CATTLE REVENUE EXPLAINS UNUSUAL GAINS

Montana Deposit Growth Exceeds District Average

DEPOSITS at Federal Reserve member banks in Montana in September registered the largest monthly gain so far this year.

The increase brought deposits up to the all-time "high water mark" of $536 million, which was first recorded in November of last year.

These member banks, representing three-fourths of Montana banks and holding 85 per cent of all deposits in the state, have experienced a significantly faster deposit growth in the last 12 months than the average district member bank.

A glance at the accompanying chart will show that Montana bank deposits rise seasonally, beginning no later than September.

If the pattern of other recent years is repeated this year, deposits will continue to rise through November, thereby setting a new record in Montana.

In all of the last five years the seasonal increase has been reversed in December. Depositors have not observed such regularity in the reversal of their net withdrawals, which characterize the early months of the year. With only one exception the reversal of the seasonal decline has occurred in a different month each year since 1947.

The difference between seasonal lows and seasonal highs in Montana is somewhat greater than the district average, approximating 12 per cent of total deposits compared to the district figure of 8 per cent in recent years.

Large Cattle Sale in '51 Reflected in Deposits

These figures are averages, of course, and can be expected to vary from year to year and from bank to bank. Between June and December of 1951, for example, member bank deposits in Montana rose $85 million, or 19 per cent.

Doubtless part of this unusually large increase resulted from the movement of large numbers of cattle off the Montana range into feedlots in neighboring states. This movement was in response to an extraordinary demand for animals from corn-belt farmers seeking to dispose of soft corn in feeding operations.

The sellers, customers of Montana

LOANS AND DEPOSITS AT MONTANA MEMBER BANKS 1947-52

THE SEASONAL low for Montana bank deposits this year was substantially higher than in other years. Loans, after leveling off earlier this year, are continuing to expand.

Twelve-month gain of 11 per cent in Montana contrasts with district's 7 per cent.

Loans in Montana, as in the remainder of the district, have been on the increase.

District city banks lost deposits in September for the first time since April.

banks, gave footings an extra push when they deposited the proceeds of these cattle sales. It would be impossible to describe all of the events which cause one year's deposit pattern to differ from another, but the experience of 1951 illustrates the nature of these relationships.

Bankers in Montana, like bankers elsewhere, have been making more loans. In the last five years loans outstanding at member banks in Montana have more than doubled. After declining somewhat earlier this year they are once again rising.

In the last few years loans to consumers have increased more than any other type of borrowing at Montana banks. Much of this increase in consumer borrowing represents additional holdings of retail installment paper (mostly automobile).

Loans to farmers and loans secured by residential properties registered the next highest gains. Commercial and industrial loans were enlarged by a relatively small amount despite the fact that they represent one of
the largest single component of total loans.

**Farmers Borrow More in Summer**

Unlike deposits, total loans do not describe a seasonal pattern at Montana banks. At least one component of the total, however, does move with some degree of regularity from year to year. Since 1947, loans to farmers, other than Commodity Credit corporation loans, have been higher in June than in the preceding or succeeding December.

Since the composition of total loans is known only at call dates (June 30, December 31, and one or two other dates), it is difficult to determine—from month to month—exactly which components are responsible for changes in the total amount of loans which is known each month.

The chart, for example, shows that loans declined substantially in May of 1949; comparison of the preceding and succeeding call reports shows that all of the decline represented the liquidation of loans guaranteed by the Commodity Credit corporation. These are highly unstable loans and fluctuate violently in short periods of time, for obvious reasons.

The more rapid increase in loans than in deposits since 1947 has caused some liquidation of investments, but this trend appears to have been halted. In September of this year Montana member banks held securities amounting to 14 per cent more than those held a year ago.

It would seem that Montana bankers, whose deposits are up 11 per cent over a year ago in contrast to the district average of 7 per cent, have fared relatively well lately.

**CURRENT BANKING DEVELOPMENTS**

**Country Bank Deposits Up, City Down**

**City Banks**—Deposits at city banks in the Ninth district declined in September for the first time since April. The withdrawal of balances due to banks and to the U. S. government amounting to $20 million was only partly offset by an increase of $12 million in balances owned by individuals, partnerships, and corporations.

The pressure on "cash and due" resulting from these withdrawals was aggravated by a $17 million addition to loan accounts.

