

FEDERAL RESERVE BANK
of KANSAS CITY

BANKING AND MONETARY DEVELOPMENTS IN JULY 1956

RESEARCH LIBRARY

Summary. Total loans and investments at all commercial banks declined in July reflecting principally further reductions in holdings of U. S. Government securities but also some decline in loans and holdings of other securities. Demand deposit and currency holdings of businesses and individuals increased slightly more than seasonally. U. S. Government deposits declined sharply. Net borrowed reserves of member banks averaged slightly lower in July than in June, but they increased somewhat toward the end of the month.

Bank credit. Preliminary estimates indicate that total loans and investments at all commercial banks may have declined around \$1.2 billion in July, as shown in Table 1. Continued sales of bank holdings of U. S. Government securities accounted for over half the reduction, but loans declined about \$300 million and holdings of municipal and corporate securities about \$200 million. Last year in July, total bank credit increased about \$1 billion. Expansion in loans accounted for over half the rise but holdings of U. S. Government securities also increased due in part to bank acquisitions of new Treasury tax anticipation certificates.

Business and security loans each declined about \$200 million. Agricultural loans also declined slightly during July and sharply on August 1 (not included in data in Table 1) when about \$550 million of CCC cotton and corn loans matured. Real estate loans continued to rise but the expansion at weekly reporting banks was considerably below that of other recent months. Consumer loans are estimated to have increased further in July.

The \$200 million decline in business loans at all commercial banks in July followed an increase of \$1,100 million in June. About two-thirds of both the increase and ensuing decrease occurred at banks in New York City. Last year in July, these loans had increased an additional \$200 million following a rise of \$900 million in June. In July of most other recent years, business loans declined or showed little change.

Reductions in borrowing largely by sales finance companies, metals manufacturers, and food processors during July were offset only in part by further increases in other lines, as shown in Table 2. Loans to sales finance companies declined \$200 million further and those to metals manufacturers, which had been increasing sharply earlier in the year, declined \$100 million. Loans to food processors continued to decline while those to commodity dealers began to increase as is usual in July. Most other industries with the exception of public utilities and construction firms continued to add to their outstanding bank borrowing in July.

Not for publication

Table 1

Estimated Changes in Loans and Investments at All Commercial Banks
(In billions of dollars)

Item	1956	1955	1956	1955	Year ending:	
	June 28,	July 1,	Jan. 1,	Jan. 1,	July 25,	July 27
	July 25	July 27	July 25	July 27	1956	1955
<u>Total loans (excluding interbank)</u>	- 0.3	+ 0.6	+ 3.9	+ 5.0	+10.5	+ 8.8
Business	- 0.2	+ 0.2	+ 2.4	+ 2.2	+ 6.5	+ 3.3
Real estate	+ 0.1	+ 0.2	+ 1.2	+ 1.6	+ 2.0	+ 2.6
Security	- 0.2	<u>1/</u>	- 0.8	<u>1/</u>	- 0.3	+ 1.2
Agricultural	- 0.1	- 0.2	- 0.3	- 1.0	<u>1/</u>	- 0.9
Consumer	+ 0.1	+ 0.1	+ 1.1	+ 1.2	+ 1.9	+ 1.1
All other loans	<u>1/</u>	+ 0.1	+ 0.3	+ 0.9	+ 0.6	+ 1.4
U. S. Government securities	- 0.7	+ 0.4	- 5.9	- 5.3	- 8.0	- 0.6
Other securities	- 0.2	- 0.1	- 0.5	+ 0.4	- 0.5	+ 1.0
Total loans and investments (excluding interbank)	- 1.2	+ 1.0	- 2.5	+ 0.1	+ 2.0	+ 9.2

1/ Less than \$50 million.

2/ Level of business loans increased by, and real estate loans decreased by, \$300 million at end of October 1955 to correct classification errors. No back figures revised; most of the misclassification probably occurred during 1955.

Note: Figures for July 1956 are estimates and subject to change. Preliminary data for July will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States", available at the end of August.

So far this year, business loans at all commercial banks have increased about \$2.4 billion compared with \$2.2 billion in the same period a year ago. About half this year's expansion has been accounted for by increases in loans to metals manufacturers whereas last year, such borrowing was relatively small. Borrowing by textile manufacturers, petroleum concerns, and other manufacturers has also been larger this year than last. In addition, repayments of borrowing by food processors and commodity dealers have been considerably less this year than last. On the other hand, loans to sales finance companies have declined over \$500 million this year whereas last year, they rose by a comparable amount. Also, borrowing by public utilities and construction firms has been less this year than last.

Not for publication

Table 2

Changes in Commercial, Industrial, and Agricultural Loans ^{1/}

(In millions of dollars)

Business of Borrower	1956	1955	1953	1956	1955	1953
	June 28, -	June 30, -	July 2, -	Jan. 5, -	Jan. 6, -	Jan. 8, -
	July 25	July 27	July 29	July 25	July 27	July 29
Food processors	-102	- 65	- 83	-356	-536	-714
Commodity dealers	+142	+ 66	+ 37	-234	-371	-574
Trade concerns	- 4	+ 30	- 23	+205	+232	+214
Total	+ 36	+ 31	- 69	-385	-675	-1,074
Sales finance	-203	- 37	+ 38	-577	+508	- 21
All other - total	+ 35	+132	+ 97	+2,948	+1,693	+697
Metal and metal products	-116	- 46	- 25	+1,247	+127	+395
Textiles, apparel, and leather	+ 29	+ 28	+ 29	+271	+250	+184
Petroleum, coal, etc.	+ 64	+ 18	+ 14	+451	+321	- 22
Other manufacturing and mining	+ 75	+ 29	+ 15	+446	+189	+118
Public utilities	- 26	+ 2	+ 56	+281	+389	- 24
Construction	- 17	+ 36	- 4	+ 44	+170	+ 11
All other types of business	+ 26	+ 65	+ 12	+208	+246	+ 31
Total - Classified	-132	+125	+ 64	+1,990	+1,526	-402
Unclassified	- 97	<u>2/-100</u>	- 6	+ 58	<u>3/-254</u>	- 88
Total change	-229	<u>2/+ 25</u>	+ 58	+2,048	<u>3/+1,272</u>	-490

^{1/} Data for 1956 exclude agricultural loans.

