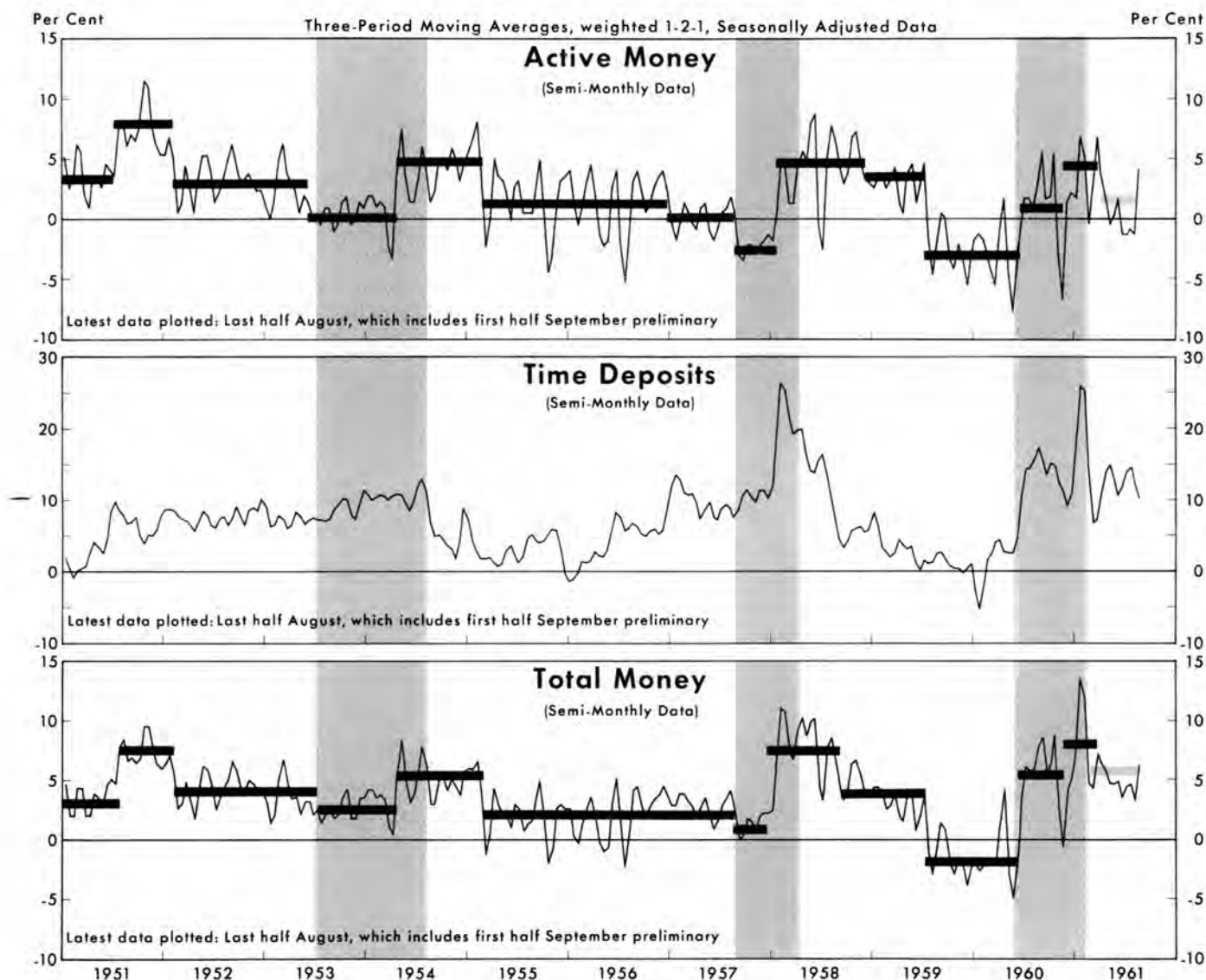
Analysis is made of rates of change in five different combinations of liquid assets, as follows:

1. Active money, i.e., demand deposits, adjusted, of commercial banks plus currency in circulation outside banks.
2. Time and savings deposits of commercial banks.
3. Total money, i.e., active money plus the time and savings deposits of commercial banks.

¹ The money supply is generally defined to include demand deposits of the public plus currency outside banks (active money). However, many analysts define the money supply as total deposits of commercial banks, demand and time, plus currency (total money).

