



ANNUAL REPORT — 1957



*Federal Reserve Bank
of New York*



FEDERAL RESERVE BANK OF NEW YORK

March 14, 1958

To the Member Banks in the
Second Federal Reserve District:

I am pleased to send you our forty-third Annual Report, reviewing developments during 1957. This was a most interesting and challenging year for Federal Reserve policy, covering as it did the final phase of a business boom and the beginning of a phase of readjustment. Correspondingly, the year was one of gradual but decisive change in the direction of monetary policy. It was a year in which the role of monetary policy as a major instrument in furthering balanced economic growth, along with reasonable price stability, was being subjected to intensive scrutiny. The report embodies both a factual survey and some of our thinking on these critical policy questions.

Alfred Hayes

ALFRED HAYES
President

*Federal Reserve Bank
of New York*

**FORTY-THIRD
ANNUAL REPORT**

*For the Year
Ended
December 31, 1957*



Second Federal Reserve District

Contents:

	<i>Page</i>		<i>Page</i>
Credit Policy at the End of a Boom	5	Financial Statements	51
Stretching Out the Boom	7	Statement of Condition	51
The Spectre of "Creeping Inflation" ..	9	Earnings and Expenses	54
Cushioning the Downturn	12	Changes in Membership	56
A Year of Crosscurrents	14	Changes in Directors and Officers	57
Changing Patterns of Demand		Changes in Directors	57
and Output	14	Changes in Officers	58
Downturn in Business Activity	16	Member of Federal Advisory Council—	
Inflationary Pressures Ease	17	1958	60
Economic Trends in the		List of Directors and Officers	61
Second District	19	CHARTS	
Construction at a Record Rate	19	<i>Chart 1: Gross National Product,</i>	
Manufacturing Output Declines	20	<i>Business Investment, and Industrial</i>	
Financial Developments	21	<i>Production</i>	15
Continued Growth of Bank Credit	21	<i>Chart 2: Employment and</i>	
Implementation of Federal Reserve		<i>Unemployment</i>	15
Policies	24	<i>Chart 3: Price Trends</i>	18
Loanable Funds in Active Demand	29	<i>Chart 4: Nonfarm Employment in the</i>	
Interest Rates and Capital Market		<i>Second District and the United States</i> ..	19
Developments	34	<i>Chart 5: Cumulative Changes</i>	
Balance of Payments of the		<i>in Commercial Bank Credit</i>	
United States	37	<i>Since the End of 1954</i>	22
United States Receipts at New Peak ...	37	<i>Chart 6: Commercial Bank Loan-</i>	
Record United States Payments	39	<i>Deposit Ratios</i>	22
Trends in Foreign Gold and Dollar		<i>Chart 7: Reserve Positions of</i>	
Assets	40	<i>Member Banks</i>	25
Activity in the New York Foreign		<i>Chart 8: Selected Money Market Rates</i> ..	27
Exchange Market	40	<i>Chart 9: Money Supply, Turnover, and</i>	
Foreign Economic and Financial		<i>Velocity</i>	28
Developments	41	<i>Chart 10: Changes in Holdings of</i>	
Divergent Trends Amidst Continuing		<i>Capital and Credit Instruments,</i>	
Prosperity	42	<i>by Type of Investor</i>	30
Continued Monetary Restraint	42	<i>Chart 11: Changes in Outstanding</i>	
Trends in International Payments and		<i>Volume of Capital and Credit In-</i>	
Reserves	45	<i>struments, by Type of Instrument</i>	32
Volume and Trend of the Bank's		<i>Chart 12: Yields on Newly Issued</i>	
Operations	47	<i>and Outstanding Corporate Bonds</i>	34
Domestic Operations	47	<i>Chart 13: Market Yields on Bonds</i>	
Foreign and International Operations ..	50	<i>and Common Stocks</i>	36
		<i>Chart 14: United States Transactions</i>	
		<i>with Foreign Countries</i>	38
		<i>Chart 15: Discount Rates of Selected</i>	
		<i>Foreign Central Banks</i>	43
		<i>Chart 16: Gold and Dollar Holdings of</i>	
		<i>Selected Foreign Countries</i>	46

Forty-third Annual Report
Federal Reserve Bank of New York

Credit Policy at the End of a Boom

In 1957, for the third time since the end of World War II, the American economy turned downward. A capital goods boom of record proportions crested off, through the first three quarters of the year, and then receded. At about the same time, a sustained, though somewhat irregular, expansion of inventories came to an end, as stocks of manufacturers and distributors reached, or exceeded, the needs of going sales. Both these developments, in fixed capital and in inventories, were aggravated, too, by declines in defense orders, particularly during the summer and early autumn. And after blockage of the Suez Canal late in 1956 had caused American exports to soar, a return toward closer balance between our exports and our imports later in 1957 removed the artificial stimulus that this unfortunate incident had temporarily injected. It was in the main these developments, coming rather closely together, that moved the American economy as a whole downward toward the end of the year.

When the rising swing in the economy had begun, in the autumn of 1954, consumer spending was in the lead, dominated by purchases of automobiles and homes and financed by a rapidly expanding volume of credit. All-time records were set in 1955 for automobile production, home building, and the growth of private debt. By mid-1955, a policy of credit restraint had become necessary if money creation, and the further activation of money, were not to pyramid

the debt structure on very fragile support, and speed the flow of spending so much faster than the growth of real output as to destroy values and disrupt the orderly functioning of the economy. These monetary and credit factors were not then, nor were they during 1956 and on into 1957, the only sources of inflationary danger. But it was important to check them. To do that, credit policy had to limit the creation of money. Banks could then add to private credits only by shifting their more liquid assets to others. Most pressing needs could, of course, be met at the expense of this lessening of liquidity. Yet there was a continuous pressure for caution and restraint as the liquidity positions of the banks, and eventually of other lending and investing institutions, stretched nearer and nearer to their elastic limits.

In 1956, as the gross national product (GNP) continued to grow, the expansion of the money supply was nominal, but there was no slackening of the increase in its turnover. Although further additions to total debt did not reach again the dizzy acceleration of 1955, there was still a sufficient growth in total effective demand to accommodate, if not to cause, a general rise in prices. Consumer prices began to rise after three years of relative stability in the averages, and wholesale prices continued the rise that had begun in 1955, after nearly five years of reduction or stability. But in the competition for a limited supply of lendable funds in the money and capital markets, automobile credit and housing credit took a smaller share than in 1955. The lead among expansionary forces in the economy had been taken over, as early as mid-1955, by business expenditures on plant, equipment, and inventory. To be sure, total consumer expenditures continued rising, as they had in each year since the end of the war. The same was true for the purchases of goods and services by State and local governments. And comparable expenditures by the Federal Government rose a few hundred million dollars more in 1956 than they had in 1955. But the added thrust to general economic activity seemed to come mainly from the business investment sector. As is often the case, when resources are being marshaled for an increase in productive capacity, the immediate effect was to add to inflationary strains, even though the eventual result would surely be to permit an added flow of output which could later absorb some of the inflationary pressures originating in general demand.

This was the situation confronting the Federal Reserve as 1957 began. The problems for credit policy in this, as in every, challenging period came at three levels: first, in discerning promptly the facts of the changing business and credit situation; second, in deciding what policy should be, by finding the best com-

promise, in the light of these facts, among the various criteria and objectives of policy; and, third, in so using the different tools of credit control as to implement each policy decision most effectively. What emerged is described further in later sections of this *Annual Report*. The ultimate evaluation of what was done, in terms of visible results in the over-all performance of the economy, will have to wait until the events of 1957 have more nearly run their course, in the months or years that follow. Any appraisals should be conditioned, however, just as the observations, judgments, and actions of the Federal Reserve were conditioned, by recognition that monetary and credit policy exerts limited, and not limitless, influence.

STRETCHING OUT THE BOOM. Federal Reserve policy, like the events with which it deals, generally evolves gradually out of what has gone before, even though at times the visible manifestations, both of policy and of economic processes, must take forms that appear abrupt and drastic. The beginnings of Federal Reserve policy for dealing with a potential downturn in the economy did not come with the dramatic lowering of discount rates from 3½ per cent to 3 per cent on November 15, 1957. Nor was the start to be found in the much less conspicuous, though significant, lessening of reserve pressures which had begun before the end of October. The real start came with the gradual imposition of restraints on the availability of bank credit that had begun during 1955. For in checking the development of an upward credit spiral, at a time of infectious exuberance in the investment spending plans of business, credit policy was probably making its greatest possible contribution, not only toward sustaining and prolonging a high level of activity but also toward limiting the dimensions of any future downturn.

Much of the record of 1957, so far as credit policy was concerned, consequently represented the results of the System's appraisals, judgments, and action in the two preceding years. To be sure, incidents like that of Suez, and its brief implications for this country's share in world trade, could not be anticipated. But the pace of current and planned business investment in capital equipment and in inventory had already reached such proportions, by 1956, that an eventual slowing down for consolidation and reassessment could be considered inevitable. The timing and dimensions of such a slackening were, of course, quite uncertain—partly because creative innovation springs up on many sides, and often with quite unexpected strength, in a free economy. Nonetheless, the probable

general pattern was sufficiently clear to keep the central bank continually alert to the possibility that an actual downturn might be developing. Within the System the difficulties that had to be faced, and they were formidable, were thus more in the nature of perception and timing, rather than in principles or tools.

One critical problem, up to the latter part of 1957, as exhilaration in business planning sustained heavy capital expansion at the record levels of 1956 while raising aggregate inventories to new peaks, was that the cumulation of individual projects might reach a national total much larger than the real resources of the economy could stand. In the American economy, no central bureau decides when that point has been reached, and no single plan marks out, with stultifying rigidity, the share for each firm or each purpose within a determined total. The division between consumption and investment—and the allocation of resources among various forms of investment with a view to meeting current and prospective consumption needs—is left to the working of market forces. These are relied upon to produce, with the help of reasonably flexible costs and prices and interest rates, a result that comes closer than the blueprints of an isolated planning staff to the consensus of preferences among all elements in the economy. It is not the function of the central bank to substitute itself for these market forces; to presume to reach judgments on precisely how much investment there should be; or how it should be distributed among conflicting uses. Instead, it watches changes at the margin—determining whether a little more, or a little less, of the credit provided through the creation of money would, in the conditions then prevailing, help bring about the balance needed for growth, stability, and the assurance of an orderly determination of economic decisions in the market place.