^{2/} CCC certificates of interest may have declined about \$100 million.

^{3/} CCC certificates of interest may have declined about \$600 million.

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Holdings of U. S. Government securities at all commercial banks declined about \$700 million in July. On July 25, new 12-1/2 month 2-3/4 per cent Treasury notes were exchanged for the 2 per cent Treasury notes maturing August 15, 1956, and the 1-1/2 per cent Treasury notes maturing October 1. All commercial banks may have held around \$1 billion of the \$12.9 billion maturing notes, or about one-fifth of the holdings outside the Federal Reserve. Of the \$900 million to be redeemed for cash, commercial banks hold around \$100 million.

So far this year, total bank credit at all commercial banks has declined about \$2.5 billion, whereas last year, in the same period, it increased nominally. U. S. Government security holdings declined more this year than last, \$5.9 billion compared with \$5.3 billion, and holdings of other securities declined \$500 million whereas last year, they increased by about that same amount. In addition, net loan expansion was smaller this year than last, \$4 billion compared with \$5 billion. Real estate, consumer, and "other loans" rose less this year than last, and security loans declined substantially whereas last year, they were unchanged. On the other hand, as noted above, business loans increased slightly more this year than last and agricultural loans did not decline as much.

The appended table, "Loans and Investments at All Commercial Banks", shows types of outstanding loans and investments monthly for recent years and quarterly or annually for previous years.

Deposits and currency. Preliminary estimates indicate that demand deposits and currency held by businesses and individuals may have increased about \$300 million in July, about \$200 million more than the usual seasonal amount. At the month-end, the privately-held money supply was almost 1-1/2 per cent above its year-ago level. So far this year, however, it has been growing at an annual rate of about 1-3/4 per cent.

U. S. Government deposits declined sharply in July to the lowest month-end level since early in the year. Time deposits probably showed little further change. On balance, total deposits and currency declined \$1.5 billion reflecting principally reductions in commercial bank credit noted above but also some declines in System holdings of U. S. Government securities and changes in miscellaneous factors tending to reduce deposits.

The seasonally adjusted annual rate of deposit turnover at banks outside New York City rose to almost 24 in the second quarter of 1956 from 22.5 in the last quarter of 1955, an increase of more than 6 per cent. At banks in New York City, turnover, which had declined early in 1956, increased again in the April-June period to about the same level that had prevailed in late 1955.

Not for publication

Table 3
Estimated Changes in Deposits and Currency
(In billions of dollars)

Item	1955	1955	1956	1955	Year ending:	
	June 28- July 25	July 1- July 27	Jan. 1- July 25	Jan. 1- July 27	July 25, 1956	July 27, 1955
<u>Seasonally adjusted data 1/</u>						
Demand deposits adjusted	+ 0.1	+ 0.6	+ 1.1	+ 2.7	+ 1.4	+ 4.0
Currency outside banks	+ 0.1	+ 0.2	+ 0.2	+ 0.3	+ 0.5	+ 0.2
Total	+ 0.2	+ 0.8	+ 1.3	+ 3.0	+ 1.9	+ 4.2
<u>Unadjusted data 1/</u>						
Demand deposits adjusted	+ 0.2	+ 0.7	- 4.6	- 2.7	+ 1.4	+ 3.9
Currency outside banks	+ 0.1	- 0.3	- 0.7	- 0.8	+ 0.5	+ 0.3
Total	+ 0.3	+ 0.4	- 5.3	- 3.4	+ 1.9	+ 4.2
Time deposits	2/	2/	+ 2.0	+ 1.8	+ 3.3	+ 3.4
U. S. Government deposits	- 1.8	+ 0.7	- 0.3	+ 1.4	- 2.4	+ 2.1
Total	- 1.5	+ 1.1	- 3.7	- 0.2	+ 2.7	+ 9.8
<u>Factors affecting deposits and currency</u> (signs indicate effect on deposits and currency)						
Bank loans and investments other than U. S. Govt. sec. ^{3/}	- 0.3	+ 0.6	+ 4.7	+ 6.7	+12.5	+12.3
Commercial	- 0.5	+ 0.5	+ 3.4	+ 5.4	+10.0	+ 9.8
Mutual savings	+ 0.2	+ 0.2	+ 1.5	+ 1.4	+ 2.5	+ 2.3
Bank holdings of U. S. Government securities	- 0.9	+ 1.0	- 7.6	- 6.2	- 9.5	- 1.4
Federal Reserve	- 0.2	+ 0.5	- 1.4	- 0.8	- 0.7	- 0.4
Commercial	- 0.7	+ 0.4	- 5.9	- 5.3	- 8.0	- 0.6
Mutual savings and other	2/	2/	- 0.3	- 0.2	- 0.6	- 0.4
Gold stock and foreign deposits at F. R. Banks	+ 0.1	+ 0.1	+ 0.3	2/	+ 0.3	- 0.1
Foreign bank deposits, net, at commercial banks	2/	2/	2/	2/	+ 0.1	2/
Other factors	- 0.4	- 0.6	- 1.1	- 0.7	- 0.7	- 1.0

1/ Seasonally adjusted data are for last Wednesday throughout; unadjusted data are for last Wednesday except in case of June and December call dates, when available. Unadjusted data on the monthly change for July are not strictly comparable in view of the fact that June 27, 1956 is being compared with June 30, 1955. Usually, however, demand deposits adjusted decline and currency outside banks increase in roughly comparable amounts between the last Wednesday and the 30th of June; therefore the total privately-held money supply may have been about unchanged between June 27 and June 30.

