ANNUAL REPORT — 1956

Federal Reserve Bank
of New York

FEDERAL RESERVE BANK OF NEW YORK

March 12, 1957

To the Member Banks in the Second Federal Reserve District:

I am pleased to transmit herewith the forty-second annual report of the Federal Reserve Bank of New York, the first with which I have been associated. Many of the events and developments reviewed here for the year 1956 occurred during the administration of Allan Sproul, who retired at the middle of the year. The spirit and organization which he fostered at the Bank over his twenty-six years of dedicated service, the last fifteen of them as President, have forged a tradition of responsibility and devotion to the public interest which all of us in the Bank will do our best to carry on.

The year 1956 has also been the last in which our policies and operations could directly reflect the wisdom and judgment of Jay E. Crane, who was associated with the Bank as an employee and officer for many years, and more recently as a director for eight years. Mr. Crane retired at the end of the year, after completing four years as Chairman of the Board of Directors.

All of us in the Bank, and I am sure all of the member banks in this District as well, wish to pay tribute to the lasting contributions which Mr. Sproul and Mr. Crane have made to the performance and character of this institution.

Alfred Hayes

ALFRED HAYES
President

Federal Reserve Bank

of New York

FORTY-SECOND ANNUAL REPORT

For the Year

Ended

December 31, 1956

Second Federal Reserve District

Contents:

The Year as a Whole, Here and Abroad

The prosperity of the United States economy in 1956 was everywhere apparent in the record levels of income and consumption enjoyed by the average American family. As had been widely anticipated at the beginning of the year, however, the rate of growth of gross national product (GNP) was noticeably more gradual than in 1955, the increase of 5.5 per cent in 1956 comparing with 8.4 per cent during the previous year. This was, of course, a more or less inevitable result of the approach to capacity output in late 1955. The consequent stimulus to capital expansion and shift of production to the further enlargement of capacity laid the groundwork in 1956 for higher levels of output and income in future years. Meanwhile, however, the upsurge of business investment during 1956 further intensified the pressure of demand upon available resources. Elsewhere, in Western Europe and other areas of the free world, similar symptoms of mounting strain upon productive facilities appeared at various times through the year as boom conditions within a country were reinforced by expansionary forces developing outside its borders. Both here and abroad, the inflationary pressures thus generated by supply-demand conditions were further aggravated by increases in wage rates and other costs that frequently outran gains in productivity.

Against the background of these world-wide inflationary trends, the policies of fiscal and monetary restraint pursued by the United States effectively served their primary objective of preventing a dissipation of the vital expansionary forces of the American economy in a disorderly burst of inflation. Such restraining action simultaneously served, moreover, to reaffirm the role of the dollar as the anchor of the world's currency system and to lend important moral support to similar counterinflationary action by foreign governments and central banks throughout the free world.

SUSTAINED PROSPERITY AND FURTHER ECONOMIC GROWTH. In the United States as the year began, combined consumer and business demands were pressing hard upon productive capacity. As noted in this Bank's *Annual Report* for 1955, an upsurge of consumer spending on new homes, cars, and other consumer durables had spearheaded the revival from the 1953-54 recession. A rebuilding of business inventories had further contributed to recovery and expansion in 1955 while business investment in plant and equipment, after lagging somewhat during the early stages of the revival, had also gathered increasing momentum. Early in 1956, however, major shifts in the pattern of expansion began to develop. Consumer spending on new homes, cars, and certain other durable goods slackened substantially. These easing tendencies in consumer demand were nevertheless fully offset by a remarkably strong expansion of business investment which provided the main generating force for a further growth of output, income, and employment over the course of the year.

The sharply rising trend of business investment in 1956 resulted in successive new high levels of capital expenditure in each quarter of the year. For the year as a whole, total business investment in plant and equipment amounted to 35 billion dollars, an increase of 22 per cent over 1955 and 30 per cent above the 1954 level. Such investment was strongly stimulated by a flood of technological innovations, fostered by heavy outlays for research and development, as well as by an unusually high rate of industrial obsolescence, reflecting the intensity of "quality" competition and the trend to automation and other cost-reducing types of investment. Perhaps even more fundamental, however, were business expectations of continuing needs for greater plant capacity as a result of population growth, rising real income, and expanding retail markets.

In this connection, it may seem on the surface somewhat paradoxical that the swift growth of business investment in 1956 should have been accompanied by declines in some important categories of consumer spending. Thus, new housing starts in 1956 fell to 1,100,000—a reduction of 16 per cent from 1955 levels. Automobile sales in 1956 slipped even more sharply by 21 per cent from the record-breaking 1955 volume of 7.4 million cars sold on the domestic market. Similarly, more or less pronounced sales declines were also experienced by manufacturers of television sets and refrigerators, while much of the increase in sales of nondurable consumer goods was accounted for by higher prices.

In the circumstances of virtually full employment and limited supply of some essential materials that prevailed in 1956, however, some easing of consumer spending on housing and other durable goods was probably a precondition of so strong a growth of business investment. In effect, the slackened pace of such consumer spending—and the concurrent growth of savings—in 1956 permitted a temporary shift of steel and other scarce resources from consumption to the creation of new productive capacity. There was no necessary reason, of course, for consumption so to yield precedence to business investment nor, conversely, for business investment to rush in to fill any gaps created by a falling-off of consumer demand. Nevertheless, the rough dovetailing of an expanding rate of business investment and a somewhat slower pace of consumer spending out of income was not entirely accidental.

To a certain extent, the divergent trends of business and consumer spending in 1956 seem to have sprung from the same background cause, i.e., the remarkably swift growth of consumption during the previous year. Thus, the record volume of retail sales in 1955 apparently induced many industries to revise sharply upward their forecasts of future demand and to enlarge their investment programs accordingly. At the same time, however, part of the bulge in retail sales in 1955 represented borrowing from the future in the form of spending financed by instalment credit. During 1956, the increased volume of repayments due on such consumer debt and the increased consumer stock of automobiles and other durable goods tended to slacken temporarily the demand for such goods, but simultaneously helped in enlarging the flow of savings needed to finance the growth of business investment.

The expansion of business investment in 1956 was further facilitated by the fiscal operations of the Federal Government. In effect, the flow of personal and business savings was augmented by Government savings in the form of a cash surplus of more than 6 billion dollars for the year. The surplus permitted the retirement of Federal debt held by the public, thereby releasing funds for other uses just as the declines in important segments of consumer spending helped to free productive resources for capital expansion.

Finally, there was also at work in 1956 a distinct tendency for business investment to attract capital funds away from such other uses as the financing of consumer spending on housing. It is true, of course, that housing demand probably experienced in 1956 some reaction from the unusually high rate of building in 1955. But it nevertheless seems clear that some part of the demand for housing under Veterans Administration or Federal Housing Administration-guarantee or insurance arrangements had to be postponed during 1956 because of inability to obtain mortgage financing at the maximum rates authorized under the VA and FHA regulations. Such shortages of mortgage financing reflected the strongly competitive pull of business investment demand upon the available supply of long-term funds and the consequent diversion of personal and institutional savings into the corporate bond market and other areas offering more advantageous yields.

The shift of resources implied by these divergent trends of business and consumer spending was far from smooth, of course, with pockets of unemployment and idle facilities temporarily appearing in certain lines while labor shortages and strained capacity were prevalent elsewhere. From time to time, there also developed some uncertainty as to whether the slackening pace of certain types of consumer spending would be fully offset by a continuing expansion of business outlays on plant and equipment. Such crosscurrents in market trends occasionally gave the impression of an economy delicately poised between an inflationary and deflationary path and naturally tended to produce differing judgments as to appropriate economic and credit policy. As the year progressed, however, the forces of expansion continued to predominate, and employment and industrial production rose to all-time peaks.

As in 1955, moreover, sustained prosperity and continuing economic growth were accompanied by a gradual but progressive rise in prices of industrial products. While pressures from the demand side were dampened by fiscal and monetary restraint, a generalized advance of money wage rates and "fringe benefits" during the course of the year was not fully offset by productivity gains. As a result, increases in the price of steel and certain other key materials and in production and distribution costs tended to work their way through the industrial price structure. At the same time, agricultural prices experienced a significant recovery, in part reflecting Government action to reduce excess production of farm products. The combined effect of these changes, as they emerged in the index of consumer prices, was the first notable increase (a rise of 3 per cent) in more than three years. In the late fall, additional buying pressures were generated in some areas by the outbreak of hostilities in the Middle East, but toward the year end a somewhat more stable trend of prices began to appear.

At the close of 1956 business expectations remained confident that the expansion of economic activity would carry over into the new year. There was also recognition, however, that a further dynamic growth of the American economy might well be accompanied by new shifts in the pattern of expansion. Thus, various year-end surveys of business spending plans suggested that plant and equipment expenditures might settle down to a less rapid rate of expansion in 1957. On the other hand, important offsets to the effects of such a taperingoff of the business investment boom might well be expected from the rising trend of Federal, State, and local government expenditures, as well as from a renewed freshening of consumer demand.

CONTINUOUS MONETARY RESTRAINT. Although open market operations were almost continuously undertaken to smooth out seasonal and other temporary swings in bank reserve positions, the security holdings of the Federal Reserve System—including securities held under repurchase agreements—increased by only 171 million dollars during the year. Reflecting the insistent pressure of loan demand upon bank reserve positions, member bank borrowing from the Federal Reserve Banks was substantial throughout most of the year, although not significantly exceeding the rate of borrowing during the second half of 1955. Bank incentives to meet reserve needs by liquidation of investment holdings were further reinforced by increases in discount rates from 2½ to 2¾ per cent at most Federal Reserve Banks in April, and to 3 per cent at all Reserve Banks in August. Over the year as a whole, the System's restraining policy held the growth in the total volume of bank reserves to a relatively small amount, and thereby closely limited the expansion of bank credit and the money supply.

The restraints thus imposed upon member bank access to Federal Reserve credit were not intended, however, to prevent a very substantial growth of bank loans in response to the rising levels of economic activity. During 1956, commercial bank loans expanded by 7.8 billion dollars, or 9½ per cent, the second largest annual increase during the past five years. Particularly striking was the strong growth of business loans which rose by the near-record figure of 5.5 billion, an increase of 16½ per cent. Such heavy borrowing by a wide range of business enterprises reflected the combined effects on corporate liquidity of rising output and sales, accompanied by increased inventories and receivables, and the high rate of plant and equipment expenditure. Corresponding to the slower rate of consumer spending on housing and other durables, real estate and consumer loans rose much less strongly than in 1955, however, while loans to sales finance companies actually declined somewhat, in part reflecting greater resort by such companies to financing through security issues and sales of open market paper to nonbank investors. The growth of aggregate consumer credit tended to slow down early in the year and, despite an accelerated rise in the final quarter, the volume outstanding increased by no more than 3.2 billion dollars in 1956, substantially less than the 6.4 billion expansion recorded in 1955.

Since the continued growth of bank loans in 1956 was not supported by a corresponding increase in the reserve base, the banks were compelled to effect a further substantial liquidation of their Government security and other investment holdings, which declined by 3.5 billion dollars during the year. The money market impact of such bank sales or redemptions of Government securities was cushioned to some extent by the growth of the Government's cash surplus and the consequent retirement of public debt. On the other hand, nonbank demand for Government securities, which had facilitated the 1955 shift of bank portfolios from investments to loans, fell off substantially in 1956 as a result of the decline of corporate liquidity. Facing a progressively less receptive market, bank efforts to liquidate security holdings consequently tended to push up interest yields on Government securities, which in turn strongly reinforced the upward trend of other money market rates.

The accompanying rise of bank lending rates probably exerted some restraining influence upon certain types of loan demand, such as securities market credit. One of the most effective forms of restraint, however, was that induced by the progressive reduction of bank liquidity as loan-deposit ratios rose and secondary reserves declined. This gradual shrinkage of bank liquidity compelled bank management to scrutinize loan applications more carefully, to deny credit to speculative and other marginal borrowers, and to limit the supply of loan funds even to the most credit-worthy business borrowers. In effect, the commercial banking system carried through the Federal Reserve policies of restraint by rationing credit among potential borrowers, especially those borrowers whose demands were abnormally high and could not have been fully satisfied without serious inflationary consequences. There was, of course, continuing concern that this bank screening, which all other lenders had to attempt as well, might impinge disproportionately on small business. The simple fact that small businesses are most numerous made it certain that a greater number of complaints would appear from this quarter. However, no conclusive evidence appeared of a disproportionate restraint on credit (from not only bank, but also other financial and trade sources) to the hundreds of thousands of individual firms in the category variously designated as small business. Nevertheless, this remains a problem deserving of close and continuing study by all concerned. Meanwhile, the various efforts aimed at assuring high-level prosperity and relatively stable prices offered the greatest promise of providing the environment within which small business, as well as large, could continue to flourish.

In the capital markets, the flotation of a record volume of new corporate issues was assisted by a rise in the rate of savings together with the emergence of a cash surplus in the Government budget. Nevertheless, the strongly rising trend of business investment, together with bank liquidation of Government security holdings, tended to open up a widening gap between the supply of and demand for capital funds, with the result that bond yields moved up to postwar peak levels. There is considerable evidence, however, that such increases in bond rates, together with the congestion and heightened uncertainty which developed from time to time in the capital markets, exerted a useful restraining influence upon the demand for capital funds. Over the course of the year a considerable number of scheduled corporate and municipal issues were canceled or postponed as a result of unfavorable marketing conditions, while a further substantial volume of capital financing was completed for reduced amounts, below the borrowers' original intentions. Other potential market borrowing was deferred before reaching the stage of formal listing in the new issues calendar. To be sure, there were partial offsets, some taking the form of temporary bank financing, but the sensitivity thus shown by corporate and municipal borrowers to rising long-term financing costs and unreceptive market conditions helped in relieving immediate demand for scarce materials and contributed to a stretching-out of the investment boom.

The strong expansion of business demand for capital and bank credit during 1956 pressed heavily upon the available supply of funds but, as previously noted, there was only a small increase in the volume of bank reserves and consequently in the money supply. Over the course of the year, demand deposits adjusted plus currency outside banks rose by no more than 1.3 billion or 1 per cent as compared with a growth of 21.9 billion or 5½ per cent in GNP. The monetary needs of the expanding economy were nevertheless accommodated by a further rise in monetary velocity, which took the form of a shift of relatively idle corporate and other deposit balances to more active uses. While thus tempering any bluntness in the impact of System restraining policy, the rise of monetary velocity hardly constituted an effective avenue of escape from credit restraint. On the contrary, the accelerated turnover of deposit balances reflected the reduction of corporate liquidity as well as the rise of bank loan-deposit ratios, and consequently implied a growing measure of restraint upon both borrowers and lenders.

The Federal Reserve System maintained close watch upon such indicators of the cumulative impact of monetary and credit restraint and when necessary, as toward the year end, open market policy was adjusted to accommodate seasonal credit and currency requirements. Throughout the year, Federal Reserve policy sought to exercise restraint upon an inflationary growth of demand while adjusting flexibly to recurrent uncertainties in the economic outlook.