In practice, during a period when investment demand is already outrunning the savings available for investment, and additional debt is already being financed through more intensive use of the existing money supply, the central bank is likely to find it necessary to place bank reserves under fairly continuous pressure. Without such restraint it would be possible for the banks, when the results of all their perhaps irreproachable individual actions were added together, to produce a total rise in created money and created credit so large as to transform a wholesome business expansion into an explosive, speculative inflation. Or in less extreme form, in the conditions of “over-stretch” apparent in the economy as a whole through 1956 and on into 1957, this meant that no great amount of additional bank credit expansion could safely be superimposed on the existing total, for further financing of the capital goods boom, or the inventory expansion, or

the uprush of foreign sales. To have done so in 1957, so long as the price increases generated by the excess of active demand over actual supply in critical areas during 1956 were still spreading throughout the economy, could not have added materially, or soon, to the total supply of goods, but would certainly have accelerated the already disturbing rise in prices.

That rise in prices became a particular preoccupation of credit policy during the closing stages of the boom, when there appeared to be danger of wide acceptance of the inevitability of progressive inflation. But what was of most immediate significance, at the time the downturn arrived, was that credit policy had, apparently, largely fulfilled its preparatory role. The capital goods boom did not end in a giddy spiral of speculation, breaking finally with a sharp crash. It simply topped off, very gradually. The level of expenditure on producers' durable equipment, for example, was almost unchanged from the fourth quarter of 1956 until the modest decline of the final quarter of 1957. Nor was there a speculative building-up of inventories, leading the way to a drastic collapse. And the temporary bulge in our exports was financed, on balance, to a large extent by the drawing-down of foreign balances here. There was no wild spree of foreign buying, and no loose availability of American credit. The reversal in our exports was sharp because the emergency situation abroad was providentially short-lived.

THE SPECTRE OF "CREEPING INFLATION". While credit policy was, on the whole, successfully restraining any tendency for credit excesses to amplify the rather natural tendencies for capital building and inventory growth to get ahead of themselves through overborrowing, it was also distinctly concerned over other kinds of unstabilizing influences in the economy—those springing from the general rise of prices that had been under way since mid-1955 at the wholesale level and since early 1956 at the consumer level. The principal danger, particularly in the atmosphere of exhilaration characteristic of a capital boom, lay in the encouragement which these price developments gave to acceptance of a notion that "creeping inflation" was inevitable. Once the business investor became convinced that selling prices next year could always be moved up above present levels, and that investment costs next year would always be higher, the fundamental basis for cost discipline, and for an orderly selection among alternative investment projects by the action of market forces, would be lost. If that mentality were to spread, before long almost any investment project would look

attractive, and investment planning would degenerate into a scramble among firms for access to savings and bank credit, while the lenders would be thrown back upon some kind of arbitrary rationing rather than being able carefully to appraise the comparative prospects and efficiency of competing claimants for investment funds.

More and more through 1956 the threat of a "creeping inflation" mentality had become so real, and the potential menace it carried for undermining the functioning of a market economy became so great, that the phenomenon had to be considered explicitly in determining Federal Reserve policy. It was not enough, in trying to prevent use of the money-creating power to aggravate a cyclical upswing, to be alert to choke off incipient credit excesses. The Federal Reserve had a responsibility to hold the rein on money creation with a view to offsetting in some measure the effects of the variety of factors causing prices to rise. The objection, long familiar to central banks around the world, was of course made that credit policy would have to use sledge-hammer blows if it were to limit price rises during conditions of full prosperity, and that these same blows would inevitably also disrupt or demoralize much of the rest of the economy. This criticism was broadened in 1956 and 1957 into a widely held view that a new kind of inflation was under way, originating in cost-push impulses which some identified primarily with wage settlements that outran productivity gains. This sort of inflation, it was said, could surely not be reached by monetary controls; in attempting to check it, the central bank could only cause unemployment.

The year 1956 had already afforded a rather good test of those objections. During that year it had become increasingly clear that there was in fact quite a wide zone through which credit tightening could be gradually increased, without any evidence of these supposed sledge-hammer effects. Despite whatever elements of cost-push may have been at work in 1956, price increases were no greater, if not less, than in most earlier periods of cyclical expansion, while employment, capacity, and output went on increasing. To be sure, price increases were not brought abruptly to a halt. To do that probably would have required the sledge hammer, so long as the fiscal policies of Government, the wage policies of labor, and the price policies of business were not fully concentrated on the same objective. What was impressive, however, was that at a time of intense strain on resources, when general price increases of 10 or 15 per cent might not have been at all unlikely (and some individual prices did rise by that much), the averages rose by roughly 3 or 4 per cent. This experience certainly suggested that there could, during a period of powerful inflationary pressures, be a grati-

fying, albeit imperfect, resolution of the presumed conflict between the goals of reasonable stability in prices and over-all continuity of high employment. What such a resolution required, so far as central bank action was concerned, was recognition of the need for gradual, rather than drastic, action as a means of obtaining gradual, rather than dramatic, results.

That was the kind of course pursued through much of 1957, as capital spending remained at record levels and other economic activity moved mainly sideways, while rising prices continued to sustain the menace of creeping inflation. For more than half of the year, no conspicuous or new overt action had to be taken by the central bank; there was simply a continuation of pressure on bank reserves. From April through mid-October, open market operations, reinforced by the tightening influence of member bank resort to borrowing (as liquidity positions declined further), led to a slight edging-down in the money supply. Meanwhile, an almost feverish capital and credit demand, pressing upon the limited supply of savings, caused most interest rates to rise to heights that had not been seen in the United States for twenty-five years. And in August, after market rates of interest had for some months risen and remained far out of touch with Federal Reserve discount rates, action was taken to confirm the System's continuance of restraint by raising the discount rates of the various Federal Reserve Banks from 3 per cent to 3½ per cent. As was to be expected, when the underlying forces of the boom were beginning to wear out, there were differences of view, even within the central bank, over the need for this final overt step in the long sweep of the System's restrictive policy. Whatever the final judgment may be on that more or less formal confirmation of an existing state of money market conditions, neither the mentality of creeping inflation, nor its counterpart in price statistics, had yet begun to subside at the time this step was taken. Very shortly, however—so soon as probably to be more of a coincidence than a consequence—the inflationary psychosis did begin to disappear. And the statistics also slackened their inflationary course. Wholesale prices, with the notable exception of those for capital goods, were mainly unchanged or lower from August through the end of the year. Consumer prices also showed some signs of steady-ing out in the final quarter, after allowance for exceptional weather conditions and other seasonal influences. In the financial markets, the prices of stocks actually peaked out in July.

Of course, the change in prices and in price psychology came only at about the time the economy as a whole began to move downward. There can be no dog-matic answers as to the causal sequences running through these various events.

But the climate was right for a burst into running inflation at almost any time during the expansion phase, if the additional bank credit had been there to permit it. What happened, under Federal Reserve restraint over the two-year period from mid-1955 to mid-1957, was that the money supply showed very little increase, while the over-all rate of use of the money supply (its "income velocity") rose about 10 per cent, and bank loans and investments (other than holdings of Government securities, which declined) rose by 19 per cent. There had been no strangulation of expansion; but commercial bank credit to business had also not been the basis for a spiraling cycle of intensifying speculation before the boom, quite naturally, slowed down.

CUSHIONING THE DOWNTURN. All along through 1957 the crucial problems of credit policy were those of diagnosis and timing. The Federal Reserve was, during the entire period of restraint, mindful of the cyclical patterns underlying the investment boom and alert to the risk of "overstaying" the need for restraint. But there was also the risk of easing up too soon and losing control over the underlying momentum toward bank credit inflation.

When the signs of a turn became dominant, however, the Federal Reserve acted promptly. Just as most of the restraint during the first three quarters of the year had been achieved by maintaining steady pressure on bank reserves, so the first moves of relaxation emerged through week-to-week changes in the volume and availability of bank reserves. In late October and early November open market operations were so conducted as to permit the diminished growth of bank credit to be reflected in reduced pressures on reserves. By mid-November, it was decided to give all sections of the economy an unmistakable sign that the direction of credit policy had changed. That could best be done, particularly in the face of the large Treasury financing which was then imminent, by reducing the discount rates of the Federal Reserve Banks. The move was made decisive by reversing the entire $\frac{1}{2}$ of 1 per cent increase that had been made in August.

Most of the steps taken during the year, the resulting changes in the volume of reserves, and the reactions in the credit and capital markets are summarized in later sections of this *Report*. In brief, after the policy changes of October and November, and paralleling the appearance, day by day, of new evidence that the economy was definitely moving downward, the reserve positions of the member banks were moved back to a rough balance between excess reserves and borrowings. That was the relationship at the end of the year. At the same time,

from late October until the usual period of seasonal complications in mid-December, interest rates dropped sharply, with many rates falling further than in any other two-month interval during the postwar period. While all of these developments helped add to an electrifying air of excitement in the financial world at the year end, it would not be until many more months had passed by that a start could be made at a balanced appraisal of the impact of all that had happened.

Meanwhile, abroad, the central banks of most of the free world were still continuing, at the end of 1957, to cope with problems comparable to those that had occupied the Federal Reserve through much of 1955, 1956, and 1957—the need to restrict bank credit creation in economies that were trying to do too much too fast, in relation to their real resources, their savings, and their staying power. Some, notably Germany and Canada, had begun in 1957 to relax credit restraints, under conditions that were only partly similar to those in the United States. These events, too, are described later on. What may have been most significant to central banking, and more broadly to the prospects for reliance upon general controls in a world of clashing economic ideologies, at the end of 1957, was that the democratic countries seemed to be learning by experience two lessons:

- (1) that money and credit controls could, so long as the framework provided by Government finances was in reasonable balance, effectively prevent the development of those credit excesses, in the closing stages of a capital goods and inventory boom, that had in the past so often amplified the distortions of an upswing and helped to precipitate a sudden and spiraling collapse; and
- (2) that, in helping to resist the insidious spread of creeping inflation, central banking need not be faced with a two-horned dilemma—to choose between steady prices or steady employment—but that there could be a middle way: that there was a wide zone over which general restraint, gradually imposed, could act with reasonable force in limiting the effects of other upward pressures on prices *without* creating mass unemployment.

Whether there would be more to add to another lesson, suggested by the American experience of 1948-49 and 1953-54—that the central bank could help in encouraging prompt and healthy economic recovery, after an interval of readjustment and recession—would be for 1958 to tell.

