ANNUAL REPORT — 1955

Federal Reserve Bank of New York

FEDERAL RESERVE BANK OF NEW YORK

March 12, 1956

To the Stockholders
of the Federal Reserve
Bank of New York:

I am pleased to transmit herewith the forty-first annual report of the Federal Reserve Bank of New York reviewing the year 1955.

ALLAN SPROUL
President

Federal Reserve Bank

of New York

FORTY-FIRST
ANNUAL REPORT

For the Year

Ended

December 31, 1955

Second Federal Reserve District

Contents:

Forty-first Annual Report
Federal Reserve Bank of New York

Introduction

The unprecedented prosperity achieved by the United States in 1955 surpassed most expectations, but created few illusions that economic expansion at so swift a pace could be indefinitely sustained. In Western Europe and other areas of the free world, new record levels of production and income were also reached but not without straining available resources and arousing public as well as official concern over the rate of advance. Such sober appreciation of the dangers of inflation and subsequent recession that lurk in the approaches to capacity output provided support for the restraining action taken both here and abroad.

In the United States as the year began, there still remained uncertainties as to the breadth and momentum of the recovery from the 1953-54 decline. The swift rise of automobile output and residential construction late in 1954 had given strong impetus to economic revival, but there was concern whether the expansion could be maintained throughout 1955. More generally, there was the question whether economic activity would expand in 1955 along a sufficiently broad front to provide adequate employment opportunities for the growing labor force. At the same time, indications appeared in the stock market and elsewhere of speculative tendencies which carried the threat of a subsequent reversal and resultant shock to business confidence.

Early in the year, however, recovery broadened out into a buoyant surge of expansion, lifting output in a wide range of industries to record levels. By the second quarter of 1955, the annual rate of gross national product had risen 4 per cent above the previous all-time peak of 1953 and the summer months were marked by a further increase in output and expenditure. But as output began to press against the limits of capacity, there also appeared indications of developing inflationary pressure, reflecting not only higher labor costs but also growing shortages of various raw and processed materials. By autumn, it had become clear that the expansion had attained boom proportions.

As the cyclical upswing gathered increasing momentum, Federal Reserve credit policy gradually shifted from ease to progressively firmer restraint. During the early months of the year, the evolution of credit policy was mainly characterized by a gradual withdrawal of the special stimulus of easy money, as the forces of recovery within the private economy steadily gained in strength. By late spring, however, the problem of credit policy had become the more delicate one of determining the appropriate flow of credit to an economy in which the demand for goods, other than farm products, was beginning to put pressure on the supply. Throughout the second half of the year, the Federal Reserve System was constantly engaged in an attempt to prevent an undue growth of credit without choking off the flow of credit to legitimate uses. In varying degree, an essentially similar problem of appropriate monetary and credit policy appeared throughout the free world, in which the tide of economic expansion was almost everywhere running strongly.

RECOVERY AND EXPANSION. The remarkable growth of economic activity in the United States in 1955 was primarily generated by powerful expansionary forces developing within the private economy. In general, the pattern of economic expansion throughout the year was largely shaped by private consumption and investment expenditure with relatively little stimulus from the fiscal and other extraordinary influences that had been operating throughout much of the postwar period. Particularly striking was the time sequence in which the various forces of recovery — consumer spending, residential construction, and business investment in inventory and fixed capital — came into play.

Consumer spending, which rose from 236 billion dollars in 1954 to 252 billion in 1955, seems to have been the single most important driving force that lifted the economy out of the 1953-54 recession and opened the path to further expansion. Supporting this rise in consumer spending was a strong and continuing growth of disposable personal income which even during the recession period of 1954 had risen by 4 billion dollars (mainly reflecting income tax reduction and higher unemployment insurance, interest, and dividend payments) while the gross national product had been simultaneously declining by 4 billion dollars. In 1955, disposable personal income rose even more sharply, by 15 billion dollars, and was further strongly supplemented by an increase of more than 6 billion dollars in consumer credit. Thus, far from being passively tied to income, consumer spending rose more than income in 1955 while savings fell from an estimated 7.2 to 6.3 per cent. Closely related to the growth in consumer expenditure – and presumably springing from much the same set of personal expenditure decisions – was the accelerated pace of residential building. Here again, the strong initial impetus provided by such housing expenditure was based upon an ample availability of credit at extremely liberal terms, which persisted until the midsummer months. During 1955 home mortgage debt expanded by no less than 13 billion dollars. In effect, the rise of consumer spending on housing, automobiles, and other durable goods was mainly responsible for the cyclical upturn in business activity.

The second major stimulus to the 1955 expansion was a broad shift from inventory liquidation to accumulation. The magnitude of the swing was substantial, nonfarm inventories shifting from an annual liquidation rate of 5.4 billion in the third quarter of 1954 to an accumulation rate of 5.1 billion in the fourth quarter of 1955. This shift reflected a strengthening of business confidence and business decisions to expand production in response to rising consumer demand. Perhaps the most significant aspect of inventory growth during the past year, however, was the fact that in many lines the actual accumulation of inventories seems to have fallen short of intended levels. During most of 1955, the growth of inventories consistently lagged behind the increase of sales with the result that the stock-sales ratio declined to the lowest level since the buying wave of 1950-51. In effect, the unexpectedly sharp rise of consumer expenditure exerted throughout the year a strong and continuing impulse to production for inventory as well as for current sales.

The third phase of the 1955 expansion should perhaps be identified with the upsurge in business investment in plant and equipment that developed in the second quarter. To a significant and perhaps substantial extent, this sharp rise in business investment seems to have been induced by the unexpected upsurge of consumer demand for durable goods and housing. While such investment was directed toward an expansion of productive capacity in many lines, the immediate effect, of course, was to impose additional demands upon existing capacity. From an annual rate of 30.5 billion in the first quarter, such investment outlays rose to an estimated annual rate of 35.5 billion in the fourth quarter with further increases anticipated during the early months of 1956. A strong upswing in the business investment cycle was thus superimposed upon an economy already pushing toward full-capacity output by reason of the earlier expansion of consumer, housing, and inventory demand. Meanwhile, foreign demand for our exports had also been rising in response to economic growth abroad.

As the coincident demands from all these sources began to press more and more closely on supply, upward pressure on prices appeared and was further intensified by a series of increases in wage rates and fringe benefits in the steel, automobile, and many other major industries. From both the demand and the cost side, a convergence of inflationary pressure upon the industrial price structure developed and lifted the industrial price index, which had remained relatively stable during the first six months of 1955, by 3½ per cent during the second half of the year.

The impact of these industrial price increases upon general price levels was temporarily cushioned, it is true, by a concurrent decline of farm prices which helped to limit the net increase in the index of all wholesale prices from June to December to less than 1 per cent. At the same time, consumer prices, partly in response to these same influences but also reflecting the continuation of strongly competitive selling conditions, rose by only ¼ of 1 per cent during the second half of the year. However, such fortuitous offsetting of industrial price increases by agricultural price declines provided only the appearance of general price stability while simultaneously further complicating the farm problem. At the close of the year, the economy still faced the danger of more or less gradual price inflation. On the other hand, the moderate slackening in automobile production and residential construction at the end of 1955 suggested at least a temporary easing of buying pressure in the markets for steel and certain other basic materials.

After a year of rapid growth, the United States economy entered 1956 with gross national product running at an annual rate of close to 400 billion dollars, or 10 per cent above the average level of 1954, estimated unemployment down by 400,000 from a year earlier, and production in many industries at record levels. To an important extent, however, expansion at so swift a pace in 1955 had depended upon the availability of unused resources, and the fact of virtually full-capacity output in critical industries at the end of the year suggested that further expansion in 1956 might well be at a somewhat slower rate. More fundamentally, there was the question whether certain of the dynamic forces behind the 1955 expansion might ebb in strength and, if so, whether the economy could sustain its forward momentum.

SHIFT FROM MONETARY EASE TO RESTRAINT. The revival of economic activity in the closing months of 1954 had been fostered by the policy of "active ease" pursued by the Federal Reserve System in 1954. As the recovery gained in strength, however, the economy's dependence upon the stimulus of easy money progressively lessened and, after the turn of the year, the System accordingly proceeded to take up some of the slack in bank reserve positions. This shift away from a credit policy adapted to business recession was accompanied by a contra-seasonal swelling of demand for bank credit which, as bank reserve positions tightened, compelled increasingly frequent recourse by member banks to the Federal Reserve "discount window". In April and early May, the general tightening of credit policy was further confirmed by increases of Federal Reserve Bank discount rates from 1½ to 1¾ per cent.

As expansionary forces gained additional momentum over the summer months and indications of growing inflationary pressure began to appear, the System allowed bank reserve positions to tighten still further, and in August average free reserves (i.e., excess reserves less borrowings from the Federal Reserve Banks) declined to negative levels. Reflecting this restraining policy, member bank borrowing from the Reserve Banks continued to grow, and in August and again in early September the Federal Reserve Banks raised the cost of such borrowing by increasing discount rates from 1¾ to 2¼ per cent.

Still heavier pressure upon bank reserve positions developed during the final quarter of the year, as the cyclical expansion of loan demand was further strongly accentuated by seasonal currency and credit requirements. By November, member bank borrowings had risen above the 1 billion dollar mark, nearly 500 million more than average excess reserves. Against this background, the December prospect of year-end reserve pressures (combined with sizable Treasury financing operations and withdrawals of funds from the money market by corporations and others) created some danger of serious market stringency. Accordingly, the System temporarily supplied in December a substantial volume of reserves through open market operations. Only shortly before, however, the continuing concern of the System with the threat of excessive credit expansion had been made clear by a further increase of discount rates to 2½ per cent in mid-November, and the temporary easing of pressures on bank reserves was not misunderstood. Such discount rate increases tended to accentuate the upward trend of interest rates throughout the short-term market, although the response of the longer-term market was less sensitive as well as somewhat erratic.

Throughout the year, the conduct of credit policy required a coordinated use of open market operations and discount rate action. For 1955 as a whole, the security holdings of the Federal Reserve System — including securities held under repurchase agreements — registered a small net decline of 147 million dollars. In general, this reflected the fact that a sufficient degree of pressure on bank reserves was brought about in the course of the year by the rise of loan demands and the outflow of currency into circulation. During the course of the year, nevertheless, open market operations served as an indispensable means of smoothing out the week-to-week and month-to-month variations in reserve pressures which, unless offset, might have worked contrary to System policy. Discount rate changes, for their part, reinforced the pressures upon member bank reserve positions by progressively raising the cost of member bank access to the Federal Reserve "discount window" and thereby strengthening bank incentives to pursue the alternative course of financing loan expansion by liquidating security holdings. In this connection, it is noteworthy that the largest part of the loan expansion in 1955 was financed by the sale or redemption of Government securities from bank portfolios, with the result that the money supply grew by only 2½ per cent, proportionately much less than the growth in economic activity.

Throughout 1955, the general objective of Federal Reserve credit policy was clear — that of restraining inflationary pressure while simultaneously ensuring a sufficient flow of credit to meet the needs of recovery and orderly expansion. In assessing the results, the adequacy of credit availability may perhaps best be judged by the record increase of 11.6 billion dollars in commercial bank loans during 1955 — more than in any previous year. As to the effectiveness of the restraint simultaneously exercised by the System, there is, of course, no possibility of estimating even roughly the further growth of bank credit as well as business investment that might have occurred in the absence of such restraint. As previously noted, however, it is of some significance that the expansion of bank loans actually occurring in 1955 was made possible only by the liquidation of bank investments in very large volume. More generally, in view of the shortages of steel and other basic materials developing despite capacity production, it would seem reasonably clear that a significantly larger growth of bank credit could not have been fully matched by increased output, and would more likely have been reflected in price inflation. Insofar as such price inflation and accompanying distortions in the pattern of production were held in check, the growth of the United States economy was rendered less susceptible, although by no means invulnerable, to a cyclical interruption.

ECONOMIC GAINS ABROAD. Economic recovery and growth in the United States in 1955 was accompanied by further economic expansion throughout most of the free world. The driving forces behind the expansion abroad naturally varied from country to country, but in Western Europe and other industrialized areas the main impetus seems to have been provided by heavy business investment in plant and equipment, coupled with a strong growth of consumer demand for automobiles and other durables. The expansion of economic activity in the industrialized countries in turn exerted a generally stimulating influence upon the primary-producing countries. Among these countries, however, production and income trends were somewhat mixed as some agricultural exports, such as coffee and rice, lagged behind the generally strong rise in exports of industrial raw materials.

In Western Europe, where output had continued to rise throughout the 1953-54 recession of economic activity in the United States, new record levels were again reached in 1955. Particularly striking was a 16 per cent increase of industrial production in West Germany, while in France the rise approximated 10 per cent. In the Netherlands, industrial output appears to have advanced by roughly 7 per cent; Belgium, Sweden, and the United Kingdom registered a somewhat smaller increase of about 5 per cent. In Canada, where a moderate decline of economic activity had occurred in 1954, industrial production recovered strongly and exceeded the 1954 level by about 9 per cent. However, in a number of industrialized countries some slackening of the rate of growth became apparent toward the close of the year as capacity limits were approached.

While the growth of output in Western Europe during 1953-54 had been reasonably orderly and well balanced, the further expansion accomplished in 1955 involved strains upon available resources of manpower, raw materials, and productive equipment. Such strains were particularly evident in the United Kingdom, where unemployment declined to about 1 per cent of the labor force and import demand for coal, steel, and other raw materials rose sharply above 1954 levels. The growth of inflationary pressure in the United Kingdom was further reflected in a 6 per cent rise in the cost of living, while in many other countries upward pressure on general price levels also appeared.

Such symptoms of developing strain were recognized by most of the governments and monetary authorities, however, and monetary policy became the generally chosen instrument of restraint. In the course of the year, the central banks of thirteen countries raised their discount rates and, in a number of instances, reinforced such action by open market operations or other measures of monetary restraint. Particularly noteworthy among the countries shifting from policies of monetary ease to restraint were Norway and Sweden which had, since the end of the war, relied heavily upon central planning and direct controls. In 1955, discount rates in both of these Scandinavian countries were raised sharply, reserve requirements were made more effective, and somewhat greater flexibility was introduced into the interest rate structure.

In the United Kingdom, the problem of domestic inflationary pressure was further complicated by London's vulnerability, as banker for the sterling area, to balance-of-payments strains in the overseas-sterling-area countries and by the sensitivity of sterling, as an international currency, to speculative movements of foreign-held balances. The deterioration of the British international position first became evident during the winter months of 1954-55 and evoked a quick and forceful response in the form of successive increases in the Bank of England's discount rate from 3 to 4½ per cent during January and February. This discount rate action, supplemented by open market operations, generated interest rate increases throughout the money and capital markets. Selective controls upon consumer instalment buying were also imposed in February and tightened in July. In a further effort to intensify the credit squeeze, the Chancellor of the Exchequer in July requested the Governor of the Bank of England to urge upon the banks a "significant reduction" in the total of bank advances outstanding.

Despite the tightening of credit conditions in response to these measures of restraint, the drain upon British reserves persisted and raised the question whether monetary policy was not being called upon to carry too heavy a load. Particular concern was aroused by the tax cuts incorporated in the government budget presented in April, against a background of continuing high levels of expenditure, which suggested that fiscal and monetary policy might be working at cross-purposes. In October, however, the Chancellor of the Exchequer introduced a supplementary budget providing for sales tax increases as well as economies in expenditure, including reductions in subsidies. At the end of the year, perhaps the most encouraging aspect of the British outlook was the apparently marginal nature of the inflationary pressure and the evident determination to deal with the problem by appropriate monetary and fiscal polices without resort to a tightening of trade restrictions or other drastic measures of direct control.