2/ Less than \$50 million.

3/ Total includes foreign loans on gold and holdings of bankers' acceptances at the Federal Reserve; changes in these items are generally relatively small. In addition, even if there were no changes in these items, changes at commercial and mutual savings banks would not necessarily add exactly to total change, which is "net", because of bookkeeping discrepancies between various banking records.

Note: Data for July 1956 are estimates and subject to change. Preliminary data for July will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States" available at the end of August.

Table 4

Free Reserves

(Excess reserves minus member bank borrowings;
based on average of daily figures; in millions of dollars)

Period	All member	New York	Chicago	Reserve City	Country
1954: December	459	- 50	- 16	- 26	550
1955: June	168	- 2	- 43	- 167	377
July	92	- 69	- 25	- 219	407
August	- 189	- 139	- 61	- 342	353
September	- 285	- 127	- 114	- 409	365
October	- 360	- 150	- 137	- 416	344
November	- 491	- 265	- 67	- 501	341
December	- 245	- 161	- 83	- 338	338
1956: January	- 255	- 198	- 83	- 353	379
February	- 266	- 138	- 103	- 336	310
March	- 408	- 174	- 256	- 298	319
April	- 533	- 167	- 262	- 429	324
May	- 504	- 88	- 153	- 468	205
June	- 195	- 33	- 111	- 356	305
July	- 141	- 106	- 49	- 347	362
1956: June 27	- 161	- 33	- 83	- 332	286
July 3	- 171	- 98	- 47	- 311	285
11	- 123	- 138	- 75	- 356	446
18	- 220	- 200	- 53	- 357	390
25	- 12	- 50	- 27	- 326	391
Aug. 1	- 205	- 32	- 48	- 349	224

Note: Data for second half of July and August are preliminary.

Bank reserves. Net borrowed reserves of member banks averaged about \$140 million in July compared with about \$200 in June, as shown in Table 4. Borrowings dropped to about \$740 million and excess reserves rose to \$600 million. Reserve positions at country and Chicago central reserve city banks eased somewhat, whereas New York central reserve city banks were under increased reserve pressure. During the month, net borrowed reserves fluctuated considerably, increasing to a level of \$220 million around the mid-month and subsequently declining to a nominal amount. They increased again, however, toward the end of July when they averaged over \$200 million.

Not for publication

Table 5

Changes in Member Bank Reserves, with Relevant Factors
(Monthly average of daily figures; in millions of dollars)

Item	July		Jan. - July		Year ended July	
	1956	1955	1956	1955	1956	1955
<u>Member bank reserve balances</u>						
<u>Total</u>	- 97	+109	-404	-455	+ 12	-340
Excess reserves	+ 23	+ 50	+ 3	- 84	- 22	-216
Required reserves	-120	+ 59	-407	-371	+ 34	-124
<u>Principal factors</u> (signs indicate effect on reserves)						
Currency in circulation	-215	-235	+514	+465	-467	-316
Gold stock and foreign accounts	+ 46	- 7	+296	- 15	+269	- 37
Treasury operations	- 29	-108	- 57	- 13	- 3	+ 88
Federal Reserve float	+ 57	+ 62	-126	- 52	+323	+245
Other factors	+ 16	- 81	+ 98	- 91	+106	- 3
Federal Reserve loans and investments:						
U. S. Govt. securities:	+ 58	+369	-1,022	-937	-387	-804
Outright	+ 87	+329	-745	-950	-352	-836
Repurchase agreements	- 29	+ 40	-277	+ 13	- 35	+ 32
Acceptances	+ 1	- 3	- 1	+ 13	+ 5	+ 13
Discounts and advances:						
To member banks	- 31	+126	-101	+281	+211	+463
To others	- 1	- 15	- 1	-112	- 49	+ 9

System holdings of U. S. Government securities increased about \$60 million on an average basis over July. Beginning in late June and extending into early July, when month-end and holiday currency needs and reductions in float were absorbing reserves, the System purchased about \$400 million of securities. Subsequent sales, however, more than offset this increase. In the week ending August 1, when reserve pressures again increased, largely as a result of reductions in Reserve Bank float, the System purchased about \$50 million of securities outright.

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As shown in Table 5, the principal factors supplying reserves to banks over July, in addition to the increase in holdings of U. S. Government securities, were a reduction in required reserves, some expansion in Reserve Bank float, and small changes in gold stock and foreign deposits at the Reserve Banks. Required reserves declined \$120 million as substantial reductions in U. S. Government deposits at commercial banks were offset only in small part by increases in privately-held deposits. Reserve Bank float, after rising sharply in mid-June, continued at a higher-than-normal level in July. The principal factor absorbing reserves in July was a \$215 million increase in currency in circulation. Currency outflows early in July, reflecting turn-of-month and holiday needs, were offset only in part by subsequent return flows. Inflow was especially heavy in the week of July 25, however, and contributed to the sharp reduction in net borrowed reserves in that week.