A Year of Crosscurrents

Although business activity declined during the latter months of 1957, the year as a whole established new records for employment and for consumer income and spending. In addition, the year was marked by a record volume of expenditures for the expansion and modernization of the nation's productive facilities—including not only its factories, but also its schools and highways—thus opening the way for further economic growth in the years to come. The very fact, however, that in some sectors of the economy the rapid enlargement of industrial capacity anticipated the growth in demand for some time ahead meant that business capital outlays could not be sustained indefinitely at the prodigious pace reached in early 1957. The expansion of capacity also largely removed the incentive for further inventory build-ups to hedge against potential shortages or price increases. The resulting cresting-out and later decline in business purchases, aggravated by a fall in exports and the temporary drop in military ordering, ultimately brought the boom to its close.

CHANGING PATTERNS OF DEMAND AND OUTPUT. In 1957 the economy was subjected to the strain of a series of pronounced shifts in the pattern of over-all demand. At the very outset of the year, the economy had to adjust itself to the disappearance of most of the extraordinary stimuli that had been largely responsible for the marked upswing in late 1956. These had included the replenishing of steel inventories in the aftermath of the steel strike, some "scare buying" resulting from the Suez crisis, and the sharp pickup in auto production and inventories from unusually low levels.

As these necessarily transitory demands fell off, the growth of inventories—which in late 1956 had accelerated to an annual rate of more than five billion dollars—ceased abruptly in the first quarter of 1957. The sales losses resulting from reduced inventory buying were largely offset, however, by a further expansion in other sources of demand—notably in government outlays, Federal, State, and local, and in foreign buying of a wide variety of American merchandise. In the meantime, business investment in plant and equipment as well as consumer spending advanced somewhat in dollar volume, primarily reflecting higher prices.

Despite the cessation of inventory accumulation, the over-all volume of business activity remained at record levels in the opening months of the year.

While manufacturing output and employment declined somewhat from their late 1956 peaks, the number of persons at work in such fields as trade, services, and education increased markedly, and total employment and personal income continued to expand.

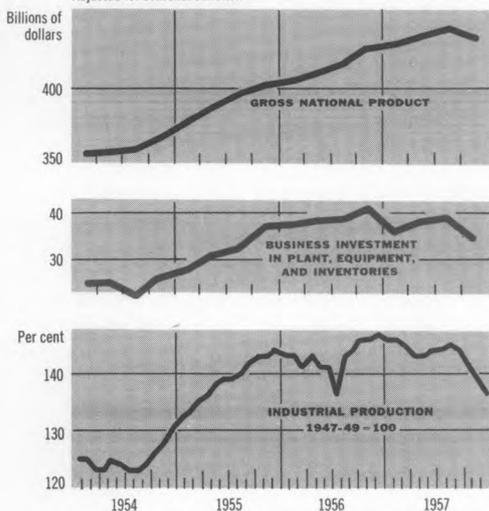
The sustained expansion in employment and earnings was followed in the spring and summer by a more pronounced advance in retail sales. Roughly coinciding with the rise in consumer spending, moreover, home building began to recover from its two-year decline. Reflecting the improvement in consumer demand, retail stores stopped drawing down their inventories, and this, in conjunction with the rise in sales, permitted some increase in production and employment in the consumer goods industries.

Largely as a result of the increased activity in a number of industries producing for the consumer market, total business activity apparently attained its peak in the summer (see Chart 1). Students entered the labor force at the end of the school year in near-record numbers and secured positions rapidly, while total nonfarm employment and personal incomes achieved all-time highs between July and September. Because of the pronounced rise in the cost of living (par-

CHART 1

GROSS NATIONAL PRODUCT, BUSINESS INVESTMENT, AND INDUSTRIAL PRODUCTION

Adjusted for seasonal variation

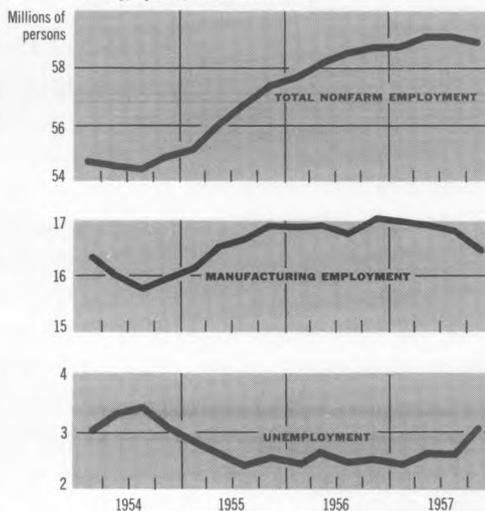


Note: Dollar figures are quarterly totals expressed as annual rates; industrial production figures are monthly indexes of physical output. Data were obtained from the United States Department of Commerce and the Board of Governors of the Federal Reserve System.

CHART 2

EMPLOYMENT AND UNEMPLOYMENT

Quarterly, adjusted for seasonal variation



Note: Data are based on "old" definitions of employment and unemployment, to permit comparison of current figures with those for earlier years. Data were obtained from the United States Bureau of the Census, the United States Bureau of Labor Statistics, and the Board of Governors of the Federal Reserve System.

ticularly food prices) during most of the spring and summer, however, the gain in real consumer purchasing power was confined to very modest proportions.

DOWNTURN IN BUSINESS ACTIVITY. But, even as aggregate business activity inched upward over the first eight months of the year, it became increasingly evident that the boom was gradually losing momentum. The volume of new orders for durable goods, and order backlogs for such goods, had already started to contract early in the year. Then, toward midyear, the order rate tumbled sharply and the contraction in backlogs accelerated. To a significant extent, the fall in orders reflected a Government decision, expressed in cancellations of earlier orders and a "holdback" in the placing of new contracts, to curb the rapid and unanticipated spurt in military outlays that had occurred during the first half of the year. At about the same time, moreover, new orders placed by private business for plant and equipment also began to decline more rapidly, as it became apparent in one industry after another that there was no need to go on adding so rapidly to the volume of equipment in operation or on order, and that present capacity in many lines was more than ample to supply probable demands for some time ahead. The decline in new orders was further aggravated by a drop in exports from the unsustainable peak reached earlier in the year, and by intensified efforts on the part of industrial buyers to curtail inventories as improved supply conditions appeared to eliminate the need to carry more-than-minimum stocks.

As a consequence of the reductions in orders and order backlogs, manufacturers in a large number of industries—notably in the metal products sector—were forced to cut back production and to lay off workers. From August to the end of the year, industrial production contracted by about 6 per cent, while manufacturing employment was reduced further by about half a million persons and hours of work declined sharply. Output declined to some extent in virtually all major industry groups, but the sharpest drop occurred in the production of steel. In the aggregate, steel buyers had apparently still been adding to their stocks earlier in the year, partly in anticipation of the July 1 price increase. At midyear this incentive disappeared, and buyers abruptly shifted to large-scale inventory liquidation. Steel output began to decline (on a seasonally adjusted basis) in September and by the year end had plummeted to some 40 per cent below its year-earlier rate. Severe declines in output also occurred in the machinery and many other capital goods industries as well as in military aircraft production.

In contrast to the mild reductions in factory output and employment earlier in the year, which slowed but did not halt the advance in over-all business activity, the autumn declines led to a downturn in incomes and spending generally. Total nonfarm employment declined (see Chart 2) and unemployment increased appreciably, in December reaching 5 per cent of the labor force on a seasonally adjusted basis. Although total personal income declined only modestly until late in the year, as wage rates continued to rise and unemployment and other Government benefit payments increased sharply, retail sales turned significantly downward. Automobile sales were temporarily sustained by the price reductions offered during the "clean-up" period in September and October, but then fell back as the new 1958 models were introduced at higher prices. However, Christmas sales of department and apparel stores significantly exceeded the record-breaking year-earlier outlays, even after allowing for higher prices.

The Russian satellite launchings and reappraisal of the defense program led to a reversal in military ordering policies before the year end, and further moderate gains were recorded in outlays for home building and public construction. But the rapid decline in business investment—in plant and equipment and especially in inventories—resulted in further declines in business activity as 1957 came to a close.

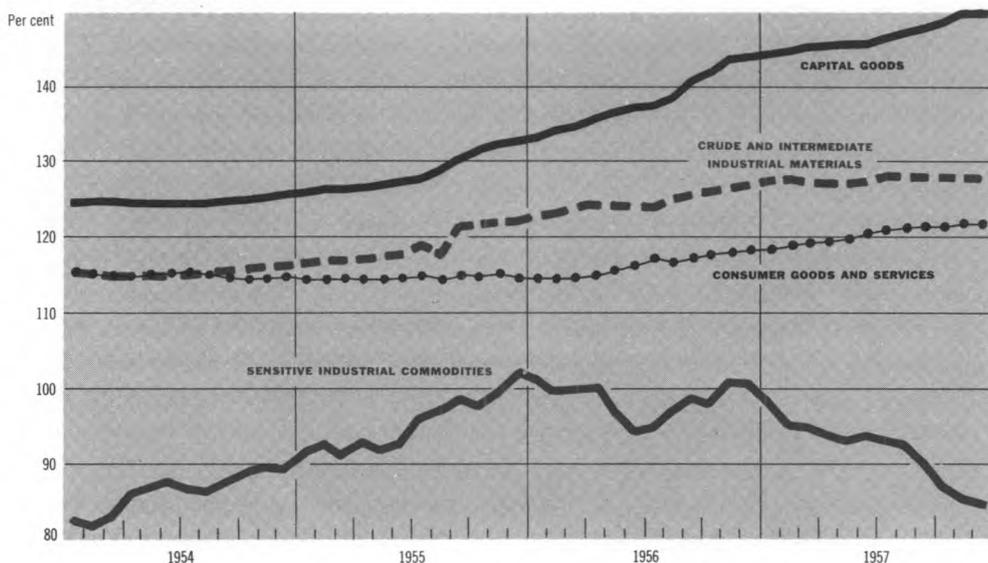
INFLATIONARY PRESSURES EASE. The substantial additions to capacity made during 1957, as many segments of the massive investment programs begun earlier in the boom were completed, helped gradually to ease the widespread inflationary pressures that had prevailed since mid-1955. With the demand for industrial products leveling off and then declining while supplies increased, producers found it more and more difficult to raise prices—although wage and other costs continued in many cases to advance. The shift to buyers' markets and growth of unused capacity intensified the squeeze on profits, and contributed to a resurgence of more aggressive competition. Nonetheless, many producers continued their attempts to pass on higher costs, apparently in some instances without regard, at least initially, for the possible adverse effects upon the demand for their products. As Chart 3 shows, prices of capital goods, in particular, rose further—although not so rapidly as in 1956—with probably some dampening effects on total sales.