Over the course of the year, the United Kingdom and sterling area suffered a 642 million dollar loss of official reserves, reflecting among other difficulties a 36 per cent growth of British dollar imports as compared with a 10 per cent rise of dollar exports. On the other hand, the dollar position of most other foreign countries was not significantly impaired by rising levels of investment and consumption. While total foreign purchases in the United States market rose sharply by well over 1 billion dollars in the course of 1955, United States import demand also rose strongly in response to expanding industrial activity during the year. As a consequence of this more or less parallel growth of dollar trade payments and receipts, and roughly offsetting changes in other balance-of-payments items, the net dollar acquisitions of all foreign countries in 1955 remained close to the 1.6 billion dollar level recorded in 1954.

During 1955, progress toward liberalization of international trade and payments was somewhat more gradual than in earlier years. More significant, perhaps, was the more or less successful testing, under conditions of sharply rising consumption and investment abroad, of earlier and more substantial measures of trade and payments liberalization. With very few exceptions, there was no relapse into more stringent controls over international trade. The outlook for further progress toward trade liberalization heavily depended, however, upon a strengthening of sterling.

A Year of Economic Expansion

A rising trend of business activity carried the United States economy to new heights in 1955. Following the mild business recession of 1953-54, the economy staged a powerful and generally well-balanced advance, built on increased spending for consumer goods and new homes, replacement of inventory liquidation by inventory accumulation, and on growth in business investment. As recovery broadened out, these factors nourished and reinforced one another, and the previous peak rate of output (attained in 1953) was surpassed early in 1955. One of the most impressive aspects of the recovery was the fact that defense spending remained well below 1953 levels. By the year's end, gross national product (GNP) was at a rate some 8 per cent greater than a year earlier. Industrial production also reached a new peak, with increases appearing in every major type of output. Estimated employment advanced to new high levels along with production, while estimated unemployment declined to about 3½ per cent of the labor force by the summer of 1955 and remained close to that level for the balance of the year.

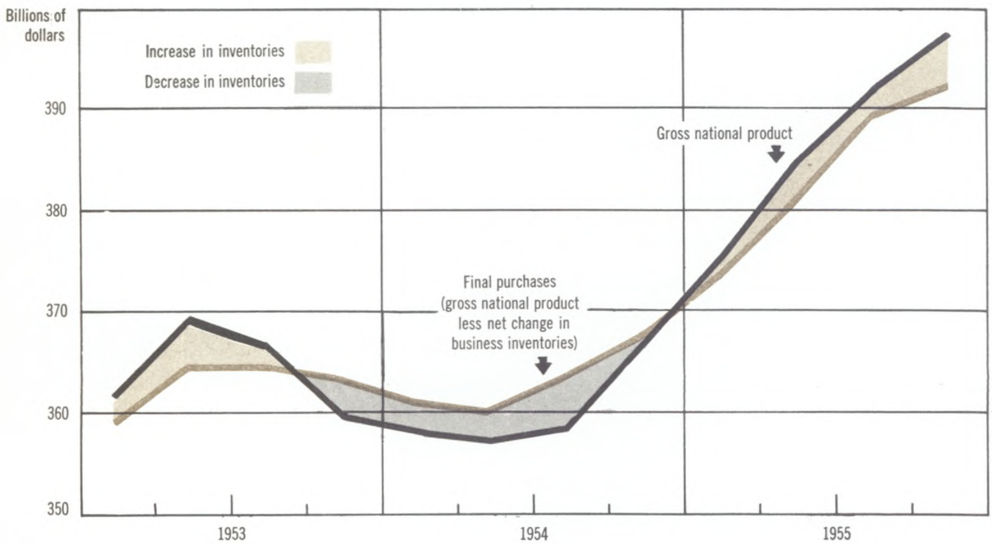
Recovery and expansion proceeded against a background of relatively stable price levels, as reflected by the aggregate indexes, but in the latter part of the year wholesale prices of many industrial goods advanced and there were some increases also at the consumer level. At the same time, agricultural prices declined sharply, especially in wholesale markets; this offset resulted in only small increases in the general price level. Because of the near stability of the general price level, by far the major share of the impressively large rise in the value of output represented real gains.

FORCES BEHIND THE EXPANSION. Recovery had developed in the second half of 1954 as the forces that had brought about downward adjustments in 1953 tended to stabilize and other forces that had been exerting an expansionary influence increased in strength, thereby generating a rise in total output. In retrospect, the turning point seems to have occurred in the third quarter of 1954, when final purchases (GNP less net change in inventories) increased after nearly a year of decline, as shown in Chart 1. This rise resulted from continued increases in consumer spending and residential construction, and from a leveling-off in government expenditures, which had been declining since mid-1953. Inventory liquidation was temporarily accelerated during the summer of 1954, but this appears to have stemmed partly from involuntary depletions brought on by the expansion in final purchases. In the final quarter of 1954, however, inventory liquidation came to an end, and production to replace stocks thus augmented the rise in output generated by further increases in consumer buying.

Throughout 1955, the consumer remained the most powerful and pervasive force in the economic expansion (see chart). Consumer spending increased steadily from quarter to quarter, and the growth for the year as a whole somewhat exceeded the rise in personal income after taxes, a development made possible largely by the expansion of consumer instalment credit. The greatest rise in relative terms was in outlays for automobiles and other durable goods, and it was in this area that instalment credit played a particularly strategic role. Domestic sales of new cars alone numbered 7.4 million, an increase of one third over 1954 and a new record for the industry. Sales were stimulated by a variety of factors, including major design changes, aggressive selling tactics, higher consumer income, and the ready availability of credit with longer repayment periods and smaller downpayments. The volume of automobile instalment paper outstanding increased by 4 billion dollars during the year, accounting for nearly two thirds of the rise in total consumer credit.

CHART 1

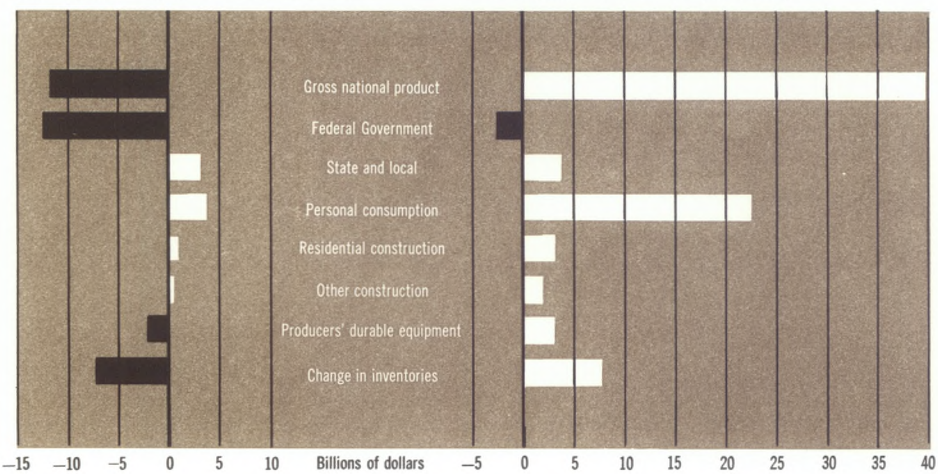
GROSS NATIONAL PRODUCT AND FINAL PURCHASES, QUARTERLY, 1953-55*



CHANGES IN GROSS NATIONAL PRODUCT AND MAJOR COMPONENTS*

2nd QUARTER '53 TO 2nd QUARTER '54

2nd QUARTER '54 TO 4th QUARTER '55



*Seasonally adjusted annual rates.

Source: United States Department of Commerce.

The increased volume of residential construction also made an important contribution to the economy's expansion, especially in the earlier part of 1955 when mortgage funds were easily available. However, a moderate slackening in the seasonally adjusted rate of home-building activity developed in the latter part of the year. This may have resulted partly from the stricter downpayment and maturity terms set by the Federal Housing Administration and the Veterans Administration in July, as well as from the tighter money conditions that affected the availability of credit of all types. While about 15 per cent fewer new homes were started in the final two months of 1955 compared with a year earlier, for 1955 as a whole there was a substantial increase. Outlays for residential construction in 1955 reached nearly 17 billion dollars, an increase of 3 billion over the 1954 level.

The build-up of business inventories during 1955 was quite moderate, amounting to about 3 billion dollars. Since this compared with depletion of roughly the same magnitude in 1954, the shift from liquidation to accumulation (shown in chart) made a significant contribution to the year's expansion in total output. On balance, however, the rise in stocks last year was considerably smaller than in other years that have followed periods of inventory decline. Moreover, the rise in inventories was proportionately much smaller than the increase in sales during the year, and stock-sales ratios declined to the lowest level in several years. For the most part, this decline reflected changes at the manufacturing level; in particular, manufacturers held smaller stocks of purchased materials and finished goods in relation to sales. Continuing and substantial increases in sales during the year probably were instrumental in retarding the accumulation of such inventories.

Growth in fixed investment outlays was somewhat slower in getting started than some of the other forces described above. By the second quarter of 1955, however, outlays for new plant and equipment were rising rapidly and this continued to be a powerful element in the expansion for the remainder of the year. In the final quarter of 1955 plant and equipment outlays were about 15 per cent greater than a year earlier, and investment plans called for further growth in the opening months of the new year.

GROWTH ALONG A BROAD FRONT. A few sectors of the economy, such as automobiles and housing, showed outstanding increases in 1955, but these were by no means the only impressive gains of the year. Almost every component of the Federal Reserve Board's index of industrial production showed some rise.

These ranged as high as 30 per cent for output of primary metals and as low as 3 per cent for food and beverage manufacturing, with the total production index advancing by 11 per cent for the year. Durable goods registered the largest increases, but there were gains of 18 per cent for rubber and leather products, 13 per cent for chemicals, and 9 per cent for textiles and apparel.

Expansion of final demand and production also brought sizable increases in employment and a longer average workweek, with frequent overtime in a number of industries. Total civilian employment during the year averaged about 63 million persons, or 3 per cent higher than in 1954, including gains for both the farm and nonfarm components. Wage rates also rose during the year; the average hourly pay for production workers in manufacturing increased by about 4 per cent, and comparable gains were recorded in other sectors. The increases generally were greatest in durable goods manufacturing, and there were particularly important contracts negotiated in the automobile and steel industries, the former including "guaranteed wage" provisions as well as increases in wage rates.

Because of continued growth in the labor force, the decline in unemployment was not so rapid last year as the rise in the number of jobholders. Estimated unemployment averaged 2.7 million persons, or 4 per cent of the civilian labor force. This compared with 5 per cent in 1954, but it was higher than in any of the three preceding years, which took in the Korean war period and its immediate aftermath. The trend in unemployment, after allowing for seasonal influences, was strongly downward in the latter part of 1954 and continued to decline in 1955. In the final quarter of the year, unemployment averaged about 18 per cent below the corresponding 1954 period.

Declines in unemployment throughout the country were reflected in the reclassification of many labor market areas during the year. Particularly large improvements showed up in the Great Lakes region, notable for its heavy concentration of durable goods production. Nevertheless, a number of areas continued to report fairly substantial unemployment; these included such textile centers as Lawrence and Lowell, Massachusetts, and anthracite coal mining areas such as Scranton and Wilkes-Barre, Pennsylvania.

CAPACITY OUTPUT AND DIVERGENT PRICE TRENDS. Spurred by sharply rising demand, output rates in a number of important industries approached effective capacity limitations as total production reached unprecedented levels in the latter part of 1955. This was most apparent in the case of steel but it also was true of other products, among them building materials, certain industrial chemicals, and paper products as well as nonferrous metals. The fuller use of productive facilities led to increased investment outlays for plant and equipment during the year, with further expansion planned for 1956; but in the meantime the pressure of high demand on near-capacity output, along with rising labor and other costs, brought about many price increases for industrial goods in the second half of 1955. The wholesale price index for other than farm and food products showed little change in the first half of the year, but rose by 3½ per cent from June to December, with the largest increases occurring in metals, machinery, rubber goods, and pulp and paper products. Some broad price groups (including textiles, apparel, and chemicals) held generally steady, however, and acted as a moderating influence on the aggregate price level.

Prices of farm products and processed foods, moreover, declined markedly during most of the year, mainly as a result of record agricultural output and only modest increases in domestic and foreign demand. Declines were most pronounced in the second half of the year, when farm product prices fell by 10 per cent and brought about a marked reduction in farm income—the only major sector of the economy to show a decline for the year. Federal price-support activities helped to stem the decline for basic crops but had little effect on livestock prices, which fell sharply and even reached pre-World War II levels for some items.

The net result of rising industrial prices and falling farm prices was only a small rise in the total wholesale price index—less than 2 per cent during the year. Moreover, higher wholesale prices carried through to the retail level only to a limited extent. Consumer prices advanced no more than ¼ of 1 per cent during the second half of 1955, after holding steady in the first six months, and remained within the narrow range prevailing since 1951. For the year as a whole, food prices tended to decline slightly, while the cost of personal services and housing increased. As in 1954, price competition generally remained keen, especially in the markets for automobiles and other durable items, and discounts from list prices were available on a wide range of consumer goods.

By the year's end, national production was at an annual rate close to 400 billion dollars and the immediate outlook was promising despite the drop in farm income, an apparent slackening in residential building, and a less exuberant pace of automobile sales. Plans for increased investment outlays were a particularly favorable element in the business outlook, and the high and rising levels of consumer income lent additional encouragement. Upward pressures on industrial prices were still in evidence at the year end but seemed to have ebbed somewhat from their midsummer strength.

The Economy of the Second District

Throughout the Second District, moderate economic expansion was the dominant trend in 1955. Carried along by the momentum of recovery in the automobile, steel, and certain other durable goods industries, business conditions improved swiftly in the early part of the year in industrial centers such as Buffalo, Rochester, and the Albany-Schenectady-Troy region. Areas primarily dependent on the output of nondurable goods, however, did not fare so well as those in which enterprises making hard goods provide most of the job opportunities. Employment in manufacturing as a whole, moreover, whether in the production of hard or soft goods, regained only a part of the ground lost during the 1953-54 recession; total factory jobs in December were 2 per cent above a year earlier but still about 8 per cent below the 1953 peak. On the other hand, activity in service, trade, and nonmanufacturing occupations (apart from agriculture), which together provide three out of every five nonfarm jobs in the District, advanced to record levels in 1955 after having remained relatively high during the 1953-54 period.

In general, there seemed to be no serious weak spots in the Second District economy at the year end and the over-all level of activity was about equal to the pre-recession record. The strong points which characterized the nation's economy during the year, notably an upsurge in consumer spending for durable goods and a rise in construction activity, also were present in the District, although generally to a more moderate extent.

