FEDERAL RESERVE BULLETIN

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MONEY AND CREDIT IN 1951

Bank credit in the aggregate continued to expand substantially in 1951 but the amount of credit extended to private borrowers was considerably less than in the preceding year. Commercial bank holdings of United States Government securities, which declined substantially during 1950 and the early part of 1951, increased in the latter part of 1951.

As a result of bank credit expansion and reversal of the gold outflow at midyear, the privately held money supply—demand and time deposits and currency—increased by a larger amount than in 1950. Increased holdings of money by businesses and individuals represented in part increased need for cash balances associated with expansion in economic activity, in part demands for additional liquidity, and in part increased savings funds temporarily awaiting investment. Turnover of demand deposits, the major component of the privately held cash balances, slowed down moderately over the last half of 1951 after rising sharply from early 1950 to the spring of 1951.

Growth in bank credit during 1951 reflected some abatement of the record private credit demands during 1950. It was also affected by a reduced willingness on the part of banks to extend credit to private borrowers.

The sharp reduction in bank holdings of United States Government securities during 1950 and early 1951, an increase in reserve requirements early in 1951, and the rapid expansion in loans to individuals and businesses over the preceding year had lowered somewhat the liquidity position of banks. At the same time higher yields made Government securities more attractive for holding and their lower prices discouraged lending institutions from selling existing holdings in order to obtain funds to make loans. A decrease after April in Federal Reserve purchases of Government securities from nonbank investors, as well as from banks, removed a source of additional reserve funds for banks. The net effect of these developments was to make banks less willing to expand their portfolios of private loans and investments and more interested in holding short-term Government securities for liquidity reasons. In the consumer, real estate, and stock market areas of credit, selective regulation helped to keep down growth. The Voluntary Credit Restraint Program worked to direct available funds toward financing of essential activity and to hold down nonessential financing.

Reflecting the reduced availability of funds, along with the continuing active demand for credit, money rates rose moderately during 1951. Yields on short-term Government securities increased about one-third of a percentage point on the average, following a similar increase in 1950, and showed wider fluctuations than in previous years in response to changing money market developments. Rates charged by the larger banks on prime loans to customers rose from about 2 per cent in the middle of 1950 to 3 per cent at the end of 1951. Yields on the longest-term Government bonds and on outstanding high-grade corporate bonds rose about one-third of a point to approximately the levels of 1939.

Growth of Bank Credit

Over-all growth of commercial bank credit, which gained momentum following the Korean outbreak, continued at a rapid rate in 1951, as is shown in the table. Total outstanding loans and investments of all commercial banks increased 6.7 billion dollars during the year as compared with 6.5 billion during 1950. Private credit, that is, loans and investments other than United States Government securities, was the dominant element in the total expansion in both years, but the increase in private credit was considerably smaller in 1951 than in 1950.

Loans and Investments of All Commercial Banks

[In billions of dollars]

Type of loan or investment	Outstanding Dec. 26, 1951	Change: 1951 2nd half	1951 1st half	1950 2nd half	1950 1st half
Total loans and investments	133.4	+7.4	−0.6	+4.9	+1.6
U. S. Gov't. securities	61.9	+3.4	−3.5	−3.7	−1.3
Other securities [1]	13.2	+0.5	+0.3	+1.2	+1.0
Loans, total [2]	58.3	+3.5	+2.6	+7.5	+1.8
Business	26.1	+2.4	+1.7	+5.0	−0.1
Real estate	14.5	+0.4	+0.6	+1.1	+0.9
Consumer	7.9	+0.1	+0.1	+0.7	+0.9
All other [3]	10.5	+0.6	+0.2	+0.7	+0.2

[1] Includes mainly corporate and State and local government bonds.

[2] Total loans are after, and individual loan items are before, deductions for valuation reserves.

[3] Includes mainly agricultural loans, loans on securities, loans to banks, and loans of more than $3,000 to individuals.

Note.—Changes are based on data for Dec. 31, 1949; June 30, 1950; Dec. 30, 1950; June 30, 1951; and Dec. 26, 1951. Figures on types of loans for Dec. 26, 1951 are estimated; those on consumer loans for all dates are partly estimated. Figures may not add to totals because of rounding.