STABILIZING THE BOOM ABROAD. Elsewhere in the free world, prosperous conditions generally continued to prevail in 1956. In most of Western Europe and Canada, the main driving force behind the expansion was provided by high rates of investment, although in West Germany and certain other countries the investment boom tended to slacken somewhat toward the close of the year. As in the United States, the approach to capacity in many countries perceptibly slowed down the growth of industrial production which in Western Europe had been rising almost without interruption since 1953.

Wage and other cost increases and expanding demand in the industrialized countries continued to exert inflationary pressure upon price levels, with wholesale price increases of as much as 4 to 5 per cent occurring in the United Kingdom, France, and the Netherlands. Efforts to restrain the continuing inflationary pressures abroad mainly took the form of more restrictive monetary and credit policies. Over the course of the year discount rates were raised in ten Western European countries, while the Bank of Canada, after three rate increases earlier in the year, in November announced that thenceforth its discount rate would be set at ¼ per cent above the Treasury bill rate which continued to rise. In Germany, however, the Bank deutscher Länder, after two earlier increases, lowered its discount rate in September in response to a slight easing of inflationary pressures. Open market operations were increasingly relied upon by Germany and several other countries with relatively well-developed national money markets, while commercial banks' reserve requirements were raised in France, Austria, and Brazil, and minimum liquid asset ratios were introduced in Canada. In a number of countries, these quantitative restraints were supplemented by selective controls, such as consumer credit restrictions, as well as by moral suasion and by directives of the monetary authorities to the commercial banks.

In view of the role of sterling as an international currency, special interest focused on the counterinflationary program of the United Kingdom where the Bank of England discount rate was raised from 4½ to 5½ per cent in February 1956. Just as in 1955, however, the orthodox techniques of restraining credit to the private sector were hampered by continuing government deficits. Official borrowing on Treasury bills from the banks was undiminished and bank liquidity ratios, which had risen notably during 1955, rose further throughout most of the year. Accordingly, the government found it necessary to intervene more directly in the operation of the private economy by a further tightening of consumer credit controls, firmer official restraint upon new capital issues, and a reaffirmation of the 1955 directive to the banks to curtail advances to the private economy. Partly in response to such restraining action, inflationary pressures receded somewhat over the course of the year as investment in inventories, new residential building, and spending on consumer durables declined. The productive resources thereby released assisted a further growth of not only investment in plant and equipment but also exports, with resultant strengthening of Britain's international financial position. These basic gains were overshadowed during the second half of the year, unfortunately, by the severe speculative pressures on sterling that were generated by the Suez crisis. Official determination to defend the pound, culminating in several dramatic steps in December to supplement dollar reserves, finally caused speculative pressures to subside at the year end. Hopes were then raised that liquidation of the bear position in sterling, accompanied by prospective seasonal gains in exports, would bring new strength to the British reserve position.

Other foreign countries enjoyed, in the aggregate, a further strong rise of their gold and dollar holdings, with Germany, Switzerland, and Canada making substantial gains. On dollar trade and capital account, foreign earnings from exports to the United States lagged somewhat behind the spectacular rise of 20 per cent in foreign imports from this country, but a record outflow of American capital—mainly reflecting direct private investment abroad—sustained foreign dollar gains. Foreign monetary gold reserves, and official and private short-term dollar holdings, increased by about 2 billion dollars. Foreign central banks and others acquiring dollars further enlarged their already substantial participation in the United States Treasury bill and bankers' acceptance markets.

All of these developments are described further in the following sections of this *Report*. The later sections mention some of the detailed implications of these developments for the nature and magnitude of this Bank's own operations.

Patterns of National Prosperity

Economic activity in the United States advanced to new records during 1956, although the rise was less steep and less pervasive than in 1955. In aggregate terms, the nation's output of goods and services reached an estimated 412 billion dollars, topping the 1955 record by 5½ per cent. Income and employment also achieved peak levels, while the estimated number of persons out of work was the smallest in several years. At the same time, however, inflationary pressures—engendered by rising costs, expanding demand, and near-capacity operations in many industries—led to significantly higher prices at both retail and wholesale levels. The economy's advance in real terms was therefore much less than the increase indicated by the rise in GNP, measured in current dollars.

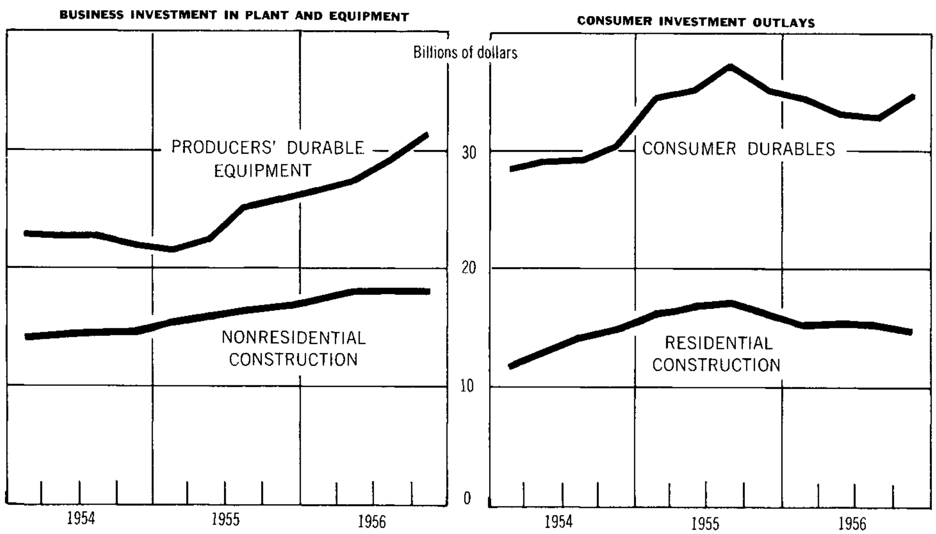
It was, of course, to be expected that output gains during 1956 would not match those of the preceding year, which had begun with the economy operating considerably below its peacetime potential. However, the more moderate pace of expansion in 1956 did not develop as a gradual settling-down to less strenuous rates of growth, but rather emerged as the net result of sharply divergent trends in major sectors of the economy. Thus, consumer spending for durable goods (notably new cars) and for housing, which had both advanced with unsustainable swiftness in 1955, declined markedly in 1956. On the other hand, business outlays for new plant and equipment staged a remarkable expansion that buoyed the economy throughout the year.

DIVERGENT MOVEMENT OF BUSINESS AND CONSUMER SPENDING. As may be seen in Chart 1, the pronounced shift away from what may be called "consumer investment" in housing and durable goods, and toward business investment in new plant and equipment, was clearly an outstanding feature of economic developments during 1956. This shift carried with it a significant reallocation of human and material resources, a process that was not entirely smooth; thus, severe production cutbacks in a few industries led to idle facilities and unemployment at the very time when other industries were operating at capacity rates and faced with labor shortages. Indeed, there were occasions during the year, especially during the first half, when marked declines in consumer investment and uncertainties regarding the strength of expansionary forces led some observers to question whether the over-all business trend would remain upward.

CHART 1

BUSINESS AND CONSUMER INVESTMENT

Quarterly, 1954-56; seasonally adjusted annual rates



Source: United States Department of Commerce.

The extraordinary upsurge in plant and equipment expenditures during 1956 was based not only on the high rate of retail sales and the virtually capacity operations achieved through wide areas of the economy in the latter part of 1955, but also on the strong measure of business confidence in sales prospects for years to come. The need for greater efficiency through modernizing and replacing existing facilities was also a major stimulus to the sharp advance, as competition in retail markets generally remained keen and labor costs rose.

Total spending for new plant and equipment expanded substantially in each quarter of 1956 and the increase for the year was close to 22 per cent. The largest relative gains were registered by manufacturing firms, mining enterprises, and railroads, but nearly every type of business spent much more than in 1955.

Moreover, the greater part of the increases reflected an expansion in real terms, even though prices of capital goods and construction costs also rose considerably.

While spending for new plant and equipment advanced very swiftly in 1956, the rate of additional business investment in inventories was somewhat lower than in 1955, particularly during the summer months when supplies of steel were reduced by the strike in that industry and automobile dealers' holdings of new cars were cut back sharply. The aggregate rise in inventories during the year was nevertheless quite substantial, and since the increase in total business sales was comparatively modest, there was an advance in the ratio of inventories to sales.

The marked decline in consumer investment in both new housing and new automobiles seemed, in part, to result from the very rapid expansion that had taken place in 1955 and that may then have been "borrowing" strength from the future. In the case of housing, higher construction costs and the reduced availability of mortgage credit also appear to have played major roles in the decline. Almost all of the 16 per cent decrease in nonfarm housing starts in 1956 centered in housing financed by Federally underwritten mortgages, on which interest rates were limited by law or Federal regulations; as credit conditions tightened throughout the economy and market interest rates rose, lenders found the Government-insured or guaranteed mortgages less attractive than alternative investments.

The decline in new car sales was even greater proportionately than the curtailment of residential building; domestic deliveries of new cars slipped by 21 per cent from the 7.4 million unit record achieved in 1955, when sales had been stimulated to an unusual extent by attractive changes in design, competitive easing of instalment credit terms, and other intensely competitive selling tactics. Although vigorous sales efforts were continued in 1956, the model changes introduced in late 1955 apparently evoked less enthusiastic public response than those of the previous year and credit terms did not ease further. By the time new models were introduced in the autumn of 1956, however, the decline in sales had leveled off, and production had been cut drastically; as a result, dealers' inventories were reduced sharply from the record level held earlier in the year. Late in the year, new car sales showed some improvement although initial public reception did not fully measure up to the industry's hopes.

Along with the reduction in spending for new cars and housing, sales of certain other consumer durables, such as television sets, refrigerators, and electric ranges also declined irregularly over the year. While outlays for most other types of consumer goods and services expanded further in 1956, thus continuing the growth pattern of recent years and contributing to the large rise in GNP, an estimated one third of the increase was merely a reflection of higher prices. Moreover, even though aggregate consumer spending advanced appreciably, it did not keep pace with rising income as the rate of saving out of disposable income increased from 6 to more than 7 per cent. This significant rise in the rate of saving was partly due to the fact that consumer credit expansion, which is closely tied to sales of autos and other durable goods, slowed considerably in 1956.

A further contribution to the rise in total output of goods and services during 1956 was provided by rising government expenditures. Nearly all of the increase was at the State and local level, partly reflecting price and wage increases but also representing real increases in services provided to the community, especially in the form of new schools, roads, and other public facilities.

CONTINUED ADVANCE IN EMPLOYMENT AND INCOME. The economy's over-all strength during 1956 was perhaps most clearly exhibited in the substantial rise in employment, which advanced by nearly 2 million from the 1955 level to an average of 65 million persons. This gain was achieved despite extensive layoffs at times by the automobile industry and even though employment in many other manufacturing lines failed to show increases. Thus, while aggregate factory employment was only moderately higher in 1956 than in 1955, and the factory workweek somewhat shorter, there were sizable increases in the number of jobholders in trade, State and local government, and various service occupations. Employment in the construction trades also rose as the slackened pace of home building was more than offset by expansion in other types of construction activity.

Since unemployment had already been reduced to a low level (by peacetime standards) in the latter part of 1955, new jobs in 1956 were filled mainly by drawing more people into the labor force. Unemployment during the year averaged only slightly lower than in 1955. The unusually large growth in the labor force (the increase from 1955 to 1956 was more than three times the average rise in the five preceding years) was especially marked among older women and teen-agers, who tend to enter the labor force in large numbers during periods of extended prosperity.

Partly as a result of expanded employment, but chiefly because of wage and salary rate increases, labor income rose substantially during the year. At the same time, most types of proprietary as well as interest income also rose and aggregate personal income climbed to a new high, more than 6 per cent above the 1955 record. This advance was about as large as in 1955, but represented a considerably smaller gain in purchasing power because of the rise in consumer prices.

THE PRESSURE ON PRICES. As demand expanded during the year, and labor and other business costs rose, converging upward pressures were brought to bear on the price level. For industrial commodities the upward movement had started in mid-1955, led by particularly sharp increases for raw materials. These increases were reinforced during 1956 by advances in wages and other costs involved in the fabrication process. Gradually the price rise worked its way through to wholesale markets for finished products—especially for producers' goods such as machinery, where the upward push on costs was accompanied by strongly rising demand, substantial forward bookings, and capacity rates of output.

Average prices of finished producers' goods rose by 7 per cent during the year ended last December, compared with a 4 per cent rise for all industrial prices. Wage boosts and higher costs of materials also led to price increases within the broad range of finished industrial products destined for consumer markets. The rise was more moderate than for producers' goods, however, since consumer demand did not increase to the same extent as business demand and actually decreased for a number of consumer durables.

Even more striking than the rise in industrial prices during 1956 was the increase in farm and food product prices. A variety of factors contributed to the 7 per cent net rise in average farm prices from December 1955 to December 1956, including increases in domestic and foreign demand, cutbacks in production (partly as a result of Federal programs to restrict acreage), and higher support prices for certain crops.

For several years prior to 1956, declines in farm prices and the related (though smaller) reductions in retail food costs played a major part in holding the consumer price index within a narrow range of fluctuation. Last year, however, the rise in retail food prices—in combination with the price increases registered for industrial products and the continued advance in service costs—pushed up consumer prices to new peaks. By December the average was 3 per cent higher than a year earlier. The sharpest rise came in the spring and summer months and was led by more-than-seasonal advances in food prices, but the upward trend persisted in the latter part of the year even though food prices declined somewhat, as costs of most other goods and services continued to rise.

In the final months of 1956, events in the Middle East provided a further stimulus to the rising price trend, checking the decline of raw-material costs during the early autumn period and helping to boost the average of all industrial prices to new highs. The increases attributable to foreign developments were not so sharp as they have been at other times of international crisis, however, and were mainly confined to prices of oil and other items directly affected by the disruption of Suez Canal traffic.

While upward pressures on the price level were thus clearly predominant during the year, certain mitigating influences also were at work, and tended—along with System policies of credit restraint—to limit the inflationary potential that seems to be inherent in a highly prosperous economy. By the end of the year, productivity gains, for example, were already beginning to appear from some of the new plant and equipment put in place earlier in the year. In addition, high inventories and keen competition, notably in retail markets for consumer durables, tended to restrain many businessmen from raising prices to the full extent of cost increases. The consequent narrowing of profit margins, however, suggested other problems for the future.

The Contribution of the Second District

The Second District, like the nation at large, enjoyed record prosperity during 1956. After a temporary pause in the first quarter of the year, business activity once more began to register substantial gains and, except for a brief interruption caused by the steel strike, continued to advance steadily to the year end. The District's contribution to the total national product appeared to be about the same as in other recent years. With a few exceptions noted below, the District was neither conspicuously leading, nor lagging behind, the performance of the country as a whole.