In contrast, the decline in sensitive industrial commodity prices, which had

CHART 3

PRICE TRENDS

Index numbers, 1947-49 = 100



Note: Data were obtained from the United States Bureau of Labor Statistics and the Board of Governors of the Federal Reserve System.

set in at the end of 1956 following the sharp rise during the Suez crisis, continued during most of 1957. In a number of instances, efforts were made to raise prices in the face of declining demand, but by and large these proved unsuccessful. Price declines were particularly frequent in the domestic markets for commodities traded internationally, which were, of course, vulnerable to competition from imports. Chiefly as a result of the lower prices for a number of raw materials, there was very little change in aggregate industrial wholesale prices over the year as a whole—a net rise of about 1 per cent in 1957 as compared with 4 per cent in 1956.

The rise of 3 per cent in consumer prices during 1957, however, was slightly greater than in the preceding year. The more pronounced increase chiefly reflected the more rapid advance in the cost of personal and other services, which rose by over 4 per cent. While prices of manufactured (nonfood) consumer goods also rose significantly, partly in a further adjustment to the earlier advances at wholesale, the increase was smaller than that in food or services and was slower than in 1956.

Economic Trends in the Second District

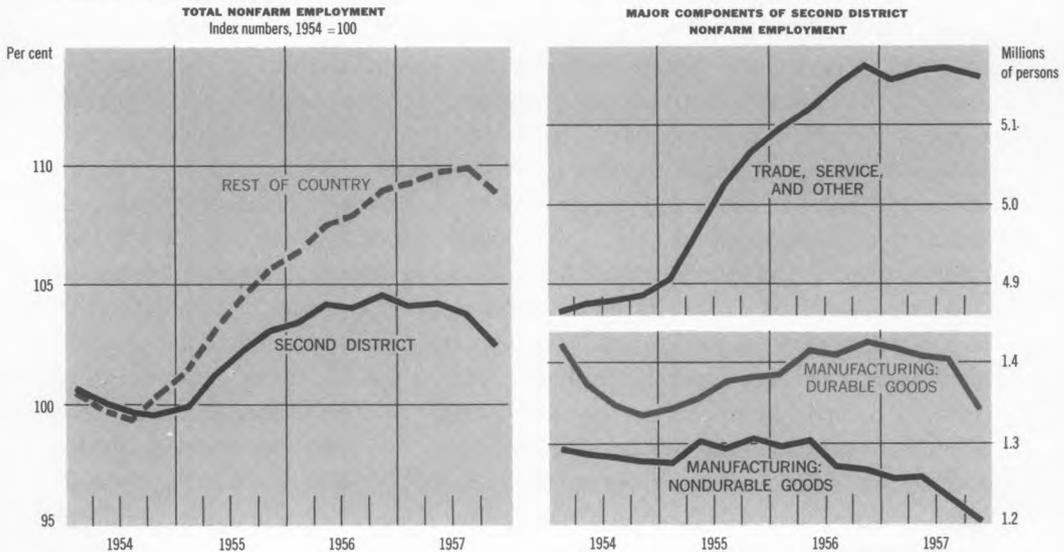
Economic developments in the Second District broadly paralleled the experience of the country as a whole. As in the country generally, the strength in the District's economy came from its nonmanufacturing industries, which provide some two thirds of the area's employment. Employment in these industries was at peak levels for most of the year and edged off only slightly in the closing months (see Chart 4). The gains during the year centered in government, construction, and in the finance, insurance, and specialized service industries.

CONSTRUCTION AT A RECORD RATE. Construction activity reached a new high during 1957 as advances in nonresidential construction more than offset the decline in home building. During the first half of the year construction was spurred by the building of commercial structures and manufacturing plants.

CHART 4

NONFARM EMPLOYMENT IN THE SECOND DISTRICT AND THE UNITED STATES

Quarterly, adjusted for seasonal variation



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

Although plant expenditures tapered off after midyear, the many national manufacturing companies that have made New York City their headquarters contributed importantly to a continued upsurge in office building. Contracts awarded for office building in New York City increased by about 100 million dollars in 1957, compared with an increase of only about 40 million for the rest of the country. Following a drop early in 1957, public construction activity expanded again, paced during most of the year by work on the St. Lawrence Seaway, and later by other projects such as highways, schools, and municipal buildings.

Home building, on the other hand, remained at a substantially lower rate than in 1956, when it had already fallen 20 per cent below 1955. While the decline in housing starts began to level out in the fall, this was somewhat later than in the nation as a whole. The decline from 1956 was less severe in the New Jersey and Connecticut areas of the District than in New York State, but even in these areas it was greater than in the country at large.

MANUFACTURING OUTPUT DECLINES. In contrast to the high level of activity in the nonmanufacturing industries, production declined steadily throughout the year in both nondurable and durable goods manufacturing. The downtrend in the output of nondurable goods industries, which had begun during 1956, largely reflected losses in the important apparel industry where employment fell on average some 6 per cent below last year. Toward the end of the year, the men's apparel industry, in particular, operated at a substantially lower rate of capacity utilization than in 1956. In contrast, apparel employment in the rest of the country was generally higher in 1957 than in 1956.

In the durable goods sector, the year was marked by labor disputes and diverse trends among industries. In the first half of the year output was cut back in several consumer durables lines, including television and appliances as well as automobiles. Labor disputes involving large numbers of employees led to production declines in the railroad equipment, aircraft, machinery, fabricated metals, wood products, and cement industries. At the same time, however, continued growth in industries making instruments, photographic equipment, and office machinery kept the decline in durable goods employment relatively small. After midyear, downward pressures became more widespread. Cutbacks in Federal defense orders were felt especially strongly by aircraft manufacturers, although some firms in the industry benefited from the stepping-up of missile programs. Aircraft layoffs occurred in various parts of the District. These cutbacks, combined

with contractions in primary metals and machinery output, were reflected in the reclassification of several labor market areas at the end of the year by the United States Department of Labor. In the Stamford-Norwalk area, which had been designated an area of critical labor shortage in late 1956, the labor market eased substantially. Bridgeport and Syracuse, which had been classified as areas of moderate labor shortage since November 1955, were moved to the "moderate surplus" category.

Financial Developments

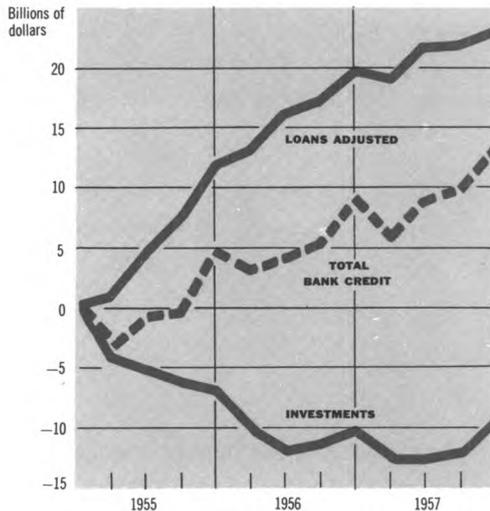
As indicated earlier, the greater part of 1957 was marked by a continued vigorous demand for credit and capital funds from bank as well as nonbank sources. This strong demand, taken in conjunction with the Federal Reserve System's policy of credit restraint, resulted in a further rise in interest rates. Late in the year, as inflationary forces waned and business activity slackened, the pressures in financial markets also eased. Borrowers' demands became less insistent, while Federal Reserve policy shifted away from restraint and market rates of interest declined across a broad front.

CONTINUED GROWTH OF BANK CREDIT. Accompanying and supporting the high level of economic activity, bank credit expanded further in 1957. The total rise of nearly 5 billion dollars was about as large as in 1955 and 1956, but it was strikingly different in composition from what it had been in the earlier phases of the business boom.

The expansion in commercial bank loans came to about 3.6 billion dollars in 1957, as against a 7.7 billion increase during 1956 and a towering 11.6 billion rise in 1955. But the counterpart of the smaller expansion in bank loans, in the general context of credit restriction and reduced bank liquidity, was that the banks' investment holdings increased somewhat in 1957, whereas in 1955 and 1956 these portfolios had been trimmed sharply to make room for the very large loan rise. As indicated in Chart 5, investment holdings edged upward, on balance,

CHART 5

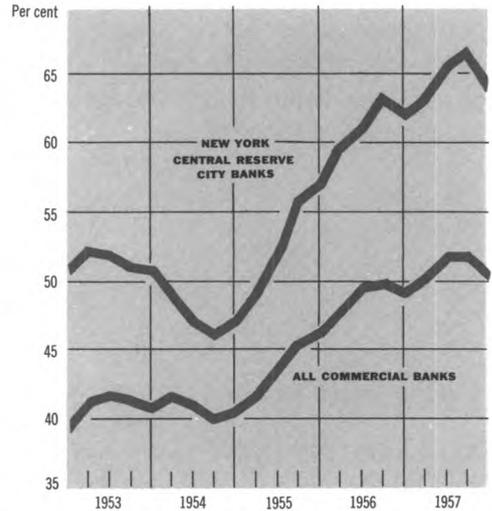
CUMULATIVE CHANGES IN COMMERCIAL BANK CREDIT SINCE THE END OF 1954



Note: Data are end-quarter estimates for all commercial banks. Total bank credit is the sum of loans (adjusted) and investments.

CHART 6

COMMERCIAL BANK LOAN-DEPOSIT RATIOS



Note: Loan-deposit ratios are loans (adjusted) divided by total deposits less cash items in process of collection. Data are end-quarter estimates.

by 1.2 billion dollars in 1957, compared with decreases of 3.4 billion in 1956 and 7.0 billion in 1955.

The slower growth in bank loans during 1957 was in part a result of credit restraint. As Federal Reserve open market operations reduced the available supply of bank reserves, and securities sales involved greater capital losses or greater inroads on liquidity, restraint became increasingly effective over the first ten months of the year. Since loan-deposit ratios were already high at the start of the year (see Chart 6) and the demand for funds was still strong, the natural outcome was an intensification of credit rationing and a rise in interest rates. Average interest rates on new loans to bank customers rose about as much in 1957 as in 1956, according to the Federal Reserve's quarterly survey.