Bank holdings of Government securities, which had decreased by about 5.0 billion dollars in 1950, changed little in 1951. Banks sharply reduced their holdings in the first quarter of 1951, in large part to meet increases in legal reserve requirements in January and February. Further moderate reduction in the second quarter was followed by a considerable increase in the last half of 1951 at reserve city and country banks. The increases were principally in holdings of short-term securities and reflected in part desire for greater liquidity.

Increased holdings of Government securities at country banks also reflected a flow of funds from commercial to agricultural areas and a smaller demand for loans. The reserve positions of country banks during the last half of the year were somewhat easier, on the average, than those of city banks. This was due partly to the seasonal movement of crops and partly to the heavy concentration of country bank loan portfolios in real estate and consumer loans. Growth in these loans slackened as a result of selective and general credit restraints as well as reduced demand for many types of consumer durable goods. Also, most of last fall's loan demand was from industrial businesses that were financed mostly by larger city banks.

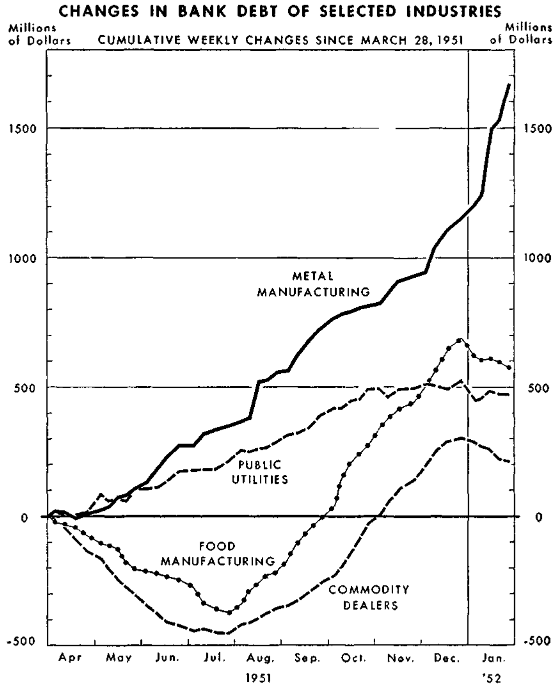
Bank loan expansion was not as large in 1951 as it was in 1950, amounting to 6.1 billion dollars or 11 per cent in 1951 compared with 9.3 billion or 22 per cent in 1950. The growth was smaller for all major categories of credit, but particularly for real estate and consumer loans. Whereas in 1950 about four-fifths of the loan increase came after midyear, less than three-fifths of the 1951 loan expansion occurred in that part of the year.

Notwithstanding more steady growth in bank loans throughout the year in 1951 than in 1950, there was some seasonal step-up of expansion in business loans during the second half of 1951. An increase of 2.4 billion dollars or about 10 per cent in business loans, typically the major component of changes in commercial bank loan portfolios, accounted for the bulk of the increase in all commercial bank loans during the half-year period. This contrasted with a rise of 5 billion or about 30 per cent in the comparable period a year earlier.

Defense and defense-related businesses, like metal and metal products manufacturers and public utility companies, were an important factor in business credit demand at banks in the last half of 1951, taking up about half of business loan expansion. Borrowers in nondefense lines of business that customarily borrow in the fall to help move the crops, like commodity dealers and food, liquor, and tobacco manufacturers, accounted for the other half. This was in decided contrast to experience in the same period a year earlier when the volume of defense borrowing was small and borrowing for nondefense purposes—including both crop movements and other lines of activity—was the dominant element in the increase in bank loans. Cumulative weekly changes in the outstanding bank indebtedness of the lines of businesses that experienced the largest increases last fall are shown in the accompanying chart.

In contrast to the industries shown on the chart, textile, apparel, and leather manufacturers and construction companies reduced their bank debt in the second half of 1951. Each of these broad groups of borrowers had increased its debt appreciably a year earlier. Loan reductions in late 1951 reflected closer alignment of production schedules to current demand, changed expectations as to the strength of prospective markets, and some liquidation of inventories.

CHANGES IN BANK DEBT OF SELECTED INDUSTRIES



NOTE.—Data reported by over 200 of the largest weekly reporting member banks. Metal manufacturing includes metal products, machinery, and transportation equipment. Food manufacturing includes liquor and tobacco. Public utilities include transportation. Latest data are for Jan. 30, 1952, and are preliminary.