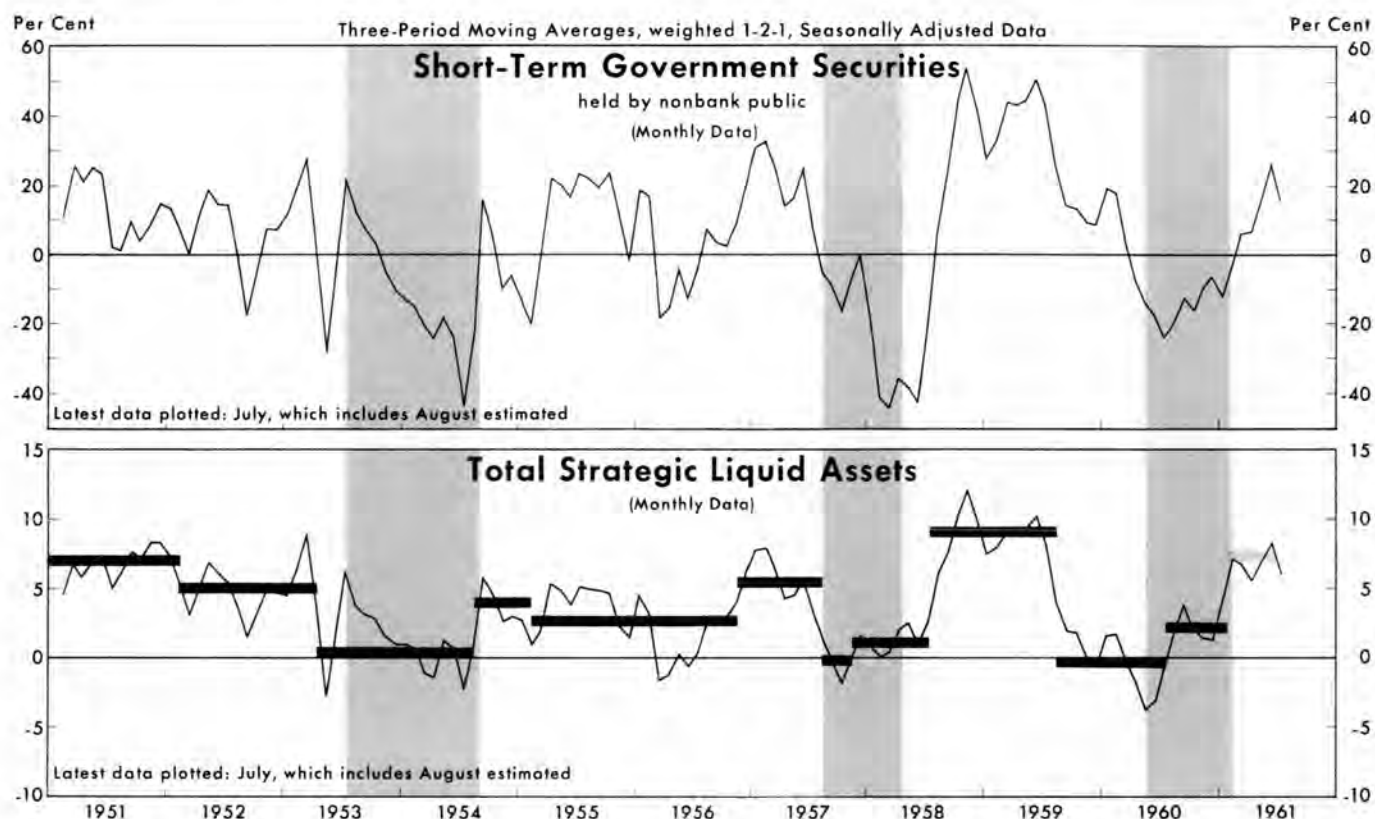
STRATEGIC LIQUID ASSETS, 1951-1961*

Annual Rates of Change



* SHADED AREAS ON CHARTS represent periods of business recession: *Prerecession Peaks*: July 1953, August 1957, May 1960; *Recession Troughs*: August 1954, April 1958, February 1961. The article uses National Bureau of Economic Research reference dates for the two earlier recession periods. In the absence of agreed-upon dates for the most recent economic contraction, the period from May 1960 to February 1961 was selected.

Supporting data for the above charts can be obtained from the Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis 66, Missouri.