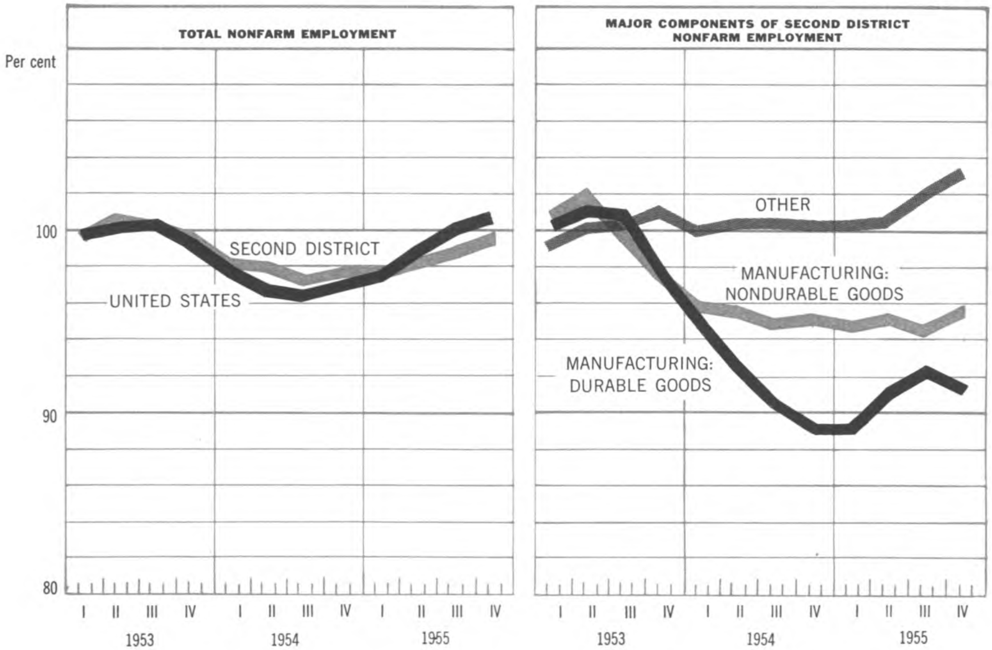
GROWTH IN BUSINESS ACTIVITY, INCOME, AND SPENDING. The pattern of expansion in the District, based on private spending, was typical of the recovery in the rest of the country: large firms producing durable consumer goods and companies supplying materials, parts, and components set the pace; skilled workers quickly found jobs, and retail sales in most centers rose considerably. On the other hand, many less favored firms tended to hire few additional employees or even cut payrolls further; unskilled workers and marginal workers found employment less readily than others.

But on the whole, business conditions were buoyant during most of the year. Sustained by widely diffused advances in employment and output, total income payments registered considerable gains over 1954 levels. Higher earnings were evident in nearly all occupations and especially in durable goods manufacturing

CHART 2

NONFARM EMPLOYMENT IN THE SECOND DISTRICT AND THE UNITED STATES

(Quarterly index numbers; 1953 average=100; adjusted for seasonal variations)



Source: Computed by the Federal Reserve Bank of New York from data supplied by the Departments of Labor of New York State, New Jersey, Connecticut, and the United States.

and construction. Even farm income, which declined markedly in the nation, was relatively well maintained here, since the prices of products most important to District farmers (notably dairy and poultry products) either rose, or fell less than those of greatest importance nationally—such as meat animals and grains.

The rising income stream was the main source of larger consumer expenditures, but the growth of outstanding consumer credit (chiefly instalment) set new records and was an important supplement. While consumers purchased many types of durable goods in record volume, automobile demand took the lead—buoyed up by the availability of credit on easy terms—and new car registrations were about 27 per cent greater than in 1954. Department store sales averaged 4 per cent higher than in 1954. Although the 1955 gain in Second District department store sales was moderate when compared with the 7 per cent rise for the nation, it may be recalled that sales at Second District stores had risen in 1954 while in the country as a whole the volume of trade had declined relative to the previous year's level.

To meet the growing demand for goods and services, business firms increased employment up to the average 1953 level, as shown in Chart 2. The expansion in total nonfarm jobs from the end of 1954 to the end of 1955 was about 2 per cent. Most of the gain was in nonmanufacturing industries; employment in durable goods establishments increased somewhat during the year, but remained well below the 1953 record, mainly because civilian production did not fully replace jobs lost through cutbacks in defense contracts in the District.

Paralleling the nation-wide experience, construction activity ran well ahead of 1954. The value of contract awards in the District increased by 17 per cent, with a particularly large rise (37 per cent) appearing in awards for private nonresidential building. New housing contracts, reflecting the further rapid growth of suburban communities, increased by 11 per cent, while contracts for public construction rose by 9 per cent.

REDUCTION OF UNEMPLOYMENT. Recovery and expansion during 1955 were reflected in distinct improvements in many of the District's major labor market areas. By November 1955, none of these regions reported substantial unemployment, whereas in the same month of 1954 the number of persons out of work in four of the District's twelve major labor market areas (Paterson, New Jersey, and Utica-Rome, Albany-Schenectady-Troy, and Buffalo, New York) was considerably in excess of job openings. The strongest rise in demand for labor came in such centers as Buffalo and Syracuse, where durable goods production is highly important; in other areas of local unemployment, gains were less pronounced but job seekers only slightly outnumbered available opportunities.

By these standards, the District compared favorably with many other parts of the nation. For the country as a whole, there were still 19 major areas and 63 smaller ones with unemployment greater than 6 per cent of the labor force at the end of 1955. No major area, and only two of the smaller ones (Amsterdam, New York, and Long Branch, New Jersey), were in this District.

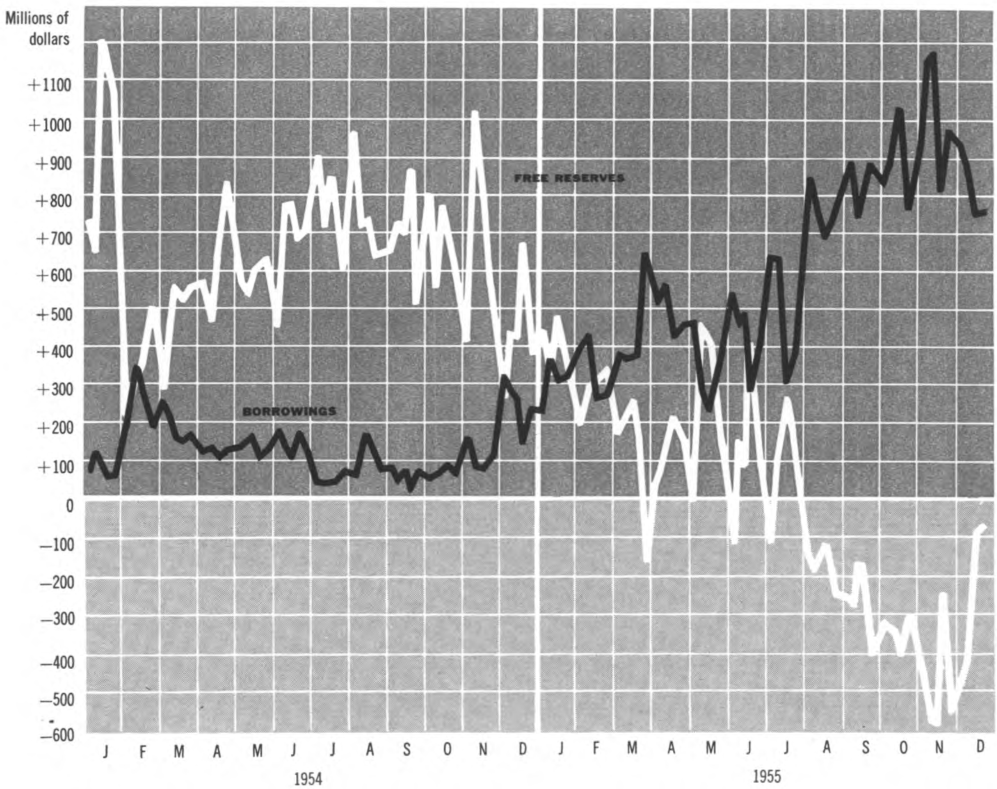
Credit Policy and the Money Supply

DEVELOPING PRESSURES ON RESERVES. During 1955 the Federal Reserve System sought to insure a sufficient supply of bank reserves to permit the credit expansion required for economic recovery and growth, while at the same time forestalling excessive expansion. As the year progressed, a gradually evolving policy of restraint was made effective by so conducting open market operations that a large part of member bank demand for reserve funds was met through borrowing from Federal Reserve Banks. Reinforcing this policy of restraint, Reserve Bank discount rates were raised in successive steps from 1½ to 2½ per

CHART 3

MEMBER BANK BORROWINGS AND FREE RESERVES

(Weekly averages of daily figures)



cent. Although total Federal Reserve credit outstanding increased over the year, bank reserves remained relatively stable as the expansion in business drew additional currency into circulation.

As Federal Reserve credit policy imposed increasing restraint on the money market, System open market operations were used to smooth out week-to-week and month-to-month variations in reserve pressures, in order to prevent sharp or erratic changes that might have caused market disturbances. In January, when the usual seasonal return flows of currency from circulation tended to swell bank reserves, System holdings of Government securities were reduced substantially. Thereafter, open market operations frequently involved alternate injections and withdrawals of reserve funds to moderate sudden strain or easing. In December, substantial purchases of Government securities were necessary to offset seasonal pressures which were accentuated by the impact of Treasury financing operations.

Over the year as a whole, total reserve balances held by member banks declined by 39 million dollars. This very small change was not, however, a particularly significant indicator of the actual conditions of credit availability during the year, since member banks were able to maintain their reserve balances only through substantial borrowings from Federal Reserve Banks. Better indicators of the position of member banks were provided by the variations in member bank borrowings from the Reserve Banks and in free reserves (excess reserves less borrowings). During 1954, as Chart 3 indicates, member banks as a whole had held substantial free reserves, and the volume of indebtedness to the Federal Reserve Banks had remained at nominal levels. Free reserves were still sizable at the beginning of 1955, but declined almost steadily thereafter until the second half of the year, when free reserves disappeared entirely as borrowings came to exceed excess reserves. Thus, whereas average free reserves during 1954 amounted to 626 million dollars, they declined in the first half of 1955 to an average of 206 million dollars, and in the second half average borrowings exceeded average excess reserves by 246 million. For the most part, the shift between the first and second halves of 1955 reflected an increase in average member bank borrowings which rose to 813 million dollars in the last six months of 1955, compared with 399 million dollars in the first half. Average excess reserves declined by 38 million dollars between the first and the second halves of the year.

During the first four months of the year, Federal Reserve policy was directed toward the goal of encouraging recovery while avoiding excessive credit expansion or other unstabilizing developments. Operations during January were mainly designed to absorb the funds which regularly return to banks after the Christmas and New Year holiday season. As a result, free reserves averaged 89 million dollars lower in January 1955 than in December 1954. In February, as the Treasury's refunding program tended to place increased pressure on bank reserve positions, the Federal Reserve System temporarily increased its holdings of Government securities but, as pressures eased, again reduced its holdings. During the remainder of the period up to the first discount rate increase in April, the Federal Reserve System undertook no outright purchases or sales of Government securities, permitting market forces to tighten bank reserve positions. By April, average member bank borrowings from the Federal Reserve Banks had increased to 495 million dollars, compared with 246 million dollars in December 1954, and average free reserves had declined to 95 million dollars, 363 million lower than in December 1954. The change in Federal Reserve policy, as the economy approached high levels of prosperity, was emphasized by the increase in Federal Reserve Bank discount rates to 1¾ per cent in April and May, from the 1½ per cent level to which they had been reduced during the period of "active ease" in 1954.

During May, June, and July, the task of the Federal Reserve System was complicated by the fact that float and Treasury balances were subject to extremely wide and often unpredictable swings. As a result, member bank borrowings averaged lower and free reserves somewhat higher than during April. Another influence was the magnitude of Treasury debt operations in May and again in July, which gave rise to considerable uncertainty and shifting of funds in the money market. Federal Reserve open market operations alternately injected and withdrew reserves from the commercial banks in an effort to offset the other influences affecting bank reserves.

By July, however, free reserves had declined to the April level, and member bank borrowings, after declining in May and June, had climbed substantially. The demand for goods and services became increasingly buoyant, while rising wage rates and industrial prices lent substance to the inflationary threat. To counter this threat, the movement toward greater restraint, marked by a fall of average free reserves to a negative level of 189 million dollars in August, was accompanied by a series of discount rate increases at the twelve Reserve Banks in August and early September which raised discount rates by ½ per cent, from 1¾ to 2¼ per cent.

From September through November, pressures on member bank reserves gradually increased still further. The over-all rise in member bank borrowings during this period, and the increase in net borrowed reserves (negative free reserves), reflected seasonal demands for money and credit superimposed upon the continuing cyclical expansion in business activity. The chief factors forcing commercial banks to increase their level of borrowings, and hence of net borrowed reserves, were the usual seasonal increase in currency in circulation and the rising levels of required reserves, resulting from increased loans (only partially offset by reduced bank investments) and increased deposits. By November, net borrowed reserves had risen to an average of 491 million dollars and member bank borrowings averaged 1,016 million dollars, in each case the highest levels since April 1953. In this setting, open market operations for the System Account were used primarily to smooth out the week-to-week variations in reserve pressures. As the pressures on bank reserve positions grew stronger, the System was on guard against developments that might have produced sudden stringencies.

In December, year-end currency and reserve needs and the special problems arising from the Treasury's financing operations led to a heavy injection of reserves through open market operations, both through outright purchases of Government securities and through the use of repurchase agreements with Government security dealers. As a result, the average level of net borrowed reserves declined in December to 246 million dollars; average borrowings from the Federal Reserve System were reduced to 839 million, while excess reserves averaged 593 million.

Over the year, security holdings of the System Open Market Account declined by 497 million dollars. Net sales or redemptions of short-term Government securities amounted to 1,334 million dollars during the first six months, while in the succeeding six months net purchases, designed to meet part of the seasonal need for reserves, amounted to 837 million dollars. On the other hand, there was a net increase of 350 million dollars in Government securities held by this Bank under repurchase agreements, reflecting gross purchases during the year of 4.1 billion and gross sales of 3.8 billion. On balance, therefore, all these transactions resulted in a net decline in Government security holdings of 147 million dollars, a relatively small amount. The increased pressures on bank reserves stemmed mainly from the strong demand for bank credit and the increase of currency in circulation during the year.

RESTRAINT ON CREDIT EXPANSION AND THE MONEY SUPPLY. Increasing pressures on bank reserve positions during 1955 exerted a strongly restraining influence upon the growth of the money supply. Over the year, the money supply — defined to include currency outside banks and demand deposits adjusted — increased by about 3.2 billion dollars or 2½ per cent, compared with a 3 per cent increase during 1954. The 1955 rate of increase in the money supply was, moreover, considerably smaller than the rate of growth in GNP, which rose by 8 per cent between the last quarter of 1954 and the last quarter of 1955. Time and savings deposits expanded by about 3½ per cent over the year, compared with an average increase of 5 per cent in the previous five years. The relatively slow growth in time and savings deposits was symptomatic of the reduced level of personal saving in 1955 as well as of the shift of funds to investments offering more attractive rates of return.