Interest rates. The effective trading rate for Federal funds was almost consistently 2-3/4 per cent during July. The rate on 4-6 months prime commercial paper was reduced first on July 5 and again on July 20 to a range of 3-1/8--3-1/4 per cent from 3-3/8 per cent. The rate on directly-placed 3-6 months finance company paper was reduced early in July to a range of 2-7/8-- 3 per cent from 3 per cent. The rate on 90-day bankers' acceptances rose in late July to 2-1/2 per cent from 2-3/8 per cent.

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Loans and Investments at All Commercial Banks

(In billions of dollars)

Date	Loans and investments	U. S. Gov't. securities	Other securities	Total loans	Business	Real estate	Security	Farm	Consumer	All other
1947: Dec. 31	116.2	69.2	9.0	37.9	18.3	9.4	2.1	1.7	3.8	2.9
1948: Dec. 31	114.2	62.6	9.2	42.4	18.9	10.8	2.3	2.9	4.8	3.1
1949: Dec. 31	120.1	67.0	10.2	42.9	17.1	11.5	2.6	3.1	5.8	3.4
1950: Dec. 31	126.6	62.0	12.4	52.2	21.9	13.5	2.9	2.9	7.4	4.2
1951: Dec. 31	132.5	61.5	13.3	57.6	25.9	14.6	2.6	3.4	7.5	4.5
1952: Dec. 31	141.5	63.3	14.1	64.0	27.9	15.7	3.2	3.9	9.4	4.9
1953: Mar. 25	139.2	60.5	14.3	64.4	27.9	15.9	2.7	3.9	10.0	4.9
June 30	137.8	58.6	14.3	64.9	27.4	16.2	2.8	3.7	10.6	5.1
Sept. 30	142.6	62.2	14.5	65.9	27.9	16.5	2.9	3.9	10.9	4.9
Dec. 31	145.5	63.4	14.7	67.4	27.2	16.7	3.6	5.0	10.9	5.1
1954: Mar. 31	142.5	60.7	15.1	66.8	26.7	16.8	3.0	5.8	10.6	5.0
June 30	146.2	63.5	15.5	67.2	26.1	17.2	3.7	5.1	10.8	5.2
Sept. 29	150.1	67.3	16.0	66.8	26.1	17.8	3.8	3.9	10.7	5.5
Dec. 31	155.7	69.0	16.3	70.4	26.9	18.4	4.5	5.2	10.7	5.8
1955: Jan. 26	155.5	69.0	16.7	69.8	26.6	18.6	4.0	5.2	10.7	5.8
Feb. 23	153.8	66.8	16.8	70.2	26.8	18.8	3.9	5.2	10.8	5.9
Mar. 30	152.4	64.2	17.0	71.2	27.4	19.0	4.1	4.9	11.0	6.0
Apr. 27	154.4	65.6	17.0	71.8	27.6	19.2	4.3	4.4	11.2	6.2
May 25	154.5	65.0	16.7	72.8	28.0	19.5	4.3	4.4	11.4	6.4
June 30	154.8	63.3	16.8	74.8	28.9	19.8	4.5	4.4	11.8	6.6
July 27	155.8	63.7	16.7	75.4	29.1	20.0	4.5	4.2	11.9	6.7
Aug. 31	155.6	62.5	16.9	76.2	29.9	20.3	4.2	3.9	12.1	6.8
Sept. 28	156.4	62.0	16.9	77.5	30.5	20.6	4.2	3.9	12.3	7.0
Oct. 26	158.1	62.9	16.8	78.4	30.8	20.8	4.4	4.0	12.5	7.0
Nov. 30	158.2	61.4	16.6	80.2	<u>1/31.1</u>	<u>1/20.5</u>	4.5	4.3	12.6	7.0
Dec. 31	160.3	61.6	16.7	82.0	33.2	20.8	5.0	4.5	12.7	7.0
1956: Jan. 25p	158.3	60.9	16.5	80.9	32.7	20.9	4.6	4.4	12.8	6.9
Feb. 29p	157.1	59.2	16.6	81.2	32.9	21.0	4.5	4.5	12.8	6.9
Mar. 28p	158.5	58.5	16.6	83.3	34.5	21.2	4.5	4.4	13.0	7.0
Apr. 25p	158.6	58.1	16.6	83.9	34.7	21.4	4.4	4.3	13.2	7.1
May 30p	158.3	57.2	16.4	84.7	34.7	21.7	4.5	4.4	13.4	7.2
June 27p	159.0	56.4	16.4	86.2	35.8	21.9	4.4	4.3	13.7	7.3
July 25e	157.8	55.7	16.2	85.9	35.6	22.0	4.2	4.2	13.8	7.3

p - Preliminary e - Estimated

1/ Level of business loans increased by, and real estate loans decreased by \$300 million at the end of October 1955 to correct classification errors. No back figures revised; most of the misclassification probably occurred during 1955.

Note: Data exclude interbank loans. Total loans are after and types of loans before deductions for valuation reserves. Consumer and "other loans" are partly estimated for all dates. Other data are partly estimated on all but June and December dates.