The autumn increase in total business loans was of about seasonal proportions. Loans to finance direct defense contracts and defense-supporting activities increased sharply, while credit extended to business concerns that customarily borrow heavily in the fall was less than might have been expected on the basis of the behavior of such loans in prior years. The more moderate demand for credit from the usual business borrowers in the fall was due to a variety of developments, including the moderation of inflationary pressures, the leveling off in inventory accumulation and prices, and the fact that business loans had not experienced their usual seasonal decline earlier in the year. Moreover, under the accelerated program of corporation income tax payments, corporations had to pay 60 per cent of their taxes in the first half of last year and only 40 per cent in the second half.

Real estate loans of commercial banks rose about a billion dollars or 7 per cent in 1951. In the preceding year they had risen 2 billion or about 17 per cent. Since mid-1949 the growth in real estate loans has been less rapid at commercial banks than at the other major types of mortgage lending institutions, including life insurance companies, savings and loan associations, and mutual savings banks.

Outstanding bank loans to consumers rose only about a quarter billion dollars or 3 per cent last year as compared with a growth of 1.6 billion or about 27 per cent a year earlier.

Credit Expansion at Other Major Financial Institutions

Total consumer credit outstanding at all types of consumer lending agencies considered as a group, including commercial banks, increased by half a billion dollars or less than 3 per cent last year as compared with 3.3 billion or almost 20 per cent in 1950. Outstanding consumer instalment credit changed little in 1951 whereas it had been responsible for most of the increase in total consumer credit the year before.

Consumer instalment loans in the aggregate increased somewhat after the relaxation of credit terms on July 31. In the five months from the end of July through December, the outstanding volume of consumer instalment credit at consumer lending agencies rose 0.6 billion dollars, a fairly substantial amount though by no means as large as increases in earlier periods of stronger demand for consumer durable goods. This increase in consumer instalment credit followed a decline of 0.5 billion dollars from October 1950 through July 1951.

The real estate mortgage holdings of life insurance companies increased about 3.2 billion dollars in each of the last two years or by 25 and 20 per cent, respectively, in 1950 and 1951. In the last half of 1951, however, the rate of increase was considerably slower than in the two preceding half-year periods. Life insurance companies also increased their holdings of business securities by 2.6 billion dollars in 1951 as compared with 1.9 billion in 1950, reflecting heavy business demand for long-term external financing, particularly by concerns which held defense contracts or were engaged in defense-related activities. The increase in mortgage and business security holdings of life insurance companies in 1951 exceeded the new funds available to them from premium and interest receipts, and these companies reduced their holdings of Government securities by about 2.3 billion dollars. Approximately two-thirds of this reduction was in the first half of the year.

Savings and loan associations increased their mortgage portfolios somewhat less, and mutual savings banks about the same, in 1951 as in 1950. At each type of institution there has been a tendency for the rate of increase to slacken somewhat in recent months. Savings and loan associations increased their real estate loan holdings by an estimated 1.8 billion dollars in 1951 as compared with 2.2 billion in 1950; and savings banks increased their holdings of these loans 1.7 and 1.5 billion, respectively, in 1951 and 1950. Savings banks continued to reduce their holdings of Government securities in 1951, but the rate of reduction was less in the second half of the year than in the first.

Treasury Financing

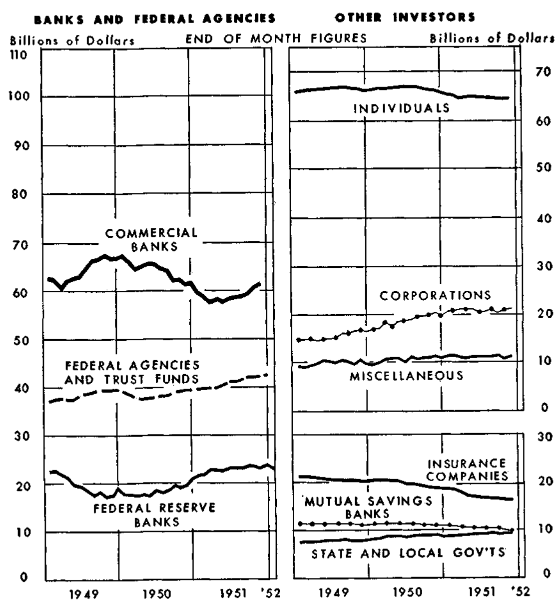
During the first half of 1951 the Treasury had a substantial surplus of cash receipts over expenditures and was able to reduce the outstanding debt held by the public as well as to increase its cash balance. In the latter half of the year, however, the cash deficit was nearly as large as the previous surplus. The Treasury drew down its cash balance and also borrowed new funds in the market in order to meet the deficit and to retire maturing or redeemable debt issues offered for cash redemption. Over the year redemptions of nonmarketable savings bonds and notes exceeded current sales plus current interest accruals, and the amount of such issues outstanding declined slightly. In addition, part of the maturing marketable debt was redeemed for cash. Most of the maturing or called issues were refunded with new issues of certificates maturing within a year.