The record increase in the loans of commercial banks (see accompanying table) was the major factor in the expansion of demand deposits in 1955. The total loan portfolios of all commercial banks (excluding interbank loans) increased by 11.6 billion dollars, compared with an increase of 2.9 billion dollars in 1954 and the previous high of 9.3 billion set in 1950, during the Korean war boom. Loans to consumers increased by 2.0 billion dollars, compared with a decrease of 0.2 billion in 1954. The increase was slightly more than the largest previous increase in 1952. And the growth in real estate loans, which rose by 2.4 billion dollars, was well above the 1.7 billion dollar increase recorded in 1954. Although these two categories accounted for over one third of the rise in total loans, the largest single increase was in commercial and industrial loans which rose by 6.2 billion dollars. This increase, in which loans to finance companies were a major element, set an all-time record and contrasted with a decline of 0.3 billion in 1954. On the other hand, loans for purchasing and carrying securities, both to brokers and dealers and to others, showed only a modest advance of 0.5 billion dollars, compared with a 0.9 billion increase in 1954. The moderateness of the increase reflected in part the effects of the advances in margin requirements under Regulations T and U imposed in January and April. Largely due to net retirements of Commodity Credit Corporation paper, agricultural loans of the banks declined by 0.8 billion dollars, compared with increases in all other postwar years except 1950.

The effects on the money supply of the record loan expansion were largely counteracted by the liquidation of security investments by commercial banks. Over the year as a whole, holdings of Government securities declined by 7.3 billion dollars, offset only slightly by a small (200 million dollar) increase in holdings of other securities. As a result, total loans and investments (excluding interbank loans) rose by only 4.5 billion dollars. This was in striking contrast to 1954, when the increase in loans and investments amounted to 10.2 billion dollars, reflecting the easy money policies then pursued by the Federal Reserve System, which enabled the banks to add heavily to their security portfolios. In 1954, the bulk of the expansion in loans and investments took the form of an increase in holdings of Government securities, which rose by 5.6 billion dollars, and other securities, which increased by 1.6 billion dollars. Loans increased only moderately during 1954, by 2.9 billion dollars, as might be expected in a period in which economic activity at first declined, then leveled off, and showed signs of recovery only late in the year. In contrast, 1955 was marked by a strong demand for bank loans, which pressed against increasingly tight reserve positions. Since loans brought the banks a higher return than Government securities and represented largely the credit requests of their regular customers, the banks preferred to dispose of securities to meet their reserve needs and to devote available resources to loans.

The decline of bank security holdings in 1955 had virtually no effect upon the average maturity of security portfolios. As of the end of November 1955 (the latest date for which data were available when this report was prepared), the average term to maturity of marketable Government securities held by commercial banks was 5.1 years, only slightly greater than at the end of 1954. In contrast, during 1954 the average term to maturity had increased from 3½ years to 5 years. During 1955, holdings maturing in less than one year declined sharply as commercial banks, in responding to pressures on their reserve positions, tended to liquidate their short-term reserve assets first—those securities on which the market discount from par was least. The effect of such liquidations on the average term to maturity was largely offset, however, by the passage of time which brought longer-term holdings closer to maturity. Portfolio changes

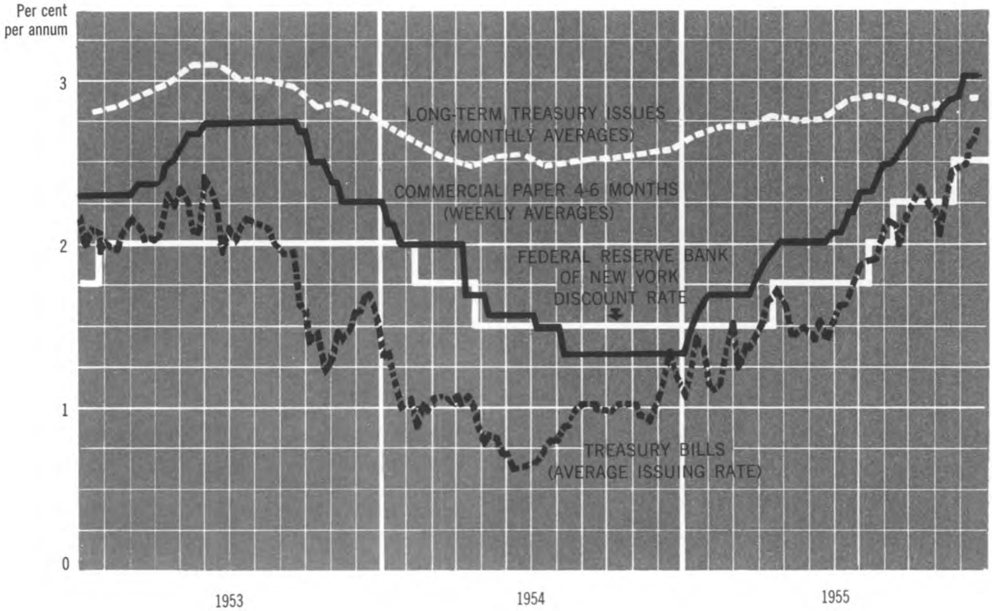
YEARLY CHANGES IN EARNING ASSETS AND DEMAND DEPOSITS OF ALL COMMERCIAL BANKS, 1950-55 (In millions of dollars)

Year	Loans	Government Securities	Other Securities	Total Loans And Investments	Demands Deposits Adjusted
1950	+ 9,292	−4,978	+2,172	+ 6,486	+6,184
1951	+ 5,438	− 503	+ 940	+ 5,876	+5,961
1952	+ 6,409	+1,794	+ 804	+ 9,006	+3,263
1953	+ 3,425	+ 108	+ 525	+ 4,058	+ 946
1954	+ 2,948	+5,555	+1,648	+10,151	+4,088
1955p	+11,600	−7,300	+ 200	+ 4,500	+2,600

Note: Data for loans and for total loans and investments exclude interbank loans. Demand deposits adjusted are demand deposits other than interbank and United States Government deposits less cash items reported in the process of collection. Because of rounding, the figures for loans and securities do not necessarily add to the totals shown.
p Preliminary.

CHART 4

SELECTED INTEREST RATES



in 1955 involved the liquidation of Treasury bills, certificates, notes, and bonds, while in 1954 banks maintained their Treasury bill holdings and shifted considerable amounts of their holdings from shorter to longer maturities through Treasury refunding operations and market transactions.

The shift away from credit ease during the course of 1955 had a greater impact on New York City banks than on banks in the rest of the country. Total loans and investments of central reserve city banks in New York City declined by about 0.5 billion dollars, while increases for all other commercial banks totaled about 5 billion dollars. The largest expansion was recorded by country banks where loans and investments rose by about 2.4 billion dollars, and by reserve city banks where an increase of about 1.9 billion dollars occurred. The net extension of loans by New York City banks was proportionately somewhat larger than that of all other commercial banks, but reductions in holdings of Government securities were relatively larger at New York City banks than at other commercial banks. During the previous year, when reserves were being made readily available to banks, loans and investments of New York City banks had risen by 1.8 billion dollars, despite a moderate decline in loans.

The relatively slow growth of the money supply in 1955 was accompanied by a substantial increase in the rapidity with which money changed hands. The average rate of turnover of demand deposits in reporting cities other than New York, for example, averaged almost 6 per cent higher in 1955 than in 1954. In New York City, where purely financial transactions bulk very large and where the expansion in business activity was not so pronounced as in other parts of the country, the increase in the average rate of turnover was less marked—about 1 per cent. The over-all rise in turnover was, of course, a reflection of the fact that restraint on the money supply, coincident with the increased need for money resulting from a higher level of business activity, drew idle balances into more active use.

DISCOUNT POLICY AND THE STRUCTURE OF INTEREST RATES. Federal Reserve Bank discount rates were raised in a series of adjustments from 1½ per cent to 2½ per cent. The increases gave direct expression to the movement from the policy of moderate ease at the start of 1955 to the policy of restraint that emerged later in the year. The advances in discount rates supplemented and reinforced the tradition against continuous borrowing by member banks, and thus maintained pressure on them to meet a considerable part of their loan demands by liquidating securities. Consequently, the rise in bank credit and in the money supply resulting from the record increase in loans was less rapid than it would otherwise have been. Discount rate increases in 1955 tended, moreover, to reinforce the upward trend in market rates. In 1954, on the other hand, while the reductions from 2 per cent to 1¾ and then to 1½ per cent emphasized the policy of "active ease", the changes at the time they were made hardly did more than narrow the gap between the discount rate and other money market rates, which had already moved down.

The coordinated use of open market policy and discount rate policy to affect reserves and to influence interest rates was illustrated early in the year. By the end of February, as free reserves declined, open market commercial paper rates on four to six months' prime paper had moved up to 1⅝-1¾ per cent, compared with 1¼-1⅜ per cent in December 1954, and rates on finance company paper and bankers' acceptances had also risen. The average issue rate on Treasury bills, which had risen rapidly during the second half of 1954, tended to level off, however, and in mid-March stood at only 1.286 per cent (see Chart 4).

Increasing reserve pressures, combined with the April-May advance in discount rates from 1½ per cent to 1¾ per cent, led to a sharp upward adjustment in Treasury bill rates during April and to another wave of advances in private short-term paper rates.

During July, following a decline of Treasury bill rates in May and June, market expectations of increasing credit restraint were a factor in the rise in the average issue rate, which climbed to 1.850 per cent just before the first of the August-September discount rate increases. This influence extended to rates on short-term private paper. In August and early September, when discount rates were being advanced in steps from 1¾ per cent to 2¼ per cent and as net borrowed reserves were increasing, the Treasury bill rate continued to advance, and rates on prime commercial paper, on finance company paper, and on bankers' acceptances also moved upward. Although the average issue rates on Treasury bills declined from time to time, as temporary influences overcame the underlying trend, the rest of the year was marked, month by month, by continuous increases, so that the December average was 2.562 per cent, compared with 1.174 per cent a year earlier. Rates on short-term private paper also rose, especially after the increase in discount rates from 2¼ per cent to 2½ per cent in November. By the end of December, four to six months' prime commercial paper was quoted at 3 per cent, compared with 1¼-1⅜ per cent a year earlier; rates on one to three months' finance company paper were up 1⅝ per cent to 2¾ per cent; and rates on prime 90-day bankers' acceptances were up 1¼ per cent to 2½ per cent.

Another feature of the year, reflecting the heavy demands for loans and pressures on bank reserve positions, was the rise in bank loan rates. In early August, almost simultaneously with the first August increases in Federal Reserve Bank discount rates, the larger commercial banks in New York City increased their prime loan rate from 3 per cent to 3¼ per cent, thus reversing the reduction that had taken place in March 1954 during the period of "active ease". A further advance took place in October, bringing this rate to 3½ per cent. The increases were reflected in the average rates charged by these banks to all borrowers, which rose by almost ½ of 1 per cent between December 1954 and December 1955. In addition, a number of banks raised their rates on consumer instalment loans in November.

While the policy of increasing restraint had its most noticeable impact in the short-term market, pressures on bank reserve positions and the rise in short-term rates spilled over into the markets for longer-term Government, municipal, and corporate bonds. The resulting increases in bond yields were not, however, uninterrupted. Especially during September and October, these markets tended to be easier despite the increasing pressures on bank reserve positions and the upward trend of short-term yields. In part this reflected the fact that the President's illness gave rise to uncertainty as to both economic activity and credit policy, and in some circles to expectations that credit restraint would not be further increased or even that an easing of restraint was in sight. Later in the year, however, as money market pressures continued to mount and as the November discount rate increases suggested a re-evaluation of such expectations, the rise in yields on longer-term Government securities and on municipal and corporate bonds was resumed. By the end of the year, yields on fully taxable Government bonds due or callable in ten to twenty years stood at 2.89 per cent, 30 basis-points higher than at the end of 1954. Over the same period, average yields on high-grade municipals rose from 2.04 per cent to 2.30 per cent, and those on Moody's Aaa corporate bonds from 2.91 per cent to 3.16 per cent. A noteworthy feature of the year, however, was the more moderate reaction than in 1953 of the long-term security markets to the tightening of the short-term money market. While short-term interest rates rose above the 1953 peaks at the end of 1955, yields on long-term bonds remained well below the 1953 highs. (See also pages 37-38 and Chart 6.)

Supply and Demand for Capital Funds

The rapid expansion of the economy gave rise to a strong and rising demand for funds. Credit and capital financing in 1955 increased by an estimated 37 billion dollars, compared with 25.9 billion in 1954 and 27.4 billion in 1953. The policy of monetary restraint which emerged as the year progressed limited the volume of funds available to borrowers and, together with the strong demand for credit, brought about a rise in the level of interest rates. This upward adjustment of interest rates was accomplished in an orderly fashion without protracted congestion or serious strain in the capital market.

Record mortgage borrowing of about 16.7 billion dollars, an increase of about one third over the previous record set in 1954, constituted almost one half of the aggregate satisfied demand for funds in 1955. Bank loans other than mortgages ranked next in size, the increase amounting to 9.2 billion dollars, as against 1.2 billion in 1954 and 2.4 billion in 1953. Federal net cash borrowing was only

0.2 billion dollars, compared with 0.9 billion in 1954 and 4.6 billion in 1953. However, Státe and local governments borrowed 5.1 billion dollars (net of retirements) through long and short-term issues, somewhat less than the record amount of 5.4 billion in 1954. Corporate securities outstanding (excluding investment company issues) increased by 5.8 billion in 1955, a somewhat smaller amount than in the two previous years.

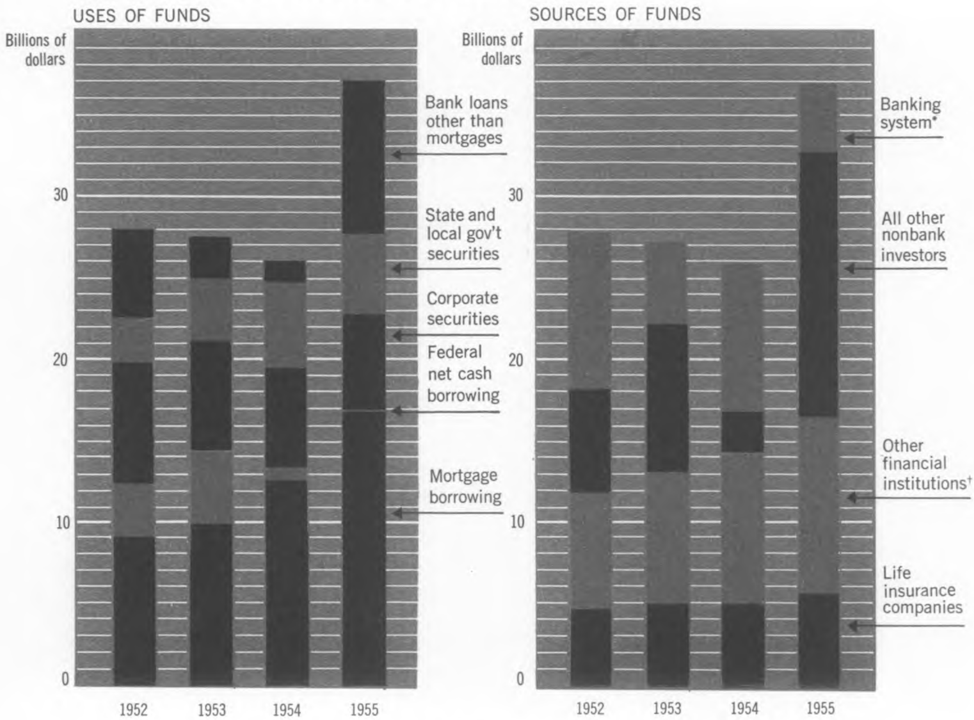
As shown in Chart 5, nonbank, noninstitutional investors were of strategic importance in providing funds to the capital market in 1955 and accounted for more than two fifths of the total amount supplied in that year. Capital funds obtained by borrowings from life insurance companies and other savings institutions continued the steady growth of the past few years, while the amount of funds provided through the loans and investments of the banking system declined from the previous year, both in absolute amount and in relation to the total sources of capital and credit, as the rapid increase in loans was largely offset by reductions in investments.