Periods of Relatively Constant Rates of Change in Liquid Assets

Represented by Bars on Charts

ACTIVE MONEY

Periods	Period Changes at Annual Rates
1st half January 1951-1st half July 1951.....	+3.3
1st half July 1951-1st half February 1952.....	+7.9
1st half February 1952-1st half June 1953.....	+3.0
1st half June 1953-1st half April 1954.....	+0.1
1st half April 1954-2nd half February 1955.....	+4.8
2nd half February 1955-2nd half December 1956...	+1.3
2nd half December 1956-2nd half August 1957.....	+0.1
2nd half August 1957-2nd half January 1958.....	-2.6
2nd half January 1958-1st half December 1958.....	+4.7
1st half December 1958-1st half July 1959.....	+3.4
1st half July 1959-2nd half June 1960.....	-3.1
2nd half June 1960-2nd half November 1960.....	+0.9
2nd half November 1960-2nd half March 1961.....	+4.5
2nd half March 1961-1st half September 1961.....	+1.5

TOTAL MONEY

1st half January 1951-1st half July 1951.....	+3.1
1st half July 1951-1st half February 1952.....	+7.6
1st half February 1952-1st half July 1953.....	+4.1
1st half July 1953-2nd half April 1954.....	+2.6
2nd half April 1954-2nd half February 1955.....	+5.4

Periods	Period Changes at Annual Rates
2nd half February 1955-2nd half August 1957.....	+2.2
2nd half August 1957-1st half December 1957.....	+0.9
1st half December 1957-1st half September 1958...	+7.5
1st half September 1958-1st half July 1959.....	+3.9
1st half July 1959-1st half June 1960.....	-1.8
1st half June 1960-2nd half November 1960.....	+5.4
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TOTAL STRATEGIC LIQUID ASSETS

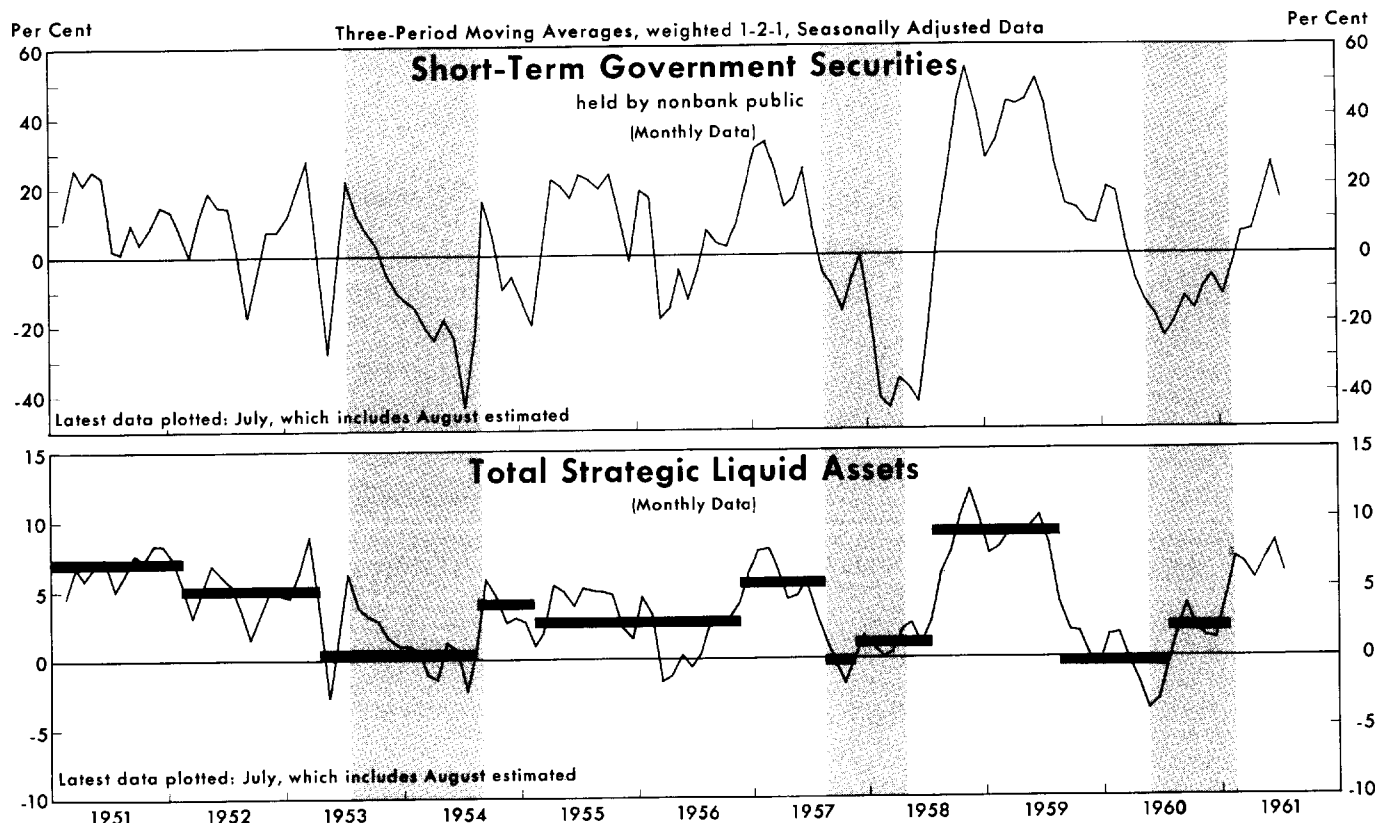
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November 1956-August 1957.....	+5.5
August 1957-November 1957.....	-0.2
November 1957-July 1958.....	+1.2
July 1958-August 1959.....	+9.1
August 1959-July 1960.....	-0.3
July 1960-January 1961.....	+2.2
January 1961-August 1961.....	+7.1