Banking Section, Board of Governors

August 9, 1956

BANKING AND MONETARY DEVELOPMENTS IN AUGUST 1956

Summary. Total loans and investments at all commercial banks increased substantially in August reflecting principally bank acquisitions of new Treasury certificates and sharp expansion in business loans. Demand deposit and currency holdings of businesses and individuals declined on a seasonally adjusted basis. Net borrowed reserves of all member banks increased to a level considerably above that prevailing in July. Short-term money market rates rose further and the prime commercial loan rate was increased. The discount rate was raised to 3 per cent at ~~FEDERAL Reserve Banks.~~

Bank credit. Preliminary estimates of ~~total~~ ^{of KANSAS CITY} total loans and investments at all commercial banks increased over \$1.5 billion during August, as shown in Table 1. Bank holdings of U. S. Government securities increased about ~~\$1.4 billion,~~ ^{SEP 14 1956} largely reflecting bank acquisitions of new tax certificates ~~issued August 15.~~ ^{RESEARCH LIBRARY} All commercial banks initially took \$2.2 billion of this \$3.2 billion issue, but prior and subsequent to the financing, they sold securities. Total bank loans increased about \$1/4 billion; business loans expanded sharply and real estate and consumer loans rose further but security and agricultural loans declined. Holdings of other securities also increased, the first monthly rise since early in the year. Last year in August, total bank credit declined slightly as sales of U. S. Government securities were about offset by substantial increases in loans and holdings of other securities.

Business loans increased \$600 million in August, somewhat less than in August a year ago but more than in any other recent year since 1950 following the Korean outbreak. Three-fifths of the rise at city banks was in New York City compared with less than half in the first six months of 1956 and less than two-fifths in the year 1955.

Outstanding loans in most business loan categories rose in August, as shown in Table 2, with increases for food processors, commodity dealers, public utilities, petroleum and chemicals concerns, and miscellaneous manufacturing and mining substantially exceeding those of a year ago. Loans to metals concerns, in contrast with an increase last year, continued the decline begun in early July while those to sales finance companies rose only half as much as a year ago.

Not for publication

Table 1

Estimated Changes in Loans and Investments at All Commercial Banks

(In billions of dollars)

Item	1956	1955	1956	1955	Year ending:	
	July 26, Aug. 29	July 28, Aug. 31	June 28, Aug. 29	July 1, Aug. 31	Aug. 29, 1956	Aug. 31, 1955
<u>Total loans (excluding interbank)</u>	+ 0.3	+ 0.8	+ 0.1	+ 1.4	+10.1	+10.3
Business	+ 0.6	+ 0.8	+ 0.4	<u>2</u> /+ 1.0	<u>2</u> /+ 6.6	<u>2</u> /+ 4.1
Real estate	+ 0.2	+ 0.3	+ 0.3	<u>2</u> /+ 0.5	<u>2</u> /+ 1.8	<u>2</u> /+ 2.7
Security	- 0.3	- 0.3	- 0.5	- 0.3	- 0.3	+ 0.6
Agricultural	- 0.3	- 0.3	- 0.3	- 0.5	+ 0.1	+ 0.1
Consumer	+ 0.1	+ 0.2	+ 0.2	+ 0.3	+ 1.8	+ 1.4
All other loans	<u>1</u> /	+ 0.1	<u>1</u> /	+ 0.2	+ 0.5	+ 1.4
U. S. Government securities	+ 1.2	- 1.2	+ 0.7	- 0.8	- 5.4	- 4.8
Other securities	+ 0.1	+ 0.2	- 0.1	+ 0.1	- 0.6	+ 1.2
Total loans and investments (excluding interbank)	+ 1.6	- 0.2	+ 0.7	+ 0.8	+ 4.1	+ 6.7

1/ Less than \$50 million.

2/ Level of business loans increased by, and real estate loans decreased by, \$300 million at end of October 1955 to correct classification errors. No back figures revised; most of the misclassification probably occurred during 1955.

Note: Figures for August 1956 are estimates and subject to change. Preliminary data, for August will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States", available at the end of September.

Real estate loans increased further in August, somewhat faster at weekly reporting banks than in July. Consumer loans also continued to expand. Agricultural loans at all commercial banks declined sharply on August 1 when \$550 million of CCC cotton and corn loans matured, but these loans subsequently rose, largely due to new CCC borrowing. Security loans declined further in August and at the month-end were at the lowest level since the fall of 1954.

Not for publication

Table 2

Changes in Commercial and Industrial Loans ^{1/}

(In millions of dollars)

Business of Borrower	1956	1955	1953	1956	1955	1953
	July 26,	July 28,	July 30,	June 28,	June 30,	June 25,
	Aug. 29	Aug. 31	Aug. 26	Aug. 29	Aug. 31	Aug. 26
Food processors	+115	+ 60	+ 89	+ 15	- 5	- 30
Commodity dealers	+108	+ 29	- 11	+249	+ 95	+ 13
Trade concerns	+ 2	+ 31	- 5	- 2	+ 60	- 21
Total	+225	+120	+ 73	+262	+150	- 38
Sales finance	+137	+274	- 60	- 67	+238	- 24
All other - total	<u>+180</u>	<u>+311</u>	<u>+190</u>	<u>+208</u>	<u>+442</u>	<u>+149</u>
Metal and metal products	-139	+ 33	- 13	-259	- 13	- 63
Textiles, apparel, and leather	+ 48	+ 78	+ 33	+ 76	+106	+ 67
Petroleum, coal, etc.	+ 54	+ 20	+ 18	+118	+ 38	- 4
Other manufacturing and mining	+ 60	+ 17	+ 7	+135	+ 46	+ 17
Public utilities	+ 52	+ 41	+ 76	+ 24	+ 43	+ 59
Construction	+ 19	+ 2	+ 19	+ 4	+ 37	+ 14
All other types of business	+ 86	+120	+ 50	+110	+185	+ 59
Total - Classified	+541	+705	+201	+403	+830	+ 88
Unclassified	+ 10	2/- 60	+ 47	- 81	3/-160	+ 6
Total change	+551	2/+645	+248	+322	3/+670	+ 94

1/ Data for 1955 and 1953 include agricultural loans.