Relief, however, was afforded by funds acquired from the liquidation of investments (mostly governments) and by funds supplied through the discount window at this Federal Reserve bank. Concluded on Page 339

**Assets and Liabilities of Member Banks in the Ninth Federal Reserve District**

(In Millions of Dollars)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>All Member Banks</th>
<th>City Banks (weekly reporting)</th>
<th>Country Banks (non-weekly reporting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and discounts</td>
<td>$1,301</td>
<td>+32</td>
<td>$639</td>
</tr>
<tr>
<td>U. S. Government obligations</td>
<td>1,480</td>
<td>+10</td>
<td>563</td>
</tr>
<tr>
<td>Other securities</td>
<td>305</td>
<td>+2</td>
<td>150</td>
</tr>
<tr>
<td>Cash and due from banks</td>
<td>911</td>
<td>+9</td>
<td>496</td>
</tr>
<tr>
<td>Other assets</td>
<td>38</td>
<td>+1</td>
<td>18</td>
</tr>
<tr>
<td>Total assets</td>
<td>$4,075</td>
<td>+36</td>
<td>$1,866</td>
</tr>
<tr>
<td>Due to Banks</td>
<td>$396</td>
<td>+7</td>
<td>$347</td>
</tr>
<tr>
<td>Other demand deposits</td>
<td>2,404</td>
<td>+11</td>
<td>1,107</td>
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<tr>
<td>Total demand deposits</td>
<td>$2,800</td>
<td>+17</td>
<td>$1,454</td>
</tr>
<tr>
<td>Time deposits</td>
<td>969</td>
<td>+7</td>
<td>251</td>
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<tr>
<td>Total deposits</td>
<td>$3,769</td>
<td>+18</td>
<td>$1,705</td>
</tr>
<tr>
<td>Borrowings from F.R.B.</td>
<td>26</td>
<td>+17</td>
<td>23</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>44</td>
<td>+1</td>
<td>11</td>
</tr>
<tr>
<td>Capital funds</td>
<td>244</td>
<td>+1</td>
<td>113</td>
</tr>
<tr>
<td>Total Liabilities and Capital Accounts</td>
<td>$4,075</td>
<td>+36</td>
<td>$1,866</td>
</tr>
</tbody>
</table>

Reporting bank data are from balance sheets submitted weekly. Non-reporting bank data are in part estimated. Data on loans and discounts, U. S. government obligations, and other securities are obtained by reports directly from the member banks.

Balances with domestic banks, cash items in the process of collection, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing required reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Capital funds, other assets and the other liabilities are extrapolated from call report data.
A significant rise in non-real estate debt of U.S. farmers has been taking place in recent years. While the over-all level is low compared with the total of farmers' non-real estate assets, such debt nevertheless is a critical item for many farmers.

Non-real estate loans—mostly short-term that must be repaid within a limited period—are significant not only because they are increasing but also because they must be paid out of income that is subject to all farming risks—fluctuating farm prices, uncertain weather, the onslaught of insects and disease.

Use of short-term credit can make or break a farmer. When such debt is high, normal farming risks bear more critically on borrower and lender alike.

If short-term credit adds more to cash income than to costs, this is a productive use of credit and can quickly lead to still more profitable production. However, if it adds more to costs than to cash income, then it becomes a financial burden and a threat to solvency.

Lending figures indicate that commercial banks have been doing an adequate job of providing and servicing this type of debt. Yet the increasing use of such credit suggests that bankers give more careful study to its use, and to the principles of sound lending to farmers.

**Short-Term Debt Tops Mortgage Debt**

Within the last couple of years, the total of non-real estate debts owed by farmers to all lenders has exceeded the total of farm mortgage debt for the first time in our history. (See chart.) There are three main reasons for this changed relationship:

First, the total of farm mortgage debt, though rising, is still rather low in relation to current land values.

Second, in a period of rising prices short-term debt volume naturally rises much faster than mortgage debt, since its rapid turnover more quickly reflects the increased operating costs resulting from higher prices.

Thus the present short-term debt outstanding reflects the current high general price level, while mortgage debt outstanding reflects the lower price levels of previous years, when much of that debt was contracted.

Third, part of the rise in short-term debt outstanding reflects the greater use of production items purchased for cash, greater investments in machinery and other production equipment that are typical of modern farming.