Beginning early in July the Treasury offered 200 million dollars of additional bills in each of its weekly refinancings. These new offerings were discontinued in mid-August but resumed for three weeks in September. Altogether the amount of regular weekly issues of bills outstanding increased by 2 billion dollars.

In October the Treasury also offered a new type of short-term issue when it sold 1¼ billion dollars of 144-day tax-anticipation bills maturing on March 15, 1952. These bills, which were sold at auction on a discount basis at a rate of 1.55 per cent per annum, were designed primarily to attract additional short-term funds accumulated by business corporations prior to tax payment dates. A second issue of this type and of the same amount, maturing on June 15, 1952, was offered in November and sold at an average rate of 1.497 per cent. Banks originally purchased the major portions of both of these issues, but thereafter sold a sizable amount of their holdings to business corporations.

New issues of Government securities offered in 1951, both for refunding and for new money, were designed primarily to tap liquid funds of banks, business corporations, and others. There appeared to be little demand for long-term Government securities; in fact, some of the larger institutional investors continued to reduce their holdings of Treasury bonds. The chart shows monthly changes in holdings of Government securities by principal groups of investors.

OWNERSHIP OF U. S. GOVERNMENT SECURITIES



NOTE.—Treasury Department estimates except for Federal Reserve Banks and Federal agencies and trust funds, which are reported holdings. Latest figures plotted: Federal Reserve Banks, January 1952; Federal Agencies etc., December 1951; all others, November 1951.

The Federal Reserve purchased substantial amounts of Government securities early in the year in connection with the increase in reserve requirements of member banks and in support of bond prices. After April Federal Reserve purchases were largely confined to periods of Treasury refunding and temporary money market tightness in June, September, and December. These purchases were subsequently offset by sales, including sales made in January 1952. As previously pointed out, commercial banks increased their holdings in the latter part of the year.

Expansion of the Money Supply

Expansion during 1951 in bank credit outstanding to private borrowers was a major factor responsible for the large increase during the year in the privately held money supply, that is, in the demand and time deposits and currency holdings of individuals and businesses. Cash balances increased about 9 billion dollars as compared with about 7 billion during 1950, as shown on the table.

CHANGES IN THE MONEY SUPPLY, WITH RELEVANT FACTORS

[In billions of dollars]

Item	1951		1950	
	2nd half	1st half	2nd half	1st half
Changes in adjusted deposits and currency				
Total [1]	+8.1	+0.8	+5.9	+0.9
U. S. Government deposits	−3.0	+3.0	−1.1	+0.7
Privately held money supply, total	+11.0	−2.2	+7.0	+0.2
Demand deposits adjusted	+9.1	−3.3	+7.2	−0.7
Time deposits adjusted [2]	+1.3	+0.7	−0.5	+1.1
Currency outside banks	+0.5	+0.4	+0.2	−0.2
Principal factors	(Sign indicates effect on money supply)			
Bank loans and investments other than U. S. Gov't. securities [3]	+4.9	+3.9	+9.5	+3.5
Bank holdings of U. S. Gov't. securities [4]	+3.5	−2.0	−2.0	−1.7
Gold stock	+0.9	−1.0	−1.5	−0.2
Foreign deposits at Federal Reserve Banks	+0.3	(5)	+0.3	−0.4
Other factors [6]	−1.5	−0.1	−0.4	−0.3

[1] Adjusted to exclude interbank deposits, items in process of collection, and bank vault cash.
[2] Commercial and mutual savings banks and the Postal Savings System.
[3] Commercial and mutual savings banks.
[4] Commercial, mutual savings, and Federal Reserve Banks.
[5] Less than 50 million dollars.
[6] Includes bank capital, miscellaneous bank assets and liabilities, and differences between deposits due to and from banks.