DIVERSE TRENDS AMONG INDUSTRIES. While a wide variety of industries contributed to the gains in District income and employment during 1956, the chief impetus came from the expansion of the specialized service industries—such as finance, insurance, wholesale trade, and advertising—whose national headquarters are in the New York metropolitan area. In response to the growing nation-wide demand for their services, these industries not only added substantially to their work forces, but through their increased demand for modern office space contributed significantly to the local boom in office construction. The District also benefited from the marked expansion in the country's foreign trade as the volume of goods shipped through the Port of New York, and the volume of business handled by local export-import firms, increased substantially.

Paced by the sharp spurt in office building and renovation, total nonresidential construction activity in the District increased dramatically. Construction of factories, shopping centers, and schools and other public projects, as well as work on the St. Lawrence Seaway, also was stepped up sharply. The value of contracts awarded for nonresidential construction in this region jumped by 18 per cent over the 1955 total—a much larger gain than was recorded in any other region of the country.

The advance in nonresidential construction more than offset a slackening in home building. As elsewhere in the nation, the number of housing starts in the District contracted sharply, especially in New York State where the reduction amounted to approximately 20 per cent. Apartment house construction in New York City suffered a particularly steep decline. In other sections of the District, however, the decline in home building was more moderate, and the downturn in the District taken as a whole seemed to be no more severe than in the nation at large.

In contrast to the substantial over-all gains achieved by the service and construction industries, manufacturing activity advanced only slightly over 1955 levels. Reflecting the booming demand for all types of industrial equipment, output of capital goods in this District increased strongly, but much of this gain was offset by declines in several other industries. Output of automobiles and parts was curtailed sharply, while production in a few other durable goods lines fell off because of prolonged shutdowns brought about by major labor disputes. In addition, there were some declines in the output of textiles and apparel. The cutback in output was more pronounced in the textile industry, as manufacturers' sales declined and burdensome inventories piled up from time to time. The moderate decline in apparel output took place despite a sizable increase in both national and local retail sales and may have reflected some deterioration in the competitive position of the local garment industry.

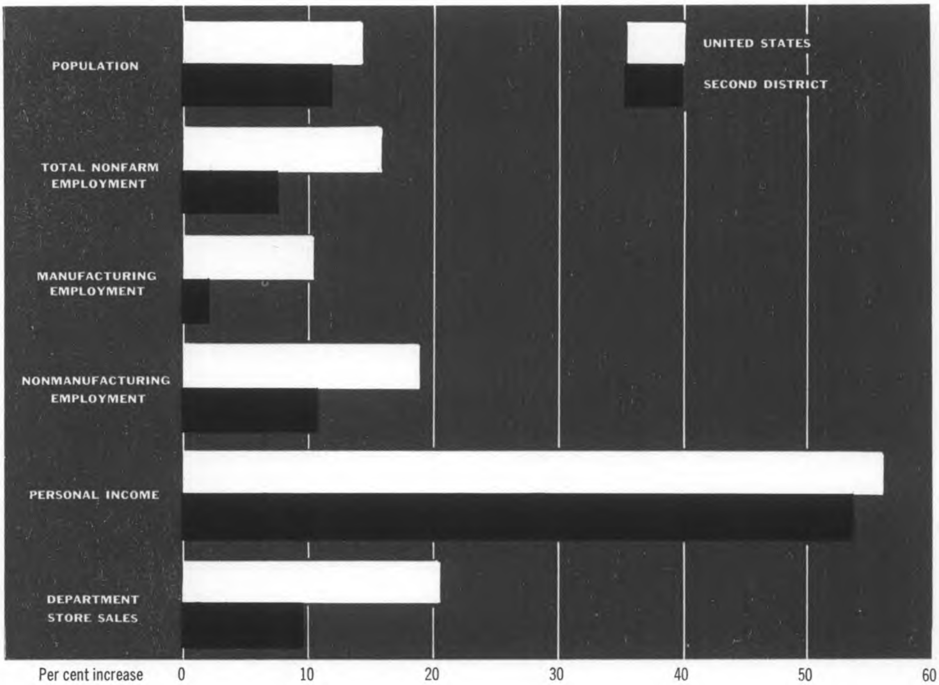
NEW RECORDS IN EMPLOYMENT, INCOMES, AND SALES. Largely as a result of the gains in the service industries and in construction, total nonfarm employment in the District expanded by about 1¼ per cent during the year to a monthly average of 7.7 million persons—bettering by a small margin the previous record set in 1953. (Elsewhere in the country, however, the rise came to almost 3½ per cent, while the 1953 mark had already been surpassed in 1955.) District unemployment, in turn, was reduced to record lows for the postwar period. Employment opportunities improved in virtually all parts of the District, and shortages of skilled workers were reported in many areas. The gains in employment and the accompanying increases in wage rates pushed personal incomes in the District to a new record, which topped the previous peak of 1955 by 6 per cent. On a per capita basis, incomes rose about as rapidly as in the rest of the country and remained approximately 25 per cent higher than the national average.

Supported by rising incomes, retail sales in the District also spurted to new highs. After lagging somewhat early in the year (on a seasonally adjusted basis), department store sales rallied strongly in the summer and early fall and continued at peak rates during a record-breaking Christmas shopping season. Partly as a result of the opening of several large suburban branches, total department store sales for the year showed a 6 per cent gain over 1955—as large an increase as was recorded for any Federal Reserve District. Sales by other types of stores in this region recorded a comparable increase. The generally better sales performance in this District may be explained in part by the fact that the expansion in consumer credit during 1955 had apparently been considerably slower here than elsewhere. The rise in repayments thus was relatively smaller and less of a deterrent to further advances in sales. During 1956, instalment credit outstanding at Second District commercial banks again expanded somewhat less rapidly than at banks in the rest of the nation.

LONGER-TERM TRENDS. While in certain areas of activity, such as retail trade and nonresidential construction, the Second District's economic growth during 1956 appears to have been greater than in the rest of the nation, the longer-term growth trend clearly has been more modest than in the country at large. To some extent, as Chart 2 suggests, the District's relatively slower expansion may be explained by its less rapid rate of population increase (although in part the slower population growth may be a result as well as a cause of the smaller economic advance). More fundamentally, however, the District's slower

CHART 2

ECONOMIC GROWTH OF THE SECOND DISTRICT AND THE UNITED STATES, 1948-56



Source: Computed by the Federal Reserve Bank of New York from data supplied by various Federal and State agencies.

progress may reflect its greater economic development. Manpower and natural resources have long been relatively more fully utilized and developed in this District than in most other parts of the country. The potential for further rapid advance has thus been more limited.

Continuous Credit Restraint: Rationale and Results

The Federal Reserve System pursued a policy of credit restraint throughout the year, both in order to check the upward pressures on prices and to minimize the risk of serious strains or excesses stemming from the capital goods boom. Despite fairly wide fluctuations in member bank reserves over the course of the year, the actual expansion of reserve balances for the year as a whole was comparatively small. The total money supply (demand deposits adjusted and currency outside banks) rose by 1 per cent and, in addition, the income velocity —measured by the ratio of GNP to the average money supply—increased by more than 4 per cent.

Heavy demands for capital and credit, pressing upon a limited availability of savings and new credit, resulted in a general advance of interest rates during the year. Although the aggregate demands actually met were of near-record proportions, potential demands were even greater. Continued growth in business working capital needs and in bank loans, together with depreciation in the market value of security holdings, had the cumulative effect of reducing the liquidity of both banks and other lending institutions and of increasing the risk that disruptive strains might suddenly develop in the bond markets. This risk, combined with the fact that the strength of inflationary pressures varied somewhat during the year, led to alternating periods of tightened and slackened restraint within the framework of a continuously restrictive policy.

STRONG BUSINESS DEMAND FOR BANK CREDIT. The policy of credit restraint did not prevent an actual increase in the total loans of all commercial banks by 7.8 billion dollars, or 9½ per cent, an expansion that was the more notable since it followed the record rise of 11.6 billion dollars that had been registered in 1955. Indeed, except for the sharp increases in 1955 and 1950, the growth in total loans in 1956 exceeded that in any other previous year.

Business loans continued their remarkable expansion of 1955, representing 71 per cent of the total loan expansion in 1956 compared with 54 per cent of a larger total in the preceding year. In dollars, commercial bank lending to business firms rose in 1956 by 5.5 billion; in 1955, the growth amounted to 6.3 billion. In addition, it appeared that most types of businesses, with the notable exception of sales finance companies, increased their bank loans as much as, or more than, in 1955.

Most other types of loans showed a lesser advance than in 1955 or an actual decline. Consumer loans at all commercial banks rose by 1.5 billion dollars, compared with 2.3 billion in the previous year; the slower advance was even more striking if the decline in the indirect bank financing of consumer purchases through loans to sales finance companies is taken into account. Real estate loans also increased less rapidly than in 1955, advancing by 1.8 billion dollars as against a 2.4 billion increase in the preceding year. The slower rate of growth of consumer and real estate loans reflected the decline of consumer expenditures on durable goods and the impact of tighter credit conditions on mortgage borrowing. A more striking contrast with 1955 was provided by security loans which declined by 0.7 billion dollars in 1956, compared with a 0.5 billion dollar increase in the previous year. This development apparently reflected periodic weakness in bond markets, the easier tone of the stock market, and the added costs of carrying portfolios, either as trading inventories or as the unsold portions of underwriting accounts.

The statistics of the loan expansion tend, of course, to understate the actual demand for loans, since the banks found it impossible to satisfy all the requests for credit. Banks scrutinized loan requests more carefully, new customers were less welcome, and in many cases borrowers had to accept smaller amounts and shorter maturities than their own plans had contemplated. In addition, the general tightness of credit conditions was reflected in an advance in interest rates charged to customers and in higher compensating balance requirements, which in some cases may have had a deterrent effect upon potential borrowers. Average rates charged by banks at selected cities on new short-term business loans rose to 4.38 per cent in December 1956, compared with 3.93 per cent at the end of 1955 and 3.55 per cent at the end of 1954.

PHASES OF FEDERAL RESERVE RESTRAINING ACTION. Inflationary pressures predominated during 1956 and, as a result, Federal Reserve policy was continuously directed at the maintenance of credit restraint. The form and impact of the specific restraining action varied with seasonal conditions, and with the degree of restraint originating from such other factors as the declining liquidity of corporations and the rising loan-deposit ratios of the banks. Over all, the general aim of Federal Reserve policy was to achieve, as the net effect of the interactions of flexible System action and other developments, a limiting and a spacing-out of the great surge of credit and capital demands that threatened to outrun the physical capacity of the economy and spend itself in a futile burst of inflation.

To an increasing extent as the year progressed, the cumulative effects of credit restraint and the long-continued economic expansion reduced the liquidity not only of the banks but also of other financial institutions and business concerns, thereby increasing the sensitivity of the economy to further tightening of credit conditions. Moreover, as might be expected in an economy operating close to capacity, real economic growth was less rapid than in 1955 and from time to time economic activity gave signs of beginning to level off. In such periods, credit policy made flexible provision for the appearance of any deflationary potentialities, while continuing to guard against the more pressing risk of inflationary developments.

During the greater part of January 1956, as the year-end monetary strains ebbed, credit policy was aimed at a tightening of bank reserve positions. Outright System holdings of Government securities were reduced by almost 900 million dollars between December 28 and January 25, while the 416 million dollars of repurchase agreements with Government securities dealers outstanding at the end of the year were allowed to run off. These measures were reflected in the net borrowed reserves of member banks which averaged over 300 million dollars in the latter part of January in contrast to average weekly net borrowed reserves of between zero and 100 million dollars in late December and early January. Reserve pressures, however, remained less severe than in November 1955 when net borrowed reserves had averaged nearly 500 million dollars, the highest monthly level since April 1953.

In late January and early February, current economic indicators suggested that the forces of expansion had become less pronounced and that a close watch should be kept on the possibility of deflationary developments. In view of this delicate balance, credit policy sought to stabilize reserve pressures rather than to return to the degree of restraint that had existed in November 1955. Outright holdings of Treasury bills showed only a relatively small net decline of 102 million dollars between January 25 and March 21. As a consequence of the policy pursued, net borrowed reserves averaged 266 million dollars in February and 333 million during the first three weeks of March.

Toward the end of March, there were signs of a renewed upsurge in business investment. Record increases in bank loans to business had occurred in connection with the payment of March taxes, and the repayment of these loans was less rapid than in other years. Business buying was also influenced by anticipations of a steel strike that would entail temporary shortages and bring in its wake a rise both of wages and of the prices of steel and steel-using products. With the economy operating close to capacity and the prices of many industrial materials rising, the balance of forces thus shifted more uniformly in the direction of upward pressure. In response to the changed economic outlook credit restraint was reinforced, the shift being signaled by the announcement on April 12 that nine Federal Reserve Banks were raising their discount rates from 2½ per cent to 2¾ per cent and two Reserve Banks from 2½ per cent to 3 per cent; later in the month the twelfth Reserve Bank raised its rate to 2¾ per cent. In addition, member banks were forced to rely to an increased extent upon borrowings from Federal Reserve Banks. In both April and May average borrowings were close to 1 billion dollars, about equal to the previous peak reached in November 1955; in the same period average net borrowed reserves climbed to over 500 million dollars. Although substantial purchases of bills were undertaken by the System in the final week of March to relieve end-of-the-month pressures, subsequent sales to implement the policy of restraint and keep the increased discount rates effective reduced outright System holdings by 388 million dollars between March 28 and May 23.

Inflationary forces began to slacken in the latter part of May. Key industrial prices tended to drift slightly downward, and the continued decline in consumer investment roughly counterbalanced the rising trend of business investment in plant and equipment. In this atmosphere, no further intensification of credit restraint appeared to be needed. The System kept alert for any signs of deflationary potentialities, and, as there appeared to be some tendency for the earlier credit tightening to gain a momentum of its own, the degree of reserve pressure was lessened. Net borrowed reserves, for example, were brought down to an average of 194 million dollars in June. Contributing to this decline were outright System purchases of almost 300 million dollars of Treasury bills at the end of May and in the first week of June. Although both net borrowed reserves and member bank borrowings from Federal Reserve Banks declined still further in July, partly as the result of an unexpectedly high level of float, pressures in the money market remained relatively unchanged from June.

The economy rebounded rapidly from the effects of the July steel strike, and by the beginning of August a renewed predominance of inflationary over deflationary forces appeared fairly clear. In addition to the immediate effect of the steel strike settlement on prices, a chain of wage and price increases in other industries appeared to be in the making. Moreover, the prices of a wide range of consumer goods were already advancing. With investment programs continuing to set new records in the third quarter, further pressures on the steel industry and on related sectors of the economy seemed to be intensifying inflationary potentials. Consequently, a further reinforcement of existing credit restraint took place and market forces were allowed, without offsetting changes in System holdings of Government securities, to drain reserves from the market. Toward the end of August the ten Federal Reserve Banks that had raised their discount rates from 2½ per cent to 2¾ per cent in April increased their rates by another ¼ per cent, thus bringing discount rates at all twelve Reserve Banks to 3 per cent.