To some extent, favorable income expectations and a generally liquid financial position on the part of many farmers have caused more of such investments to be financed with short-term credit, even though such investments might be more appropriately financed with intermediate-type loans of somewhat longer maturity.

**Effect Is Three-Fold**

How do these changes affect the burden of such credit on farmers and the soundness of short-term productive loans which farmers owe?

- The fact that farm mortgage debt is currently low makes the basis for extending short-term debt more sound—it leaves a sounder lending base and a greater financial reserve for extending credit to farmers, especially owner-operators.

- The fact that the total of short-term credit reacts more quickly to rising prices suggests—equally—that such debts will also decline more rapidly whenever prices and incomes decline. Thus they represent a flexible credit burden, more easily adjusted to fit current price and income trends.

- The fact that farmers have been
buying more operating equipment and supplies reflects also the higher productivity of agriculture. Many of the items which this credit helps to purchase tend to make farming more efficient. Wisely used, they help provide a larger and more certain output of farm products, and a larger and more certain income.

**Mortgage Repayment Burden Differs**

On January 1, 1952, the total volume of farm mortgage debt owed by U.S. farmers was $6.3 billion. Their non-real estate debt on the same date was estimated at $7.3 billion. Although the amounts of these two types of debt are roughly the same, the burden of annual repayments imposed by them is quite different.

Mortgage debt, amortized over a period of many years, requires only a small part of the principal outstanding to be repaid each year. Most non-real estate debt, on the other hand, is short-term credit expected to be repaid within the year or nearly so. The annual repayment of this type of debt is thus many times greater than the annual repayment of mortgage debts.

Even though some short-term loans may be extended, sound lending and sound borrowing policy requires that they be thought of as a fixed commitment to repay within their stated maturity. The responsibility for repayment lies with the farm operator, who, as has been observed, must bear all of the risks of price, weather, and disease.

Compared on this basis—the basis of annual repayments—a rising volume of short-term credit carries with it fixed repayment obligations that are indeed worthy of careful study and concern.

**Repayment Differs As to Source**

There is an important difference, however, in the source from which these two types of credit are normally paid. And because of this difference, the actual burden of short-term debt repayment is not as critical as it appears at first glance.

Since most mortgage debt represents a capital investment in land, buildings, and permanent improvements, it must be repaid out of the net income of the operator. Most short-term debts, on the other hand, represent expenses which are typically met out of gross income. To the extent that such loans are used to finance direct production expenses, their repayment does not affect the disposition of net income at all.

In a general way, the specific uses for which most short-term credit is borrowed can be classified into three groups:

**First**, operating supplies include such expense items as feed, seed, fertilizer, fuel, repairs and upkeep. Such items represent immediate production expense—without them land could not be tilled, crops could not be harvested, livestock could not be fed nor fattened for market.

**Second**, money borrowed to buy feeder cattle, lambs, and other livestock purchased for market represents a special type of inventory loan. The livestock purchased is essentially a raw material which is processed (by feeding and fattening) and sold for a higher value. Part of the final sale value represents the additional production put on at the farm. And part of it represents the original inventory value of the animal at the time it was purchased.

The proportion represented by the latter depends upon the type of live stock and the feeding program followed. Rarely do market prices of livestock slip so far during a feeding period that the final sale after feeding and fattening does not fully cover the purchase cost.

A third use of short-term credit represents an addition of capital to the farm. This usually takes the form of breeding livestock, machinery, equipment, and improvements. Such investments add to the operating assets of the farm and increase its capacity to produce.

The use of short-term credit to finance such investments is not an ideal use of such credit, although it may be a perfectly sound practice under many conditions. Such investments are expected to increase the income of the farm by more, over their life, than the amount of the investment.

Loans to finance such investments are more appropriately repaid over a longer period—though not necessarily as long as the expected life of the machine or improvement. Such loans might more properly be extended as intermediate-term credit.

To illustrate the first use—the financing of a production expense—suppose a farmer wants to apply fertilizer to his crops. The purchase of this fertilizer is a production expense. Whether he borrows the money to pay for it or pays out of his own pocket, the cost is deducted from his gross farming income to get his net profit. If he borrows the money, its repayment is merely a delayed payment of the fertilizer he bought. Only the cost of interest has the effect of reducing his final net income.

In the case of credit used to purchase feeder cattle or other replacement livestock, the obligation to repay the loan is matched by an equal increase in his livestock inventory. If needed, the loan could be repaid at any time by liquidating this inventory (by selling the livestock). In both of these two situations, the loan repayment itself has no effect upon net income.

