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BANKING AND MONETARY DEVELOPMENTS IN JANUARY 1957

Summary. Total loans and investments at all commercial banks declined sharply in January reflecting reductions in loans, especially business and security, and in holdings of U. S. Government and other securities. Demand deposit and currency holdings of businesses and individuals may have declined slightly more than seasonally. Member bank reserve positions eased further and average excess reserves exceeded average borrowings over the month. At the month-end, however, reserve positions tightened again.

Bank credit. Preliminary estimates indicate that total loans and investments at all commercial banks declined about \$2.8 billion in January, much more than in other recent years and exceeded the substantial growth in December by \$900 million, as shown in Table 1. Outstanding loans declined \$2.0 billion following an increase of \$1.7 billion in December, with business and security loans accounting for most of the reduction. Bank holdings of U. S. Government security holdings may have declined about \$700 million in January after increasing \$200 million in December. All commercial banks probably took a substantial part of the newly offered \$1.6 billion tax anticipation bills on January 16 but prior and subsequent sales of Government securities more than offset these purchases. Holdings of other securities declined further in January.

Last year in January, total credit declined about \$800 million less than this year, and did not quite offset the December rise. Loans declined only half as much as in January 1957 while security holdings declined in comparable volume.

The \$1 billion January reduction in business loans was larger than in January of any other year. In December 1956, however, business loans had increased \$900 million and this was probably the largest increase on record for that month after adjustment for loan reclassification included in 1955 data.

Loan repayments by food processors and trade concerns were larger than in any other year for which data are available, accounting for almost half of the total January reduction in business loans at city banks, as shown in Table 2. Reductions in borrowing by commodity dealers appeared to be about average. In December, as in the entire second half of 1956, borrowing by food processors and commodity dealers had been considerably larger than in any other year except 1951. Reductions in borrowing by sales finance companies accounted for almost one-fifth of

Table 1

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

Item	Dec. 27, 1956 - Jan. 30, 1957	Jan. 1, 1956 - Jan. 25, 1956	July 1, 1956 - Jan. 30, 1957	July 1, 1955 - Jan. 25, 1956	Year ending:	
					Jan. 30, 1957	Jan. 25, 1956
<u>Total loans (excluding interbank)</u>	<u>2/-</u> 2.0	- 1.1	+ 1.8	+ 6.1	+ 7.1	+11.1
Business	- 1.1	- 0.5	+ 1.6	<u>3/+</u> 3.8	+ 5.0	<u>3/+</u> 6.1
Real estate	<u>1/</u>	+ 0.1	+ 0.8	<u>3/+</u> 1.1	+ 1.7	<u>3/+</u> 2.3
Security	- 0.6	- 0.4	- 0.7	+ 0.1	- 0.9	+ 0.6
Agricultural	+ 0.1	- 0.1	<u>1/</u>	<u>1/</u>	- 0.1	- 0.8
Consumer	- 0.1	+ 0.1	+ 0.3	+ 1.2	+ 1.3	+ 2.4
All other	- 0.2	- 0.1	---	+ 0.2	+ 0.3	+ 0.8
U. S. Government securities	- 0.7	- 0.7	+ 1.0	- 2.4	- 3.3	- 8.1
Other securities	- 0.1	- 0.2	- 0.4	- 0.3	- 0.4	- 0.2
<u>Total loans and investments (less interbank)</u>	<u>2/-</u> 2.8	- 2.0	+ 2.4	+ 3.5	+ 3.4	+ 2.8

1/ Less than \$50 million.

2/ An estimated \$200 million of this reduction reflecting declines in business loans and in valuation reserves probably occurred in the December 27-31 period.

3/ 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.

the reduction in business loans in January. The decline was somewhat less than in January last year, but end of year borrowing also had been less. Loans to metals manufacturers, after declining in early January, increased during the latter part of the month, but at month-end, were still somewhat below the pre-strike level of late June. Most other business categories also reduced their borrowing in January. Outstanding loans of public utilities and petroleum concerns, however, rose further, following fairly steady growth over most of 1956.

Security loans declined \$600 million in January, about twice as much as the year-end expansion. Real estate loans probably increased moderately further at banks outside leading cities but they declined considerably at city banks, after showing little change in other recent months. Agricultural loans increased slightly in January.