Average Annual Rate of Increase 1951-60

Active Money + 2.1%

Total Money + 3.8%

Total Strategic Liquid Assets + 4.2%



Periods of Relatively Constant Rates of Change in Liquid Assets
Represented by Bars on Charts

ACTIVE MONEY

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January 1961-August 1961.....	+7.1

Average Annual Rate of Increase 1951-60

Active Money + 2.1%

Total Money + 3.8%

Total Strategic Liquid Assets + 4.2%

4. Short-term marketable obligations of the Federal Government held by the nonbank public.²
5. Total strategic liquid assets, i.e., total money plus short-term Government securities.

Changes in the rate of change of active and total money have been used by analysts concerned with monetary policy. Short-term Government securities held by the nonbank public are somewhat controlled as to quantity by Government policy and serve admirably many of the liquidity needs of the public. Although active money, time deposits, and short-term Governments are not altogether homogeneous in meeting the liquidity needs of the public, some analysts may wish to consider the totality of strategic liquid assets which are influenced by public policy and are capable of satisfying the desire for liquidity.

Experience Since 1951

During the period of economic prosperity in 1951-52 and up to the downturn in July 1953 there were progressive declines in the rates of increase in active money, total money, and total strategic liquid assets. Total strategic liquid assets increased at an average annual rate of 7.1 per cent in the period January 1951-February 1952, 5.1 per cent in February 1952-April 1953, and thereafter at a rate of about 0.5 per cent (see chart). This decline in the rate of increase of liquid assets may have corresponded to a decline in the public's demand for liquidity. The annual rate of increase of active money declined from 7.9 per cent in the period July 1951-February 1952 to 3.0 per cent in February 1952-June 1953, and then to 0.1 per cent (see chart). The rate of increase of total money declined from 7.6 per cent during July 1951-February 1952 to 4.1 per cent in February 1952-July 1953 (see chart). The recession of 1953-54 began shortly after declines in the rates of increase of active money, total money, and total strategic liquid assets (see chart). These low rates of increase continued through the early months of the recession.

Mid-course in the 1953-1954 recession the rates of increase in the quantity of active and total money rose. About four months prior to the recession trough, April 1954, the rate of increase of active money rose from an average level of 0.1 per cent (June 1953-

April 1954) to 4.8 per cent (April 1954-February 1955). However, because of an increasing rate of decline in the volume of short-term Government securities, there was no significant change in the rate of increase of total strategic liquid assets (0.5 per cent per year) during the recession.

In August 1954, the beginning of recovery, total strategic liquid assets began rising at a relatively high rate. Active money continued to increase rapidly while the rate of contraction of short-term Government obligations was substantially reduced.

In February 1955, six months along in the recovery, the rates of increase of active money and of total money declined abruptly. The rate of increase of total strategic liquid assets also declined. These declines probably corresponded appropriately to a decrease in the public's desire to hold liquid assets.

In December 1956 the active money supply fell from a moderate average rate of increase (1.3 per cent per annum) to a nominal rate of expansion (0.1 per cent per annum). However, due to increasing strength of time deposits and short-term Governments, total strategic liquid assets increased more rapidly from late 1956 to the beginning of recession in August 1957 than in any earlier part of the 1954-1957 economic expansion.