NOTE.—Changes are based on data for Dec. 31, 1949; June 30, 1950; Dec. 30, 1950; June 30, 1951; and Dec. 26, 1951. Figures may not add to totals because of rounding.

All elements of the privately held money supply increased over the year with the major growth in demand deposits. Time deposits increased significantly following a decline in the second half of 1950. Individuals also increased their savings in other liquid forms, particularly their holdings of savings and loan shares and currency.

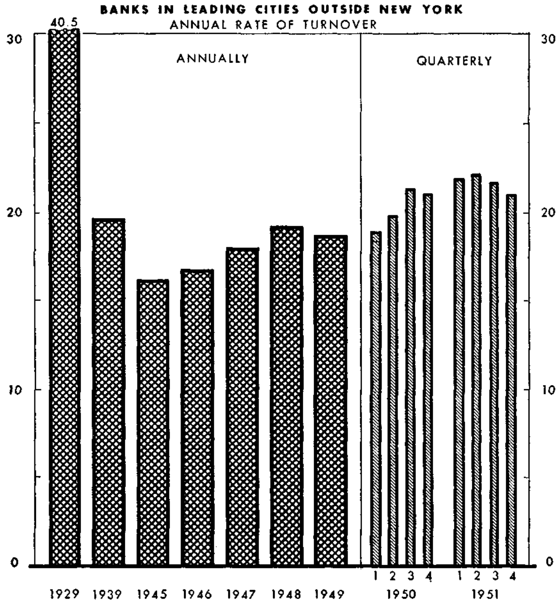
After a moderate but fairly steady decline since the end of 1946, currency in circulation, adjusted for seasonal variation, began to increase late in 1950 and continued to do so throughout last year. This rise reflected a variety of factors, including the growth and increased movement of the armed forces and civilian personnel engaged in defense production as well as higher incomes and savings. The increase in currency in circulation was concentrated in the small denominations, and particularly in $10 and $20 bills. Coins in circulation also rose and, with mintage restricted to save scarce metals, coin shortages developed from time to time in various sections of the country.

The factors responsible for the rise in the privately held money supply last year differed substantially from those underlying the rise a year earlier. In 1950 the expansion of private credit exceeded considerably the increase in the money supply; a significant reduction in bank holdings of Government securities and a sizable outflow of gold from the United States, resulting in part from substantial United States imports, offset in part the effect of private credit expansion on private holdings of cash. In 1951, on the other hand, private credit expanded by practically the same amount as the privately held money supply but the banking system as a whole, including Federal Reserve and mutual savings banks as well as commercial banks, increased its holdings of Government securities by 1.5 billion dollars and for the year as a whole there was little change in the gold stock of the country. The changes in these elements, in part offset by miscellaneous factors, tended to make the growth in privately held cash balances larger than a year earlier, notwithstanding the reduced volume of private credit expansion.

Total deposit growth in 1951 was largest at the smaller banks in the Southern and Western sections of the United States. Banks in the Mid-West also showed substantial gains. Larger banks in the Northeastern section of the country tended generally to show the smallest deposit expansion. In 1950, deposit growth had been much more evenly distributed.

Accompanying the substantial increase in all elements of the privately held money supply in 1951, the use or turnover of its principal component, demand deposits, began to decline fairly steadily in the latter part of the year, following a sharp increase since early 1950. The turnover of demand deposits at banks in leading cities outside New York, adjusted for seasonal variation, as is shown on the accompanying chart, increased from an annual rate of about 18½ times in 1949 to about 22 in the second quarter of 1951 and then decreased to about 21 in the fourth quarter. The recent decline in the use of deposits has reflected in part their greater supply. It has also reflected the lessening of inflationary pressures, including reduced consumer and business demands for goods and bank credit.