BUOYANT DEMANDS FOR CAPITAL AND CREDIT. The acceleration in mortgage borrowing in 1955 was mainly attributable to the 13 billion dollar increase in indebtedness on one to four-family dwellings, a reflection of the record expenditures on residential construction during the year as well as the financing of sales of existing properties on a large scale. Mortgage debt on multifamily and commercial properties rose by 2.7 billion, and farm mortgage debt increased almost 1 billion during the year. Although savings institutions provided the bulk of mortgage funds in 1955, about 15 per cent of total mortgage borrowing was financed by the commercial banks, which extended real estate loans of approximately 2.4 billion dollars.

In addition to mortgage borrowing from the banks, demands on the part of business and consumers for bank credit were met to the extent of 9.2 billion dollars, as shown in Chart 5. However, direct bank loans to consumers were not the only form in which credit was provided to consumers; the 6.1 billion dollar increase in consumer credit in 1955 also included loans by retail outlets and sales finance companies, which in turn borrowed substantial funds for this purpose through bank loans and security issues. Short-term consumer borrowing was responsible for about one sixth of the total demands for capital and credit in 1955, cutting across the classification of types of demand for funds shown in Chart 5.

CHART 5

SOURCES AND USES OF CAPITAL AND CREDIT



*Commercial bank loans and investments, and net purchases or sales of Government securities by Federal Reserve Banks.
†Mutual savings banks, savings and loan associations, nonlife insurance companies, and corporate pension funds.
Source: Estimated by the Federal Reserve Bank of New York from a variety of sources.

A decline in bond issues for financing toll road construction was primarily responsible for the reduction from 1954 in the total demand for funds by State and local authorities; flotations of revenue bonds were only about 30 per cent of gross municipal bond issues in 1955, against more than 45 per cent in 1954. State and local government bond issues for school construction, sewer and water projects, and public housing rose somewhat over 1954. Although the net cash deficit of the Federal Government was somewhat larger in calendar 1955 than in the previous year, the drawing-down of Treasury cash balances resulted in a smaller amount of Federal net cash borrowing in 1955.

The increase in corporate securities outstanding was less in 1955 than in the two previous years despite an upsurge in plant and equipment outlays, mainly because increased profits and depreciation reserves of manufacturing corporations made more funds available for internal financing. The generally strong market for common stocks, stemming from the favorable economic outlook and the prospect of rising corporate profits, encouraged corporations to raise a larger share of their new capital through stock issues. Gross offerings of common stock reached the highest level since 1929, and were equal to more than 20 per cent of total corporate security issues in 1955, against 13 per cent in 1954 and 15 per cent in 1953. Of the total gross private security offerings, the issues of financial and real estate concerns, largely sales finance companies, registered a sizable increase over 1954, while there was a noteworthy decline in public utility issues.

THE AVAILABILITY OF INVESTMENT FUNDS. Life insurance companies provided 5.3 billion dollars of capital funds during 1955. They increased their holdings of mortgages by 3.5 billion dollars and of corporate securities by 2.1 billion. Government security holdings of life insurance companies were reduced only moderately, in contrast to the large-scale reductions in 1954 and earlier postwar years. Mutual savings banks supplied about the same amount to the capital market in 1955 as in 1954, despite the decline in the net inflow of savings to these institutions; net mortgage acquisitions of 2.4 billion dollars exceeded the current accrual of funds to savings banks, and were made possible only by reductions in both corporate and Government security holdings. On the other hand, the net increase in share capital of savings and loan associations was greater than in 1954; these funds were supplemented by substantial borrowings from the Federal Home Loan Banks to provide more than 5.5 billion dollars, or about 30 per cent of the record mortgage funds supplied from all sources in 1955. The rapidly growing, noninsured corporate pension funds channeled about 2 billion dollars to the capital market in 1955, largely through purchases of corporate stocks and bonds, while another billion was supplied by fire, marine, and casualty insurance companies.

The effects of the policy of monetary restraint are reflected in the decline in capital and credit supplied by the banking system in 1955. During the 1954 year of "active ease", 9.2 billion was supplied to various segments of the credit and capital market through commercial bank loans and investments after deducting the net reduction of 1.0 billion dollars in Federal Reserve holdings of Government securities; in contrast, 4.4 billion was provided by the banking system during the 1955 year of monetary restraint. However, commercial bank loans in 1955 rose by over 11 billion dollars, more than three times the increase of the previous year, and were made possible only by substantial disinvestment in Government securities through bank sales to nonbank holders.

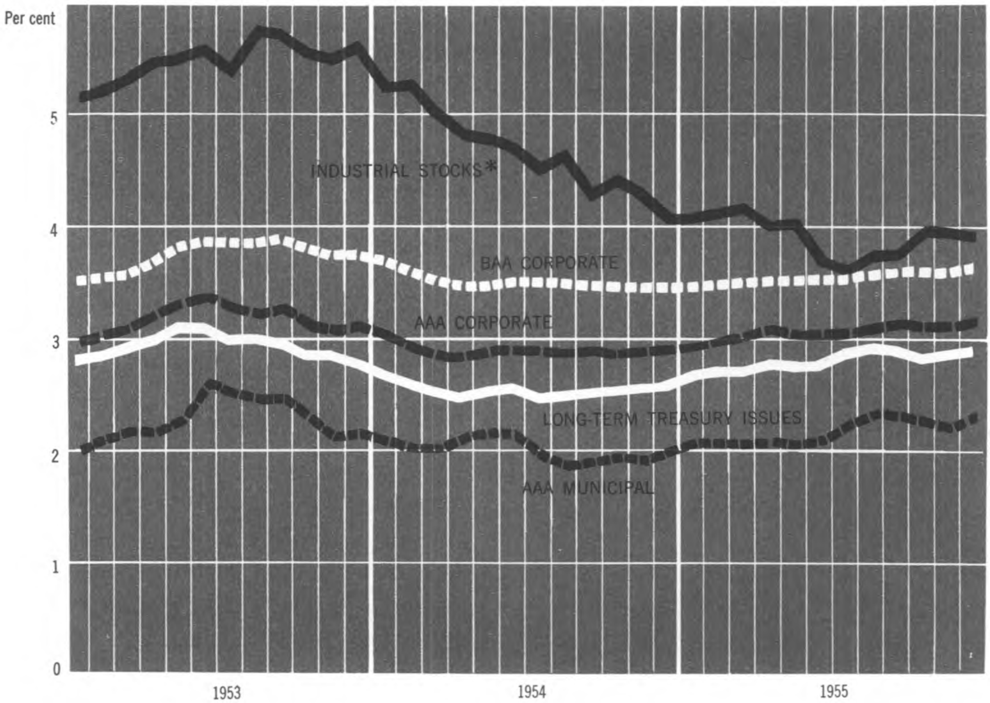
The expanded importance of nonbank, noninstitutional investors as suppliers of capital funds in 1955 has already been noted. A considerable amount of these funds was provided through the net acquisition of Government securities by individuals, by nonfinancial corporations as reserves against increased income tax liabilities arising from higher profits, and by State and local governments investing the proceeds of bond issues and the assets of trust and retirement funds. Such purchases absorbed the Government securities that were liquidated by commercial banks in order to extend credit in meeting the demands of business and consumers. (During 1954, in contrast, individuals and corporate business reduced holdings of Government securities, while the banking system increased its holdings substantially.)

Individual investors displayed a strong interest in corporate stocks during 1955, with share prices rising during the greater part of the year. In order to restrain speculative and excessive use of credit in this area of the capital market, margin requirements against purchases of listed securities were increased by the Board of Governors of the Federal Reserve System from 50 to 60 per cent in January and from 60 to 70 per cent in April. Over the year as a whole, average stock prices rose 22 per cent, as measured by the Securities and Exchange Commission index of 265 common stocks, while total estimated customer credit in the securities market increased about 600 million dollars, or 17 per cent. More than half of the increase in customer credit occurred prior to the second increase in margin requirements in April.

Gross security offerings of 6.0 billion dollars by State and local governments and their instrumentalities were well received during most of the year, partly because the volume of tax-exempt issues reaching the market was repeatedly below the amount expected by investors. No prolonged congestion in the market or wide changes in prices occurred, although underwriters found it necessary to grant price concessions from time to time in order to clear their accounts of unsold securities in the face of buyer resistance. The higher-yielding revenue bonds generally met with strong investor interest, however, as illustrated by the excellent reception given in October to the record-sized 415 million dollar issue of Illinois Toll Highway bonds at 3¾ per cent. Gross corporate security

CHART 6

MARKET YIELDS OF SELECTED SECURITIES (Monthly averages)



*End-of-month data.
Source: Federal Reserve Bulletin and Moody's Investors Service.

issues of 10.5 billion dollars met with varying reception during the year, depending upon pricing, and included two large issues offered directly to stockholders: a 329 million dollar flotation of General Motors Corporation common stock and a 637 million dollar issue of convertible debentures by the American Telephone and Telegraph Company.

Federal Government securities issued during the year were generally regarded as attractively priced. The most notable Treasury offering was a 3 per cent forty-year bond – the longest issue since the Panama Canal bonds floated in 1911 – which was offered in an exchange in February and reopened to long-term investors in a cash offering in July; this issue fluctuated within a narrow range close to par throughout the year, and had the effect of setting a "benchmark" to which yields on other long-term securities could be related.

THE HIGHER COST OF BORROWED FUNDS. Long-term borrowing costs were characterized by a gradually rising trend during the first eight months of 1955, as measured by yields on outstanding bonds (see Chart 6). Declining yields for a short period in the autumn reflected in part a switching from short-term to long-term instruments by some investors, apparently in the expectation that monetary policy would become less restrictive and interest rates would decline in the near future. Toward the end of 1955, however, long-term yields again moved in an upward direction.

Net interest costs of borrowings by State and local governments increased considerably, particularly during the summer months, and led some issuing authorities to reject underwriters' bids and to defer their bond offerings until the appearance of more favorable market conditions. The decline in interest rates in the autumn resulted in the flotation of several previously deferred issues and an increase in the total volume of offerings; rising yields toward the end of the year again resulted in the deferral of some scheduled tax-exempt issues and a reduction in the volume of municipal bond flotations.

Borrowing costs of the Federal Government rose steadily through 1955; for example, in December 1955 a one-year 2⅝ per cent certificate was offered in exchange for a maturing certificate issued at 1¼ per cent in December 1954. Treasury bill yields more than doubled during the same twelve months.

As shown in Chart 6, market yields on Moody's Aaa and Baa corporate bonds rose moderately during the year, and new issues had to carry increasingly attractive rates of return to ensure successful flotation. On the other hand, the average yields of industrial common stocks declined by midyear to within a few basis-points of the Baa bonds, as public interest in common stock ownership pushed share prices to new high ground. During the latter half of the year, dividends rose faster than stock prices, resulting in a moderate increase in the dividends-price ratio.

Although mortgage credit was available in early 1955 on liberal terms, as the year progressed the increased demand from homebuyers pressed hard against the supply of funds available from lenders. Savings institutions supplemented their supply of funds available from the inflow of savings and other current receipts with such arrangements as the "warehousing" of mortgages with commercial banks and large advances from the Federal Home Loan Banks. The increasing tightness of mortgage funds was evidenced by the fact that the proportion of Veterans Administration (VA) loans closed without a downpayment began to decline in May 1955 after almost two years of uninterrupted rise. Discounts increased on some VA and Federal Housing Administration (FHA) mortgages in the secondary market, and interest charges on conventional mortgages rose somewhat. Moreover, toward the end of the year mortgage lenders turned increasingly to the secondary-market facilities of the Federal National Mortgage Association.

Several official actions were taken during the year that had the effect of restraining the rapid increase in mortgage indebtedness. In April, the VA eliminated the so-called "no-no downpayment" loans by excluding from VA-guaranteed mortgages the closing costs involved in home purchases. On July 30, the FHA and the VA acted simultaneously to raise moderately the downpayment requirements and to shorten the maximum maturity on Government insured and guaranteed loans from thirty years to twenty-five years. In order to restrain mortgage lending by savings and loan associations, the Home Loan Bank Board in September took steps to limit the amount of credit advanced by the Home Loan Banks to their member associations. Toward the end of the year, however, there were some indications that residential construction and financing activity might be slackening, and some of the above restrictive measures were relaxed. In December, the Home Loan Bank Board announced that stand-by credit from Home Loan Banks would be more freely available. Early in 1956 the VA and FHA reversed in part the action of July 30, 1955 by lengthening the mortgage maturities of loans under their programs to a maximum of thirty years.

The Balance of Payments of the United States

The large rise in output and national income during the past year both in this country and in most of the rest of the world left its mark on several of the major items in the United States balance of payments. United States exports responded sharply to the increase in foreign demand for raw materials and other goods needed to sustain the industrial boom abroad; the export volume also benefited from the further lifting of restrictions during 1954 and 1955 on imports from the dollar area, particularly in Western Europe. These liberalization measures permitted the greater demand for United States products to become more fully effective. Imports into the United States also recorded impressive gains, but the rise was somewhat below that of exports.

Despite the resulting increase in the United States trade surplus, foreign countries as a whole (excluding international institutions) were able to add about 1.5 billion dollars to their short and long-term dollar assets, or nearly the same amount as in 1954. Record military expenditures abroad by the United States Government, larger expenditures on travel by American tourists, and a sharp rise in United States Government cash payments to certain countries, notably France and the Indochinese states, sufficed to offset the net increase in foreign dollar payments on merchandise account and a decline in private capital outflows.

EXPORTS AND IMPORTS. United States merchandise exports, excluding military aid, were in excess of 14 billion dollars or higher than in any year except 1947 when abnormal reconstruction and recovery needs abroad had resulted in extraordinarily large foreign purchases in the United States. Both the geographical distribution and commodity composition of the export rise clearly reflected the dominant features of last year's boom in the world economy. Trade increases were particularly pronounced in products required or manufactured by the durable goods industries. On the other hand, the demand for United States products in several agricultural countries, especially in Latin America, was unfavorably affected by reduced export earnings resulting from lower prices for certain foodstuffs, such as coffee and cocoa.

About 700 million of the 1.4 billion dollar export rise in 1955 occurred in shipments to Western Europe, which absorbed about 4.1 billion dollars' worth of United States goods and thus continued as the leading market for United States exporters. Canada ranked second among the leading markets for United States exports, shipments increasing from 2.8 billion dollars in 1954 to approximately 3.2 billion dollars in 1955. Exports to Latin America were down somewhat from the 3.3 billion dollars recorded in 1954; lower shipments to Brazil and several other Latin American countries were not entirely offset by increases elsewhere.

Among the commodities that benefited especially from the export boom were coal, petroleum, iron and steel, and steel scrap, as well as automobiles, trucks, and industrial machinery. Western European countries bought larger quantities of United States fuels, steel and steel scrap, and chemicals, while the increase in sales to Canada consisted largely of machinery and automotive equipment.

Agricultural exports, despite substantial shipments under various surplus disposal programs, remained relatively low, though shipments of vegetable oils, tobacco, wheat, wheat flour, and a few other farm commodities registered gains over the previous year, as sales of these commodities against payment in foreign currencies increased. Cotton exports, on the other hand, were down sharply, even though a major part of cotton sales abroad was financed under governmental programs. Partly as a result of United States Government price supports, foreign producers of cotton have sharply expanded output and the demand for United States cotton abroad has dropped severely.