The lesser rise of bank loans during 1957 was particularly evident in business borrowing. Business loans had soared by 6.3 billion dollars in 1955, and by another 5.5 billion in 1956, but rose only by 1.8 billion further in 1957. In

part, the slowdown reflected the restricted availability of bank funds, which caused firms to scale down their borrowing plans. In other cases, firms found it more expedient to borrow through bond flotations in the long-term capital market—either repaying bank loans or using the proceeds of capital flotations as an alternative to borrowing from the banks. Public utilities, for example, required a great deal more external financing in 1957 than in 1956, but virtually all of the additional funds were obtained in the long-term capital market; the net rise in the industry's borrowing from banks was roughly the same in the two years.

In other instances, and to an increasing extent as the year progressed, the slower growth in business borrowing from banks was attributable to a lessening in demand. Thus borrowing of some industries declined as capital expansion and improvement programs reached completion and as the rise in investment outlays leveled off. The slower rate of business inventory accumulation, which in turn was partially attributable to the more cautious planning induced by limited credit, also helped to dampen the expansion in bank loans during 1957. This slackened inventory growth, already discussed in earlier sections of this *Report*, was especially evident in such lines as metal and machinery production, the same areas as those in which the sharpest change in bank loans occurred.

The outstanding volume of commercial bank mortgage loans increased by about 600 million dollars in 1957, compared with a 1.7 billion rise in 1956 and a 2.4 billion upsurge in 1955. As described more fully in a later section, the reduced flow of credit into mortgages partly reflected a diversion of funds to other uses and partly stemmed from the slackening of demand. Commercial bank farm loans and loans for purchasing or carrying securities declined slightly on balance during 1957, while consumer loans increased by around 1.3 billion dollars—or the same as in 1956.

The change from net liquidation to net accumulation of investments by the banks during 1957 as a whole was partly a result of the fact that loan-deposit ratios had already pushed to relatively high levels in 1956. In the later months of 1957 the less insistent demand for loans and the moderation of credit restraint also reduced the need to sell investments in order to release reserves for loans. At the same time, the Treasury's net cash surplus was much smaller in 1957 than in 1956. With the market generally not receptive to longer term issues over much of the year, the Treasury had to issue increased amounts of shorter term securities in 1957, and consequently had to place relatively greater reliance on the commercial banks as initial underwriters and, to some extent, as ultimate holders of new issues. A further influence tending to curb securities sales by the banks,

particularly on the part of those banks that had run through their shorter maturities in earlier years and were left with only longer term issues, was the larger capital loss incurred on sales, as market yields rose. In the course of the year, commercial bank holdings of Treasury issues declined on balance by 300 million dollars, compared with liquidation of 3.0 billion in 1956 and 7.4 billion in 1955. Bank holdings of other securities meanwhile increased by 1.5 billion dollars, in contrast to a moderate decline in 1956. No doubt the remarkable rise in yields of corporate and municipal securities over the first ten months of the year (see Charts 12 and 13 on pages 34 and 36) played an important part in bringing about this change.

IMPLEMENTATION OF FEDERAL RESERVE POLICIES. As indicated earlier, System credit policies during most of 1957 were aimed primarily at the containment of inflationary forces. Through the greater part of the year member bank reserve positions were kept under a fairly steady degree of pressure, the money market maintained an even tone of over-all firmness, and changes in the money supply were confined within rather narrow limits. The increase in money turnover, which was symptomatic of the shrinking liquidity induced by sustained restraint since early 1955, also continued through most of 1957. Toward the end of the year, however, as business activity and credit demands slackened and inflationary pressures relaxed, monetary restraint was moderated.

Monetary policy was implemented primarily through the flexible use of both open market operations and adjustments in the discount rate. Open market operations were used actively through the year to adjust reserves to policy objectives, with frequent reliance upon repurchase agreements with Government securities dealers as a useful adjunct to outright transactions. Coordinated use of outright transactions and repurchase agreements successfully maintained a steady degree of tightness in the money market during the first ten months of 1957, while guarding at all times against the development of severe pressures that might have resulted in interference with the orderly functioning of the market. The effective rate for Federal funds thus remained at or close to the discount rate on almost every business day, and an atmosphere of restraint continuously pervaded the central money market during this period. Similarly, in the last two months of 1957, outright open market operations and repurchase agreements were used in combination to supply seasonal reserve needs and, simultaneously, to relax gradually the money market pressures that had been maintained through the year to that point.

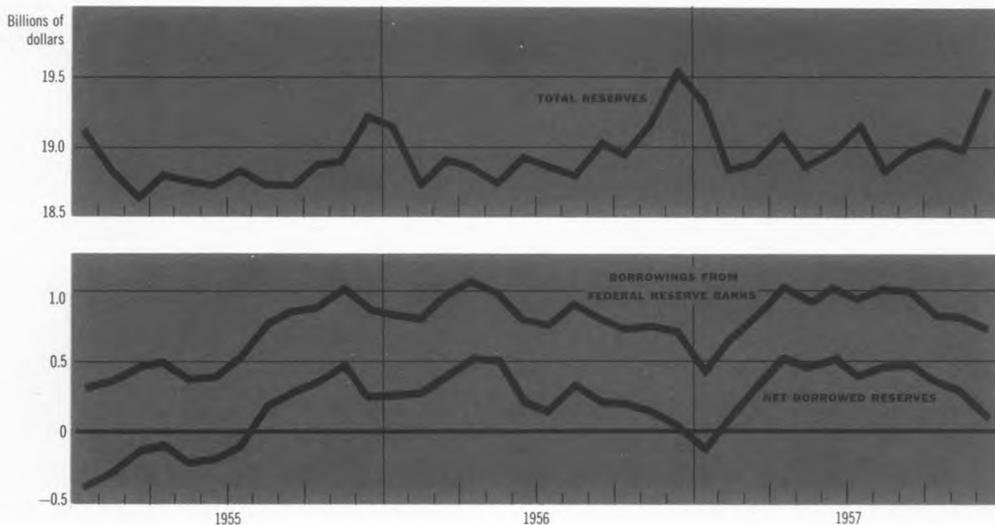
With bank reserves held in check by open market operations, many individual member banks found it necessary to turn to the "discount windows" of their Reserve Banks to supplement other means of providing for day-by-day unanticipated needs for reserve funds. On two occasions during the year, in August and in November, discount rates were changed at all Reserve Banks: they were raised from 3 to 3½ per cent during August, primarily as an adjustment to higher market interest rates, and lowered to 3 per cent in November as policy shifted to meet the change in business conditions.

The year began with a substantial but temporary easing in member bank reserve positions, primarily as the result of extraordinarily heavy return flows of currency from circulation, more-than-seasonal declines in required reserves, and an unexpectedly low level of Treasury balances at the Reserve Banks. The decline in currency in circulation was the most important of these elements during January, amounting to a record 1.4 billion dollars between December 26 and January 30. In an effort to offset this sharp increase in reserves, sales and redemptions of Treasury bills from the System Account, in addition to withdrawals of repurchase agreements, absorbed a total of 1.5 billion dollars of

CHART 7

RESERVE POSITIONS OF MEMBER BANKS

Monthly averages of daily figures



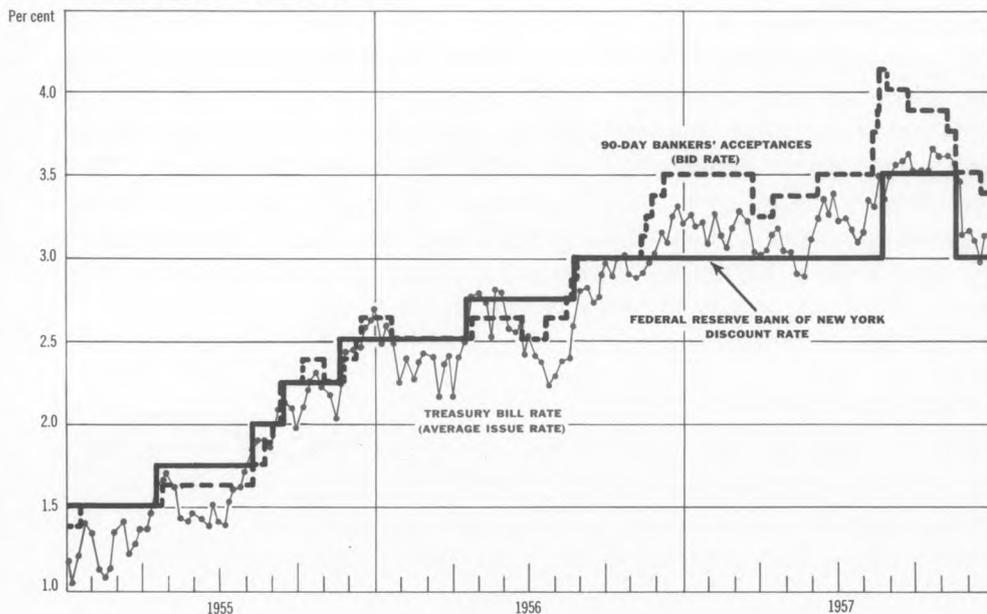
reserves over the five weeks ended January 30. Despite the record size of these open market operations, member banks held free reserves during most of January (see Chart 7).

Net System sales continued through February in order to offset reserve gains stemming from other sources, particularly float and Treasury operations. By early February, System Account holdings of Treasury bills had been reduced to a point where it became necessary to sell short-term certificates and notes for a brief period in order to absorb reserves. By the end of February weekly average net borrowed reserves had returned to about 200 million dollars and by mid-March to 400 million dollars. Short-term money market rates tended downward slightly during the early part of the year, with the average issuing rate on three-month Treasury bills falling from about $3\frac{1}{4}$ per cent early in January to about 3 per cent in March and to slightly below that in mid-May.

For the most part, weekly average net borrowed reserves held within a range of roughly 400-600 million dollars from mid-March through mid-October, although short-run influences resulted in temporary swings to as high as 700 million or as low as about 100 million. Member bank borrowings from the Reserve Banks fluctuated around the 1 billion dollar level during this same period, consisting throughout of a changing composition of borrowing banks—with administration of the “discount window” aimed as usual at avoiding continuous or excessive borrowing by any individual member bank.