TURNOVER OF DEMAND DEPOSITS
BANKS IN LEADING CITIES OUTSIDE NEW YORK



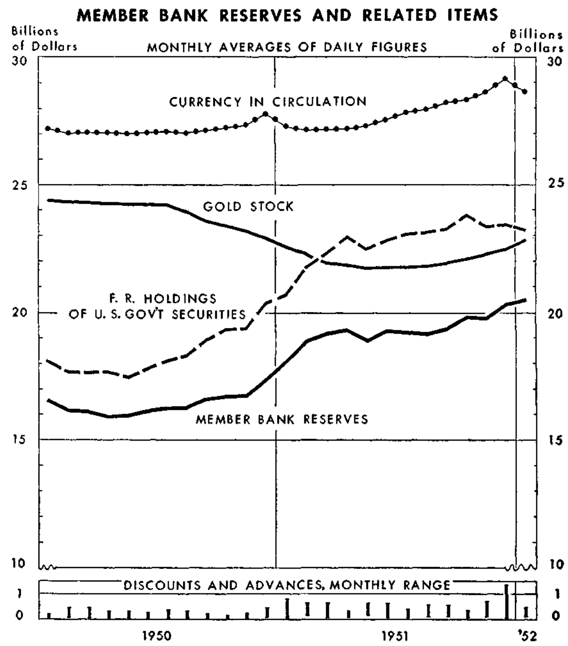
NOTE.—Quarterly turnover rates are seasonally adjusted and are compiled by the Federal Reserve Bank of New York. Deposits used are averages of demand deposits, except U. S. Government and interbank deposits, as reported weekly by member banks in leading cities. Annual data for 1929 were computed on a slightly different basis from that used for other years.

BANK RESERVES

Reserve positions of commercial banks were under greater pressure during 1951 than in other postwar years. Effective in January and early February the Board of Governors raised the reserve requirements against demand deposits for member banks by 2 percentage points and against time deposits by one percentage point, thereby increasing the amount of required reserves by about 2 billion dollars or over 10 per cent. These increases absorbed the additional reserves being made available at the time by a return flow of currency and a decline in Treasury deposits at Reserve Banks. The Federal Reserve also purchased Government securities from banks and from nonbank investors to assist in the adjustment to the increased reserve requirements. In the course of the year, demands for reserve funds arose from an increase in the volume of currency in circulation, as well as from increased amounts required because of the deposit growth at member banks.

On the other hand, the cessation of the gold outflow in the spring of 1951 and the development of an inflow, as well as a reduction in foreign deposits at the Reserve Banks in the latter part of the year, removed a previous drain on reserves. Gold began to flow back into the United States in the third quarter of last year after little change in the second quarter and a fairly steady outflow in the first quarter of the year and in the last half of 1950. The inflow of gold, like the reduction in foreign balances at the Federal Reserve Banks, tended to increase bank reserves, as shown in the table and the chart.

Reduced Federal Reserve buying of Government securities after April was an important factor limiting bank reserve expansion as compared with 1950 and early 1951. As bank reserves became less readily available than they had been previously, the level of excess reserves was somewhat lower and a larger number of banks relied on short-term borrowing from the Federal Reserve Banks to meet temporary shortages in reserves. Because of the reluctance of banks to remain in debt for long periods of time, this increase in borrowing tended to make banks feel under some pressure to use any new funds becoming available to them for paying off their indebtedness as soon as possible rather than for lending or investing. The high and low points of member bank borrowing for each month in 1950 and 1951 are shown in the accompanying chart.



CHANGES IN MEMBER BANK RESERVES, WITH RELEVANT FACTORS

[In billions of dollars]

Item	1951 2nd half	1951 1st half	1950 2nd half	1950 1st half
Changes in member bank reserve balances				
Total	+1.2	+1.3	+1.7	−0.6
Required [1]	+1.0	+2.1	+1.0	−0.1
Excess	+0.2	−0.8	+0.7	−0.6
Principal factors	(Signs indicate effect on reserves)			
Currency in circulation	−1.6	−0.1	−0.6	+0.4
Treasury operations [2]	+0.1	+0.4	+0.3	−0.1
Gold stock	+0.9	−1.0	−1.5	−0.2
Foreign deposits at Federal Reserve Banks	+0.3	(3)	+0.3	−0.4
Federal Reserve Bank credit, total	+1.5	+1.8	+3.5	−0.8
Transactions in U. S. Government securities	+0.5	+2.2	+2.4	−0.6
Borrowings	+0.7	(3)	(3)	(3)
Float	+0.3	−0.4	+1.0	−0.2
All other factors [4]	+0.1	+0.1	−0.2	+0.4