Concurrently with the beginning of recession in August 1957, the quantity of active money and short-term Governments declined. Around the turn of the year, a sharp increase in the rates of growth in active money and time deposits was only partially offset by an accelerated rate of decline in short-term Governments.

The trough of the 1957-1958 recession came in April 1958, several months after the quantity of money turned up. In July 1958 the rate of increase of total strategic liquid assets rose, and in the period July 1958-August 1959 the rate of increase was the highest in the decade. The July 1958 jump in the rate of increase of total strategic liquid assets was due in large measure to the rapid expansion in short-term Governments.

One year later, in July 1959, both the active money supply and total money turned from substantial rates of increase to substantial rates of decrease. Total strategic liquid assets, which had increased at an average annual rate of 9.1 per cent in the period July 1958-August 1959, declined at an annual rate of 0.3 per cent from August 1959 to July 1960. Active and total money declined markedly in the period from mid-1959 to mid-1960. These declines were at the greatest rate and for the most protracted period of the decade.

² Short-term marketable Government securities include all those issues maturing within one year plus the "phasing in" of those issues maturing within the one-to-two year range. The technique was to apply varying weights to issues in the borderline area. An issue 24 months from maturity received a weight of 1/13, 23 months from maturity 2/13 . . . 13 months from maturity 12/13. The phasing in process was adopted for two chief reasons. First, it reduces the wide fluctuations in the series that result when particular issues move into the one-year category. Secondly, as issues approach the one-year maturity range they gradually become more liquid.

Soon after the beginning of recession in May 1960 total liquid assets ceased their decline, and in the July-January period rose moderately. Active money, which had been declining, rose and the rate of increase in time deposits accelerated sharply. Later in the year the rate of contraction in short-term Governments moderated. In late 1960 and early 1961 the increases in active and total money were at very rapid rates.

Early in 1961 the rate of expansion in both active and total money declined. The rate of expansion in active money fell from a 4.5 per cent annual rate (November 1960-March 1961) to a 1.5 per cent annual rate (March-September). The decline in the rate of expansion in total money was somewhat less marked.

Conclusion

During the three business cycles of the past decade, the rate of increase of active money characteristically has been lowest during the early phase of recession. The active money supply has increased rapidly during the late recession and early recovery periods, and has grown slowly during the late recovery phase. The behavior of time deposits has been such that total money has performed similarly.

Short-term Government securities in the hands of the nonbank public typically have risen during periods of rapid economic expansion and declined dur-

ing periods of recession, despite the fact that the liquidity desires of the public were usually moving in an opposite direction. This review of the past decade suggests that changes in the volume of short-term Government securities have had much less significance for satisfying the liquidity needs of the public than money.

The 1960-61 recession was distinctive in that it was preceded by declines in active money, total money, and total strategic liquid assets. The rapid increase in active and total money supply, which began earlier during the 1960-61 recession than in the previous business declines, appears to have been less prolonged than usual.

A protracted period of failure of money or other desired liquid assets to increase adequately may be inimical to the continuation of a high level of business activity. The public's desire to hold liquid assets probably decreases, or increases at a relatively low rate, in a time of high business activity. If, however, during a period of prosperity the money supply grows at a lesser rate than the growth of the demand for this type of liquidity, total demand for the economic product is likely to slow down or decline. In turn, an exceptionally rapid rate of increase of money may be conducive to business recovery from recession. Moreover, it would seem that an acceleration in the rate of increase of money early in the recession would moderate the downturn.

International Financial Developments

Strengthening of the Payments System

INTERNATIONAL DEVELOPMENTS in recent months indicate that the international payments system is being strengthened to withstand the impacts of short-term capital movements. At the same time, Britain and the United States were reminded that the bolstering of the payments system was no substitute for domestic monetary and fiscal policies formulated with due consideration given to external payments positions.

In March and April of this year, Great Britain's continuing deficit on current account was aggravated by the sudden withdrawal of short-term funds which had been attracted to London in the last half of 1960.

Facing drastic reserve losses, Great Britain was supported by the cooperation of European central bankers who agreed to hold sterling balances instead of demanding other currencies or gold in exchange. While such cooperation arrested the drain of British reserves it was designed only as a first line of defense—a short-run assistance measure to provide Britain with a breathing period in which to make more basic adjustments. In July, Britain responded by taking stern measures to reduce its balance-of-payments deficit. It raised the bank rate from 5 to 7 per cent,¹ increased consumer taxes, cut back over-

¹ On October 5, Britain slightly modified its restraint program by reducing the Bank rate to 6½ per cent. One reason for the rate reduction was official concern over recent short-term capital inflows attracted to London since July by high interest rates.

seas spending, and trimmed domestic government outlays. It also called for a halt in wage increases.