Table 2

Changes in Commercial and Industrial Loans 1/

(In millions of dollars)

Business of Borrower	First five weeks						Year ending	
	1957	1956 ^{2/}	1955	1954	1953	1952	Jan. 30, 1957	Feb. 1, 1956
Food processors	-250	-134	-145	-111	- 64	-143	+383	- 78
Commodity dealers	- 63	- 34	- 87	- 36	-105	-117	+329	+ 56
Trade concerns	-238	- 82	-126	-139	- 43	-185	+180	+507
Total	<u>-551</u>	<u>-250</u>	<u>-358</u>	<u>-286</u>	<u>-212</u>	<u>-445</u>	<u>+892</u>	<u>+485</u>
Sales finance	-190	-223	+ 35	-145	-126	-349	-193	+1,065
All other - total	<u>-110</u>	<u>+157</u>	<u>- 19</u>	<u>-341</u>	<u>+ 67</u>	<u>+460</u>	<u>+3,628</u>	<u>+2,810</u>
Metals and products	<u>- 31</u>	<u>+ 99</u>	<u>+ 11</u>	<u>-141</u>	<u>+105</u>	<u>+549</u>	<u>+1,195</u>	<u>+493</u>
Textiles, apparel and leather	- 23	+ 23	+ 48	+ 27	+ 19	- 18	+204	+285
Petroleum, coal, etc.	+ 18	+ 45	+ 5	-105	- 4	+ 59	+822	+566
Other manufacturing and mining	- 21	+ 11	- 12	- 35	- 16	+ 9	+411	+237
Public utilities	+ 99	+ 82	- 1	- 15	+ 15	- 78	+749	+503
Construction	- 41	- 10	---	- 13	- 4	- 34	- 49	+226
All other types of business	-111	- 93	- 70	- 59	- 48	- 27	+296	+500
Classified	-849	-316	-343	-772	-271	-333	+4,324	+4,362
Unclassified	-183	-106	3/-154	4/+ 30	-167	+ 12	-185	- 71
Total change	<u>-1,032</u>	<u>-422</u>	<u>3/-497</u>	<u>4/-742</u>	<u>-438</u>	<u>-321</u>	<u>+4,140</u>	<u>5/6/+4,291</u>

1/ Prior to week ending January 11, 1956, included changes in agricultural loans.

2/ Five weeks are included in this comparison whereas four weeks are included in comparisons in Table 1.

3/ CCC certificates of interest, which are included in data, may have declined \$85 million.

4/ CCC certificates of interest, which are included in data, may have increased \$175 million.

5/ Includes increase of \$318 million in October 1955 to correct classification errors. No back figures revised. Most of the misclassification probably occurred in 1955.

6/ CCC certificates of interest, which are included in data, may have declined about \$735 million.

Note: Classified data are for a sample of about 210 banks reporting changes in their larger loans; these banks hold over 90 per cent of total commercial and industrial loans of all weekly reporting banks and nearly 70 per cent of those of all commercial banks. Data are preliminary for week of January 30, 1957.

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Over the past year, the \$3.4 billion increase in total bank credit at all commercial banks was somewhat more than in the year ending January 1956. Loan growth was almost \$4 billion less but the reduction in holdings of U. S. Government and other securities was \$4.5 billion less. Business, real estate, and consumer loans all increased less than in the previous year and security loans declined whereas they had increased earlier. Agricultural loans, however, declined only slightly compared with large reductions in the year ending January 1956 reflecting principally redemptions of CCC certificates of interest.

Deposits and currency. Preliminary estimates indicate that demand deposits and currency held by businesses and individuals declined slightly more than seasonally in January, as shown in Table 3. Demand deposits adjusted, however, appear to have increased about \$200 million on a seasonally adjusted basis whereas currency outside banks may have declined about \$400 million. This was the largest January reduction in currency outside banks in the past ten years for which data are available. The growth in December, however, was also the largest for the month. Last year in January, there was no change in seasonally adjusted money supply, as increases in demand deposits offset declines in currency.

At the end of January, the seasonally adjusted money supply was about 3/4 per cent higher than a year ago. In the previous twelve months, the increase had been 1.6 per cent.

U. S. Government deposits declined \$2.2 billion in January, the largest reduction for that month since 1945. At the month-end, these deposits were at an unusually low level for recent years. Time deposits increased further in January, but part of the rise reflected year-end interest payments. Over the past year, growth in time deposits at banks and in the Postal Savings System has totaled about \$3.9 billion, almost 85 per cent of the \$4.6 billion growth in total deposits and currency. In the year ending January 1956, time deposits increased \$3.0 billion and accounted for slightly over 80 per cent of the total \$3.7 billion growth.