[1] Increase in first half of 1951 includes 2.0 billion due to increase in legal percentages required.
[2] Decrease (+) or increase (−) in Treasury deposits with Federal Reserve Banks and Treasury cash less change in Treasury currency outstanding; an increase in net Treasury balances causes a decrease in reserves.
[3] Less than 50 million dollars.
[4] Includes nonmember deposits at Federal Reserve Banks other than foreign and miscellaneous Federal Reserve assets and liabilities.

NOTE.—Changes are based on data for Dec. 31, 1949; June 30, 1950; Dec. 30, 1950; June 30, 1951; and Dec. 26, 1951. Figures may not add to totals because of rounding.

MONEY MARKETS

Continued demand for credit and the reduced availability of bank reserves were reflected in a rise in money rates and bond yields in 1951. Levels of various types of interest rates during selected months in 1950 and 1951 are shown in the table on the following page.

Demand for investment funds, which had been expanding rapidly up to the first quarter, stabilized at a high level. Business and consumer demands for goods and services were also less insistent during most of the year. Personal savings increased sharply

SELECTED INTEREST RATES

[Per cent per annum]

Type of debt	1951		1950	
	Dec.	June	Dec.	June
Short-term				
Public:				
U. S. Treasury bills	1.731	1.499	1.367	1.174
U. S. certificates of indebtedness	1.77	1.79	1.46	1.23
Federal Reserve discount rates	1.75	1.75	1.75	1.50
Private:				
Bankers' acceptances	1.69	1.63	1.31	1.06
Call loans	2.38	2.25	1.63	1.63
Commercial paper	2.31	2.31	1.72	1.31
Commercial loans [1]	3.27	3.07	2.84	2.68
Long-term				
Public:				
U. S. Government bonds	2.70	2.65	2.39	2.33
High-grade municipal bonds	2.10	2.22	1.77	2.09
Private:				
Commercial bank term loans [1 2]	3.23	3.24	2.78	2.62
Corporate Aaa bonds	3.01	2.94	2.67	2.62
Corporate Baa bonds	3.61	3.49	3.20	3.28

[1] Rates on new loans made at a sample of banks in leading cities in the first 15 days of each month.

[2] Term loans are loans with a maturity over one year.

Sources.—Treasury Department, Standard and Poor's Corporation, Moody's Investors Service, and the Federal Reserve.

from the first to the second quarter and continued at the higher level throughout the balance of the year, but a large part of these savings were held in money forms and were not invested in securities or used to repay debts. Altogether, the strength of demand for funds in relation to supply tended to produce a moderately rising trend in interest rates throughout the last three quarters of the year.

At times during the year a concentration of demands, reflecting tax payments and other seasonal factors, resulted in somewhat greater money market tightness than at other times and called forth resort to Federal Reserve credit. Some tightness developed in June and September at times of Treasury refunding operations, and the Federal Reserve supplied funds by buying securities in order to assure success of Treasury financing.

In the latter part of December a combination of corporate tax and dividend payments, holiday currency demand, and other end-of-year needs brought considerable pressure on the money market. At the same time an announcement by large commercial banks in New York and other leading cities of a rise in their lending rate to prime business borrowers from 2¾ to 3 per cent gave an indication of a possible general rise in the rate structure. As a result, open market yields on short-term paper and bonds, both private and public, rose sharply and bank borrowing from the Federal Reserve increased. The rate on new Treasury bills rose to 1.865 per cent, the highest since 1932, and the yield on long-term Treasury bonds to 2.74 per cent.

In view of the temporary and seasonal nature of the tightness, the Federal Reserve made funds available to the market through its open market operations in Government securities. It purchased short-term securities in the market both outright and under repurchase agreements with dealers in such securities. Money market conditions eased considerably after the turn of the year, reflecting the return flow of currency from holiday circulation and a seasonal contraction in outstanding bank credit. As a result of a greater availability of funds relative to demands, yields on securities and some types of short-term paper declined, and by the end of January were back to early December levels. Member bank borrowings were largely paid off and the Federal Reserve portfolio of Government securities was substantially reduced.