sluggishness shown in this sector during the earlier part of the year. Recent Government forecasts of the volume of private construction for 1963 as a whole imply little change from present levels over the balance of the year.

Spending by the consumer sector, on the other hand, appears to have taken on new vigor in the past several months. Thus, retail sales registered gains of better than 1 per cent in both June and July, and weekly data for August suggest a further small increase in that month. While new car sales fell off in August, this may in part have reflected a shortage of models most heavily in demand as the production of 1963 models came to a close. Department stores, in contrast, set a new sales record during August, as cooler weather reportedly brought on a rush to purchase back-to-school items and fall fashions.

The recent higher levels of spending appear to be amply supported by consumer incomes, which rose in July for the fifth consecutive month. Intentions to spend within the next six months apparently also remain favorable (see Chart I). Thus, according to the latest survey by the Census Bureau, consumers' new-car buying plans in mid-July were about the same as in January and April and were appreciably above the year-earlier level. Plans to buy household durables, though showing what appears to be a seasonal decline from the April level, were also higher than a year ago.

Consumer purchases of cars and durables, of course, often involve the use of consumer credit, the steady expansion of which has been one of the factors contributing to the strength in consumer buying throughout the current business upswing. Automobile credit, in particular, has shown a marked rise, reflecting the high rate of car sales, which was perhaps partly stimulated by the continuation of the trend toward lower downpayments and longer maturities. It is noteworthy that, despite this easing in the terms of credit, data available from banks on delinquency rates for consumer installment credit have shown no discernible increase over the past three years. Indeed, such rates for a selected group of commercial banks surveyed by the American Bankers Association averaged slightly lower in the first six months of this year than in the corresponding period of 1962.

The Money Market in August

The money market was generally firm in August. Reserve distribution returned to the usual pattern of concentration in favor of banks outside the money centers during much of the month, and money market banks on occasion experienced substantial reserve pressures. As a result, these banks bid strongly for Federal funds, which were at times in rather limited supply, and the bulk of trading in Federal funds took place at 3½ per cent. The money market banks also had to acquire additional funds through sizable borrowings from the Federal Reserve Banks. Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were generally quoted within a 3½ to 3¾ per cent range during the period.

On August 21, the Treasury announced that it plans to offer one-year bills on a monthly basis, rather than quarterly as in the past. The first of the new series—$1 billion of one-year bills maturing on August 31, 1964—was auctioned on August 27, for payment on September 3. Subsequent issues are also expected to amount to about $1 billion a month, as compared with the $2 billion to $2.5 billion of one-year bills that had been auctioned quarterly in the past.

Treasury bill rates edged lower in early August in the face of strong nonbank demand and a very limited market supply of bills. Over the rest of the month, however, rates moved higher in response to both contracting demand and expanded offerings. During the month, the market came increasingly to feel that the trend of official policy was still in the direction of encouraging higher short-term rates and would seek to combat any pronounced decline in these rates. An upward adjustment in rates on several short-term money market instruments occurred during the month. Rates on ninety-day unendorsed bankers' acceptances rose by ¼ of a percentage point to 3¾ per cent (bid); rates on prime four- to six-month commercial paper increased by ⅛ of a percentage point to 3½ per cent (offered); and rates on various maturities of sales finance company paper rose by ¼ to ¾ of a percentage point. The offering rates for new time certificates of deposit
of leading New York City banks also hardened, while the range of rates at which such certificates are offered in the secondary market rose by about 10 basis points in the three-month maturity area and by somewhat over 15 basis points in the six-month area. In the market for Treasury notes and bonds, price changes were generally small and mixed during the month in dull midsummer trading. Widespread anticipation that a Treasury advance refunding operation would soon be announced caused considerable hesitation on the part of investors during much of the period, but the current level of longer term interest rates was judged sufficiently stable to prevent major price movements. Prices of corporate and tax-exempt bonds also changed little in August.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in July through the final statement week in August. Reserve drains—stemming mainly from a seasonal expansion in currency in circulation and a contraction in vault cash and from a routine Treasury interest payment to System Account—more than offset an increase in float and a decline in required reserves.