Total deposits and currency declined about \$3.9 billion in January 1957, largely reflecting the sharp reduction in commercial bank credit noted above and a \$1.5 billion reduction in Federal Reserve holdings of U. S. Government securities. Loan growth at mutual savings banks and foreign transactions added somewhat to total deposits and currency, however.

Bank reserves. Member bank reserve positions eased somewhat further in January and banks moved from a position of small net borrowed reserves to one of free reserves, as shown in Table 4. Free reserves averaged \$90 million in January compared with net borrowed reserves of \$35 million in December. This was the first month that excess reserves exceeded borrowings since July 1955. Borrowings

Table 3

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

Item	Dec. 27, 1956 -	Jan. 1, 1956 -	July 1, 1956 -	July 1, 1955 -	Year ending:	
	Jan. 30, 1957	Jan. 25, 1956	Jan. 30, 1957	Jan. 25, 1956	Jan. 30, 1957	Jan. 25, 1956
<u>Seasonally adjusted data</u> 1/						
Demand deposits adjusted	+ 0.2	+ 0.2	+ 0.1	+ 1.1	+ 0.8	+ 1.8
Currency outside banks	- 0.4	- 0.2	- 0.1	+ 0.3	+ 0.2	+ 0.3
Total	- 0.2	<u>2/</u>	<u>2/</u>	+ 1.4	+ 1.0	+ 2.1
<u>Unadjusted data</u> 1/ 3/						
Demand deposits adjusted 3/	- 1.0	- 1.0	+ 5.0	+ 5.7	+ 0.8	+ 1.9
Currency outside banks 3/	- 1.1	- 1.2	- 1.0	- 0.3	+ 0.2	+ 0.3
Total 3/	- 2.1	- 2.2	+ 4.0	+ 5.4	+ 1.0	+ 2.2
Time deposits 3/	+ 0.4	2/	+ 1.7	+ 1.3	+ 3.9	+ 3.0
U. S. Government deposits 3/	- 2.2	- 1.6	- 3.6	- 3.0	- 0.3	- 1.4
Total 3/	- 3.9	- 3.9	+ 2.0	+ 3.6	+ 4.6	+ 3.7
<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/	- 1.9	- 1.1	+ 2.5	+ 7.2	+ 9.1	+ 13.4
Commercial	- 2.1	- 1.3	+ 1.4	+ 5.8	+ 6.7	+ 10.9
Mutual savings	+ 0.2	+ 0.2	+ 1.4	+ 1.3	+ 2.5	+ 2.3
Bank holdings of U. S. Government securities:	- 2.2	- 1.9	+ 0.2	- 2.8	- 4.1	- 8.8
Federal Reserve	- 1.5	- 1.3	- 0.3	- 0.1	- 0.1	- 0.2
Commercial	- 0.7	- 0.7	+ 1.0	- 2.4	- 3.3	- 8.1
Mutual saving and other	2/	2/	- 0.5	- 0.3	- 0.7	- 0.5
Gold stock and foreign deposits at F. R. Banks	+ 0.3	2/	+ 0.4	2/	+ 0.6	2/
Other factors	5/- 0.1	5/- 0.9	- 1.1	- 0.8	- 1.0	- 0.9

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.

2/ Less than \$50 million.

3/ Changes between December 26, and December 31, 1956, are estimated as follows: Demand deposits adjusted, + \$400 million; currency outside banks, no change; time deposits, + \$200 million; and U. S. Government deposits, - \$500 million.

4/ 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 among various banking records.

5/ Differences in changes in "other factors" in January 1957 and January 1956 presumably reflect in part the fact that the January 1956 change is computed from December 31, 1955 data after year-end adjustments were completed; in the December 29, 1955-January 25, 1956 period, the change in "other factors" was - \$0.4 billion.

Note: Data for January 1957 are estimates and subject to change. Preliminary data for January will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States" available at the end of February.