Having taken direct action to improve its basic payments position, Britain turned to the International Monetary Fund and acquired \$1.5 billion (450 million in dollars and the balance in eight other currencies).² This drawing permitted a build-up in British foreign exchange reserves and settlement of obligations to central banks.

This massive drawing and the resulting strength of the pound underscored the importance of the IMF as a second line of defense against the impact of short-term capital movements. At the same time it was realized that the drawing had substantially reduced IMF holdings of certain major currencies, particularly European, to such a point that another large drawing by a reserve currency country would be impossible.

During the third week of September at the annual meeting of the IMF at Vienna, member nations reached an agreement in principle which would permit the Fund to borrow approximately \$5 to \$6 billion in selected currencies. Such an agreement would substantially increase the availability of those currencies which the Fund would need in the event of another major drawing. Although a further drawing by Great Britain, by the United States, or by any other major country is not anticipated, the fact that the Fund's resources would be adequate to meet such a demand is important in reducing speculative fears associated with large movements of short-term capital.

The negotiations at Vienna produced a sober reminder from currently "strong" currency countries that the increased resources of the Fund were not to be used automatically by nations in difficulty. Presumably, a nation not exercising monetary and fiscal discipline at home would find the borrowing window closed.

U. S. Balance of Payments: Not Improving

The country's receipts and payments abroad have been less widely out of balance so far this year than in 1960, when the nation's net deficit abroad amounted to \$3.9 billion. However, the balance of payments appears to have worsened between the first and the second quarters of 1961. From the beginning of April through June, the United States had net receipts in

foreign transactions of \$1.0 billion, at a seasonally adjusted annual rate. But prepayment of foreign government debts more than accounted for the surplus. Excluding these nonrecurring payments, the country incurred a net deficit at an annual rate of \$1.9 billion in the second quarter. By contrast, in the first three months of the year, the deficit amounted to a rate of only \$1.4 billion.

The widening deficit may be traced in part to a decline of exports from the first quarter to the second, which caused the surplus in merchandise trade to decrease by approximately \$1.2 billion. Secondly, investment funds continued to leave the country at a fairly strong pace. It is true that the rate of outflow of short-term capital declined strikingly from the peak in the last three months of 1960, as the yield advantage of short-term securities abroad over similar securities in this country narrowed, and as confidence in the dollar was revived. Even though London bill rates were substantially above those in New York, there was little incentive to move funds from New York to London because of the wide discount on 3-months forward pounds. But the movement abroad of long-term funds has remained large in recent months. A substantial portion of the exported capital was invested directly in foreign enterprises; a portion was loaned abroad by American banks.

Data for the early months of the third quarter are scattered and inconclusive. July figures on the merchandise trade balance indicate a narrowing of the trade surplus due to a sharp jump in imports which exceeded an increase in exports.

Recent Gold Sales Cancel Earlier Gains

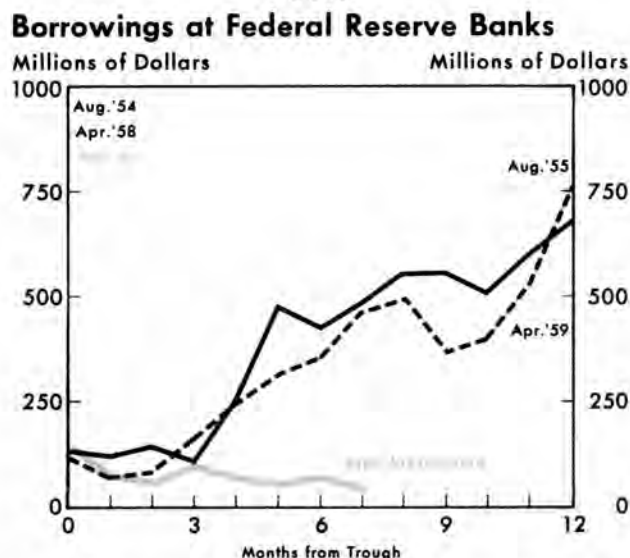
An outflow of \$150 million in late August and a \$101 million decline in the first week of October have offset the return flows of gold of last spring and summer.