In the last four months of the year, the economy continued to exhibit inflationary symptoms, while the banking system and the markets for money and securities became increasingly sensitive to the cumulative effects of credit restraint. In part, this sensitivity stemmed from uncertainties, in September and October, over the outcome of the national election. In addition, the Suez crisis and the disturbances within the Russian orbit intermittently unsettled market conditions through the end of the year. Evidence began to appear that the cumulative reductions in bank liquidity were themselves exerting a significant restraint upon credit expansion. As a result, System action, in supplying the additions to reserves that are always needed for the autumn currency drain and rise of inventories, could to some extent "lead" seasonal needs instead of "lagging" behind them. In addition to providing the funds to support seasonal credit needs, including those of the Treasury, the System managed the timing and method of its operations in such a way as to temper the strains that tend to develop in the money and securities markets toward the end of each year. In implementing its policy, the System increased its outright holdings of Treasury bills by 781 million dollars between the end of August and the close of the year. At various times, in addition, repurchase agreements were written with Government securities dealers, the total outstanding rising to as high as 474 million dollars on December 27. One result of the effort to maintain tightness without aggravating seasonal strains was that country-wide net borrowed reserves declined to about 200 million dollars in September, October, and November and to about 50 million dollars by December. Nevertheless, the cumulative effects of the long-sustained general restraint, combined with a concentration of reserve pressures on the New York money market banks, led to a greater degree of actual tightness than the country-wide figures for reserve positions, taken alone, might have indicated. The underlying pressures showed up most strikingly in the upward movement of yields on Government securities and on corporate and municipal bonds, in the recurrent postponements of new capital issues because of unsettled market conditions, and in the increasing evidence of a squeeze in liquidity.

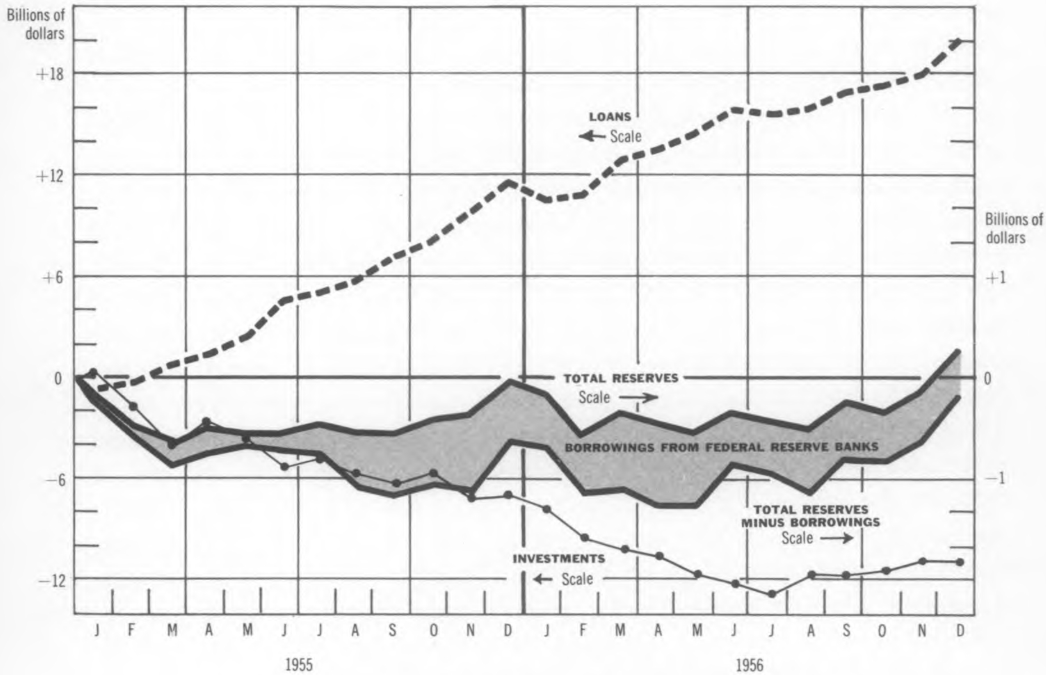
Over the year as a whole, the policy of continuous credit restraint was reflected in the fact that the total reserves of member banks rose only slightly. By December, total reserves averaged 19.5 billion dollars, about 300 million dollars or 1½ per cent higher than a year earlier (see Chart 3). Moreover, member banks continued through most of the year to borrow heavily from Federal Reserve Banks in order to maintain their reserves. On the average over the year such borrowing amounted to 831 million dollars, compared with 812 million dollars in the second half of 1955. Aggregate excess reserves of all member banks showed no material change from December to December, and most of the excess reserves continued to be concentrated at "country" banks. The reserve positions of central reserve and reserve city banks were under almost continuous pressure. Although System open market operations resulted on balance in a 171 million dollar increase in reserves between the end of 1955 and the end of 1956, during most of the year System holdings of securities were at lower levels than in comparable periods a year earlier. There was, however, a notable rise, though small in dollar magnitude, in holdings of bankers' acceptances. Outright holdings and temporary holdings under repurchase agreements with dealers together were nearly 70 million dollars at the end of 1956, contrasted with less than 30 million at the end of 1955. The rise reflected, to a considerable extent, the growing volume of activity in the market for bankers' acceptances under tighter credit conditions.

THE CUMULATION OF MONEY MARKET PRESSURES. The combination of the heavy demand for bank loans and of continuous credit restraint, which limited the supply of bank reserves, forced commercial banks to make various adjustments, most notably through the liquidation of investments. As a result, the growth in the money supply was slowed, the liquidity of banks was further reduced, and money market interest rates advanced to higher levels. Moreover, the adjustments undertaken by commercial banks, in conjunction with the heavy private demands for capital, pushed yields on both Government and other bonds to the highest levels in the postwar period.

In adjusting to the squeeze between heavy loan demands and the limited availability of reserves, the banks continued to liquidate investments. While member banks had frequent recourse to borrowing from the Reserve Banks to

CHART 3

CUMULATIVE CHANGES IN BANK CREDIT AND RESERVES SINCE DECEMBER 1954



Note: Total reserves and borrowings are cumulative changes since December 1954 of monthly averages for all member banks. Loans (adjusted) and investments are cumulative changes since December 31, 1954 of end-of-month data for all commercial banks; data for the second half of 1956 are preliminary.

adjust their reserves to the required levels, there was general understanding that use of Reserve Bank credit facilities by individual member banks was not to be regarded as a continuous source of additional funds. The liquidation of security holdings, however, became increasingly difficult and expensive. Consequently, the banks found it necessary to scrutinize more carefully the loan requests of regular customers and to adopt an unreceptive attitude toward other potential borrowers, especially when the proposed borrowings were not for essential purposes or were not urgent.

Over the year, commercial banks, according to preliminary estimates, liquidated 3.0 billion dollars of Government securities as compared with 7.4

billion dollars in 1955. In addition, banks sold or redeemed 0.5 billion dollars of other securities, in contrast to 1955 when their holdings of such securities increased by 0.4 billion. Although the liquidation of investments was an important factor in permitting the banks to increase their lending, it also exercised a restrictive influence upon both banks and the economy at large. First, the combined effect of the loan expansion and the reduction of investments limited the increase of total loans and investments for all commercial banks to 4.3 billion dollars, or 0.3 billion less than in 1955. Partly as a consequence, demand deposits adjusted rose much more moderately than in the previous year, expanding by only 1.2 billion dollars or 1.1 per cent, as against a 3.4 billion dollar or 3.2 per cent rise in 1955. The privately held money supply—demand deposits adjusted plus currency outside banks—also showed a reduced rate of growth, rising by only 1.3 billion dollars, or 1 per cent, in contrast to a 3.8 billion dollar advance in 1955 and an average increase of 4.2 billion in the four preceding years.

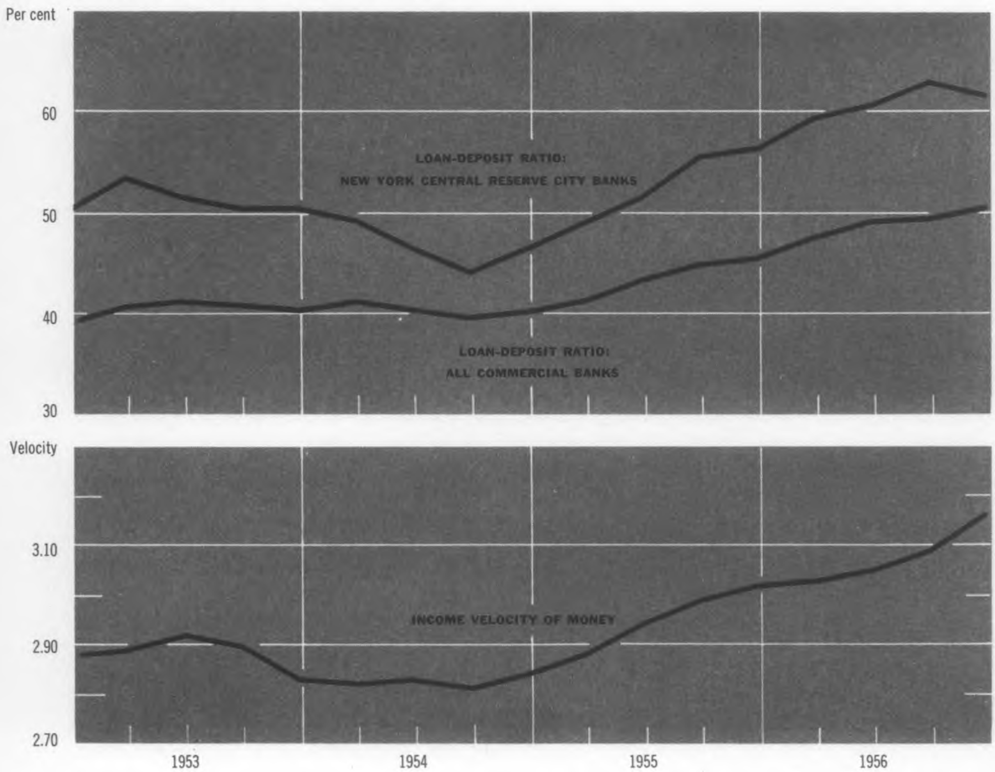
Second, in conjunction with heavy private demands for capital, the liquidation of security holdings by the commercial banks contributed in some measure to the general advance in yields on Government, municipal, and corporate bonds. Third, the cumulative effect of the liquidation of securities by commercial banks and the associated expansion of loans was to reduce the liquidity positions of banks and to raise loan-deposit ratios (see Chart 4).

A more general consequence of the heavy demands for credit and capital and the limited availability of savings and of bank reserves was an advance in interest rates over the year. The average issuing rate on Treasury bills continued the upward movement that had begun in mid-1954, and by the end of 1956 stood at 3.217 per cent as compared with 2.688 per cent at the end of 1955, after having reached a postwar peak of 3.331 per cent in mid-December (see Chart 5). The rise was not uninterrupted, however, and at times a strong nonbank demand for bills drove the rate down to below 2¼ per cent. Comparable rate advances over the course of the year also took place in bankers' acceptances, the bid rate on 90-day acceptances rising to 3½ per cent from 2⅝ per cent at the end of 1955. Published rates on one to three months' directly placed finance company paper rose from 2¾ per cent to 3¼ per cent over the year, and rates on four to six months' prime commercial paper increased from 3 per cent to 3⅝ per cent over the year.

The upward movement in shorter-term rates was paralleled by a general rise in yields on both Government and other bonds. Average yields on Government

CHART 4

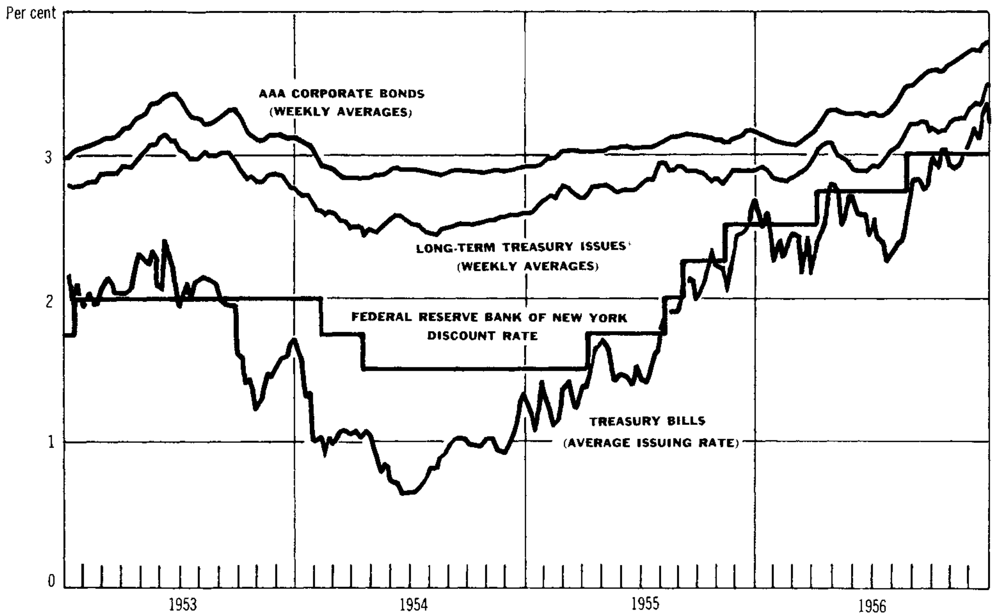
MEASURES OF CUMULATIVE PRESSURES



Note: Loan-deposit ratios for the end of each quarter are loans adjusted divided by total deposits less cash items in the process of collection. Income velocity is equal to GNP (annual rate for each quarter) divided by the average money supply for that quarter, both seasonally adjusted. Data on all commercial banks and on income velocity are preliminary for the second half of 1956.

bonds due or callable in ten to twenty years advanced from 2.89 per cent at the end of 1955 to 3.48 per cent at the end of 1956, breaking through the 1955 peak at the end of March and the previous postwar peak of June 1953 in August. Average yields on high-grade outstanding corporate and municipal bonds also moved up, surpassing both the 1955 highs and the previous postwar peaks of 1953. As in the case of Treasury bills, the advances in yields on bonds were interrupted on occasion, notably in January and February and again in May and June when pronounced declines took place. Yields on new issues of corporate and

CHART 5
SELECTED INTEREST RATES



*Old series.
Source: Federal Reserve Bulletin and Moody's Investors Service.

municipal bonds advanced even more substantially during the year. Partly as a result, potential borrowers at times found capital market conditions so unfavorable that scheduled or listed issues were either postponed or canceled. Total announced postponements and cancellations of market issues for the year amounted to well over a billion dollars, for corporate and municipal debt offerings taken together. There is, of course, no accurate measure of the proportion of these borrowing needs that was subsequently met through bank credit, or from other sources, but a pinch was certainly felt, and alternatives were not easy to arrange.