(This is not to ignore the fact that the operator must repay both of these loans in case his production plans go awry, or that the use of credit may add indirectly to net income.)

Concluded on Page 339
All Indicators Good in October

GRADUAL RISE RESTORES RETAIL TRADE TO THE YEAR-AGO LEVEL

The gradual rise in consumer expenditures since last April has contributed significantly to the high volume of business transacted in the Ninth district.

Larger sales of wearing apparel, house furnishings, television sets, and appliances, led to a rebuilding of inventories in wholesale and retail outlets. Manufacturers stepped up production schedules upon receiving larger orders for merchandise. As a result, summer employment in district manufacturing firms was above the 1951 monthly figures.

The resort business, which ranks among big industries of this district, also benefited from larger consumer expenditures. Gross receipts increased 10 per cent.

Department store sales in the district, adjusted for seasonal variation, have reflected a significant rise in consumer buying since last March, when sales were at a low point for the current year. The adjusted district index (computed on the 1947-49 base period) for last March stood at 94 per cent and for August and September at 115 per cent and 98 per cent respectively.

There was a temporary weakening in the upward trend of sales during September, as was pointed out in the Monthly Review last month. Unseasonably warm weather postponed the purchasing of fall wearing apparel.

Weekly figures for the first half of October reflected a strengthening in sales. In comparison with the corresponding week of last year, sales were up 6 per cent for the first week of October, 17 per cent for the second week and 13 per cent in the week ending October 18.

The large increases in latter weeks were attributable, in part, to promotional sales sponsored by a number of stores.

New passenger and commercial car sales did not follow the rising trend of consumer buying. According to figures on registrations, sales in the four states—Minnesota, Montana, North Dakota, and South Dakota—have fallen below last year's. In the first four months they were off from one-fourth to over one-third.

In both May and June, sales were within 13 per cent of last year's totals, and in July they once more began to fall off due to the interruption of motor vehicle production caused by the steel strike. In August, sales were down 45 per cent from a year ago.

More recent figures on new passenger and commercial car registrations are available for the Twin Cities metropolitan area. In September, the number of new passenger cars registered in this area was within 8 per cent of the number registered in September, 1951. New commercial cars registered still were down 30 per cent.

In the first half of October the number of new passenger and commercial car registrations exceeded by 8 per cent and 22 per cent respectively the number for the same period last year.

These percentages indicate that sales of new motor vehicles are recovering rapidly from the effects of the steel strike. Furthermore, stocks of new vehicles held by dealers are rising.

Resort business for the 1952 season showed an improvement over the previous season, according to the annual survey of Minnesota resort business made by the Federal Reserve Bank of Minneapolis.

In spite of the tent caterpillar infestation at the beginning of the vacation season, the per cent of units occupied during each month was close to the level of occupancy for last year, and gross receipts for this
year were 10 per cent higher than last year. Seventy-two per cent of the resort owners taking part in the survey reported increases in gross receipts.

Resorts this season were filled to about the same capacity as in the 1951 season. Larger gross receipts were traced partly to higher rates for accommodations and, in some resorts, to more units being made available to vacationers.

Consumer credit has been employed to finance part of the rise in consumer purchases of goods and services. The amount outstanding in the United States began to rise in April, as may be observed on the accompanying chart. (Most consumer credit figures are not broken down by Federal Reserve districts.)

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But the purchase of machinery, breeding stock or other capital improvements which contribute to income over a longer period of time are not ideally suited to one or two-year credit terms. Such loans do represent an obligation against net income and should be made with this recognition.

Individual banks may wish to review the purposes for which their short-term money is being loaned.

More Short-Term Credit to be Needed

Regardless of what may happen to the level of mortgage debt, the financial needs of agriculture will very probably require more short-term credit for operating needs than has been true in the past, simply because the proportion of operating capital needed to carry on an efficient modern farming operation has increased.

Wisely used, such credit can greatly increase the productivity of an individual farming unit. Used unwisely, it can lead to over-extension of costs to the point where income is impaired and the solvency of the enterprise endangered.

Furthermore, in the rising price period of the last few years, much uneconomic use of credit has been masked over by inventory gains produced by rising prices during the lending period.