2/ CCC certificates of interest may have declined about \$200 million.

3/ CCC certificates of interest may have declined about \$300 million.

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Preliminary member bank call report data for June 30, 1956, indicate that total loans at all member banks increased \$3.7 billion, or almost 5-1/2 per cent during the first half of 1956. Rates of expansion were generally comparable at all classes of banks. Business loans increased \$2.7 billion, or almost 9 per cent, and accounted for over two-thirds of total loan growth. About half the growth occurred at central reserve city banks in New York and Chicago where the rate of expansion was 11-12 per cent, whereas at reserve city and country banks, the rates of increase were 6 and 10 per cent, respectively. "Other loans to individuals", which include consumer loans rose about 7 per cent and real estate loans about 5 per cent, but loans for purchasing or carrying securities declined substantially at banks in New York and Chicago and agricultural loans dropped at country and reserve city banks.

Total loans and investments at all commercial banks have increased about \$3/4 billion since mid-year, about the same as in the comparable period last year. The 1956 increase, however, reflected increased holdings of U. S. Government securities with little net change in other earning assets. Last year, loans increased substantially while holdings of U. S. Government securities declined somewhat.

The appended table, "Loans and Investments at All Commercial Banks", shows types of outstanding loans and investments monthly for recent years and quarterly or annually for previous years.

Deposits and currency. Preliminary estimates indicate that demand deposits and currency held by businesses and individuals may have declined about \$600 million on a seasonally adjusted basis in August, as shown in Table 3. So far this year, the seasonally adjusted annual rate of growth has been somewhat less than 1 per cent, and at the end of August, deposits and currency were about 1 per cent above their level a year ago.

The \$500 million reduction in demand deposits adjusted in August reflected in part a transfer of funds to Treasury accounts for acquisition of new certificates in mid-August. Over the month, U. S. Government deposits increased over \$2 billion. Time deposits continued to rise moderately. Total deposits and currency, on balance, increased almost \$2 billion, largely reflecting expansion in commercial bank credit, but also increased Reserve Bank holdings of U. S. Government securities and loan expansion at mutual savings banks.

The seasonally adjusted rate of deposit turnover at banks outside New York City, which was over 6 per cent higher in the second quarter of 1956 than in the last quarter of 1955, continued to rise in July. At banks in New York City, where turnover in the second quarter averaged about the same as in late 1955, the rate also increased in July.

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Table 3
Estimated Changes in Deposits and Currency
(In billions of dollars)

Item	1956	1955	1956	1955	Year ending:	
	July 26- Aug. 29	July 28- Aug. 31	June 28- Aug. 29	July 1- Aug. 31	Aug. 29, 1956	Aug. 31 1955
<u>Seasonally adjusted data 1/</u>						
Demand deposits adjusted	- 0.5	<u>2/</u>	- 0.4	+ 0.6	+ 0.9	+ 4.6
Currency outside banks	- 0.1	<u>2/</u>	- 0.1	+ 0.2	+ 0.3	+ 0.3
Total	- 0.6	<u>2/</u>	- 0.5	+ 0.8	+ 1.2	+ 4.9
<u>Unadjusted data 1/</u>						
Demand deposits adjusted	- 0.5	<u>2/</u>	- 0.3	+ 0.7	+ 0.9	+ 4.5
Currency outside banks	<u>2/</u>	+ 0.2	<u>2/</u>	- 0.1	+ 0.2	+ 0.4
Total	- 0.5	+ 0.2	- 0.3	+ 0.6	+ 1.1	+ 4.9
Time deposits	+ 0.2	+ 0.3	+ 0.3	+ 0.3	+ 3.3	+ 3.4
U. S. Government deposits	+ 2.1	- 0.9	+ 0.4	- 0.2	+ 0.7	- 0.5
Total	+ 1.8	- 0.4	+ 0.6	+ 0.7	+ 5.2	+ 7.8
<u>Factors affecting deposits and currency</u> (signs indicate effect on deposits and currency)						
Bank loans and investments other than U. S. Govt. sec. 3/	+ 0.6	+ 1.2	+ 0.3	+ 1.8	+ 11.9	+ 14.0
Commercial	+ 0.4	+ 1.0	<u>2/</u>	+ 1.5	+ 9.5	+ 11.5
Mutual savings	+ 0.2	+ 0.2	+ 0.2	+ 0.4	+ 2.3	+ 2.3
Bank holdings of U. S. Government securities:	+ 1.5	- 1.7	+ 0.9	- 0.7	- 6.0	- 5.4
Federal Reserve	+ 0.3	- 0.3	+ 0.2	+ 0.2	- 0.1	- 0.1
Commercial	+ 1.2	- 1.2	+ 0.7	- 0.8	- 5.4	- 4.8
Mutual savings and other	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	- 0.6	- 0.4
Gold stock and foreign deposits at F. R. Banks	- 0.1	+ 0.1	<u>2/</u>	<u>2/</u>	+ 0.2	<u>2/</u>
Other factors	- 0.2	<u>2/</u>	- 0.6	- 0.4	- 0.9	- 0.8

1/ Seasonally adjusted data are for last Wednesday throughout; unadjusted data are for last Wednesday except in case of June and December call dates, when available. Unadjusted data from the end of June are not strictly comparable in view of the fact that June 27, 1956 is being compared with June 30, 1955. Usually, however, demand deposits adjusted decline and currency outside banks increase in roughly comparable amounts between the last Wednesday and the 30th of June; therefore the total privately-held money supply may have been about unchanged between June 27 and June 30.