Military aid transfers of goods and services fell from 4.2 billion dollars in 1953 and 3.1 billion dollars in 1954 to approximately 2.3 billion in 1955. This decline reflects for the most part a contraction in exports of munitions to Western Europe where progress in arming the NATO forces has been sufficient to permit a slackening of United States aid deliveries.

Under the impact of rising industrial activity and consumer incomes, merchandise imports into the United States rose in 1955 by more than 1 billion dollars over the preceding year to a new record of approximately 11.5 billion. The rise would have been even more impressive had it not been for certain supply shortages, notably of certain metals, and lower prices for coffee and cocoa. Demand for raw materials and semimanufactures, such as rubber and iron ore, required for the production of durable or semidurable goods was up substantially. There was also a notable increase in crude petroleum and lumber imports. Finished manufactures, mainly textiles, automobiles, and industrial machinery, were also bought in substantially larger quantities during 1955.

Foreign dollar earnings also benefited from a further upsurge of outlays shown in the United States balance-of-payments accounts under the category of military expenditures. Among these outlays, those representing payments for offshore purchases of military "end-items" for transfer either to the producing countries or third countries under United States aid programs were up sharply in 1955, bringing military expenditures to a total in the neighborhood of 2.8 billion dollars. In several countries, United States military expenditures came close to, or exceeded, dollar earnings from merchandise exports to the United States. The main beneficiaries of these expenditures were France and Japan. Other major recipients of dollars on this account were the United Kingdom, Germany, and Italy. Foreign dollar earnings derived from travel expenditures by United States residents also showed a sharp increase.

FOREIGN AID AND CAPITAL MOVEMENTS. As mentioned above, military aid transfers to foreign countries fell sharply in 1955. At the same time, however, there occurred a reversal in the five-year downward trend of "economic" aid which includes cash transfers to foreign countries, deliveries of nonmilitary goods under the mutual-defense-support program, development and technical assistance, and relief shipments. The rise in economic aid largely resulted from sizable cash payments to the three Indochinese states — Cambodia, Laos, and Vietnam — mostly for expenses of their military forces and an increase in similar payments for previous expenditures by France in Indochina. These so-called direct-forces-support payments were an important element in the improvement of the French dollar position.

Another feature of the changes in United States aid during the past year was the larger role of agricultural surplus disposal. There were increasing shipments of agricultural commodities under the Agricultural Trade Development and Assistance Act of 1954, partly on a grant basis to relieve famine and meet relief needs and partly against payment in foreign currencies. Moderate amounts of aid were financed out of foreign currency proceeds of surplus sales under the Mutual Security Acts of 1953 and 1954. As a result of sales for foreign currencies under various surplus disposal programs, a sharp increase occurred in the United States Government holdings of deposits in foreign banks.

United States foreign aid and capital outflows combined exceeded the United States current-account surplus sufficiently to enable foreign countries as a whole to add approximately 1.5 billion dollars to their short and long-term assets in this country. However, the utilization of foreign dollar gains differed in many important respects from that of previous years. Foreign monetary authorities used only a small fraction of their net dollar acquisitions in 1955 for purchases of gold from the United States Treasury. In response to more attractive yields on United States Government obligations, an unusually large share of foreign dollar gains was invested in Treasury bills and longer-term government securities, while foreign time deposits in member banks of the Federal Reserve System appear to have declined somewhat for the first time in several years. The past year also witnessed a further rise of foreign investment in United States corporate securities. Net foreign purchases of such securities appear to have been in the neighborhood of 150 million dollars, including a substantial amount of corporate bonds. On the whole, foreign dollar gains during the past year reflected further significant progress toward greater stability and strength in the international financial position of the free world.

Financial and Economic Developments Abroad

ECONOMIC EXPANSION AMID INFLATIONARY PRESSURE. In most foreign countries economic activity continued to expand in 1955, with industrial production reaching new record levels. In Western Europe, industrial output rose by about 9 per cent above a year previous. Last year was, however, the third consecutive year of rising output, and as capacity production was approached toward the end of the year, the rate of expansion slowed down. In Canada, where as in the United States there had been a mild recession in the preceding year, industrial output recovered sharply. In Japan, industrial production showed a notable increase in 1955, after having slowed down in mid-1954.

Among the primary-producing countries, the pattern of prosperity was less uniform, but agricultural and mining output was, with some exceptions, larger than in 1954. Primary commodity prices remained high by any earlier standards save those of the 1950-51 post-Korea boom; metal and rubber prices increased, but those of agricultural staples declined. While rising investment outlays further enlarged the production potential of most primary-producing countries, the maintenance of even their present living standards remains a difficult task, in view of their rapid population growth.

Unlike the orderly economic growth of the two preceding years, the 1955 expansion was accompanied by inflationary pressure in most of Western Europe, and to some extent also in Canada. The persistent increase in demand tended to outstrip available resources, which in turn gave rise to balance-of-payments difficulties in many countries. Although price increases did not exceed 3 per cent in most European countries (in Sweden and in the United Kingdom the rise was of the order of 5 per cent), they became a matter of concern, more particularly as wages rose noticeably and wage demands continued to grow. Marked inflationary pressures persisted in Australia and New Zealand and, to an even more serious extent, in some of the primary-producing countries in Latin America and Asia; payments difficulties were sometimes accentuated by declines in prices of certain primary commodities.

Yet in most countries the inflationary pressures were less severe than during 1950-51. Moreover, many countries were in an inherently much stronger economic and financial position, domestically as well as internationally, than only a few years ago. Even more important, many countries took remedial action at an early stage and often at the first signs of re-emerging strains.

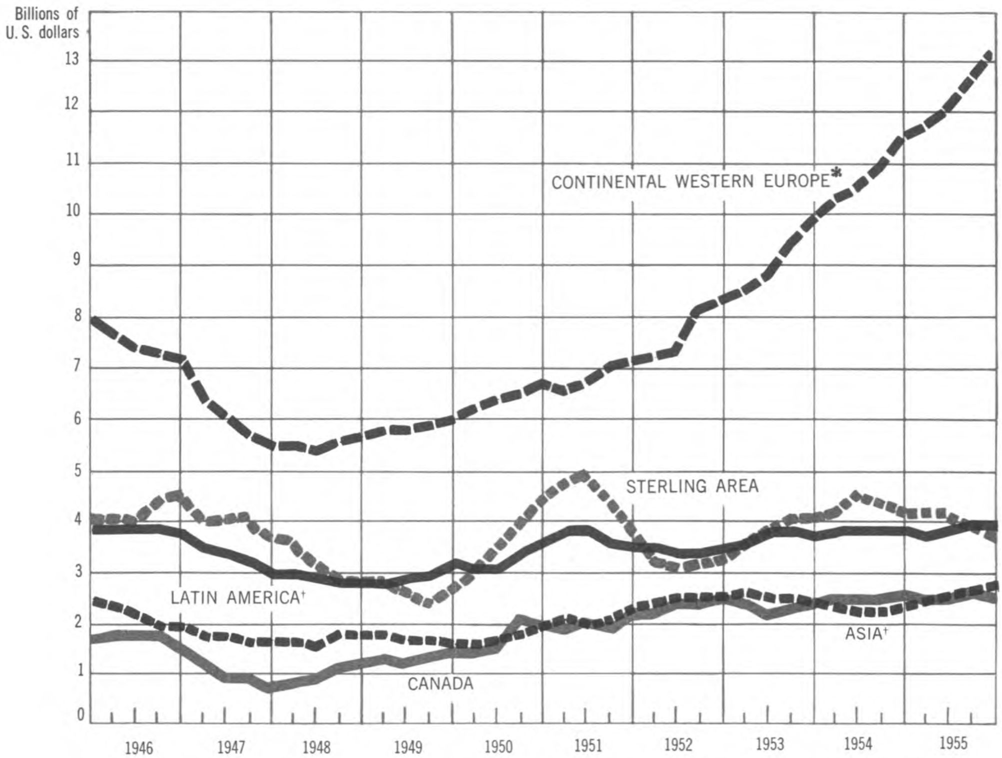
RECOURSE TO MONETARY RESTRAINT. As these pressures developed, country after country, especially in Western Europe and the British Commonwealth, had recourse to monetary restraint. The shift was generally led by central bank discount rate rises, which took place in eleven countries—Austria, Belgium, Canada, West Germany, Ireland, New Zealand, Norway, Sweden, Turkey, the Union of South Africa, and the United Kingdom; in addition, Denmark abolished its preferential rediscount rate for commercial banks. In some of these countries central bank discount rates were raised, often in several steps, to their highest levels since the early 1930's; even more significantly, they became more fully effective than during 1950-52, the last previous period of general monetary restraint. In Japan, where there was considerable financial stability, the discount rate was also raised, but this was a technical adjustment and did not actually increase the cost of credit.

Open market operations were an important policy instrument in several countries, including West Germany, Japan, and the United Kingdom. Commercial bank reserve requirements were introduced, by statute or by informal agreement, in Austria, Finland, Norway, and Switzerland, and were increased in West Germany, New Zealand, Peru, and some other Latin American countries. The monetary authorities of certain countries supplemented quantitative controls by moral suasion and a number of them imposed or tightened controls over the terms of consumer instalment credit. Under the impact of growing monetary restraint, and because of the interplay of basic economic forces, market interest rates increased in many foreign countries, particularly in Western Europe and Canada; in the latter country, and also in the United Kingdom, short-term rates rose more sharply than long-term.

Largely as a result of the change in monetary policy, the expansion of commercial bank loans slackened or the amount outstanding actually declined in a

CHART 7

GOLD AND DOLLAR HOLDINGS OF SELECTED FOREIGN AREAS



Note: Holdings include official gold reserves (reported or estimated), and official and private dollar holdings as reported by banks in the United States.

*Continental members of the OEEC—i.e., including Turkey, but excluding Spain and Finland; holdings of the Bank for International Settlements for the European Payments Union, as well as for its own account, are included.

†Excluding sterling, French-franc, and Dutch-guilder areas.

number of countries, particularly New Zealand, Sweden, and the United Kingdom. The rise in money supply thus slowed down or was even reversed in many Western European and British Commonwealth countries. In the United Kingdom, the main factor in the decline of the money supply was the reduction in commercial bank security holdings. In some of these countries, reduced gold and foreign exchange gains, or even monetary reserve losses, also exerted a restraining influence on the money supply. In many primary-producing countries, the rise in money supply, although probably smaller than in previous years, persisted, and in a number of them, particularly Bolivia and Chile, it was very rapid; the main factors behind the monetary expansion were government deficit financing and rising loans to the private sector of the economy.

In some countries the question arose as to whether measures in the fiscal field were properly integrated with the monetary policy measures directed at restricting the spending of individuals and businesses. The expansion in government expenditures was, it is true, slowed down in a number of countries, but government outlays were not actually reduced, and only in a few instances were taxes adjusted to help counter the excess demand for goods. At the end of the year the question persisted whether a lack of appropriate fiscal action in certain countries may not have imposed too heavy a burden on monetary policy, and thus limited its effectiveness, particularly since government sectors form a much larger part of most present-day economies than they did before the war.

Despite these and other limitations, however, monetary policy has proved effective in many countries. It has gradually restrained the supply of and demand for credit, and has thus helped to prevent demand from outrunning available resources. Much remains, however, to be done in large parts of the world to restore and permanently secure the reasonable monetary stability that is a prerequisite for steady growth in free-market economies.

TRENDS IN FOREIGN GOLD AND DOLLAR HOLDINGS. Gold and dollar holdings of foreign countries, including private dollar balances,[1] continued to rise in 1955, although somewhat more slowly than in 1954. At the year end, total holdings amounted to 26.6 billion dollars, a rise of 1.6 billion during the year, compared with a gain of 1.9 billion in 1954 and 2.6 billion in 1953. In December 1955, they stood 80 per cent above September 1949, the date of the general currency devaluations, and 40 per cent above March 1952, the post-Korea low.

The pattern of reserve gains and losses in 1955 differed, however, from that of 1954, as Chart 7 indicates. The striking rise in Continental Western European holdings of gold and dollars, which has been maintained since mid-1948, continued in 1955. On the other hand, the aggregate gold and official and private dollar holdings of the sterling-area countries declined, but remained well above the 1952 low. However, the area's payments difficulties — a compound

[1] *Dollar holdings consist primarily of deposits, short-term government securities, certain short-dated long-term government securities, and bankers' acceptances.*

of the inflationary rise in demand in the United Kingdom and certain overseas sterling countries and of speculative pressures against the pound — were not so acute as in some earlier postwar years; and it should be remembered that sterling payments were, in effect, freer than they had been earlier.

Canadian gold and dollar holdings showed little change during the year; some use was made of official reserves to maintain orderly conditions in the exchange market, but not to reverse persistent trends, and in fact toward the year end the Canadian dollar declined to par with the United States dollar. Nonsterling Asian countries achieved fairly substantial gold and dollar gains, primarily as the result of the improvement in Japan's position. In Latin America, the gains of Mexico, Venezuela, and Brazil were offset to some extent by losses elsewhere.

In addition to the gold and dollars acquired through transactions with the United States, foreign countries added over half a billion dollars to their official gold reserves from new production and other sources; this amount was approximately the same as in 1954 but well above the level of the preceding years. World gold output (outside the USSR) increased last year by 6 per cent, principally because of the growing production in South Africa; a large portion of the expanded output was sold in the London gold market. The dollar equivalent of the London gold price remained during the entire year within the United States buying and selling prices of $34.9125 and $35.0875, at which this Bank, acting on behalf of the United States Treasury, deals with foreign monetary authorities. As a result, not only did sellers of gold receive a higher price in London, but foreign monetary authorities found it cheaper to acquire gold in London than from the United States Treasury.

CONTINUED ADVANCE TOWARD FREER TRADE AND PAYMENTS. The advance toward freer and more multilateral trade and payments, which gained momentum in 1953 and 1954, continued last year. Progress, it is true, was more gradual and was achieved mainly through numerous relatively small measures of trade and payments liberalization, but these, when added to past achievements, had important cumulative effects. Even more significant, despite the payments difficulties of certain sterling and Latin American countries, there was with very few exceptions no relapse into the more stringent direct and discriminatory controls over trade and payments that characterized the earlier postwar years.

Intra-European trade continued to expand, trade and payments were further liberalized, and certain restrictions on capital transactions were relaxed. The hardening of European Payments Union (EPU) settlement terms after July reduced the incentive for member countries to discriminate against dollar imports by requiring a higher proportion of intra-European deficits to be settled in gold or dollars. The forward-looking cooperation among EPU countries led to the European Monetary Agreement which is to replace the EPU when fuller convertibility into United States dollars has been established by member countries accounting for 50 per cent of the EPU quotas.

Discriminatory restrictions on dollar imports were further relaxed. The "free" list for dollar imports was extended in a number of Western European countries and import licenses were more liberally granted in others. Most of the relaxation of quantitative controls on dollar imports was concentrated on raw materials; imports of foodstuffs and manufactures, as a rule, remained restricted. The marked rise in United States exports noted above could not, however, be attributed solely to liberalization; it also reflected a sharp increase in the demand for imports, which was in turn a part of the rise in demand for goods in general in many countries. In some of them, the main purpose of dollar liberalization was to obtain imports more cheaply and thereby exert some downward pressure on domestic price levels.