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: March	121	3	- 134	- 151	404
June	168	2	- 43	- 167	377
September	- 285	- 127	- 114	- 409	365
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	- 339	- 158	- 72	- 382	274
September	- 213	- 204	- 93	- 296	380
October	- 195	- 192	- 114	- 246	358
November	- 154	- 214	- 140	- 193	393
December	- 36	- 91	- 86	- 203	344
1957: January	91	- 41	- 41	- 177	350
<u>Quarterly averages</u>					
1955: First	254	- 29	- 75	- 99	457
Second	158	- 1	- 64	- 150	374
Third	- 127	- 112	- 67	- 323	375
Fourth	- 365	- 192	- 95	- 418	341
1956: First	- 310	- 170	- 147	- 329	336
Second	- 411	- 96	- 175	- 418	278
Third	- 230	- 157	- 71	- 341	338
Fourth	- 128	- 166	- 113	- 214	365
1956: Dec. 26	63	- 144	- 82	- 138	427
1957: Jan. 2	- 155	- 122	- 97	- 316	380
9	224	- 72	- 94	- 135	525
16	208	7	- 19	- 105	325
23	259	- 14	- 27	- 119	419
30	- 172	- 12	- 17	- 266	123
Feb. 6	- 238	- 110	- 15	- 275	163

Note: Data for second half of January and February are preliminary.

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declined to an average level of \$400 million in January, the lowest in a year and a half. Excess reserves, however, also declined somewhat. The effective trading rate on Federal funds was frequently below the discount rate, whereas in other recent months it had dropped below only occasionally. On balance, all the easing in reserves in January occurred at central reserve and reserve city banks, while at country banks, free reserves remained about unchanged.

Banks were under some reserve pressure around the turn of the year when reserves absorbed through reductions in Reserve Bank float exceeded those supplied largely through currency inflows and reductions in Treasury deposits at the Reserve Banks. Subsequently, however, an inflow of currency and reductions in required reserves were offset only in part by System sales of U. S. Government securities. Free reserves averaged \$230 million over the three weeks ending January 23. In late January and early February reserve positions tightened again largely reflecting declines in Reserve Bank float and System sales of U. S. Government securities. Net borrowed reserves averaged over \$200 million in the two weeks ending February 6.

Over January, as shown in Table 5, more reserves were supplied to banks through currency inflows, foreign transactions, reductions in Treasury deposits at the Reserve Banks, and declines in required reserves than were absorbed through System sales of U. S. Government securities and declines in Reserve Bank float. By mid-January, Reserve Bank float had declined to a level about the same as that in mid-December prior to the sharp Christmas expansion. The post-Christmas currency inflow of \$735 million was about \$100 million larger than that in January 1956 and somewhat larger than in any other post-war year. In December 1956, however, the outflow of currency into circulation had exceeded that of any other year except 1952.

On January 28, the Treasury purchased \$300 million of gold from the International Monetary Fund which was selling in order to replenish its supply of dollars. However, until the dollars are needed to meet withdrawals by member nations, the Fund is holding the proceeds in the form of non-interest bearing Treasury notes. The Treasury issued \$300 million of gold certificates to the Federal Reserve System and increased its balances with the System by an equivalent amount. Thus the immediate effect of the transaction was to increase both gold stock and Treasury deposits by \$300 million, with no effect on bank reserves. It was anticipated that there would be no net increase in bank reserves from this source until the notes are cashed and the dollars spent by foreign nations.

Between December 31 and January 31, System holdings of U. S. Government securities declined \$1.5 billion, including about \$300 million previously acquired under repurchase agreements which were all retired early in January. The reduction was about \$300 million larger than the increase in the System portfolio in the second half of 1956. Last year in January, System holdings had been reduced \$1.3 billion, and this also slightly exceeded second half 1955 purchases.

Table 5

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

Item	January		July - January		Year ending Jan.	
	1957	1956	1957	1956	1957	1956
<u>Member bank reserve balances</u>						
<u>Total</u>	<u>- 240</u>	<u>- 102</u>	<u>+ 362</u>	<u>+ 423</u>	<u>+ 157</u>	<u>+ 24</u>
Excess reserves ^{1/}	- 154	- 42	- 77	- 17	- 55	- 130
Required reserves ^{1/}	- 86	- 60	+ 439	+ 440	+ 212	+ 154
<u>Principal factors</u>			(signs indicate effect on reserves)			
Currency in circulation	+ 735	+ 645	- 504	- 570	- 420	- 510
Gold stock and foreign accounts	+ 98	+ 58	+ 186	+ 24	+ 378	+ 51
Treasury operations	+ 109	+ 67	+ 168	+ 17	+ 73	+ 39
Federal Reserve float	- 290	- 237	+ 137	+ 274	+ 191	+ 347
Other factors	+ 73	+ 102	+ 123	+ 29	+ 103	+ 11
<u>Federal Reserve loans and investments:</u>						
U. S. Govt. securities	<u>- 673</u>	<u>- 705</u>	<u>+ 570</u>	<u>+ 299</u>	<u>+ 195</u>	<u>- 303</u>
Outright	- 442	- 494	+ 570	+ 228	+ 232	- 358
Repurchase agreements	- 231	- 211	---	+ 71	- 37	+ 55
Acceptances	- 13	+ 2	+ 20	+ 5	+ 16	+ 21
Discounts and advances:						
To member banks	- 282	- 32	- 363	+ 406	- 401	+ 494
To others	+ 8	---	+ 25	- 63	+ 25	- 130