2/ Less than \$50 million.

3/ Total includes foreign loans on gold and holdings of bankers' acceptances at the Federal Reserve; changes in these items are generally relatively small. In addition, even if there were no changes in these items, changes at commercial and mutual savings banks would not necessarily add exactly to total change, which is "net", because of bookkeeping discrepancies between various banking records.

Note: Data for August 1956 are estimates and subject to change. Preliminary data for August will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States" available at the end of September.

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Table 4

Free Reserves

(Excess reserves minus member bank borrowings;
based on average of daily figures; in millions of dollars)

Period	All member	New York	Chicago	Reserve City	Country
1954: December	459	- 50	- 16	- 26	550
1955: July	92	- 69	- 25	- 219	407
August	- 189	- 139	- 61	- 342	353
September	- 285	- 127	- 114	- 409	365
October	- 360	- 150	- 137	- 416	344
November	- 491	- 265	- 67	- 501	341
December	- 245	- 161	- 83	- 338	338
1956: January	- 255	- 198	- 83	- 353	379
February	- 266	- 138	- 103	- 336	310
March	- 408	- 174	- 256	- 298	319
April	- 533	- 167	- 262	- 429	324
May	- 504	- 88	- 153	- 468	205
June	- 195	- 33	- 111	- 356	305
July	- 139	- 108	- 48	- 344	360
August	- 341	- 162	- 72	- 381	273
1956: July 25	- 16	- 50	- 27	- 326	387
Aug. 1	- 213	- 32	- 48	- 353	220
8	- 347	- 160	- 34	- 469	316
15	- 381	- 150	- 53	- 429	251
22	- 230	- 145	- 99	- 371	385
29	- 432	- 205	- 106	- 299	178
Sept. 5	- 348	- 132	- 57	- 345	186

Note: Data for second half of August and September are preliminary.

Bank reserves. Net borrowed reserves of all member banks averaged \$340 million in August, substantially above the \$140 million average in July, as shown in Table 4. Borrowings from the Reserve Banks averaged \$900 million in August and excess reserves about \$560 million. All classes of banks shared in the recent tightening but country banks accounted for almost half.

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Table 5

Changes in Member Bank Reserves, with Relevant Factors
(Monthly average of daily figures; in millions of dollars)

Item	August		July - August		Year ended August	
	1956	1955	1956	1955	1956	1955
<u>Member bank reserve balances</u>						
<u>Total</u>	- 53	- 96	- 150	+ 13	+ 55	+250
Excess reserves $\frac{1}{1}$ /	- 42	- 43	- 17	+ 7	+ 74	-264
Required reserves $\frac{1}{1}$ /	- 11	- 53	- 133	+ 6	- 19	+514
<u>Principal factors</u> (signs indicate effect on reserves)						
Currency in circulation	+101	- 5	- 114	-239	-361	-393
Gold stock and foreign accounts	+ 11	- 6	+ 57	- 13	+286	- 84
Treasury operations	+ 20	-107	- 10	-213	+126	+ 71
Federal Reserve float	-353	-194	- 296	-132	+164	+ 92
Other factors	+ 58	+ 69	+ 74	- 12	+ 95	+ 64
<u>Federal Reserve loans and investments:</u>						
U. S. Govt. securities:	- 50	- 81	+ 8	+288	-356	-103
Outright	- 85	- 55	+ 2	+274	-382	- 60
Repurchase agreements	+ 36	- 26	+ 7	+ 14	+ 27	- 43
Acceptances	---	+ 1	+ 1	- 2	+ 4	+ 14
Discounts and advances:						
To member banks	+160	+238	+ 129	+364	+133	+650
To others	---	- 11	- 1	- 26	- 38	- 57

1/ Data for August 1956 are preliminary.

System holdings of U. S. Government securities increased \$415 million during August. Purchases were concentrated at the end of the month, however, and on a monthly average basis, as shown in Table 5, holdings declined somewhat. Holdings by the System remained about unchanged in early August following purchases late in July when reserve pressures increased largely as a result of reductions in Reserve Bank float. In mid-August, the System purchased almost \$200 million of securities under repurchase contracts when market tightness developed in connection with the issuance of the new Treasury tax certificates. These holdings were retired in about a week, but additional purchases were made at various times over the remainder of the month. Beginning on August 21, and continuing through

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the end of the month, the System purchased bills outright totaling \$410 million, as declines in Reserve Bank float and increases in currency in circulation associated with month-end and holiday needs drained reserves.

As shown in Table 5, the principal factor absorbing reserves over August was a substantial decline in Reserve Bank float, which returned to a normal level in August following unusually high levels in June and July. An inflow of currency from circulation was the major factor supplying reserves to banks over August. Late in the month, however, and continuing into early September, there were heavy outflows to meet end-of-month and holiday needs. Required reserves showed little change on a monthly average basis in August; a sharp increase at the mid-month, associated with expansion in bank credit resulting from Treasury financing, was about offset by previous and subsequent declines. Between late July and late August, however, required reserves increased \$265 million.