In general, notwithstanding adverse influences affecting sterling that delayed a further advance toward convertibility, foreign exchange and trade controls in the principal trading countries are far less comprehensive and stringent than a few years ago. Last year's developments have thus shown that the strains and stresses that arose in the rapidly growing free-market economies could be dealt with effectively without reverting to severe exchange and trade restrictions and currency discrimination. They have, however, also shown that a further advance toward freer trade and payments calls for a determined effort by the principal trading nations to restore and maintain a reasonable economic balance and to cooperate closely in their international economic policies. The further rise in productive capacity of the free world, its economic efficiency and well-being, as well as its political and military strength, depend importantly upon consolidating the achievements attained thus far and continuing the advance toward freer trade and payments.

DEVELOPMENTS IN THE NEW YORK FOREIGN EXCHANGE MARKET. In 1955, as in earlier years, the pound sterling and the Canadian dollar were the currencies traded most actively on the New York foreign exchange market.

Sterling was weak at the beginning of the year, and again from May to September, the exchange rate falling in both periods to $2.78¼, the lowest since

September 1952. As noted in an earlier section, the pressure on sterling stemmed primarily from inflationary strains in the United Kingdom and some of the overseas-sterling-area countries, and the resultant increase in the area's trade deficit, as well as from speculative movements against the pound. In the May-September period additional pressure on sterling came from a combination of market factors, including the uncertainty in the market preceding the May elections in Britain, the effects of the spring dock and rail strikes, and widespread rumors during the summer that the sterling-dollar rate would be permitted to fluctuate more widely. Finally, in the latter part of August and during September, there was further pressure on the rate as a result of seasonal demands for dollars in London, particularly on the part of tobacco buyers. Although it was officially announced in July that the United Kingdom was contemplating no alteration in the exchange parity, it was not until late September, following official reiteration of this stand at the International Monetary Fund meeting in Istanbul, that apprehensions in this respect were allayed.

In the last quarter of the year, sterling began to show some strength as the measures taken by Britain to curb domestic demand for goods, including the autumn budget measures and the continued credit squeeze, gradually became more effective. With the appearance of the usual seasonal demand for the pound, the rate moved to its high of \$2.80 ⅝ for the year in mid-December.

Quotations for forward sterling varied considerably during the year, ranging from a slight premium over spot at the beginning of January to a discount of 2$\frac{7}{16}$ cents for three months' sterling in July. In the last quarter of the year, however, the discounts were generally much smaller but the spread again tended to widen toward the close of the year.

During the year British authorities made several changes affecting the transferable-account and security sterling markets. Thus, in February, the Exchange Equalization Account was given "wider discretion" to operate in the transferable-sterling market, and the quotation for transferable sterling rose within a week from \$2.71½ to \$2.75$\frac{15}{16}$. Subsequently, however, the rate moved erratically, with quotations in the last half of the year ranging between \$2.75¼ and \$2.77$\frac{13}{16}$; at the year end the rate was \$2.77$\frac{5}{16}$. In September, security-sterling regulations were liberalized by permitting the free movement of sterling securities, or the proceeds of their sale, among all nonresidents of the sterling area.

The Canadian dollar weakened considerably during the year; a sharp decline in the first quarter was followed by a period of recovery and a subsequent further decline in October and November. The rate ranged from a high of \$1.03$\frac{11}{16}$ in mid-January to a low of $\$0.99^{31}/_{32}$ in late November. A slackening in the demand for the Canadian dollar on investment account, together with an increased demand for United States dollars on the part of Canadian importers, contributed to the decline. At the year end, the Canadian dollar was quoted at $\$1.00^{3}/_{32}$.

The liberalized capital mark of West Germany was traded in the New York market to some extent during the year, with the quotation moving from $0.2317 at the beginning of the year to a high of $0.2373 in June. There was some demand for the liberalized mark in New York, but its firmness reflected mainly the higher quotations for transferable sterling into which it can be converted. At the year end, the liberalized capital mark was quoted at $0.2367, not far from the official rate of $0.2383 for the Deutsche mark.

Volume and Trend of the Bank's Operations

DOMESTIC OPERATIONS. The record high level of economic activity and a tighter credit policy influenced the volume of work performed by the Bank during 1955. The expansion of output and sales was reflected in a heavier volume of check and currency transactions, and although the issue and redemption of Government securities decreased, the transfer of securities by wire and the volume of safekeeping of securities increased. The shift from monetary ease to restraint resulted in greatly increased resort to the Federal Reserve "discount window", with discounts and advances rising from an aggregate of 5 billion dollars in 1954 to over 21 billion in 1955. Despite an increase in the volume of the Bank's operations in 1955, improved procedures made possible a moderate reduction in staff.

The number of checks handled by the Bank increased during 1955 to a new all-time high. The volume of United States Government checks handled rose 1.9 per cent and that of all other checks, 3.6 per cent. The expansion in the number of Government checks reflected for the most part an increased number of social security payments, but, since these checks individually are relatively small and there was a reduction in the number of very large Government checks issued, the total dollar volume of Government checks processed at this Bank declined. The dollar volume of non-Government checks processed also contracted. However, this decline was the result of a reduction in the number (19,365) and dollar volume (nearly 16 billion) of checks drawn by member banks on their reserve accounts. The number and dollar amount of checks drawn for other purposes, primarily commercial, rose with the general expansion of business, while public demand for currency and coin also increased.

The volume of telegraphic transfers of funds made through Federal Reserve System facilities continued to increase in 1955. The number of transfers made by the Bank increased 7.0 per cent, and the dollar volume increased 1.2 per cent. The increased volume overtaxed the capacity of the equipment installed in 1952 to handle transfers between this office and the large New York City banks, which represent about 80 per cent of the total of all transfers. In November, new equipment capable of greater speed and capacity was installed at this Bank and in the twelve participating banks. The new equipment has made it possible to eliminate messenger service and to give more rapid service in the transfer of funds.

The number of postal money orders processed, which has been decreasing since 1952, declined 5.3 per cent further in 1955 to a level of 51 million items. This is part of a nation-wide decline in the use of money orders attributed by the Post Office Department to a substantial reduction in collect-on-delivery transactions and the more extensive use of checks and bank money orders.

A contraction of the United States Treasury refunding and financing operations during 1955 reduced the volume of the Bank's fiscal agency operations. Issues, redemptions, and exchanges of Savings bonds decreased 1.1 per cent, and the processing of all other United States obligations decreased 8.2 per cent in volume and 6.0 per cent in dollar amount. Moreover, on instructions from the Treasury the Bank discontinued safekeeping accounts for Savings bonds. The number of telegraphic transfers of securities in 1955 increased by more than 14 per cent over the preceding year, and the number of pieces of unfit currency destroyed for the Treasury increased 22 per cent.

The volume of coupons detached and entered for collection in conjunction with the safekeeping of securities also increased during 1955. Although the total number of coupons detached, as shown in the table, decreased 2.2 per cent, the number handled manually actually increased during 1955. The volume of work involved in manually detaching and collecting coupons increased 7.9 per cent.

In late July, ground was broken for a new building for the Bank's Buffalo Branch. The new building, which is expected to increase the convenience and efficiency of the Branch operations and provide modern facilities for employees, is scheduled for occupancy early in 1957.

SOME MEASURES OF THE VOLUME OF OPERATIONS OF THE FEDERAL RESERVE BANK OF NEW YORK (Including Buffalo Branch)

Number of pieces handled*	**1955**	**1954**
Discounts and advances	3,451	1,939
Currency received and counted	1,155,032,000	1,152,582,000
Coin received and counted	1,607,936,000	1,658,239,000
Gold bars and bags of gold coin handled	69,000	86,000
Checks handled:		
United States Government checks	61,750,000	60,576,000
All other	485,547,000	468,477,000
Postal money orders handled	51,257,000	54,151,000
Collection items handled:		
United States Government coupons paid	3,907,000	4,134,000
Credits for direct sendings of collection items	346,000	314,000
All other	8,014,000	7,470,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	28,448,000	28,771,000
All other United States obligations	3,419,000	3,725,000
Obligations of the International Bank for Reconstruction and Development	152,000	165,000
Safekeeping of securities:		
Pieces received and delivered	4,256,000	4,173,000
Coupons detached	2,199,000	2,248,000
Transfers of funds†	395,000	369,000
Amounts handled		
Discounts and advances	$ 21,520,870,000	$ 5,312,067,000
Currency received and counted	7,419,933,000	7,583,535,000
Coin received and counted	171,437,000	158,575,000
Gold bars and bags of gold coin handled	967,871,000	1,198,069,000
Checks handled:		
United States Government checks	19,954,515,000	20,679,497,000
All other	337,010,939,000	339,861,532,000
Postal money orders handled	830,826,000	868,177,000
Collection items handled:		
United States Government coupons paid	1,394,473,000	1,205,039,000
Credits for direct sendings of collection items	813,377,000	839,166,000
All other	1,089,815,000	1,078,793,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	2,517,916,000	2,708,945,000
All other United States obligations	337,959,107,000	359,561,607,000
Obligations of the International Bank for Reconstruction and Development	311,200,000	340,083,000
Safekeeping of securities:		
Pieces received and delivered (par value)	457,411,047,000	437,626,510,000
Transfers of funds†	381,993,056,000	377,580,330,000

*Two or more checks, coupons, etc., handled as a single item are counted as one "piece".
†Includes wire and mail transfers; excludes Treasury transfers and Reserve Bank interdistrict settlements.

Over the whole year, a somewhat larger volume of work was carried out by a smaller number of employees. To a large extent this was made possible by improved procedures and work methods and the installation of more efficient operating equipment, but it also reflected to some extent the tightness of the labor market. The average number of employees on the staff was 5.1 per cent fewer in 1955 than in 1954, and the rate of turnover was 4.4 per cent above the 1954 rate.

FOREIGN AND INTERNATIONAL OPERATIONS. Gold and dollar assets held for foreign account by this Bank on behalf of the Federal Reserve System continued to increase throughout the year. The increase began early in 1952 and has since continued with little interruption. Total holdings at the year end amounted to 9.8 billion dollars, compared with 9.1 billion at the end of 1954. Of the 9.8 billion, 5.7 billion dollars was in earmarked gold, 3.5 billion in United States Government securities, and approximately 0.5 billion in deposits and miscellaneous holdings. The higher short-term money rates in this country were important in stimulating interest in United States Government securities, especially Treasury bills. Holdings of Government securities rose 635 million dollars, while earmarked gold increased only 97 million and deposits actually decreased by 88 million. Gold and dollar assets held for the International Bank for Reconstruction and Development and the International Monetary Fund, which are not included in the above figures, rose by 66 million.

Loans on gold were less important than in earlier years. Loan facilities extended during the year, including one renewal, amounted to 28 million dollars, and only 1 million was actually on loan at the year end. Loans on gold and commitments for such loans are ordinarily made to foreign monetary authorities to assist them in meeting seasonal dollar shortages or other shortages of a clearly temporary nature.

The newly organized central banks of Cambodia and Vietnam opened accounts during the year.

Under Section 522 of the Tariff Act of 1930, this Bank certifies rates of exchange of foreign currencies for use by the Bureau of Customs in the assessment and collection of duties on imports. During the year daily rates for approximately twenty-nine currencies were certified to the Secretary of the Treasury. Rates for an additional fifty-five currencies were certified for specific dates as required by the Bureau of Customs.

Financial Statements

STATEMENT OF CONDITION. Total assets of this Bank rose by 316 million dollars in 1955, from 12,888 million to 13,204 million dollars. About 191 million dollars of the increase represented a net expansion in the Bank's holdings of Government securities; securities held under repurchase agreement rose 349 million dollars, while outright holdings fell 158 million dollars. In 1955, the Bank reentered the bankers' acceptance market and, at the year end, it held 28 million dollars of these obligations—24 million outright and the remainder under repurchase agreement. Only 19 million dollars of member bank borrowings was outstanding at the year end, about half the amount outstanding at the end of 1954. This comparison between two "window-dressing" dates, however, fails to indicate the real use made of Federal Reserve discount facilities by member banks during the year, which is shown in the foregoing table on bank operations.

Total cash holdings declined 143 million dollars over the year, reflecting primarily transfers from the gold certificate account of this Bank to the accounts of other Federal Reserve Banks resulting from a net outflow of commercial and financial funds from the Second District to other parts of the country.

A relatively sharp increase (253 million dollars) occurred in uncollected items as a result of an abnormal delay in the processing of mail at the year end as well as transportation difficulties in flood areas. An increase of $617,000 in bank premises reflected primarily the progress of construction of the new Buffalo Branch building. The expansion of 6 million dollars in other assets represented mainly interest accruals.

Total liabilities and capital accounts were 316 million dollars larger than at the end of 1954, primarily as a result of a 170 million, or 2.8 per cent, expansion in the amount of Federal Reserve notes of this Bank outstanding. Total capital accounts showed a small net increase for the year, reflecting the transfer of 8 million dollars of earnings to surplus. The amount of capital stock outstanding, however, was reduced slightly as a result of bank mergers.

Due to the increase in the deposit and Federal Reserve note liabilities of this Bank and to a decline in gold certificate holdings, the reserve ratio declined from 45.9 per cent at the close of 1954 to 43.9 per cent at the end of 1955.

STATEMENT OF CONDITION

(In thousands of dollars)

Assets	DEC. 31, 1955	DEC. 31, 1954
Gold certificates	5,189,433	5,322,811
Redemption fund for Federal Reserve notes	180,781	184,192
Federal Reserve notes of other Banks	55,856	47,323
Other cash	65,449	80,497
Total cash	5,491,519	5,634,823
Discounts and advances	19,242	39,117
Acceptances	28,205	—
United States Government securities	6,592,440	6,401,284
Total loans and securities	6,639,887	6,440,401
Other assets:		
Due from foreign banks*	6	6
Uncollected items	1,025,230	771,896
Bank premises	7,766	7,149
All other	39,159	33,262
Total other assets	1,072,161	812,313
Total Assets	**13,203,567**	**12,887,537**

*After deducting participation of other Federal Reserve Banks amounting to	16	16

STATEMENT OF CONDITION

(In thousands of dollars)

Liabilities	DEC. 31, 1955	DEC. 31, 1954
Federal Reserve notes	6,120,411	5,950,858
Deposits:		
Member bank—reserve accounts	5,552,722	5,482,319
United States Treasurer—general account	68,614	95,808
Foreign*	128,673	147,721
Other	369,764	322,038
Total deposits	6,119,773	6,047,886
Other liabilities:		
Deferred availability cash items	642,672	575,375
All other	5,414	5,456
Total other liabilities	648,086	580,831
Total Liabilities	**12,888,270**	**12,579,575**
Capital Accounts:		
Capital paid in	89,473	89,949
Surplus (Section 7)	195,827	188,070
Surplus (Section 13b)	7,319	7,319
Other capital accounts	22,678	22,624
Total Capital Accounts	**315,297**	**307,962**
Total Liabilities and Capital Accounts	**13,203,567**	**12,887,537**
Contingent liability on acceptances purchased for foreign correspondents†	9,743	5,420
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	43.9%	45.9%

*After deducting participation of other Federal Reserve Banks amounting to..	273,288	342,220
†After deducting participation of other Federal Reserve Banks amounting to..	23,718	13,632

EARNINGS AND EXPENSES. Total current earnings in 1955 were 105.7 million dollars, 6.8 million below 1954. The decline was the result of a 10.0 million reduction in the amount of interest received on this Bank's share of the Government obligations held by the System Open Market Account, which in turn reflected both a lower average portfolio and a lower average return. This loss of income, however, was partially offset by an increase in income from other sources. Interest on Government securities held under repurchase agreements rose $600,000, and that on bankers' acceptances, both outright and under repurchase contract, provided $200,000. Earnings on discounts and advances for member banks rose from 0.4 million in 1954 to 2.8 million in 1955. The discount rate of this Bank, as noted earlier, was increased in successive steps from 1½ per cent at the beginning of the year to 2½ per cent on November 18, and the average volume of reserves borrowed increased substantially.