The rise of interest rates, as well as the cumulative effects of tight credit conditions generally, was reflected in an increase in the rapidity with which money changed hands and a parallel decline in the liquidity of the nonbank public. The continued rise in GNP created a demand for money which was only partially met by the relatively small increase in the money supply, but the rise in interest rates attracted relatively idle balances into more active use. As a result, the income velocity of money rose from an annual rate of 3.02, in the last quarter of 1955, to 3.16 at the end of 1956, the highest rate in the postwar period. The rise in velocity implied, of course, a decline in the ratio of the average money supply to aggregate spending as measured by GNP, and as such was a partial indicator of the reduction in the liquidity of the nonbank public over the year. In addition, although time deposits in commercial and savings banks rose by 3.7 billion dollars during the year, compared with 3.1 billion dollars during 1955, the increase again failed to keep pace with the growth of GNP. Finally, the decline in the liquidity of the nonbank public was reflected in the fact that the aggregate market value of nonbank holdings of Government securities decreased.

Since the prices of goods and services rose on balance over the year despite the limited growth in the money supply, the rationale for credit restraint was clear. Had the Federal Reserve System adopted a policy of freely supplying all the reserves needed to meet all demands upon the banking system for loans, a much greater expansion of credit and of the demand for goods and services would have occurred. The most likely result would have been to drive up the price level to a much more marked degree, without achieving any significant increase in real output. Some demands would still have gone unsatisfied—but the rationing would have resulted from swiftly rising prices, as the demands for materials and labor were stimulated by more easily available and cheaper borrowed money. The speculation, the waste, and the inequities of swift inflation would in all probability have supplanted the relatively orderly allocation of scarce resources among competing uses that did, in fact, characterize 1956.

Balancing Supply and Demand in the Capital Markets

The persistent imbalance in financial markets, as capital and credit demands outran the available supply, induced both a marked rise in interest costs and a variety of innovations in other terms of borrowing in order to attract additional investors. With the capital markets under considerable pressure during most of the year, an unusually large volume of scheduled offerings was postponed or canceled. There were no prolonged periods of serious market congestion, however, and at no time did the weight of new offerings paralyze the functioning of the capital markets.

The increased demand for funds was concentrated in the business sector. The volume of State and local borrowing (net of retirements) was slightly lower than in 1955, while the net flow of funds into mortgages and consumer loans also declined. Most important, record tax collections resulting from the Federal Government's counterinflationary fiscal policy permitted a substantial amount of Federal debt retirement during 1956.

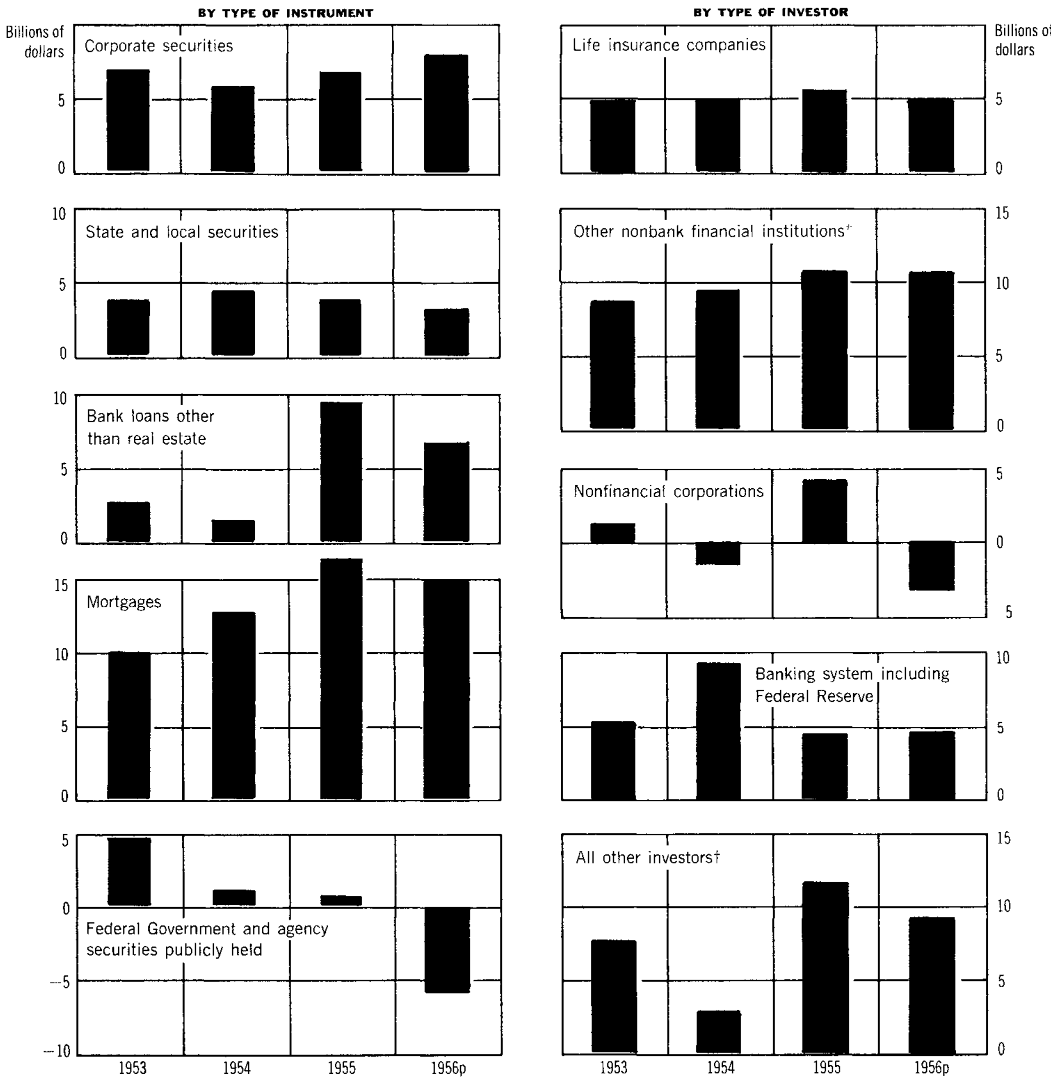
Small declines in the availability of loanable funds from some traditional suppliers were noticeable in 1956. Not only did life insurance companies and savings and loan associations experience a somewhat lower rate of asset growth than the year before, but these institutions, along with banks and other lenders, encountered more difficulty both in borrowing and in obtaining supplementary funds by selling Government securities. On the other hand, there was no abatement in the year-to-year growth of corporate pension reserves, while savings bank investments increased by about the same amount as in 1955.

Nonfinancial corporations, which were large net purchasers of United States Government obligations in 1955, were net sellers in 1956, thereby creating additional pressure on the securities markets. By reducing their cash and Government security holdings, these corporations were able to augment the amounts obtained from offering their own securities and from bank borrowing, but only at the cost of sharply reduced liquidity. The pressure on liquidity positions, as has already been mentioned, was general throughout the economy.

SHIFTING COMPOSITION OF DEMAND. As shown in Chart 6, the largest shift among the major borrowers of funds in 1956 was in the Federal Government sector. Through the use of the cash surplus to reduce the amount of Federal securities held by the public by about 6 billion dollars, the Federal Government

CHART 6

NET CHANGES IN OUTSTANDING VOLUME AND OWNERSHIP OF CAPITAL AND CREDIT INSTRUMENTS



p Preliminary.

*Mutual savings banks, fire, marine and casualty insurance companies, corporate pension funds, and savings and loan associations.

†State and local governments, Federal agencies, foreign investors, individuals, and others.

Source: Estimated by the Federal Reserve Bank of New York from a variety of sources.

was a net *supplier* of capital funds last year, after being a net *user* of such funds in the four preceding years.

The net increase in corporate securities outstanding (excluding investment company issues) approximated 8 billion dollars in 1956, an appreciably larger amount than in any previous year. On a gross basis, more than 10 billion dollars of corporate issues were sold, of which about one fourth were common and preferred stocks and three fourths bonds. The proportion of equity issues was about the same as in 1955, but still considerably higher than in 1953 and 1954. In part as a result of advancing interest rates, a sharp reduction took place in the volume of flotations for refunding purposes.

While continuing to expand their bank borrowing, nonfinancial corporations obtained additional funds by reducing their holdings of Government securities. This reduction was concentrated in the first half of the year when tax anticipation issues were turned in as payment of taxes on 1955 incomes. Because of continued heavy financing needs—for additions to inventories, for carrying more receivables, for increased investment outlays, and for meeting the speed-up of tax payments—and because of the tightness in capital and credit markets, nonfinancial corporations were less able to accumulate short-term Government securities against their accruing tax liabilities in the second half of 1956 than in the same period of 1955. Thus, these corporations ended the year with smaller liquid assets (cash plus Government securities) than a year earlier, and with larger current liabilities; moreover, the ratio of liquid assets to gross sales declined markedly. There appeared to be, in addition, a growing tendency during the year toward stock dividends, as some corporations undertook to maintain dividend records and at the same time to conserve their cash. The small advance in corporate profits in 1956 fell short of the increase in dividend payments. The resultant decline in aggregate retained earnings offset most of the further growth in depreciation reserves, leaving gross internal financing little higher for the year.

The volume of bond issues for financing toll-road construction declined in 1956, for the second year in succession, because of such factors as uncertainties related to the projected Federal highway program, unreceptive market conditions attributable to the disappointing experience of a few toll roads, and increased construction and borrowing costs. State and local governments, however, sold as much or more of general obligation issues for school construction, sanitation projects, and other community services as in any previous year.

Paralleling the decline in housing starts, the net additional investment in mortgages (including refinancing of existing structures) was somewhat smaller than in 1955, though the increase of about 15 billion dollars in total mortgages outstanding was larger than in any year until 1955. With respect to mortgage money requirements for home financing, the higher average cost of houses in 1956 partly offset the effect of reduced housing construction and the tendency of lenders to require larger downpayments. The year's increase in the outstanding volume of multifamily and nonresidential mortgages, however, was the largest on record.

Consumer financing, which cuts across several of the demand categories shown in the chart, recorded only half as large an increase as in 1955. The slowed growth of consumer debt was an important factor in the higher rate of personal saving in 1956.

SOURCES OF FINANCING. Among the principal savings institutions, only corporate pension reserves appear to have experienced larger growth in 1956. As in previous years, the increase in pension reserves—estimated at 2¼ billion dollars—was invested partly in Government securities but mainly in corporate issues. Mutual savings banks provided 2.0 billion dollars to the capital markets, or about the same as in the previous year. By selling some of their Government securities, the savings banks were able to increase their mortgage holdings by somewhat more than their net accrual of savings. The net inflow of share capital to savings and loan associations was unchanged from 1955 to 1956, but their net acquisition of mortgages declined from 5.3 billion dollars to 4.5 billion. In 1955 part of their mortgage acquisitions was financed by borrowing from the Federal Home Loan Banks, whereas last year the associations reduced their indebtedness to the FHL Banks by a small amount. In order further to improve their liquidity positions in 1956, they also expanded their Government security holdings moderately. Finally, life insurance companies provided 4.9 billion dollars to the capital markets in 1956, a reduction of 400 million dollars from the year before. However, by selling 1.0 billion dollars of Government securities in 1956, as against 0.5 billion in 1955, the life insurance companies were able to maintain their net acquisitions of mortgages, State and local securities, and corporate issues at 1955 rates.

As already mentioned, nonfinancial corporations, which supplied funds to the credit and capital markets by purchasing Government securities in 1955, reduced their holdings of such securities in 1956. Other investors, including State and local retirement funds, foreign investors, individuals, and miscellaneous investors, purchased fewer Government securities in 1956 than in 1955, but part of this reduction was offset by somewhat larger acquisitions of other types of investments.

Commercial banks, whose operations are described in an earlier section, added to their loans and investments at about the same rate as in 1955. After taking account of the small net acquisition of Government securities by the Federal Reserve System, the total amount supplied by the banking system was slightly larger than in the previous year.

DEVELOPMENTS IN FINANCIAL MARKETS. During the first half of 1956 long-term borrowing costs were influenced by irregular fluctuations in the bond market, attributable largely to shifting expectations regarding the strength of the business outlook (see Chart 5 on page 32). During the second half, however, borrowing costs moved higher almost without interruption, reaching a level substantially above the previous postwar peak in mid-1953. As is usually the case, the rise in yields was appreciably more on new offerings than on seasoned market issues. The yield range for new offerings of high-grade corporate bonds was 4 to 4½ per cent in the closing months of the year, and tax-exempt obligations of State and local authorities, similarly rated, sold at 3 to 3½ per cent in the new issues market. Yields on Government securities with maturities over one year moved upward to between 3¼ per cent and 3¾ per cent by the year end, with issues in the two to seven-year maturity range consistently selling at market yields higher than those obtainable on the issues of longest maturity.

The immediate reason for declining prices in capital markets after midyear was a gradual coalescing of views, particularly after the end of the steel strike in early August, on the prospect of high level business activity through the remainder of the year and into 1957, with the anticipation of a record volume of business capital investment. In the somewhat more consistently exuberant environment during the latter part of the year, investors were inclined to defer their purchases of fixed-income securities, in anticipation of an adjustment of market prices to a higher yield basis, and this development placed borrowers under growing pressure to offer more attractive lending terms, including more liberal call features. At the same time, the search for long-term financing increased as a result of the further tightening of bank credit availabilities and a firming of the general business situation. Moreover, the Treasury's cash requirements in the second half of the year were added to the heavy demands of private and State-local borrowers; in the first half, the Treasury had used its cash surplus for debt retirement.

Although some corporations and public agencies found it advisable to postpone security issues during periods when the markets were adjusting to a higher level of interest rates, other borrowers succeeded in raising large sums by offering more attractive terms to investors. It is significant that the volume of corporate issues was appreciably larger in the fourth quarter than earlier in the year. The aggregate amount of scheduled security offerings withdrawn from the market was larger for municipal than for corporate issues, partly because of limitations on the interest rates which States and localities were authorized to pay.

The reduced availability of resources among the important lending institutions in the mortgage market, together with the competitive pull of demands for long-term funds in other markets, had a restraining effect on housing starts and induced upward adjustments in the cost of mortgage borrowing. In the case of Federally underwritten mortgages, on which maximum interest rates are fixed by law or regulation, the higher cost took the form of larger discounts in the secondary market. There was a relative shift of mortgage underwritings from Federally underwritten to conventional types, largely because lenders preferred to acquire mortgages which carried the higher rates rather than to purchase mortgages which sold at discounts.