1/ Data for January 1957 are preliminary.

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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: Dec. 31	145.5	63.4	14.7	67.4	27.2	16.7	3.6	5.0	10.9	5.1
1954: Dec. 31	155.7	69.0	16.3	70.4	26.9	18.4	4.5	5.2	10.9	5.6
1955: Jan. 26	155.5	69.0	16.7	69.8	26.6	18.6	4.0	5.2	10.9	5.6
Feb. 23	153.8	66.8	16.8	70.2	26.8	18.8	3.9	5.2	11.0	5.7
Mar. 30	152.4	64.2	17.0	71.2	27.4	19.0	4.1	4.9	11.2	5.8
Apr. 27	154.4	65.6	17.0	71.8	27.6	19.2	4.3	4.4	11.5	5.9
May 25	154.5	65.0	16.7	72.8	28.0	19.5	4.3	4.4	11.7	6.1
June 30	154.8	63.3	16.8	74.8	28.9	19.8	4.5	4.4	12.1	6.2
July 27	155.8	63.7	16.7	75.4	29.1	20.0	4.5	4.2	12.3	6.3
Aug. 31	155.6	62.5	16.9	76.2	29.9	20.3	4.2	3.9	12.5	6.4
Sept. 28	156.4	62.0	16.9	77.5	30.5	20.6	4.2	3.9	12.7	6.6
Oct. 26	158.1	62.9	16.8	78.4	$\frac{1}{30.8}$ 31.1	$\frac{1}{20.8}$ 20.5	4.4	4.0	12.9	6.5
Nov. 30	158.2	61.4	16.6	80.2	32.3	20.7	4.5	4.3	13.0	6.5
Dec. 31	160.3	61.6	16.7	82.0	33.2	20.8	5.0	4.5	13.2	6.5
1956: Jan. 25	158.3	60.9	16.5	80.9	32.7	20.9	4.6	4.4	13.3	6.4
Feb. 29	157.1	59.2	16.6	81.2	32.9	21.0	4.5	4.5	13.3	6.4
Mar. 28	158.5	58.6	16.6	83.3	34.5	21.2	4.5	4.4	13.5	6.5
Apr. 25	158.7	58.2	16.6	83.9	34.8	21.4	4.4	4.3	13.7	6.6
May 30	158.4	57.3	16.4	84.7	34.8	21.6	4.5	4.4	13.9	6.7
June 30	159.3	56.6	16.5	86.2	36.1	21.8	4.4	4.3	14.3	6.7
July 25p	158.3	56.2	16.3	85.8	35.8	21.9	4.3	4.2	14.4	6.6
Aug. 29p	159.8	57.2	16.4	86.3	36.4	22.1	4.0	4.0	14.4	6.7
Sept. 26p	160.7	57.0	16.5	87.2	36.9	22.3	4.1	4.2	14.5	6.6
Oct. 31p	161.3	57.4	16.3	87.6	37.2	22.4	4.1	4.0	14.5	6.7
Nov. 28p	162.6	58.1	16.3	88.3	37.8	22.5	4.0	4.1	14.5	6.8
Dec. 26p	164.5	58.3	16.2	90.0	38.8	22.6	4.3	4.2	14.7	6.9
Dec. 31e	164.3	58.3	16.2	89.8	38.7	22.6	4.3	4.2	14.7	6.9
1957: Jan. 30e	161.7	57.6	16.1	88.0	37.7	22.6	3.7	4.3	14.6	6.7

p - Preliminary

e - Estimated

$\frac{1}{/}$ 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. Data for December 31, 1956, and January 30, 1957, are estimates and subject to change. Loan data for December 31, 1956 are based on preliminary member bank call report data.