Gross expenditures of the Bank in 1955 declined slightly, but the amount of reimbursable expenditures, primarily the cost of work performed for the United States Treasury Department and in connection with the V-Loan Program, dropped more. Net expenses, as a result, increased by $251,000.

Net earnings after all adjustments amounted to 82.9 million dollars, out of which the statutory dividend of 6 per cent was paid to member banks on outstanding Federal Reserve Bank stock. Of the remainder, 90 per cent, or 69.8 million, was paid to the Treasury as an interest charge levied by the Board of Governors under Section 16 of the Federal Reserve Act on Federal Reserve notes not covered by gold certificates. The other 10 per cent, 7.8 million, was added to regular surplus under Section 7, as shown in the accompanying statement.

Changes in Membership

During 1955 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 678 to 626. The net decrease of 52 banks was the result of mergers of 55 member banks with other banks, the admission of one State bank to membership, the organization of a new national bank, and the conversion of a nonmember State bank to a national bank. The 626 member banks constitute 86 per cent of all national banks, State banks, and trust

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1955 AND 1954 (In thousands of dollars)

	1955	1954
Total current earnings	105,666	112,467
Net expenses*	22,714	22,463
Current net earnings	82,952	90,004
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	0	111
All other	60	†
Total additions	60	111
Deductions from current net earnings:		
Loss on sales of United States Government securities (net)	†	0
Reserves for contingencies	54	66
All other	33	7
Total deductions	87	73
Net additions or deductions (–)	–27	38
Net earnings before payments to United States Treasury	**82,925**	**90,042**
Paid United States Treasury (interest on Federal Reserve notes)	69,807	73,549
Dividends paid	5,361	5,056
Transferred to surplus (Section 7)	7,757	11,437
SURPLUS ACCOUNT (Section 7):		
Surplus–beginning of year	188,070	176,633
Transferred from net earnings for year	7,757	11,437
Surplus - end of year	**195,827**	**188,070**

*Excludes reimbursed expenses, rents, and recoveries	3,547	3,902

†Less than $500.

companies in this District and hold 96 per cent of the total assets of all such institutions in this District.

NUMBER OF OPERATING MEMBER AND NONMEMBER BANKS IN SECOND FEDERAL RESERVE DISTRICT AT END OF YEAR
(Exclusive of savings banks, private bankers, and industrial banks)

	December 31, 1955			December 31, 1954		
Type of Bank	**Members**	**Non-members**	**Per cent members**	**Members**	**Non-members**	**Per cent members**
National banks	430	0	100	470	0	100
State banks and trust companies	196	99	66	208	100	68
Total	**626**	**99**	**86**	**678**	**100**	**87**

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1955

Total membership at beginning of year	**678**
Increases:	
State bank admitted	1
New national bank	1
Nonmember State bank converted to national bank	1
Decreases:	
Member banks combined with other members	52
Member banks combined with nonmembers	3
Total membership at end of year	**626**

Changes in Directors and Officers

CHANGES IN DIRECTORS. In November 1955, member banks in Group 1 elected Howard C. Sheperd, Chairman of the Board of The First National City Bank of New York and Chairman of the Board of the City Bank Farmers Trust Company, New York, N. Y., as a Class A director of this Bank for a term of three years beginning January 1, 1956. Mr. Sheperd succeeded N. Baxter Jackson, Chairman of the Board of the Chemical Corn Exchange Bank, New York, N. Y., whose term expired December 31, 1955.

Member banks in Group 1 also reelected Clarence Francis, director of General Foods Corporation, New York, N. Y., as a Class B director for a term of three years beginning January 1, 1956.

In December 1955, the Board of Governors of the Federal Reserve System for the fourth successive year designated Jay E. Crane, Vice President of the Standard Oil Company (New Jersey), New York, N. Y., as *Chairman* of the board of directors and Federal Reserve Agent for the year 1956. At the same time, the Board of Governors reappointed Forrest F. Hill, Vice President of The Ford Foundation, New York, N. Y., as *Deputy Chairman* for the year 1956. Also in December 1955, the Board of Governors reappointed Franz Schneider, consultant to the Newmont Mining Corporation, New York, N. Y., as a Class C director for a three-year term beginning January 1, 1956.

At the Buffalo Branch of the Federal Reserve Bank of New York, in December 1955, Robert C. Taït, President of the Stromberg-Carlson Company (a Division of General Dynamics Corporation), Rochester, N. Y., was designated by the board of directors of this Bank as *Chairman* of the board of directors of the Buffalo Branch for the year 1956. At the same time, the board of directors of this Bank appointed Leland B. Bryan, President of the First National Bank and Trust Company of Corning, Corning, N. Y., and John W. Remington, President of the Lincoln Rochester Trust Company, Rochester, N. Y., as directors of the Buffalo Branch, each for a term of three years beginning January 1, 1956. Mr. Bryan succeeded Edward P. Vreeland, President of the Salamanca Trust Company, Salamanca, N. Y., whose term expired December 31, 1955. Mr. Remington succeeded Bernard E. Finucane, President of the Security Trust Company of Rochester, Rochester, N. Y., whose second consecutive term expired December 31, 1955. In January 1956, the Board of Governors of the Federal Reserve System appointed Ralph F. Peo, President of Houdaille Industries, Inc., Buffalo, N. Y., as a director of the Buffalo Branch for the term ending December 31, 1958. Mr. Peo succeeded Edgar F. Wendt, President of the Buffalo Forge Company, Buffalo, N. Y., whose second consecutive term expired December 31, 1955.

CHANGES IN OFFICERS. Gerald H. Greene, formerly an Assistant Cashier at the Buffalo Branch, who had been on a temporary assignment at the head office as Acting Manager of the Service Department, returned to the Buffalo Branch on March 21, 1955. Effective the same day, Mr. Greene was reappointed an Assistant Cashier of the Buffalo Branch, with direct responsibility for the operations of the Building Operating, Cash, Credit and Discount, and Securities Divisions.

Angus A. MacInnes, Jr., formerly Manager of the Check Department, was appointed an Assistant Vice President, effective May 1, 1955. Mr. MacInnes was assigned to the Cash and Collections Function, with supervisory responsibilities for the Check, Collection, and Government Check Departments.

Fred W. Piderit, Jr., formerly a Senior Bank Examiner, was appointed a Manager and assigned to the Bank Examinations Department, effective May 1, 1955.

Lawrence E. Quackenbush, formerly Manager of the Bank Examinations Department, was assigned as Manager of the Collection Department, effective May 1, 1955. On January 6, 1956, Mr. Quackenbush was assigned also as Manager of the Government Check Department.

George C. Smith, formerly Manager of the Collection and the Government Check Departments, was assigned as Manager of the Check Department, effective May 1, 1955.

William H. Braun, Jr., formerly an Attorney in the Legal Department, was appointed an Assistant Counsel, effective January 5, 1956.

Thomas J. Roche, formerly a Special Assistant in the Foreign Department, was appointed Foreign Exchange Officer, effective January 5, 1956.

Thomas O. Waage, Manager of the Public Information Department, was appointed also as Secretary of the Bank, effective January 5, 1956.

Arthur H. Willis, formerly Secretary of the Bank, was appointed a Manager and assigned to the Securities Department, effective January 6, 1956. (Mr. Willis resigned from the employ of the Bank, effective January 31, 1956.)

John P. Jensen, formerly Manager of the Security Custody Department, was assigned as Manager of the Accounting Department, effective January 6, 1956.

William F. Palmer, formerly Manager of the Accounting Department, was assigned as Manager of the Security Custody Department, effective January 6, 1956.

MEMBER OF FEDERAL ADVISORY COUNCIL — 1956. The board of directors of this Bank selected Adrian M. Massie, Chairman of the Board of The New York Trust Company, New York, N. Y., to serve during the year 1956 as the member of the Federal Advisory Council from the Second Federal Reserve District. He succeeded Henry C. Alexander, President of J. P. Morgan & Co. Incorporated, New York, N. Y., who served as the member of the Federal Advisory Council for this District during the preceding three years.

Directors of the Federal Reserve Bank of New York

DIRECTORS	Term expires Dec. 31	Class	Group
HOWARD C. SHEPERD Chairman of the Board, The First National City Bank of New York, and Chairman of the Board, City Bank Farmers Trust Company, New York, N. Y.	1958	A	1
JOHN R. EVANS President, The First National Bank of Poughkeepsie, Poughkeepsie, N. Y.	1956	A	2
FERD. I. COLLINS President and Trust Officer, Bound Brook Trust Company, Bound Brook, N. J.	1957	A	3
CLARENCE FRANCIS Director, General Foods Corporation, New York, N. Y.	1958	B	1
LANSING P. SHIELD President, The Grand Union Company, East Paterson, N. J.	1956	B	2
JOHN E. BIERWIRTH President, National Distillers Products Corporation, New York, N. Y.	1957	B	3
JAY E. CRANE, *Chairman, and Federal Reserve Agent* Vice President, Standard Oil Company (New Jersey), New York, N. Y.	1956	C	
FORREST F. HILL, *Deputy Chairman* Vice President, The Ford Foundation, New York, N. Y.	1957	C	
FRANZ SCHNEIDER Consultant, Newmont Mining Corporation, New York, N. Y.	1958	C	

DIRECTORS — BUFFALO BRANCH

ROBERT C. TAIT, *Chairman* 1956
President, Stromberg-Carlson Company (a Division of General Dynamics Corporation), Rochester, N. Y.

ROBERT L. DAVIS 1956
President, The First National Bank of Olean, Olean, N. Y.

CHARLES H. DIEFENDORF 1957
Chairman of the Executive Committee, The Marine Trust Company of Western New York, Buffalo, N. Y.

CLAYTON G. WHITE 1957
Dairy farmer, Stow, N. Y.

LELAND B. BRYAN 1958
President, First National Bank and Trust Company of Corning, Corning, N. Y.

RALPH F. PEO 1958
President, Houdaille Industries, Inc., Buffalo, N. Y.

JOHN W. REMINGTON 1958
President, Lincoln Rochester Trust Company, Rochester, N. Y.

MEMBER OF FEDERAL ADVISORY COUNCIL — 1956

ADRIAN M. MASSIE 1956
Chairman of the Board, The New York Trust Company, New York, N. Y.

Officers of the Federal Reserve Bank of New York*

ALLAN SPROUL, *President*

WILLIAM F. TREIBER, *First Vice President*

HAROLD A. BILBY, *Vice President*
JOHN EXTER, *Vice President*
HERBERT H. KIMBALL, *Vice President*
ARTHUR PHELAN, *Vice President*
HAROLD V. ROELSE, *Vice President*
ROBERT G. ROUSE, *Vice President*
TODD G. TIEBOUT, *Vice President, and General Counsel*
VALENTINE WILLIS, *Vice President*
REGINALD B. WILTSE, *Vice President*
JOHN H. WURTS, *Vice President*

JOHN J. CLARKE, *Assistant General Counsel*

HOWARD D. CROSSE, *Assistant Vice President*
FELIX T. DAVIS, *Assistant Vice President*
NORMAN P. DAVIS, *Assistant Vice President*
PAUL R. FITCHEN, *Assistant Vice President*
MARCUS A. HARRIS, *Assistant Vice President*
ANGUS A. MACINNES, JR., *Assistant Vice President*
ROBERT V. ROOSA, *Assistant Vice President*
HORACE L. SANFORD, *Assistant Vice President*

ARTHUR I. BLOOMFIELD, *Senior Economist*
WILLIAM H. BRAUN, JR., *Assistant Counsel*
CHARLES A. COOMBS, *Manager, Research Department*
HARDING COWAN, *Assistant Counsel*
GEORGE GARVY, *Senior Economist*
CLIFTON R. GORDON, *Assistant Counsel*
EDWARD G. GUY, *Assistant Counsel*
WILLIAM A. HEINL, *Manager, Savings Bond Department*
JOHN P. JENSEN, *Manager, Accounting Department*
PETER P. LANG, *Manager, Foreign Department*
JOHN J. LARKIN, *Manager, Securities Department*
WILLIAM E. MARPLE, *Manager, Credit Department, and Manager, Discount Department*
SPENCER S. MARSH, JR., *Manager, Securities Department*
MICHAEL J. MCLAUGHLIN, *Manager, Cash Custody Department*
HERBERT A. MUETHER, *Manager, Building Operating Department*
DONALD C. NILES, *Manager, Planning Department*
ARTHUR H. NOA, *Manager, Service Department*
GREGORY O'KEEFE, JR., *Assistant Counsel, and Assistant Secretary*
WILLIAM F. PALMER, *Manager, Security Custody Department*
FRANKLIN E. PETERSON, *Manager, Cash Department*
FRED W. PIDERIT, JR., *Manager, Bank Examinations Department*
LAWRENCE E. QUACKENBUSH, *Manager, Collection Department, and Manager, Government Check Department*
THOMAS J. ROCHE, *Foreign Exchange Officer*
WALTER S. RUSHMORE, *Manager, Personnel Department*
KENNETH E. SMALL, *Manager, Government Bond Department, and Manager, Safekeeping Department*
FREDERICK L. SMEDLEY, *Manager, Personnel Department*
GEORGE C. SMITH, *Manager, Check Department*
THOMAS O. WAAGE, *Manager, Public Information Department, and Secretary*
A. CHESTER WALTON, *Manager, Bank Relations Department*
ARTHUR H. WILLIS, *Manager, Securities Department*

DONALD J. CAMERON, *General Auditor*

*See footnote on the following page.

OFFICERS — BUFFALO BRANCH *

INSLEY B. SMITH, *Vice President*

HAROLD M. WESSEL, *Assistant Vice President*

GEORGE J. DOLL, *Cashier*

GERALD H. GREENE, *Assistant Cashier*

M. MONROE MYERS, *Assistant Cashier*

INDUSTRIAL ADVISORY COMMITTEE

WILLIAM H. POUCH, *Chairman*
Chairman of the Board,
Concrete Steel Company,
New York, N. Y.

ARTHUR G. NELSON, *Vice Chairman*
Chairman of the Board,
A. G. Nelson Paper Company, Inc.,
New York, N. Y.

EDWARD J. NOBLE,
Chairman of the Finance Committee,
American Broadcasting-Paramount Theatres, Inc.,
New York, N. Y.

*The list of officers below is as of January 6, 1956. The following changes have occurred subsequently:

Arthur H. Willis resigned, effective January 31, 1956.

Walter H. Rozell, Jr., was appointed an Assistant Vice President and assigned to the Personnel Function, effective February 20, 1956. Mr. Rozell, a former Manager of the Foreign Department, recently returned from Ethiopia where he had been Governor of the State Bank of Ethiopia for two years.

Walter S. Rushmore was temporarily appointed an Assistant Cashier at the Buffalo Branch, effective February 27, 1956.

THE SECOND FEDERAL RESERVE DISTRICT