Beginning in August the Federal housing agencies took some steps to ease the residential mortgage market. From the standpoint of their immediate effects, the most important of these was the increased support operations of the Federal National Mortgage Association in the secondary mortgage market. In addition, the maximum interest rate on FHA mortgages was raised from 4½ per cent to 5 per cent early in December, in a move to make such mortgages more attractive to investors.

The stock market followed an irregular course during 1956; at the year end the market averages were only a shade higher than at the beginning. The total volume of trading on the New York Stock Exchange was 14 per cent lower for the year than in 1955. Reflecting the broad pattern of business developments, stocks of capital goods companies fared better than those of consumer goods companies. A further narrowing of the yield spread between stocks and bonds apparently led to some diversion of investment funds from stocks to bonds. There was not, as the year closed, any evidence of a growing dependence of stock trading upon credit, and margin requirements remained at the 70 per cent level that had been established in the spring of 1955.

Balance of Payments of the United States

The continued growth of economic activity abroad during 1956 was clearly evident in the transactions of the United States with the rest of the world. Nonmilitary merchandise exports rose to a record high, largely as a result of the world-wide investment boom and United States agricultural surplus disposal programs. American imports, riding the tide of domestic prosperity and business expansion, also surged to a new peak, yet did not keep up with the rise in exports. A sharp rise in other dollar outflows—principally in private investment abroad—enabled foreign countries to increase their dollar assets even more rapidly than in 1955 until the October Suez crisis placed new strains upon European exchange reserves. Although foreign official dollar holdings increased substantially, purchases of gold from the Treasury by some countries fell short of the sales by others with deteriorating reserve positions. Foreign buying of United States corporate stocks proceeded at a much faster rate than in 1955.

EXPANDING FOREIGN MARKETS. United States merchandise exports, other than military transfers, broke into new high ground last year, rising by about 20 per cent to 17.3 billion dollars, considerably above the previous record set in 1947. Our nonmilitary shipments continued to rise more rapidly than total world trade, with increased volume contributing much more to this result than rising prices. Service receipts rose more moderately.

The bulk of the export increase may be attributed to the high rate of economic growth in many areas of the world. Canada was the most rapidly expanding market for United States goods, exports rising 23 per cent above the 1955 record, in large part as the result of increased shipments of machinery and semimanufactures required to sustain the extraordinarily high rate of investment in that country. European countries were forced to turn increasingly to the United States for the fuel and raw materials required to maintain economic expansion. Latin American purchases were also strongly ahead of 1955, partly due to improved exchange positions.

Agricultural shipments chalked up very large gains, accounting for over one fourth of last year's increase in total exports. Much of this increase took place under the impetus of Government programs that accounted for nearly 40 per cent of all agricultural exports. Earnings from transportation services rose sharply, but other service receipts increased only moderately.

THE UPSURGE IN FOREIGN INVESTMENT AND IMPORTS. A spectacular increase in the net flow of United States long-term capital abroad was the most dynamic element in the rise of foreign dollar receipts (excluding military aid) to a record high of about 25 billion dollars in 1956. A sizable rise in United States imports also contributed substantially to the gain in receipts, while grants and similar transfers were down slightly from the previous year. American payments for foreign services lagged behind the rise in merchandise imports.

The strong upward thrust of the American economy during 1956 led to a rising demand for foreign supplies which carried merchandise imports for the first time to almost 13 billion dollars. Purchases of iron ore and nonferrous metals increased substantially, while crude petroleum from the Middle East flowed in at a rising rate until the closure of the Suez Canal. European shipments of machinery and iron and steel mill products also ran far ahead of 1955. Although Western Europe made the largest percentage gains as a source of United States imports, Latin America still remained the chief supplier.

Private enterprise was chiefly responsible for last year's record outflow of more than 3 billion dollars of American capital. Investments in American subsidiaries and branches abroad were double those of 1955, accounting for half of the total. Capital outflow on Government account also rose sharply, chiefly because of the surplus disposal sales, which usually involved acquisition by the Government of foreign currencies.

THE GROWTH OF FOREIGN DOLLAR ASSETS. Foreign countries from January to October added to their dollar assets at a faster rate than in any year since 1953, as the increase in American capital outflows together with larger import payments outpaced the rise in United States receipts from exports. After the Suez outbreak, however, speculative capital flows and the need for additional dollar imports imposed new strains on European exchange reserves. Had the United Kingdom not drawn 561 million dollars from the International Monetary Fund in December, foreign dollar assets would have declined appreciably toward the close of the year.

Foreign and international short and long-term dollar assets rose by about 1.7 billion dollars in 1956. However, part of this gain was due to net sales of gold to the Treasury in the amount of 280 million dollars, primarily by the International Monetary Fund and by countries experiencing reserve drains, such as Argentina and the United Kingdom. As in previous years, countries accumulating dollars bought relatively little gold from the Treasury, with the notable exception of

Venezuela. There was also some net liquidation of long-term Government security holdings. Private foreign interests added about 500 million dollars to their direct and portfolio investments. Of the 1.7 billion dollar rise in the short-term assets of foreign countries, two fifths went into Treasury securities, a like amount into dollar deposits, and the remainder into acceptances and other short-term paper. In adding substantially to their Treasury bill holdings, foreign accounts further bolstered the important role they already play in the market by virtue of their sizable share of all bills outstanding.

ACTIVITY IN THE NEW YORK FOREIGN EXCHANGE MARKET. The past year was an active one in the New York foreign exchange market, with attention again centered primarily on sterling and the Canadian dollar.

American-account sterling fluctuated between \$2.80¼ and \$2.81⅛ during the first five months of 1956, as it met with strong seasonal demand in a market encouraged by the measures taken in the United Kingdom to dampen domestic inflationary pressures. Other types of sterling also were quite firm: transferable sterling moved between \$2.77 and \$2.79; and securities sterling moved as high as \$2.78⅜. In June, however, sterling weakened as wage demands developed in the United Kingdom, prices of some sterling-area raw materials declined, and commercial interests—chiefly British tobacco importers—began to purchase dollars earlier than usual.

The latter part of the year saw sterling under severe pressure generated by the Middle East crisis. Purchases of sterling were delayed as long as possible, while sterling receipts were sold and dollar requirements covered promptly. Following the seizure of the Suez Canal Company on July 26, American-account sterling quickly dropped to \$2.78¼, where it was maintained only by constant and substantial official support operations until early December. With sterling balances held by American interests at minimum working levels, however, even limited demand strengthened the rate noticeably on occasion. Tranferable sterling also declined, to about \$2.74, while securities sterling dropped as low as \$2.48; in the forward market, discounts on three and six months' American-account sterling widened to as much as to 3$\frac{5}{16}$ and 5¾ cents.

In December the market was encouraged first by official statements that Britain was determined to maintain the \$2.80 par value for sterling and then by the measures taken to reinforce the reserves, most notably by having recourse to the International Monetary Fund and securing a line of credit from the Export-

Import Bank. American-account sterling closed the year quoted at $\$2.78\frac{11}{16}$, with discounts on three and six months' deliveries somewhat narrower at $2\frac{15}{32}$ and $4\frac{15}{32}$ cents. Transferable sterling was quoted at $2.7495, while securities sterling stood at $2.62.

The Canadian dollar grew stronger throughout most of the year as a large inflow of investment funds, at least in part attributable to the heavy capital investment programs, more than offset Canada's growing trade deficit. Although the improvement was relatively slow during the first six months, the rate rose by June to about $\$1.01\frac{1}{8}$. Subsequently the premium moved sharply upward as the flow of investment funds increased from the United States, the Continent, and Britain, and as flotations of Canadian securities in the New York market grew heavier. By November 28 the rate had improved to $\$1.04\frac{9}{16}$, reportedly the highest quotation in twenty-three years. As investment demand tapered off slightly during December, the Canadian dollar eased somewhat but at the year end was quoted at $\$1.04\frac{3}{16}$.

Financial and Economic Developments Abroad

FURTHER PRESSURE OF DEMAND UPON RESOURCES. Most foreign countries had another prosperous year in 1956, although demand continued to press heavily upon available resources, and inflationary strains reappeared or were intensified in many countries at various times throughout the year. The tempo of inflation around the world did not accelerate, however, and there were some encouraging signs that, if peace could prevail, restraints of various kinds were developing a workable fusion between rising prosperity and economic stability.

In Western Europe, in particular, the pressures of excessive demand early in the year were more widespread than in 1955 and were aggravated by further wage cost increases that often seemed to exceed productivity gains. An unusually severe winter that greatly damaged crops and disrupted industrial activity created additional price pressures; the difficulties that France encountered in North Africa had further adverse repercussions on that country's economy. In a number of Western European countries prices tended to rise throughout the year, with wholesale price increases of about 5 per cent occurring in Belgium, France, and the Netherlands. On the other hand, in other countries, notably West Germany, the United Kingdom, and Sweden, various indications of improved economic balance appeared during the second half of the year as restraints upon business and consumer demand began to take effect, while the heavy investment programs of recent years yielded enlarged productive capacity. Toward the year end, however, the Middle East crisis and the reduction in the oil supply to Western Europe, together with the sharp increase in oil import prices, threatened production and introduced a new cost-push factor, with consequences that could not be fully foreseen.

Business investment continued to provide the primary expansionary force in most of Western Europe and in Canada and Japan. At the same time, the rapid increase in industrial production, which in Western Europe had been under way since 1953, slowed down in most countries, with the principal exceptions of France and Japan; in the United Kingdom, industrial output averaged the same as in 1955. This slower rate of growth reflected capacity limitations together with the readjustment in production patterns that accompanied the curbing of excessive demand and the re-establishing of a better balance between output for internal needs and for exports.

WORLD-WIDE MONETARY RESTRAINT. To counter the inflationary strains, country after country had recourse to monetary restraint or strengthened earlier restrictive monetary policies. Such world-wide monetary restraint was symbolized by numerous discount rate increases, particularly in Western Europe and Canada. In Western Europe, such increases, often following upon earlier ones in 1955, were effected in ten countries—three times in the Netherlands, twice in West Germany, and once in Belgium, Finland, Greece, Ireland, Spain, Sweden, Turkey, and the United Kingdom. In Germany, however, the discount rate was reduced in September in response to a topping-out of the prolonged phase of excessive demand. The Bank of Canada, after increasing its discount rate three times in 1956, announced at the beginning of November that thenceforth its rate would be set each week at ¼ per cent above the Treasury bill tender rate; the latter continued to rise in the last two months of the year and, as a result, the Bank of Canada discount rate increased further. Apart from the changes in the principal discount rates, differential or progressive discount rates were adjusted upward in several countries, including India, Chile, Colombia, and Peru.

Other monetary policy instruments were also frequently called into play. The reliance on open market operations as a credit instrument increased notably in Germany, the Netherlands, and Australia. Some countries, particularly Sweden and the United Kingdom, raised various government-controlled interest rates, including those on savings-type bonds, savings deposits, and loans to and by official financial institutions; commercial bank deposit and loan rates were likewise increased, in some countries through changes in official regulations. Further emphasis was placed on commercial bank reserve requirements: these were tightened in Austria, France, Brazil, and Peru, and were raised and lowered a number of times in the Netherlands, Australia, and New Zealand; Canada established minimum ratios of liquid assets, including Treasury bills, to deposits, and the central bank in India was authorized to vary the commercial banks' minimum cash ratios.

These quantitative credit restraint measures were supplemented in certain countries by selective controls and by other means, including moral suasion and directives by the authorities to commercial banks regarding the direction and volume of their lending. In a few countries, cutbacks in loans to public agencies—and also in loans extended by them—complemented the restraints on credit to private borrowers. Consumer credit controls were imposed or tightened in a number of countries, including France, Ireland, the Netherlands, Norway, and the United Kingdom.

As the strong demand for credit and capital tended to outrun the necessarily limited supply of savings and other funds, market interest rates rose considerably, particularly in Western Europe and the British Commonwealth, and often reached new peaks for the period since the war or even the early 1930's. During the year, short-term rate increases were especially sharp and amounted to 1 per cent or more in Canada, Germany, the Netherlands, and the United Kingdom; long-term yields generally tended to lag behind, but in a number of countries, including Australia, Canada, France, Germany, Italy, the Netherlands, and the United Kingdom, they rose ½ per cent or more. Toward the end of the year, however, interest rates eased in a few countries, notably in the United Kingdom and Germany.

As the credit restraint measures were maintained or intensified, the expansion of bank loans was slowed down or even reversed in a number of countries in Western Europe and the British Commonwealth, including Australia, Canada, Germany, the Netherlands, New Zealand, and Sweden; in the United Kingdom, bank advances showed little net change. In these countries, the shift in the trend of bank loans was a major factor retarding the rise in the money supply; in some of them, gold and foreign exchange losses exerted further restraint upon the growth of the money supply. In some of the less-developed countries, the rise in bank loans and investments was slower than in 1955, as in Chile where a major effort was made to stabilize currency conditions; in countries like Argentina, Colombia, and India, on the other hand, the rise continued unabated and, despite gold and foreign exchange losses, led to sizable increases in the money supply.

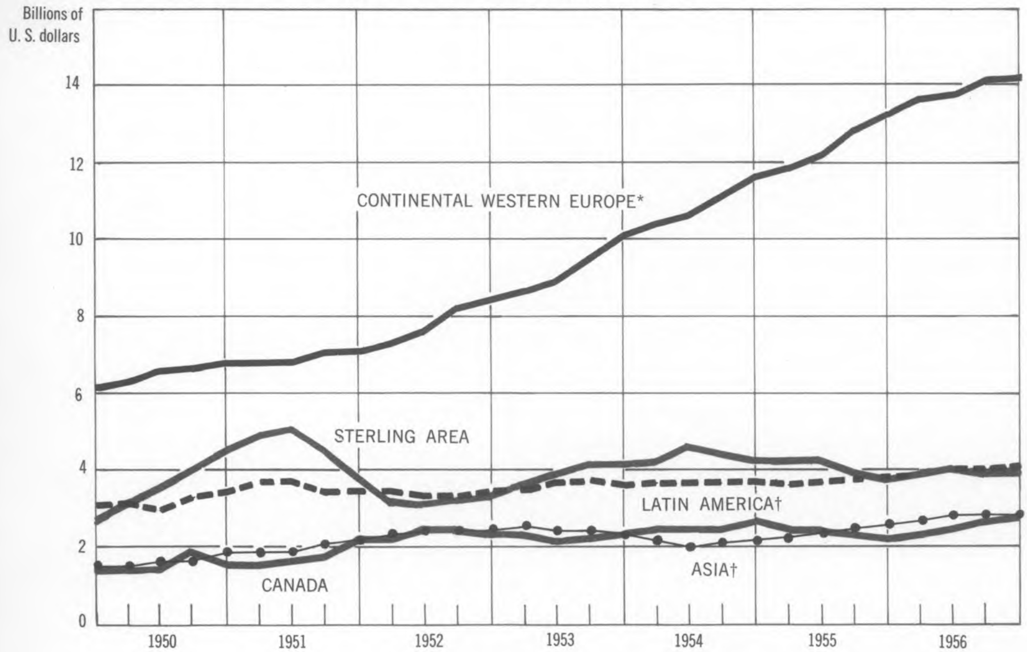
The policies of monetary restraint pursued by many foreign countries undoubtedly moderated inflationary pressures and helped to keep the growth of demand more nearly in line with physical capabilities. These restraint policies were accompanied in a number of countries by increases in taxation and by efforts to limit the rise in government expenditures. The question, however, persisted whether continuous government deficits were not seriously impairing the effectiveness of monetary restraint. Thus, the governors of several leading central banks abroad during the course of the year issued warnings against excessive increases in short-term bank-financed government debts which hampered monetary controls; they also called for steps to establish better functioning money markets that would increase the scope for central bank credit policies.