Interest rates. Beginning in mid-August and continuing through early September, rates on short-term money market paper rose further about $1/4$ to $1/2$ per cent. The rate on prime commercial paper, 4-6 months, rose to $3-1/2$ per cent, on directly placed finance paper, to $3-1/8$ per cent, on 90 day bankers' acceptances, to $2-7/8$ per cent, and on brokers' call loans, to $4-1/2$ per cent. On August 20 and 21, banks in Boston, New York, and other cities announced an increase in the prime commercial rate--the minimum charged on short-term loans to business borrowers with the best credit rating--to 4 per cent from $3-3/4$ per cent. The latter rate had been in effect since April 1956, when an increase in the prime rate had followed an increase in the discount rate.

On August 24, with the approval of the Board of Governors, the discount rate was increased from $2-3/4$ to 3 per cent at the New York, Philadelphia, Richmond, and Chicago Reserve Banks, followed by similar increases at six other Reserve Banks by the end of the month. At the Minneapolis and San Francisco Banks, the rate had been raised to 3 per cent last April.

The effective rate on Federal funds increased to 3 per cent at the time the discount rate rose on August 24, and thereafter generally remained close to this level.

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Loans and Investments at All Commercial Banks

(In billions of dollars)

Date	Loans and investments	U. S. Gov't. securities	Other securities	Total loans	Business	Real estate	Security	Farm	Consumer	All other
1947: Dec: 31	116.2	69.2	9.0	37.9	18.3	9.4	2.1	1.7	3.8	2.9
1948: Dec: 31	114.2	62.6	9.2	42.4	18.9	10.8	2.3	2.9	4.8	3.1
1949: Dec: 31	120.1	67.0	10.2	42.9	17.1	11.5	2.6	3.1	5.8	3.4
1950: Dec: 31	126.6	62.0	12.4	52.2	21.9	13.5	2.9	2.9	7.4	4.2
1951: Dec: 31	132.5	61.5	13.3	57.6	25.9	14.6	2.6	3.4	7.5	4.5
1952: Dec: 31	141.5	63.3	14.1	64.0	27.9	15.7	3.2	3.9	9.4	4.9
1953: Mar. 25	139.2	60.5	14.3	64.4	27.9	15.9	2.7	3.9	10.0	4.9
June 30	137.8	58.6	14.3	64.9	27.4	16.2	2.8	3.7	10.6	5.1
Sept. 30	142.6	62.2	14.5	65.9	27.9	16.5	2.9	3.9	10.9	4.9
Dec. 31	145.5	63.4	14.7	67.4	27.2	16.7	3.6	5.0	10.9	5.1
1954: Mar. 31	142.5	60.7	15.1	66.8	26.7	16.8	3.0	5.8	10.6	5.0
June 30	146.2	63.5	15.5	67.2	26.1	17.2	3.7	5.1	10.8	5.2
Sept. 29	150.1	67.3	16.0	66.8	26.1	17.8	3.8	3.9	10.7	5.5
Dec. 31	155.7	69.0	16.3	70.4	26.9	18.4	4.5	5.2	10.7	5.8
1955: Jan. 26	155.5	69.0	16.7	69.8	26.6	18.6	4.0	5.2	10.7	5.8
Feb. 23	153.8	66.8	16.8	70.2	26.8	18.8	3.9	5.2	10.8	5.9
Mar. 30	152.4	64.2	17.0	71.2	27.4	19.0	4.1	4.9	11.0	6.0
Apr. 27	154.4	65.6	17.0	71.8	27.6	19.2	4.3	4.4	11.2	6.2
May 25	154.5	65.0	16.7	72.8	28.0	19.5	4.3	4.4	11.4	6.4
June 30	154.8	63.3	16.8	74.8	28.9	19.8	4.5	4.4	11.8	6.6
July 27	155.8	63.7	16.7	75.4	29.1	20.0	4.5	4.2	11.9	6.7
Aug. 31	155.6	62.5	16.9	76.2	29.9	20.3	4.2	3.9	12.1	6.8
Sept. 28	156.4	62.0	16.9	77.5	30.5	20.6	4.2	3.9	12.3	7.0
Oct. 26	158.1	62.9	16.8	78.4	<u>1/</u> 30.8	<u>1/</u> 20.8	4.4	4.0	12.5	7.0
Nov. 30	158.2	61.4	16.6	80.2	32.3	20.7	4.5	4.3	12.6	7.0
Dec. 31	160.3	61.6	16.7	82.0	33.2	20.8	5.0	4.5	12.7	7.0
1956: Jan. 25p	158.3	60.9	16.5	80.9	32.7	20.9	4.6	4.4	12.8	6.9
Feb. 29p	157.1	59.2	16.6	81.2	32.9	21.0	4.5	4.5	12.8	6.9
Mar. 28p	158.5	58.5	16.6	83.3	34.5	21.2	4.5	4.4	13.0	7.0
Apr. 25p	158.6	58.1	16.6	83.9	34.8	21.4	4.4	4.3	13.2	7.1
May 30p	158.3	57.2	16.4	84.7	34.8	21.6	4.5	4.4	13.4	7.2
June 27p	159.0	56.4	16.4	86.2	36.1	21.8	4.4	4.3	13.7	7.3
July 25p	158.1	55.9	16.2	86.0	35.9	21.9	4.2	4.3	13.8	7.3
Aug. 29e	159.7	57.1	16.3	86.3	36.5	22.1	3.9	4.0	13.9	7.3

p - Preliminary e - Estimated

1/ Level of business loans increased by, and real estate loans decreased by \$300 million at the end of October 1955 to correct classification errors. No back figures revised; most of the misclassification probably occurred during 1955.

Note: Data exclude interbank loans. Total loans are after and types of loans before deductions for valuation reserves. Consumer and "other loans" are partly estimated for all dates. Other data are partly estimated on all but June and December dates.

Banking Section, Board of Governors

September 11, 1956