Rising Gold Bullion Price

During the last two months international tension has produced a growing private demand for gold in the London market. Rising from an average of \$35.09 per ounce in mid-July, the price averaged \$35.16 in August, and reached an average of \$35.19 during September. The demand for gold is reported to be mainly from the Far East and to a lesser extent from the Middle East and Western Europe. Reports from abroad indicate that the Bank of England may have supplied gold to the market to meet the increasing private demand and thus to reduce the upward thrust on the gold price.

² In December 1956, after the Suez crisis, Britain drew \$561 million from the IMF and also received a stand-by credit of \$739 million. The stand-by credit was never used and the drawing was repaid to the extent of \$200 million in March 1959, and the remainder in ten monthly payments between January and October 1960.

Chart 3



than in earlier ones; in any case, commercial bank loans have shown a smaller increase than in the corresponding months of the two earlier upswings (Chart 4).

Total reserves of member banks have shown a smaller increase during the first seven months of the current recovery than in the corresponding periods of the two previous recoveries (see Table I). A chief factor in the reduced rate of growth in total reserves has been the relatively small volume of reserves borrowed from Reserve Banks. With a smaller rate of increase in total member bank reserves the growth in

Chart 4

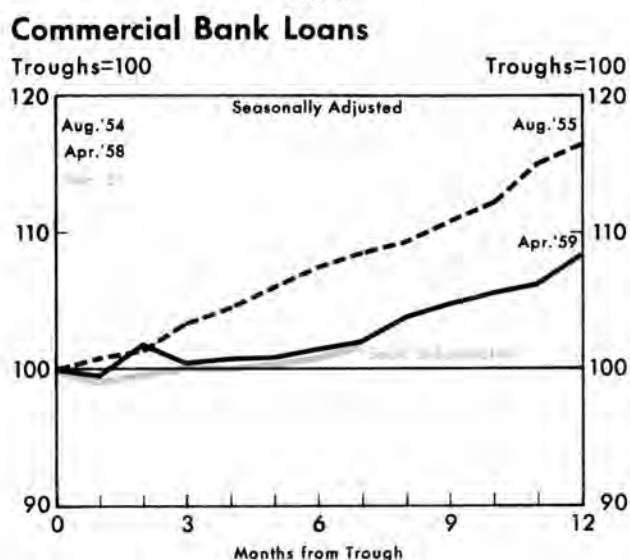


TABLE I
CHANGE IN FIRST SEVEN MONTHS OF RECOVERY

Dollar Figures in Millions

	1954-55	1958	1961 p
Borrowings from Reserve Banks	\$+348	\$+356	\$—100
Total Reserves of Member Banks ¹ . .	\$+403	\$+311	\$+168
Total Commercial Bank Credit ¹ . . .	+3.3%	+3.2%	+3.0%
Active Money ¹	+2.3%	+2.9%	+1.3%

¹ Seasonally Adjusted
p—Preliminary

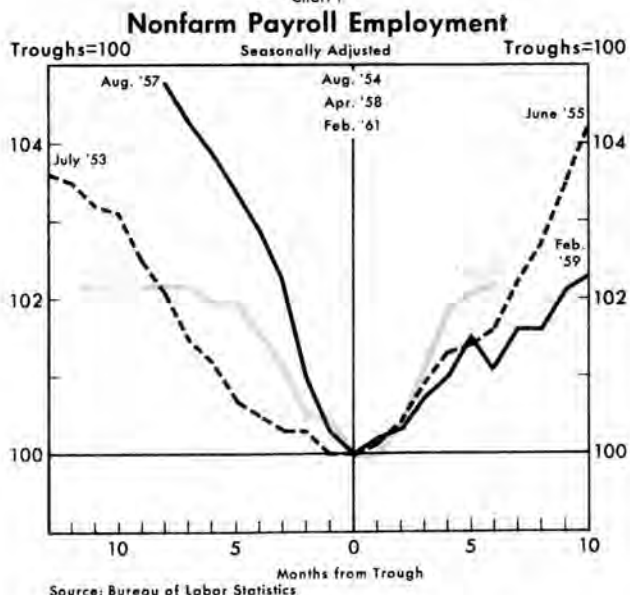
total commercial bank credit and in active money has been less than in the two previous recoveries.

National and District Unemployment

ALTHOUGH THE GENERAL RECOVERY in business activity has been under way since about February, the proportion of unemployed in the civilian labor force has remained roughly unchanged, at just under 7 per cent. In the 1954-55 recovery the unemployment rate began declining after the second month of recovery. In the 1958 period the unemployment rate began declining after the fifth month of recovery.