The increase in the discount rate to $3\frac{1}{2}$ per cent in August followed an upward movement in short-term money rates during the preceding three months (see Chart 8). Treasury bill yields, for example, rose from slightly below 3 per cent in mid-May to about $3\frac{3}{8}$ per cent by late July, and the bid rate on 90-day bankers' acceptances rose from $3\frac{1}{4}$ per cent in April to $3\frac{1}{2}$ per cent during July. On August 6 and 7 the principal commercial banks in New York City and other money centers raised their lending rates to prime borrowers from 4 to $4\frac{1}{2}$ per cent, the first change in the prime rate since August 1956. Rates on bankers' acceptances and commercial paper also rose further on August 7—by $\frac{1}{4}$ per cent and $\frac{1}{8}$ per cent, respectively. On August 8 four Reserve Banks adjusted to the upward realignment in money market rates by announcing a $\frac{1}{2}$ per cent increase in their discount rates, and the other Reserve Banks followed suit during the ensuing two weeks; the Federal Reserve Bank of New York, recognizing that in existing circumstances it was impracticable to permit the continuation of a $\frac{1}{2}$ per cent differential between its discount rate and those of the other Reserve Banks, advanced its discount rate to $3\frac{1}{2}$ per cent on August 22. These changes

CHART 8
SELECTED MONEY MARKET RATES



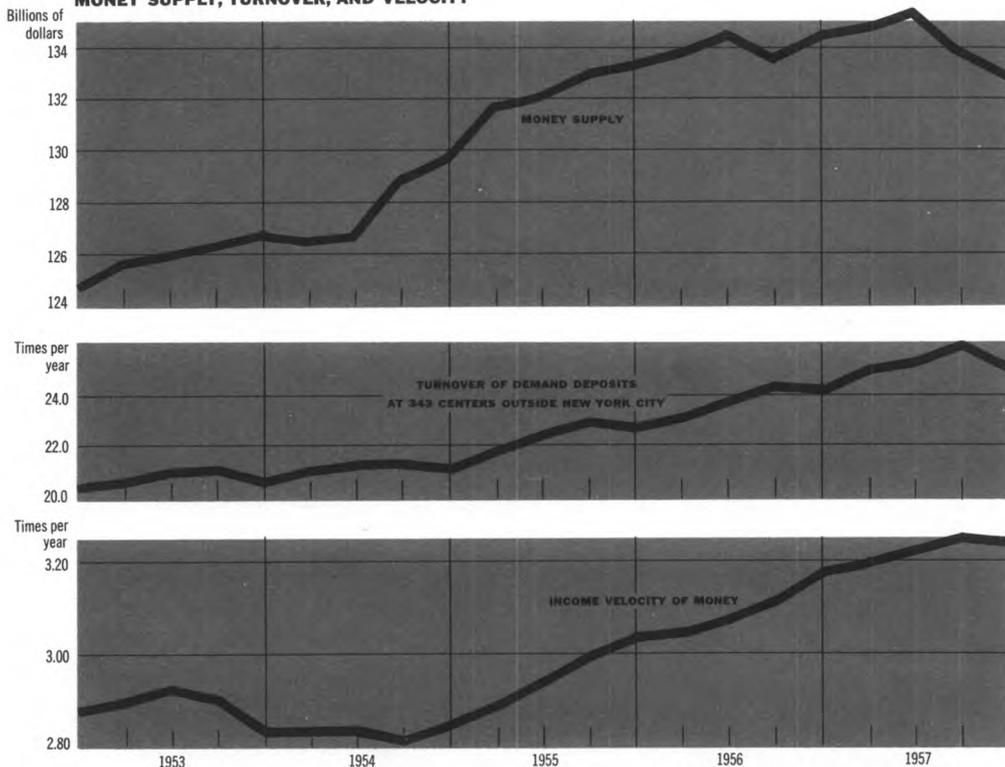
in discount rates, the first since August 1956, were primarily a technical and passive adjustment to higher market interest rates, thus contrasting with the somewhat more active role played by the series of rate changes that had been made in 1955 and 1956.

Credit policy shifted in the direction of a relaxation of credit restraint toward the end of October, with open market operations conducted in such a way as gradually to reduce the pressures on member bank reserve positions. And effective November 15 the Federal Reserve Banks of New York, Richmond, Atlanta, and St. Louis moved their discount rates back to the 3 per cent level in force before the rate increase in August. The eight other Reserve Banks made similar changes in their discount rates over the ensuing two and a half weeks. Average net borrowed reserves declined from almost 500 million dollars during the first half of October to about 25 million dollars in the last half of December, and member bank borrowing from the Reserve Banks fell from close to 1 billion dollars to about 750 million over the same period. System holdings of Government securities increased by just over 1 billion dollars between

October 23 and the end of December, including both outright purchases and acquisitions under repurchase agreements. The average issuing rate for regular Treasury bills declined to a low for 1957 of 2.752 per cent in the last auction of the year, held on December 30, after having reached a post-1933 high of 3.660 per cent on October 14.

Over the complete year, total member bank reserve balances declined by 100 million dollars as compared with a 300 million dollar rise during 1956. On a seasonally adjusted basis the money supply (demand deposits adjusted plus currency outside banks) decreased by 1.5 billion dollars or 1.1 per cent during the year, while in 1956 it had increased 1.2 billion dollars or slightly less than

CHART 9
MONEY SUPPLY, TURNOVER, AND VELOCITY



Note: Money supply is end-of-quarter data, seasonally adjusted. Turnover of demand deposits is quarterly average of seasonally adjusted monthly data at annual rates. Income velocity is equal to gross national product (annual rate for each quarter) divided by average money supply for that quarter, both seasonally adjusted. Data for the last quarter of 1957 are estimates.

1 per cent (see Chart 9). However, time and savings deposits at commercial banks increased by 5.3 billion dollars during 1957, more than twice as much as the 2.2 billion dollar increase in the previous year, evidently reflecting the higher interest rates on such deposits adopted by many commercial banks during 1957. On the other hand, time deposits at mutual savings banks increased somewhat less than in 1956, rising by 1.7 billion dollars in 1957 as compared with 1.9 billion the previous year.

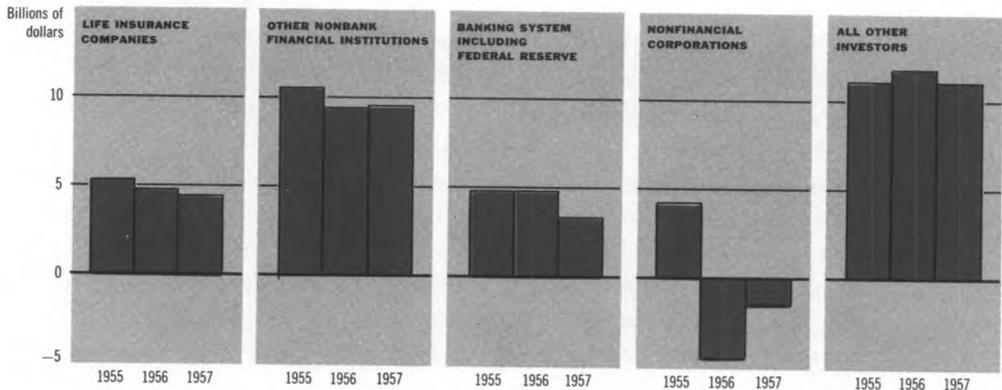
With the money supply held in check and demands for credit strong, interest rates rose during much of the year, as mentioned above, and cash balances were used more intensively. The income velocity of money—GNP divided by the money supply—increased from an annual rate of 3.17 in the fourth quarter of 1956 to 3.25 in the third quarter of 1957, before declining—for the first time since mid-1954—to 3.24 in the last quarter. The seasonally adjusted rate of demand deposit turnover in 343 reporting centers outside New York City also rose, from an annual rate of 24.2 times per year in the fourth quarter of 1956 to 25.9 in the third quarter of 1957, before falling to 25.0 in the final quarter of the year. Although the increases in income velocity and deposit turnover through the first three quarters of 1957 were measures of further tightening in the liquidity position of the nonbank public, signifying a lower ratio of cash assets to GNP and a further economizing on cash balances, other liquidity measures remained rather steady over this period. Time deposits in commercial and savings banks increased more than twice as fast as GNP between the end of December 1956 and the end of September 1957, while nonbank holdings of Treasury securities remained about unchanged; on balance, the ratio between nonbank liquid asset holdings (money, time deposits, and Governments) and GNP remained fairly stable through the first three quarters of 1957. In the fourth quarter, all measures indicated an increase in nonbank liquidity positions, as GNP declined proportionally more than nonbank holdings of money, while average holdings of time deposits and Government securities actually increased.

LOANABLE FUNDS IN ACTIVE DEMAND. In the nation's financial markets the dominant influence during most of 1957 was the insistent pressure of borrowers' demands for funds. With many borrowers and lenders in a tightened liquidity position, competition for the limited supply of loanable funds was intensified, as the volume of public offerings in the securities markets rose sharply and as direct loans from institutional lenders were sought with greater

urgency. Through the working of the market—in which most borrowers can approach alternative sources and most lenders are free to choose among alternative uses of their funds—the forces of demand and supply produced a substantial redirection of financial flows between 1956 and 1957. Proportionately more funds in 1957 were drawn into the securities markets, for lending to corporations and State and local governments, and proportionately less went into mortgage investments and bank loans to business firms. Total net private debt rose by 21 billion dollars in 1957, which was significantly below the increase in the previous year and less than half that of 1955.

Responding to the pull of demand, the cost of borrowed money in the fall of the year reached the highest levels since the thirties. As in 1956, the increased cost was a natural result, and the differences among rates a necessary condition, of the market's rationing process for distributing available funds among borrowers in a period when total borrowing demand exceeded the total supply of funds available from lenders at existing rates. The trend of borrowing costs was sharply reversed, however, near the close of 1957, as the business situation softened and the policy of credit restraint was moderated. By the end of 1957, market yields on high-grade bonds generally were lower than a year earlier. The

CHART 10
CHANGES IN HOLDINGS OF CAPITAL AND CREDIT INSTRUMENTS
BY TYPE OF INVESTOR



Note: Holdings include corporate, municipal, and Federal securities, mortgages, and bank loans. "Other nonbank financial institutions" comprise mutual savings banks; fire, marine, and casualty insurance companies; corporate pension funds and savings and loan associations. "All other investors" comprise State and local governments, Federal agencies, foreign investors, individuals, and others. Estimated by the Federal Reserve Bank of New York from various sources.

job of high and rising interest rates, as part of the free market process of spacing out the bunching of capital demand and thereby helping to avoid a sudden steep rise and later precipitate fall in capital spending, had for the time been completed.