As we face a more stable price outlook, such gains are not so likely to come to the rescue of poor credit use in the future. Thus it behooves both the lender and the borrower to study this use of credit—to understand it as thoroughly as possible in order that lending and farming can remain on a sound and profitable basis.

The decline in holdings of governments reflected the liquidation of all types of U. S obligations except bills, which were up slightly from a month earlier.

Country Banks—Deposits at country banks in September continued the seasonal increase which began in May. Of the $26 million increase, $6 million represented credits to time deposit accounts.

Additions to loan and investment accounts amounting to $11 million more than the deposit increase caused the liquidation of “cash and due.” Part of this liquidation was reflected by the already mentioned withdrawal of bankers’ balances at the city banks.

Manufacturing employment in the four states may set a new post-war record this year. Even during the period of the steel strike, employment in manufacturing plants remained above the 1951 monthly figures. Manufacturers are turning out an increased volume of both defense equipment and civilian merchandise.

Contrary to this trend, employment in manufacturing plants on the Upper Peninsula of Michigan and in northwestern Wisconsin is down this year due to the slackened demand for pulpwood, mining timber, and wood products.

Loans for Investments

Loans for Investments

Paid Out of Income

In contrast, the third use of short-term credit — for investments in machinery, breeding stock, and improvements — may have to be paid largely out of net income. In the case of machinery, equipment and other physical improvements, the depreciation normally allowed each year is a production expense for that year.

But the difference between this depreciation expense and the amount by which the loan must be repaid during that year must be met out of the net income of the operator. Such loans, when the financial position of the operator is sound and his income is expected to be large enough to permit repaying the loan on schedule, may be entirely sound.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial Production — The Board's index of industrial production in September rose substantially further to 225 per cent of the 1935-39 average, as compared with 214 in August and 218 in September a year ago. In addition to recovery of activity in metalworking industries to earlier advanced rates, output of some nondurable goods and of mineral fuels showed large further increases.

In October the total index is likely to rise somewhat further, with gains in many lines partly offset by a substantial decrease in coal mining.

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

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

Crude petroleum and coal output rose substantially in September and total minerals production was at record levels. In October, petroleum output rose further, while coal mining was considerably reduced, owing in part to work stoppages in the latter part of the month.

Construction — Value of construction contracts awarded increased sharply in September, reflecting two large awards for atomic energy projects totaling $923 million. Value of work put in place was maintained at the close-to-record summer level. Housing starts totaled 98,000 as compared with 99,000 in August and 96,000 in September 1951.

Agriculture — Cattle marketings have expanded further in recent weeks, in part influenced by drought in some areas, and hog marketings have also risen seasonally.

Total meat production in October has been almost 15 per cent above the same month last year.

Crop prospects have improved, and on the basis of October 1 conditions were forecast at 3 per cent above the 1951 level.

Employment — The labor market strengthened further in September. Seasonally adjusted employment in nonfarm establishments rose to a new high of 47.1 million, 500,000 above the spring level.

Substantial gains in employee working time in both durable and nondurable goods industries brought the average work week at factories to 41.1 hours, highest level for the year; average hourly earnings rose more than 2 cents to $1.69. Unemployment declined in early September to 1.4 million, lowest of the postwar period.

Distribution — Following a decline in September, seasonally adjusted sales at department stores increased in the first half of October and were close to the high August level.

Automobile sales showed substantial recovery in September and in early October were at a high level for this season of the year; dealers' stocks rose further.

Total department store stocks, seasonally adjusted, continued to show little change in September, according to preliminary estimates; however, for furniture, television and household appliance departments a marked rise in stocks is indicated.

Commodity Prices — The average level of wholesale prices has declined somewhat in October as a few basic commodities—notably lead, zinc and cotton—developed new weakness and prices of livestock and meats continued to decrease.

Prices of such basic commodities as hides and wool, which had dropped sharply some months ago, have recently been sustained, and prices of apparel and household goods have increased somewhat.

The average level of consumers prices has declined slightly since mid-August, reflecting decreases in retail food prices partly offset by rising tendencies for other consumer goods and services.

Bank Credit — Total credit outstanding at banks in leading cities increased considerably between mid-September and mid-October. Major part of the increase reflected bank purchases of Treasury tax anticipation bills offered in early October.

Bank loans to businesses also expanded, primarily for seasonal needs. Food processors, commodity dealers, trade concerns, and metal manufacturers were important borrowers.

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

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

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