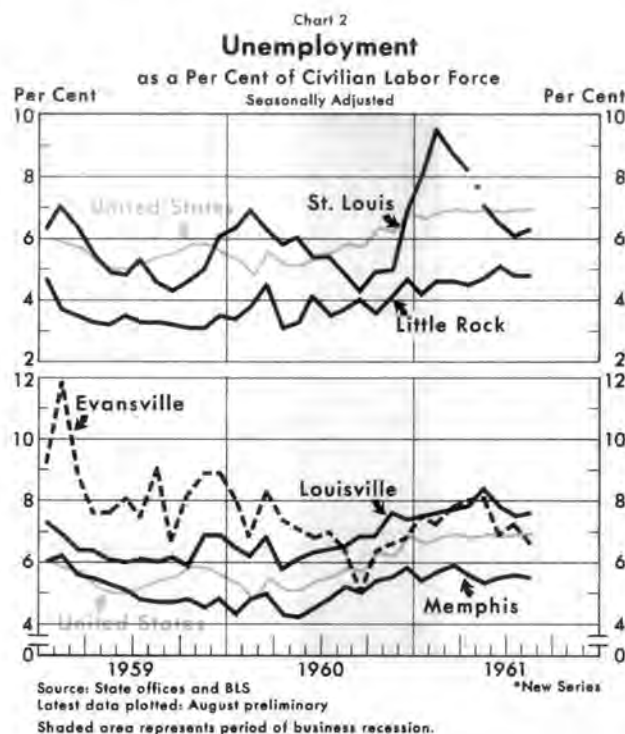
The stability of the unemployment rate does not mean that the recovery has had no effect on the labor markets. From February to August employment as measured in the current population survey, seasonally adjusted, rose 0.8 per cent. An even more rapid rate of advance in employment is indicated by data from the mid-month survey of employers. According to these data (Chart 1) employment regained its pre-recession peak level by the sixth month of recovery.

Chart 1



The stability of the national unemployment rate should not mask the fact that substantial shifts may be occurring within the aggregate. Indeed, it is a commonplace that a broad economic change does not have a uniform impact on each sector of the economy or on each geographic region. In this light it may be useful to examine unemployment developments in the major labor markets of the Eighth Federal Reserve District.

The recovery in business activity beginning in February 1961 has been accompanied by a marked decline in the unemployment rate in the St. Louis area and an improvement in Evansville. Thus far, the Little Rock, Louisville, and Memphis labor markets have shown little net change over the period as a whole (Chart 2).



During the recession in business activity, from May 1960 to February of this year, unemployment rose in each of the major district labor markets. The largest increase was in the St. Louis area. Although the Evansville area showed only a modest change over the period, unemployment levels in this area have been quite high for several years (Table I). The

TABLE I
Unemployment as a Per Cent of the Civilian Labor Force

	Seasonally Adjusted		
	May 1960	Feb. 1961	Aug. 1961
Little Rock.....	3.3	4.6	4.8
Evansville	7.1	7.3	6.5
Louisville	6.1	7.6	7.6
Memphis	4.2	5.7	5.5
St. Louis	6.0	9.5	6.3
Nation	5.1	6.8	6.9

Evansville area has experienced severe labor adjustments due to the loss of several important manufacturing plants.

Movements in the unemployment rate in the Louisville labor market have generally paralleled movements in the national rate, though the Louisville rate has remained somewhat above the national rate over the past several years. The labor force in the Louisville area was built up following the opening of several large manufacturing plants and in response to employment opportunities at Federal military facilities in the area. Some government facilities have closed down or have substantially reduced their operations since the Korean War. Industry has generally moved from a two-shift to a one-shift operation.

Over the past few years the Little Rock and Memphis labor markets have consistently had a smaller proportion of unemployed in their labor force than has the nation as a whole. However, each of these areas experienced some increase in unemployment during the 1960-1961 recession. Current unemployment rates in Little Rock are 1.5 percentage points above their prerecession level; in Memphis the unemployment rate is 1.3 percentage points above its prerecession level. Employment in these areas is less

TABLE II
Per Cent of Total Employment
in Manufacturing

	May 1960
Little Rock	19
Evansville	38
Louisville	35
Memphis	24
St. Louis	36

sensitive to cyclical influences than in those areas which rely heavily on manufacturing industries (Table II).