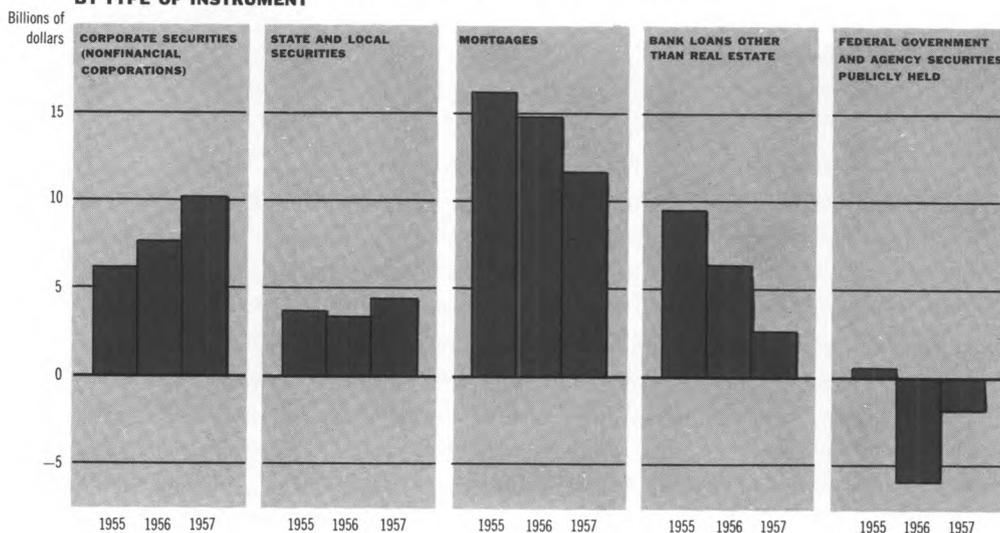
As shown in Chart 10, life insurance companies experienced a reduced rate of asset growth in 1957 for the second year in succession. The growth of funds (chiefly death benefits and dividends) left in the companies' custody has slackened in recent years; in addition, there has been a gradual shift away from forms of insurance which involve the accumulation of large cash reserves. Other nonbank financial institutions (including mutual savings banks) as a group acquired about the same volume of capital and credit instruments as in 1956. Among the latter institutions, the increase for mutual savings banks was smaller than in 1956, while savings and loan associations maintained their previous year's growth rate and nonlife insurance companies and corporate pension funds grew more rapidly in 1957. Nonfinancial corporations, which reduced their securities holdings (chiefly Governments) by almost 5 billion dollars in 1956, effected only a small additional liquidation in 1957. The banking system and the "other investor" group were somewhat less important as suppliers of capital and credit than in 1956.

The major developments on the demand side of the markets for loanable funds in 1957 are summarized in Chart 11. Nonfinancial corporations obtained about 10 billion dollars (net) through the sale of debt and equity instruments, about one-fourth more than in 1956 and a new record for any calendar year. This heavy volume of corporate securities flotations, which exerted a major influence on the trend of interest rates during the year, reflected in part the increase in plant and equipment outlays from 1956 to 1957. Another important factor, however, was the inability of corporations, because of low ratios of liquid assets to current liabilities, to continue raising needed funds through sales of Federal Government securities at the same high rate as in 1956. The stepped-up rate of corporate borrowing through securities offerings was accompanied by a sharp reduction in their net borrowing from banks in 1957, although the tightened liquidity position of corporations caused temporary resort to bank borrowing on a large scale in order to meet Federal income tax payments.

In addition to the increased corporate demand for funds in the capital market, there was a sharp rise in securities offerings by State and local governments. Such offerings, totaling 6.8 billion dollars (exclusive of refundings and Federal Government loans) in 1957, were practically as large as the record set in 1954 when

CHART 11

**CHANGES IN OUTSTANDING VOLUME OF CAPITAL AND CREDIT INSTRUMENTS
BY TYPE OF INSTRUMENT**



Note: Estimated by the Federal Reserve Bank of New York from various sources.

there was an exceptionally heavy concentration of toll-road financing. After retirements and other adjustments, the net increase in State and local securities outstanding in 1957 is estimated to have exceeded that in any previous year. Among the major purposes of State and local borrowing, school construction absorbed the bulk of the increase from 1956 to 1957.

The Federal Government, which had a calendar-year cash surplus of almost 2 billion dollars, retired publicly held debt over the year as a whole, but both the surplus and the amount of debt retired were less than in 1956. Approximately 20 billion dollars of direct Treasury obligations (other than the replacement of maturing bill issues) was sold for cash during 1957 and an additional 2 billion dollars was raised through the sale of agency issues. Even larger amounts of debt were repaid, however, so that, on balance, the Federal Government continued as a net supplier of funds in the market. Part of the proceeds

of agency issues, which are outside the debt ceiling, was used to redeem agency borrowing from the Treasury, thus helping the Treasury to meet its cash needs during the latter part of the year when the public debt rose almost to the statutory ceiling of 275 billion dollars.

Mortgage borrowers, while still comprising the largest group of claimants in the capital market, absorbed only about 12 billion dollars of loanable funds in 1957, as against almost 15 billion in 1956 and more than 16 billion in 1955. The slower growth of mortgage indebtedness in 1957 reflected some diversion of funds to other borrowers who were able to outbid mortgage borrowers in the capital market, partly because of interest rate restrictions on Federally underwritten mortgages and home buyers' sensitivity to more restrictive lending terms. The combination of higher borrowing costs, lessened credit availability, and possibly some easing in the demand for new housing contributed to a small decline in the value of residential building in 1957 as well as to reduced activity in the market for existing homes, although, as noted earlier, the rate of housing starts showed some improvement after the spring of the year.

Various Federal actions were taken, mostly during the second half of the year, to soften the impact of credit restraint on home building. The maximum allowable interest rate on mortgages insured by the Federal Housing Administration was raised from 5 per cent to 5¼ per cent, the minimum permissible down-payments on these mortgages were reduced, and standards relating to the minimum income requirements of home buyers were liberalized. On the other hand, mortgage discount controls introduced at the time of the increase in the FHA interest rate tended to have a deterrent effect on mortgage lending. Moreover, the maximum rate on mortgages guaranteed by the Veterans Administration remained unchanged at 4½ per cent, a rate which had not been competitively attractive for sometime.

Consumer credit increased by 2.9 billion dollars in 1957, which is a smaller rise than in 1956 and less than half the record increase of 6.4 billion dollars in 1955. The rise of somewhat less than 3 billion dollars in 1957 was confined largely to automobile credit and personal instalment loans. About 1.8 billion dollars of the 1957 increase in total consumer credit represented instalment and single-payment loans by banks to consumers. Most of the remainder reflected the lending operations of sales and consumer finance companies—which in turn borrowed both from banks and through securities flotations.

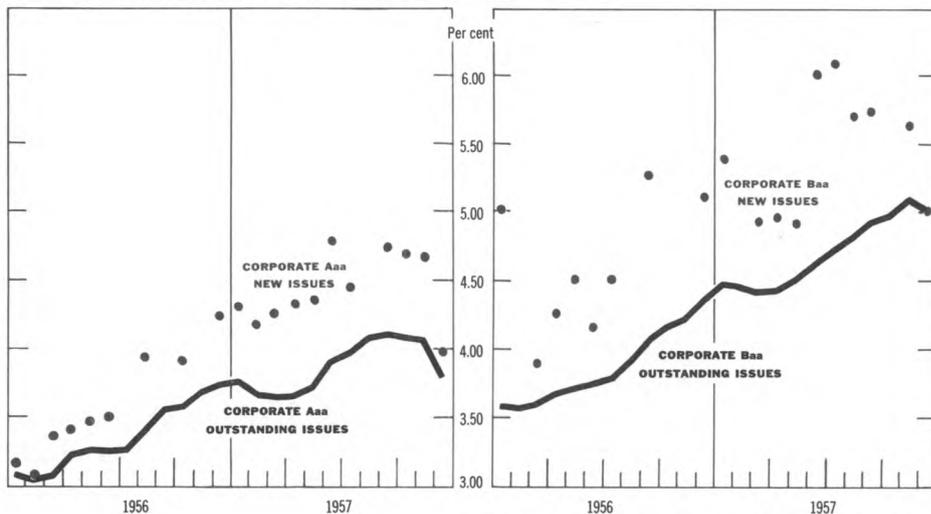
Customer stock market credit—measured by the sum of customers' net debit balances and securities loans by banks to borrowers other than brokers and

dealers—remained relatively steady until the second half of 1957 when it turned downward. The amount outstanding at the end of December was 3.6 billion dollars (exclusive of customer credit extended against Government securities), compared with 4.0 billion a year earlier and about 3.8 billion dollars in April 1955, when the last increase in stock market margin requirements—from 60 per cent to 70 per cent—occurred.

INTEREST RATES AND CAPITAL MARKET DEVELOPMENTS. Prices and yields in the securities markets experienced wide swings during 1957. Under the impact of the record volume of new issues, bond yields rose rapidly during the spring and summer months and then moved along a high plateau until mid-

CHART 12

YIELDS ON NEWLY ISSUED AND OUTSTANDING CORPORATE BONDS



Note: Yields on outstanding issues are monthly averages of daily figures. New issue yields are weighted averages of reoffering yields during each month in which Aaa and Baa issues were offered. Data are from Moody's Investors Service.

October. Following the reduction in Federal Reserve discount rates, bond prices rose dramatically as investors hastened to commit their funds before the high yields disappeared. In the stock market, prices in the second half of 1957 experienced the sharpest decline in many years, after establishing highs in July that were just under the peak levels of 1956.

Notwithstanding the great strains upon the underwriting community and the new issue market during much of the year, there were only brief intervals of congestion in the distribution of new securities issues, and none became seriously disturbing. Apart from paying higher interest rates, borrowers offered various other concessions to attract funds, such as added protection against early calls and potentially valuable stock conversion privileges and stock purchase warrants. Due to the active competition for long-term funds, yield differentials between new issues and comparable outstanding securities were considerably wider during most of 1957 than in 1956, particularly for higher grade issues (see Chart 12).