TRENDS IN INTERNATIONAL PAYMENTS AND GOLD AND DOLLAR HOLDINGS. Strikingly divergent trends appeared in the balance of payments and reserve positions of foreign countries during 1956. Although total gold reserves and official and private short-term dollar holdings of foreign countries rose by some 2 billion dollars to 28.3 billion—nearly twice their postwar low in June 1948—the increase was primarily accounted for by only a few countries. Thus, while the holdings of Continental Western European countries rose in the aggregate by about 1 billion, most of this increase went to West Germany and Switzerland, in part because of an inflow of capital funds from other countries; France, on the other hand, incurred sizable losses. Canada added some 450 million to its gold and United States dollar holdings; its foreign trade deficit, it is true, was the highest on record, but it was more than offset by an inflow of capital. Aggregate Latin American holdings rose somewhat, most of the increase going to Brazil and Venezuela; Argentina's holdings declined considerably. The increase in the gold and dollar holdings of nonsterling Asian countries was mainly the result of gains by Japan. (See Chart 7.)

Gold and United States dollar holdings of the sterling countries as a whole showed little change during the year, but the central gold and official dollar assets

CHART 7

GOLD AND DOLLAR HOLDINGS OF SELECTED FOREIGN AREAS



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

*Includes holdings of Turkey, and those of the Bank for International Settlements for the European Payments Union as well as for its own account.

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

held by the United Kingdom as the sterling area's banker, which rose during January-July by 285 million dollars, declined during August-November by 440 million to 1,965 million despite the receipt of 177 million from the sale of an oil company to an American firm. Behind this large loss were pressures on sterling that were psychological rather than commercial in character; actually, Britain expanded its exports considerably in 1956 while maintaining imports relatively stable, with the result that it had a balance-of-payments surplus on current account, while the overseas sterling area probably was in approximate balance with nonsterling countries. The drain thus appeared to be attributable mainly to the so-called "leads and lags" in commercial payments, and other speculative pressures, during the Middle East crisis—factors that are potentially self-reversing. The International Monetary Fund, holding Britain's trading position to be fundamentally sound, and noting the importance of sterling as a world-wide reserve and trading currency, in early December granted massive support to sterling. The United Kingdom also received a line of credit of 500 million dollars from the United States Export-Import Bank, against collateral of dollar securities. At the year end, Britain's reserves stood at 2,133 million dollars, the increase from November being wholly attributable to the drawing on the IMF. The British Government made clear that it intended to keep the rate of the pound sterling at its present parity, to avoid tightening controls over foreign trade and payments, and to maintain monetary, fiscal, and other policies designed to strengthen the economy both externally and internally.

Many other countries, too, endeavored to restore a balance in their foreign trade and payments by curbing domestic inflationary pressures. Thus, despite the renewed payments difficulties, there was virtually no relapse into more stringent and discriminatory controls over trade and payments. On the contrary, a further advance, even though relatively small compared with previous years, was made in the freeing of international transactions; this lifting of trade and payments restrictions during recent years has greatly contributed to the continuing rapid expansion of world trade. During the year, six Continental Western European countries studied the formation of a "common market" providing for the progressive elimination of all tariffs among the participants and for the establishment of a common tariff toward other countries. The United Kingdom announced that it was considering limited association, in a "free trade area", with the "common market" countries and other countries of Western Europe. The United States has indicated that it welcomes such arrangements to strengthen the European economies, provided they lead toward the expansion of trade not only among the participants but also with other countries.

Volume and Trend of the Bank's Operations

DOMESTIC OPERATIONS. Many of the developments in the domestic economy during 1956 had a direct impact on the operations of this Bank. Rising levels of business activity, higher prices, and more intensive usage of available funds helped lift to record levels the volume of checks and wire transfers of funds which passed through the facilities of this Bank. The continuing pressure on bank reserve positions brought member banks to the discount window as often as they came in 1955, and for an even larger volume of reserves.

During 1956 the Bank processed 576 million checks amounting to almost 400 billion dollars. This represented an increase for the year of more than 28 million in the number and 40 billion in the dollar amount of checks handled. This expansion in check volume, combined with transit delays beyond those allowed for in the deferred-availability schedules, and the difficulties in maintaining an adequate staff, resulted in sharp and erratic increases in Federal Reserve float and tended to cause broad swings in the volume of reserves available to member banks from this source. Most Reserve Banks were plagued by similar float problems. The monthly average level of float outstanding at this Bank, as the accompanying table indicates, ranged from 196 million to 358 million dollars in 1956, compared with a range of 163 million to 302 million in 1955. In some months of 1956 the volume of float outstanding on the peak day was almost three times greater than the amount on the lowest day. As a rough measure, the float created at this Bank in 1956 was generally between 22 and 26 per cent of the national total.

The number of transfers of banking or commercial funds between the Second District and other sections of the country which were processed by the Bank increased somewhat more rapidly over the year than the volume of checks deposited for collection. The total number of such transfers effected during the year was 422,000, representing 415 billion dollars. However, in contrast with check clearings this increase did not intensify reserve fluctuations. The installation of new form-transmission equipment in April made possible a marked reduc-

AVERAGE VOLUME OF FLOAT OUTSTANDING AT THE FEDERAL RESERVE BANK OF NEW YORK, MONTHLY, 1955-56 (Monthly averages of daily figures; in millions of dollars)

Month	1955	1956	Month	1955	1956
January	182	269	July	250	325
February	163	210	August	165	196
March	218	258	September	225	289
April	228	223	October	215	268
May	176	220	November	245	309
June	220	358	December	302	351

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

Number of pieces handled *	**1956**	**1955**
Discounts and advances	3,453	3,451
Currency received and counted	1,207,083,000	1,155,032,000
Coin received and counted	1,524,335,000	1,607,936,000
Gold bars and bags of gold coin handled	142,000	69,000
Checks handled:		
United States Government checks	65,048,000	61,750,000
All other	510,700,000	485,547,000
Postal money orders handled	50,715,000	51,257,000
Collection items handled:		
United States Government coupons paid	3,956,000	3,907,000
Credits for direct sendings of collection items	382,000	346,000
All other	9,203,000	8,014,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	29,585,000	28,448,000
All other United States obligations	3,887,000	3,419,000
Obligations of the International Bank for Reconstruction and Development	61,000	152,000
Safekeeping of securities:		
Pieces received and delivered	4,740,000	4,256,000
Coupons detached	2,429,000	2,199,000
Transfers of funds†	422,000	395,000
Amounts handled		
Discounts and advances	$ 25,345,725,000	$ 21,520,870,000
Currency received and counted	7,822,909,000	7,419,933,000
Coin received and counted	166,335,000	171,437,000
Gold bars and bags of gold coin handled	2,172,311,000	967,871,000
Checks handled:		
United States Government checks	20,746,793,000	19,954,515,000
All other	377,335,312,000	337,010,939,000
Postal money orders handled	835,182,000	830,826,000
Collection items handled:		
United States Government coupons paid	1,306,052,000	1,394,473,000
Credits for direct sendings of collection items	852,262,000	813,377,000
All other	1,606,846,000	1,089,815,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	2,625,051,000	2,517,916,000
All other United States obligations	343,051,230,000	337,959,107,000
Obligations of the International Bank for Reconstruction and Development	195,485,000	311,200,000
Safekeeping of securities:		
Par value pieces received and delivered	473,527,789,000	457,411,047,000
Transfers of funds†	415,149,394,000	381,993,056,000

* 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.

tion in the average time required to complete such transfers and at the same time improved the accuracy of the transmission.

Other services performed by the Bank for member banks and the public also increased during the year. The Bank Examinations Department processed a larger number of applications for mergers and branches. Members of the Bank's staff made 231 speeches to audiences estimated to total more than 14,000, while 221,000 copies of fifteen different booklets and 542,000 copies of periodicals were distributed to financial institutions, educators, the press, and the general public by the Publications Division.

The volume of gold received and handled by this Bank in 1956 increased for the first time since 1951 and amounted to 2.2 billion dollars, compared with 968 million in 1955. The amount of United States coin received and counted in 1956 was off slightly, but the amount of paper currency received was up 5.4 per cent.

The expansion in the United States Treasury's refunding and financing operations during 1956 had its counterpart in the larger volume of work handled in the fiscal agency departments of the Bank. Over 2.6 billion dollars of United States Savings bonds, representing 29.6 million items, and 343 billion dollars of other Government obligations, representing 3.9 million items, were processed in 1956. The number of Savings bonds and other Government obligations handled increased 4.0 and 13.7 per cent, respectively. The substantial rise in other Treasury issues handled was due in large part to a 309,000 (27.8 per cent) increase in transfers and exchanges of new security issues delivered to safekeeping. The number of coupons detached and entered for collection, in conjunction with the safekeeping of securities, increased 10.5 per cent in 1956. The Federal Tax Section processed 1.5 million depository receipts amounting to 6.8 billion dollars during the year, an increase of 7.8 per cent in number and 9.0 per cent in dollar amount over the 1955 figures.

With the policy of credit restraint continuing in effect throughout the year, the total number of advances made to member banks was almost exactly the same as in 1955. The total amount of these advances, however, increased from 21.5 billion dollars to 25.3 billion, or 17.8 per cent.

FOREIGN AND INTERNATIONAL OPERATIONS. Total assets held for foreign account on behalf of all Federal Reserve Banks increased by 168 million dollars to a new all-time high of almost 10 billion dollars. Of this amount, 5.6 billion consisted of gold under earmark, 3.8 billion of United States Government securities, and 0.5 billion of deposits and miscellaneous securities. Holdings of United States Government securities rose 313 million; gold holdings declined 78 million, the first drop since 1951, and dollar deposits 80 million.

The aggregate of gold and dollar assets held for the International Bank for Reconstruction and Development, the International Monetary Fund, and the International Finance Corporation, which are not included in the above figures, declined by 471 million to 3,314 million dollars.

Reflecting the general improvement in the dollar reserves of foreign countries which has taken place in the last few years, the demand for loans on gold was relatively limited. Loan arrangements were entered into with four accounts; three were utilized to the aggregate extent of 76 million dollars. Only one of these loans was outstanding at the year end—to the extent of 25 million dollars. The current policy provides for loans on gold, and commitments for such loans, to foreign monetary authorities to assist them in meeting seasonal and other dollar shortages of a temporary nature.

With respect to foreign correspondent relationships, accounts were opened during the year for the central bank of Pakistan and the newly organized central bank of Libya. The accounts of the central banks of Bulgaria, Hungary, and Rumania, which had been blocked by the United States Treasury since World War II and had remained dormant during the postwar period, were closed after their assets were vested by the Attorney General of the United States. An account was also opened for the International Finance Corporation which had designated this Bank as its depository.

The Bank, as fiscal agent of the United States, continued the administration of the blocking regulations affecting assets in the United States of Communist China and North Korea and their nationals, and transactions with those countries. In July, the Bank also assumed the responsibility of administering the Treasury Department's Egyptian Assets Control Regulations, which blocked all assets of the Government of Egypt and of the Suez Canal Company. Over 700 applications for licenses were filed under the latter regulations.

Financial Statements

STATEMENT OF CONDITION. At the end of 1956 the Bank had total assets of 13.4 billion dollars, of which 5.7 billion consisted of cash or gold certificates and 6.5 billion of Government securities. The Bank's principal liabilities were 6.4 billion of Federal Reserve notes and 6.0 billion of deposits. For the year as a whole, the major balance-sheet items showed little net change. Total assets increased only 1.5 per cent, or 199 million dollars, reflecting mostly an increase in gold certificate holdings resulting from deposits of new certificates and a net favorable balance in the Interdistrict Settlement Fund. Holdings of bankers' acceptances more than doubled and reached a total of 69 million at the end of 1956. This total was about evenly divided between acceptances acquired outright and those held under dealer repurchase agreements. The United States Government securities holdings of the Bank were 94 million dollars lower on December 31, 1956 than they had been a year earlier, although total Reserve Bank security holdings increased 130 million. This apparent paradox is explained by the facts that the relative amount of this Bank's participation in the System Open Market Account declined over the year and that the amount of securities held by this Bank under repurchase agreement (these holdings are not participated among the other Reserve Banks) was smaller at the end of 1956 than at the close of 1955.

The redemption fund for Federal Reserve notes was increased 9.9 per cent over the year to meet legal requirements, and "other assets" rose 3.6 per cent, or 39 million dollars. Progress in the construction of the Buffalo Branch building brought a rise in the value of Bank premises of 1.6 million dollars.

The only significant change in liabilities during 1956 was in Federal Reserve notes. Total notes of this Bank outstanding increased 294 million dollars (or 4.8 per cent) during 1956, reflecting in part the net transfer of the notes of this Bank to other Districts. The largest demand for this Bank's notes in 1956 was for the $10 and $20 denominations.

Total capital accounts increased 5.3 per cent, or 16.7 million dollars, to 332 million dollars, and at the year end were about 2½ per cent of total resources.