System open market operations during the month partially offset the net reserve losses due to market factors and, as a result, net reserve availability averaged somewhat lower in August than in July. System outright holdings of Government securities rose on average by $30 million from the last statement period in July through the final statement week in August, while holdings under repurchase agreements increased by $26 million. Net System holdings of bankers' acceptances declined by $3 million. From Wednesday, July 31, through Wednesday, August 28, System holdings of Government securities maturing in less than one year declined by $2,786 million, while holdings maturing in more than one year rose by $2,555 million. This shift primarily reflected the effect of the Treasury's August 15 refunding, in which System holdings of maturing issues were exchanged for a fifteen-month note.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds moved quite narrowly throughout August in light trading that was confined mainly to switching operations. The month opened on a firm note with the appearance of good professional and investment demand, including the reinvestment in intermediate-term Treasury issues of the proceeds of a recent tax-exempt bond offering. Moderate System purchases of coupon-bearing issues, undertaken to provide reserves without depressing bill rates, also added to demand at that time. From August 5 through August 14, a slightly softer undertone developed, partly reflecting renewed discussion in market advisory letters of the possibility that the Treasury might shortly announce an advance refunding or prerefunding operation which would open up new investment opportunities. Adding to the uncertain atmosphere was the August 12 increase in the Canadian bank rate from 3½ per cent to 4 per cent. Against this background, investors moved to the sidelines and activity tapered off. With a small net supply of bonds flowing into the market, including commercial bank offerings of intermediate-term issues, prices tended somewhat lower.

Demand picked up again around midmonth, partly reflecting some professional short-covering and additional System purchases as well as customer demand, and prices briefly edged upward. The market continued to be affected, however, by expectations that a Treasury advance refunding operation was imminent. In addition, the announcement on August 19 that the United States balance-of-
payments deficit had risen to an estimated annual rate of $5.2 billion in the second quarter of the year was interpreted as having a possible bearing on future monetary policy. In this setting, investment demand once more contracted and a slightly easier tone reappeared during the balance of the month with prices drifting gradually lower in very light trading. Over the month as a whole, prices of intermediate and longer term issues ranged from \( \frac{3}{2} \% \) higher to \( \frac{4}{2} \% \) lower.

In the Treasury bill market, rates declined moderately in the opening days of the month. Broad investment demand, including large-scale purchases by public funds and by corporations, encountered persistent market scarcities, particularly within the three-month maturity area. A cautious atmosphere quickly emerged at the lower rate levels, however, in part because System sales and commercial bank offerings in a firm money market added to the market supply of Treasury bills. Discussion in market advisory letters suggested that the financial authorities might favor some further rise in short-term interest rates from the then-current levels and would take steps to counteract downward pressures on bill yields. These views, reinforced by the System sales noted above, contributed to an increasingly hesitant tone and prompted market participants to expect that the Treasury would add to the supply of bills—an expectation that was subsequently confirmed by the August 21 Treasury announcement of the new series of one-year bills.

Against this background, rates generally edged higher from August 5 through the balance of the month. At the final regular bill auction of the month held on Friday, August 30, because of the Labor Day holiday on Monday, September 2, average issuing rates were 3.384 per cent for the new three-month issue and 3.487 per cent for the new six-month issue—12 and 9 basis points, respectively, above the rates established in the final auction in July. The newest three-month bill closed the month at 3.39 per cent (bid) as against 3.27 per cent at the end of July. An average issuing rate of 3.575 per cent was set at the August 27 auction of $1 billion of the new one-year bills, compared with a 3.582 per cent rate at the last auction of one-year bills on July 9.

**OTHER SECURITIES MARKETS**

Prices of corporate and tax-exempt bonds moved within narrow limits during much of August. Although underwriters bid aggressively for some of the new issues in both sectors of the market, investors appeared hesitant to commit their funds at prevailing rate levels. Thus, distribution of new offerings and of older issues still in syndicate proceeded rather sluggishly. August flotations were fairly sizable in the tax-exempt sector, contributing to a somewhat heavier tone in that market, compared with the corporate sector where new bond issues were seasonally light in volume. Over the month as a whole, prices of tax-exempt bonds were unchanged to a shade lower, while prices of corporate bonds were steady to slightly higher. The average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.29 per cent, while the average yield on similarly rated tax-exempt bonds rose by 1 basis point to 3.09 per cent.

The total volume of new corporate bonds publicly offered in August amounted to approximately $255 million, compared with $345 million in the preceding month and $440 million in August 1962. Among the larger new corporate offerings during the month was a $45 million issue of (Aa-rated) 4½% per cent electric utility company first mortgage bonds maturing in 1993. Reoffered to yield 4.33 per cent, with no special call protection, the bonds moved only slowly into investor portfolios. Later in the month, a $35 million issue of Aa-rated gas utility bonds, maturing in 1988 and nonrefundable for five years, was reoffered to yield 4.375 per cent and won a fair reception.

New tax-exempt flotations during the month totaled approximately $710 million, as against $800 million in July 1963 and $535 million in August 1962. The Blue List of tax-exempt securities rose from $515 million at the end of July to $679 million on August 15 before receding to $631 million on August 30. The largest new tax-exempt offering during the period consisted of $116 million of Aaa-rated local housing authority bonds. Reoffered to yield from 1.80 per cent in 1964 to 3.30 per cent in 2004, the offering was accorded a fair investor response.