EARNINGS AND EXPENSES. Total current earnings of this Bank rose 46 million dollars (43.6 per cent) in 1956, owing primarily to a 43 million dollar increase in interest earned on this Bank's share of the Government obligations

STATEMENT OF CONDITION

(In thousands of dollars)

Assets	DEC. 31, 1956	DEC. 31, 1955
Gold certificates	5,402,485	5,189,433
Redemption fund for Federal Reserve notes	198,738	180,781
Federal Reserve notes of other Banks	53,311	55,856
Other cash	61,629	65,449
Total cash	5,716,163	5,491,519
Discounts and advances	8,550	19,242
Acceptances	68,763	28,205
United States Government securities	6,498,803	6,592,440
Total loans and securities	6,576,116	6,639,887
Other assets:		
Due from foreign banks*	6	6
Uncollected items	1,039,318	1,025,230
Bank premises	9,397	7,766
All other	62,064	39,159
Total other assets	1,110,785	1,072,161
Total Assets	**13,403,064**	**13,203,567**

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

STATEMENT OF CONDITION

(In thousands of dollars)

Liabilities	**DEC. 31, 1956**	**DEC. 31, 1955**
Federal Reserve notes	6,414,299	6,120,411
Deposits:		
Member bank — reserve accounts	5,540,767	5,552,722
United States Treasurer — general account	56,548	68,614
Foreign*	110,925	128,673
Other	269,748	369,764
Total deposits	5,977,988	6,119,773
Other liabilities:		
Deferred availability cash items	672,671	642,672
All other	6,060	5,414
Total other liabilities	678,731	648,086
Total Liabilities	**13,071,018**	**12,888,270**
Capital Accounts		
Capital paid in	93,991	89,473
Surplus (Section 7)	208,002	195,827
Surplus (Section 13b)	7,319	7,319
Other capital accounts	22,734	22,678
Total Capital Accounts	**332,046**	**315,297**
Total Liabilities and Capital Accounts	**13,403,064**	**13,203,567**
Contingent liability on acceptances purchased for foreign correspondents†	14,498	9,743
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	45.2%	43.9%

* After deducting participation of other Federal Reserve Banks amounting to	211,344	273,288
† After deducting participation of other Federal Reserve Banks amounting to	35,557	23,718

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1956 AND 1955 (In thousands of dollars)

	1956	1955
Total current earnings	151,769	105,666
Net expenses*	24,544	22,714
Current net earnings	127,225	82,952
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	65	0
All other	14	60
Total additions	79	60
Deductions from current net earnings:		
Loss on sales of United States Government securities (net)	0	†
Reserves for contingencies	56	54
All other	3	33
Total deductions	59	87
Net additions or deductions (—)	20	—27
Net earnings before payments to United States Treasury	**127,245**	**82,925**
Paid United States Treasury (interest on Federal Reserve notes)	109,580	69,807
Dividends paid	5,490	5,361
Transferred to surplus (Section 7)	12,175	7,757
SURPLUS ACCOUNT (Section 7):		
Surplus—beginning of year	195,827	188,070
Transferred from net earnings for year	12,175	7,757
Surplus - end of year	**208,002**	**195,827**

* Excludes reimbursed expenses, rents, and recoveries	3,485	3,547

† Less than $500.

held by the System Open Market Account. Although the Bank's Government portfolio contracted over the year, yields rose more than enough to offset the decrease in the amount of securities held. Earnings on discounts and advances were up 2.8 million dollars, and income from securities held under sales contracts and from bankers' acceptances was also greater.

Net expenses rose 1.8 million dollars (or 8.1 per cent) in 1956, compared with an increase of $251,000 (or 1.1 per cent) in 1955. Although nearly every item of expense was larger in 1956, the biggest increase—$763,000—was in salary and wage payments. In addition, the cost of new Federal Reserve notes was up $256,000, and assessments for expenses of the Board of Governors rose $302,000.

Net earnings after all adjustments totaled 127 million dollars, an increase of 53.4 per cent, or 44 million dollars, over 1955. About 5½ million was paid to member banks as their statutory 6 per cent dividend, and 110 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 secured by gold certificates. The remaining 12 million dollars of 1956 net earnings was transferred to surplus.

Changes in Membership

During 1956 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 626 to 587. The net decrease of 39 banks was the result of mergers of 41 member banks with other banks, the admission of one State bank to membership, the organization of two national banks, and the suspension of one national bank. Two nonmember State banks were combined with member State banks and two were combined with national banks. The 587 member banks constitute 86 per cent of all national banks, State banks, and trust 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 THE YEAR END
(Exclusive of savings banks, private bankers, and industrial banks)

	DECEMBER 31, 1956			DECEMBER 31, 1955		
Type of Bank	**Members**	**Non-members**	**Per cent members**	**Members**	**Non-members**	**Per cent members**
National banks	405	0	100	430	0	100
State banks and trust companies	182	94	66	196	99	66
Total	**587**	**94**	**86**	**626**	**99**	**86**

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1956

Total membership at the beginning of the year	**626**
Increases:	
State bank admitted	1
New national banks	2
Decreases:	
Member banks combined with other members	40
Member bank combined with nonmember	1
National bank placed in receivership	1
Total membership at the year end	**587**

Changes in Directors and Officers

CHANGES IN DIRECTORS. In November 1956, member banks in Group 2 elected Charles W. Bitzer, President of The Bridgeport-City Trust Company, Bridgeport, Connecticut, a Class A director of this Bank for a term of three years beginning January 1, 1957. Mr. Bitzer succeeded John R. Evans, President of The First National Bank of Poughkeepsie, Poughkeepsie, New York.

At the same time, member banks in Group 2 re-elected Lansing P. Shield, President of The Grand Union Company, East Paterson, N. J., a Class B director for a term of three years beginning January 1, 1957.

In December 1956, the Board of Governors of the Federal Reserve System appointed John E. Bierwirth, President of National Distillers Products Corporation, New York, N. Y., a Class C director of this Bank for a three-year term beginning January 1, 1957 and, in addition, designated him as *Chairman* of the board of directors, and *Federal Reserve Agent,* for the year 1957. Effective December 31, 1956, Mr. Bierwirth thereupon resigned as the Class B director elected by member banks in Group 3, a post he had held since March 20, 1953. As *Chairman,* and *Federal Reserve Agent,* Mr. Bierwirth succeeded Jay E. Crane, Director of Standard Oil Company (New Jersey), New York, N. Y., whose term expired December 31, 1956. Also in December 1956, the Board of Governors reappointed Forrest F. Hill, Vice President of The Ford Foundation, New York, N. Y., as *Deputy Chairman* for the year 1957.

At the Buffalo Branch of the Federal Reserve Bank of New York, in December 1956, Clayton G. White, dairy farmer of Stow, 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 1957. At the same time, the board of directors of this Bank appointed Vernon Alexander, President of The National Bank of Geneva, Geneva, N. Y., a director of the Buffalo Branch for a three-year term beginning January 1, 1957. Mr. Alexander succeeded Robert L. Davis, President of The First National Bank of Olean, Olean, N. Y., whose term expired December 31, 1956. Also in December 1956, the Board of Governors of the Federal Reserve System appointed Raymond E. Olson, President of Taylor Instrument Companies, Rochester, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1957. Mr. Olson succeeded Robert C. Tait, President of the Stromberg-Carlson Company (a Division of General Dynamics Corporation), Rochester, N. Y., whose second consecutive term expired December 31, 1956.

CHANGES IN OFFICERS. Allan Sproul, President of this Bank since January 1941, resigned effective June 30, 1956. Mr. Sproul had spent almost thirty-six years in the Federal Reserve System, all but ten of them at this Bank.

Alfred Hayes, formerly Vice President of The New York Trust Company in charge of its Foreign Division, was appointed President of this Bank, to succeed Mr. Sproul, effective August 1, 1956, for the unexpired portion of the five-year term ending February 28, 1961.

Tilford C. Gaines, formerly Special Assistant in the Research Department, was appointed Manager and assigned to the Securities Department, effective March 15, 1956.

Robert V. Roosa, Assistant Vice President, assigned to Open Market Operations in Government Securities and Acceptances, and Treasury Issues, was assigned also to Research and Statistical, effective July 1, 1956. On November 1, 1956, Mr. Roosa was appointed Vice President, and was assigned to Research and Statistical with primary responsibility for the general administration of that function.

William H. Braun, Jr., Assistant Counsel, was appointed also Assistant Secretary of the Bank, effective August 1, 1956, to succeed Gregory O'Keefe, Jr., who was continued as Assistant Counsel.

Michael J. McLaughlin, Manager of the Cash Custody Department, retired effective August 1, 1956, upon reaching retirement age. Mr. McLaughlin had completed more than thirty-eight years of service with the Bank and had been an officer since July 1943.

Walter S. Rushmore, temporarily an Assistant Cashier at the Buffalo Branch, was appointed Manager at the head office and assigned to the Cash Custody Department, effective August 1, 1956.

John H. Wurts, Vice President assigned to Cash and Collections, resigned, effective August 31, 1956, to become President of Marine Midland Trust Company of Southern New York. Mr. Wurts had been with this Bank since 1935 and an officer since January 1941.

William F. Palmer, formerly Manager of the Security Custody Department, was assigned as Manager of the Government Bond and Safekeeping Department, effective October 1, 1956.

Kenneth E. Small, formerly Manager of the Government Bond and Safekeeping Department, was assigned as Manager of the Security Custody Department, effective October 1, 1956.

Harold V. Roelse, Vice President, was appointed also Economic Adviser, effective November 1, 1956. Mr. Roelse continued in Research and Statistical, with primary responsibility for advising the President of the Bank on matters of economic policy.

Marcus A. Harris, formerly Assistant Vice President assigned to Accounting, Planning, Building Operating, and Service, was appointed Vice President, effective November 1, 1956, and assigned to Cash and Collections with responsibilities in that function extending to the Check, Collection, and Government Check Departments.

John J. Larkin, formerly Manager of the Securities Department, was appointed Assistant Vice President, effective November 1, 1956. Mr. Larkin was assigned to Open Market Operations in Government Securities and Acceptances, and Treasury Issues.

Spencer S. Marsh, Jr., formerly Manager of the Securities Department, was appointed Assistant Vice President, effective November 1, 1956. Mr. Marsh was assigned to Open Market Operations in Government Securities and Acceptances, and Treasury Issues.

Lawrence E. Quackenbush, formerly Manager of the Collection and the Government Check Departments, was appointed Assistant Vice President, effective November 1, 1956. Mr. Quackenbush was assigned to Accounting, Planning, Building Operating, and Service.

Charles R. Pricher, formerly a Special Assistant in Cash and Collections, was appointed Manager and assigned to the Collection and the Government Check Departments, effective November 1, 1956.

Edward G. Guy, Assistant Counsel, was appointed also Acting Assistant Secretary, effective December 3, 1956.

Thomas O. Waage, Manager of the Public Information Department, and Secretary, was granted a leave of absence, effective December 6, 1956, to serve as Staff Director to the New York State Joint Legislative Committee to Revise the Banking Law. Effective January 3, 1957, Mr. Waage was succeeded by Carl H. Madden as Manager of the Public Information Department.

Carl H. Madden, formerly Chief of the Public Information Division, was appointed Manager and assigned to the Public Information Department, effective January 3, 1957.

John F. Pierce, formerly Chief of the Reports and Analysis Division, Bank Examinations Department, was appointed an officer of the Bank with the title of Chief Examiner having direct supervision of the Examining Division of the Bank Examinations Department, effective February 7, 1957.

MEMBER OF FEDERAL ADVISORY COUNCIL—1957. The board of directors of this Bank selected Adrian M. Massie to serve during 1957, for a second successive year, as the member of the Federal Advisory Council representing the Second Federal Reserve District. Mr. Massie is Chairman of the Board of The New York Trust Company, New York, N. Y.

Directors of the Federal Reserve Bank of New York

DIRECTORS	*Term expires Dec. 31*	*Class*	*Group*
FERD. I. COLLINS President and Trust Officer, Bound Brook Trust Company, Bound Brook, N. J.	1957	A	3
HOWARD C. SHEPERD Chairman of the Board, The First National City Bank of New York, New York, N. Y.	1958	A	1
CHARLES W. BITZER President, The Bridgeport-City Trust Company, Bridgeport, Connecticut	1959	A	2
Vacancy	1957	B	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.	1959	B	2
JOHN E. BIERWIRTH, *Chairman, and Federal Reserve Agent* President, National Distillers Products Corporation, New York, N. Y.	1959	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

CLAYTON G. WHITE, *Chairman* Dairy farmer, Stow, N. Y.	1957
CHARLES H. DIEFENDORF Chairman of the Executive Committee, The Marine Trust Company of Western New York, Buffalo, N. Y.	1957
LELAND B. BRYAN President, First National Bank and Trust Company of Corning, Corning, N. Y.	1958
RALPH F. PEO Chairman and President, Houdaille Industries, Inc., Buffalo, N. Y.	1958
JOHN W. REMINGTON President, Lincoln Rochester Trust Company, Rochester, N. Y.	1958
VERNON ALEXANDER President, The National Bank of Geneva, Geneva, N. Y.	1959
RAYMOND E. OLSON President, Taylor Instrument Companies, Rochester, N. Y.	1959

MEMBER OF FEDERAL ADVISORY COUNCIL — 1957

ADRIAN M. MASSIE Chairman of the Board, The New York Trust Company, New York, N. Y.	1957

Officers of the Federal Reserve Bank of New York

ALFRED HAYES, *President*
WILLIAM F. TREIBER, *First Vice President*

HAROLD A. BILBY, *Vice President*
JOHN EXTER, *Vice President*
MARCUS A. HARRIS, *Vice President*
HERBERT H. KIMBALL, *Vice President*
ARTHUR PHELAN, *Vice President*
HAROLD V. ROELSE, *Vice President and Economic Adviser*
ROBERT V. ROOSA, *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 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*
JOHN J. LARKIN, *Assistant Vice President*
ANGUS A. MACINNES, JR., *Assistant Vice President*
SPENCER S. MARSH, JR., *Assistant Vice President*
LAWRENCE E. QUACKENBUSH, *Assistant Vice President*
WALTER H. ROZELL, JR., *Assistant Vice President*
HORACE L. SANFORD, *Assistant Vice President*

ARTHUR I. BLOOMFIELD, *Senior Economist*
WILLIAM H. BRAUN, JR., *Assistant Counsel, and Assistant Secretary*
CHARLES A. COOMBS, *Manager, Research Department*
HARDING COWAN, *Assistant Counsel*
TILFORD C. GAINES, *Manager, Securities Department*
GEORGE GARVY, *Senior Economist*
CLIFTON R. GORDON, *Assistant Counsel*
EDWARD G. GUY, *Assistant Counsel, and Acting Assistant Secretary*
WILLIAM A. HEINL, *Manager, Savings Bond Department*
JOHN P. JENSEN, *Manager, Accounting Department*
PETER P. LANG, *Manager, Foreign Department*
CARL H. MADDEN, *Manager, Public Information Department*
WILLIAM E. MARPLE, *Manager, Credit and Discount 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*
WILLIAM F. PALMER, *Manager, Government Bond and Safekeeping Department*
FRANKLIN E. PETERSON, *Manager, Cash Department*
FRED W. PIDERIT, JR., *Manager, Bank Examinations Department*
JOHN F. PIERCE, *Chief Examiner*
CHARLES R. PRICHER, *Manager, Collection Department, and Manager, Government Check Department*
THOMAS J. ROCHE, *Foreign Exchange Officer*
WALTER S. RUSHMORE, *Manager, Cash Custody Department*
KENNETH E. SMALL, *Manager, Security Custody Department*
FREDERICK L. SMEDLEY, *Manager, Personnel Department*
GEORGE C. SMITH, *Manager, Check Department*
THOMAS O. WAAGE, *Secretary* (on leave of absence)
A. CHESTER WALTON, *Manager, Bank Relations Department*

DONALD J. CAMERON, *General Auditor*

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 SECOND FEDERAL RESERVE DISTRICT