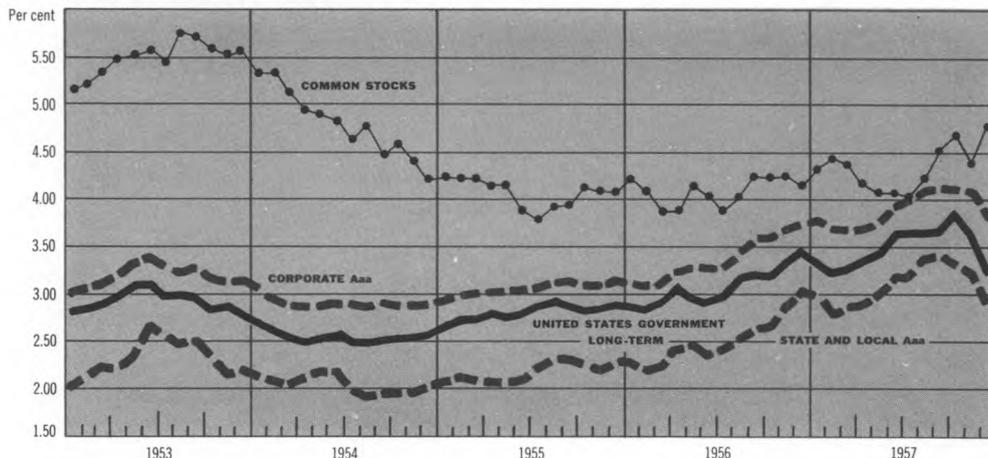
In the opening months of 1957 long-term interest rates turned downward, following the sharp advance in 1956 (see Chart 13). The strengthening of investor demand was particularly evident in the Government and municipal sectors of the market, and reflected a brief wave of uncertainty over the economic outlook, the usual January reinvestment demand supplemented this time by the proceeds of large Savings bond redemptions, a temporary easing of bank reserve positions, and an apparent market belief that this easing represented a deliberate relaxation of credit policy.

The first quarter of 1957, when 5.3 billion dollars of corporate and municipal securities were floated, was the busiest three months in the new issues market in many years. The bulk of the new securities was quickly absorbed into investors' portfolios, and not until the end of the quarter were there signs of an increasing backlog of undistributed issues. The appearance of such signs, however, together with a build-up of the calendar of scheduled offerings, caused some investors to postpone their purchases in anticipation of price concessions on undistributed bonds and more attractive yields on forthcoming issues. This change in investor psychology was influenced by a renewal of business optimism and a growing expectation of tighter market conditions.

Starting in April, long-term interest rates moved steadily higher, reaching a plateau near the end of the summer. Although there were occasional periods of moderate congestion in the market, they were of shorter duration than in 1956. The continued large volume of new offerings during the summer months, when there often is a lull in the new issues market, met with a good reception.

CHART 13

MARKET YIELDS ON BONDS AND COMMON STOCKS



Note: Monthly averages of daily or weekly figures. United States Government bond yields are "old series". Common stock yields are Moody's composite series on 200 common stocks. Data are from the Board of Governors of the Federal Reserve System and Moody's Investors Service.

Reports of declining production and sales after Labor Day, while contributing to a further weakening of prices in the stock market, were temporarily outweighed in their effect on bond yields by other factors such as the heavy volume of offerings and the continued evidence of monetary restraint. Yields on United States Government bonds generally moved along a plateau until mid-October. In the case of corporate bonds, the rising backlog of unsold issues generally helped to keep yields up through the first half of November, despite the downturn in business activity. The response of the markets to the reduction in discount rates was immediate and sharp: underwriters were able to sell out remaining securities in syndicate accounts overnight, in many instances after an appreciable price markup, and during the remainder of the year bond markets were characterized by considerable strength.

By the end of 1957, Moody's index of yields on outstanding high-grade State and local issues was about 2.84 per cent, as against the year's high of 3.45 per

cent in August and 3.05 per cent at the end of 1956. The downward adjustment in Government bond yields, while compressed within a shorter period, was comparably sharp; for example, the 3 per cent bonds of 1995 declined in yield from 3.63 per cent in October to 3.21 per cent at the end of December, while the 2½ per cent bonds of September 1967-72 declined in yield from 3.79 per cent to 3.08 per cent. Although market yields on corporate Aaa bonds followed a similar pattern after the discount rate change, lower grade corporate yields lingered close to peak levels for a few more weeks and ended the year only moderately below those levels.

After scoring a modest gain in the first half of 1957, the stock market declined under substantial selling pressure in the second half. The yield advantage of stocks over bonds, which had narrowed substantially during 1956, gradually turned in favor of even high-grade corporate bonds by the middle of 1957. The sharp sell-off after mid-July was influenced not only by this factor, however, but also by the disappointing trend of corporate profits, a shift toward a more conservative valuation of growth stocks, and a gradual deterioration of the near-term business outlook. At the year end, stock prices were about 20 per cent below their summer peak and at the lowest level since June 1955.

Balance of Payments of the United States

As indicated in earlier sections of this *Report*, a record export boom, accompanied by only a slight rise in imports, provided one of the stronger expansive forces in the economy until midsummer. But the unusually large foreign purchases of dollar goods, together with speculative capital flows, were also responsible for the fact that foreign countries for the first time since 1951-52 suffered losses of gold and dollar assets as a result of their transactions with this country.

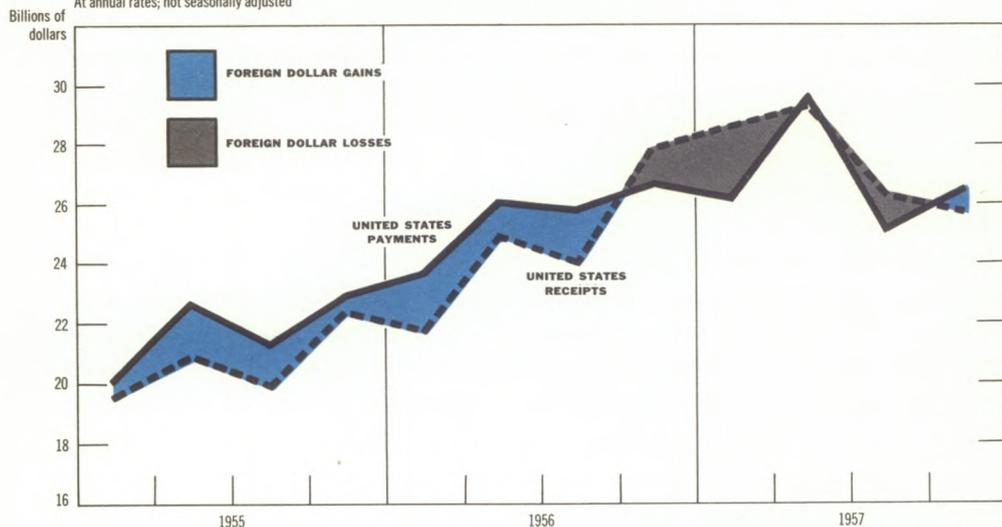
UNITED STATES RECEIPTS AT NEW PEAK. In 1957 United States receipts from exports (excluding military aid) and the inflow of foreign capital again

rose to a new high (see Chart 14). Merchandise exports set the pace with an advance to 19.3 billion dollars, 12 per cent above the previous record set in 1956. Receipts from services kept abreast, as both transportation earnings and income on investments rose. Merchandise exports were particularly large in the first half when the influence of the still vigorous expansion of the world economy was reinforced by exceptionally high wheat and cotton sales and by heavy petroleum shipments following the closure of the Suez Canal. During the second half, exports dropped back toward more sustainable levels as these special factors lost force, as the boom in Canada and in some other areas subsided, and as a number of countries were compelled to adopt various measures to halt serious reserve drains. For the year as a whole, buoyant export sales gave a significant fillip to production in a number of lines. Exports of coal, iron and steel mill products, and industrial machinery were among the chief beneficiaries of continued expansion abroad. Agricultural exports—not quite one fourth of total shipments—kept abreast of the general export rise, aided by special Government programs. Sales

CHART 14

UNITED STATES TRANSACTIONS WITH FOREIGN COUNTRIES

At annual rates; not seasonally adjusted



Note: United States payments are those on account of imports, investment abroad, and gifts. Receipts are those from exports, long-term foreign investment in the United States, and "errors and omissions". Data are from the United States Department of Commerce and exclude transactions with international institutions.

to Western Europe, the largest foreign market for United States products, expanded vigorously as did exports to Latin America and Asia. Shipments to Canada were about the same as in 1956.

Long-term foreign investment in business enterprise domiciled in this country was slightly below the 0.5 billion dollars recorded in 1956. More notable was the sharp rise in unspecified receipts reflected in the "errors and omissions" item in the balance of payments—a development believed to result principally from short-term capital inflows set off by international political and financial stresses. This speculative movement, which contributed substantially to the pressure on foreign gold and dollar reserves, showed signs of abating in the fourth quarter.

RECORD UNITED STATES PAYMENTS. United States payments for imports, investments, and foreign aid climbed to new heights for the fourth successive year. New investment abroad amounted to 3.9 billion dollars and exceeded even the 1956 showing as a result of the very large flow in the first half of 1957. Private direct investment, responsible for half of the total, was up sharply especially in Latin America as a result of the leasing of new oil concessions in Venezuela by United States firms. Canadian flotations in the New York capital market were substantial until midsummer. Capital outflows through other forms of private long-term investment—bank lending and the purchase of outstanding foreign securities—were maintained near the previous year's moderate rate. Short-term credit continued to rise with the growth of trade, but at a somewhat slower rate than in 1956. United States Government lending was markedly higher than in 1956, chiefly because of greater activity under official programs for disposing of surplus agricultural commodities and Britain's drawing against its Export-Import Bank loan.

Merchandise imports were only slightly higher than in 1956. The dollar intake of foodstuffs, one fourth of total imports, was off slightly with the volume of coffee and cocoa imports dropping. The value of crude material and semi-manufactured imports, almost half of the total, remained steady; the further rise in petroleum and iron ore imports was offset by a decline in the inflow of rubber, sawmill products, and nonferrous metals as prices eased and uncertainties over the business outlook everywhere increased. However, foreign finished manufactures, chiefly from Europe, continued to enjoy growing United States markets, with steel products, automobiles, and industrial machinery recording substantial

increases. Service payments to foreigners continued to rise slowly, while military expenditures abroad and Government foreign-aid outlays were also up a little.

TRENDS IN FOREIGN GOLD AND DOLLAR ASSETS. As a result of their transactions with the United States, foreign countries (excluding international institutions) lost about 600 million dollars in gold and dollar assets, in sharp contrast to gains of 1-2 billion dollars annually in previous years. These losses were accompanied by heavy drafts on the International Monetary Fund, amounting to some 900 million dollars. Chiefly as a consequence of such borrowing and of gold sales to the United States Treasury in the amount of 170 million dollars, foreign countries as a whole were able to add several hundred million dollars to their holdings of short-term dollar assets and United States Government bonds and notes. Foreign countries maintained their position as an important factor in the Treasury securities market, holding about 4 billion dollars of short-term securities at the year's end. Total foreign deposits also remained near the year-previous level; holdings of bankers' acceptances were up sharply, however, reflecting in part the larger supply arising from the increased popularity of acceptances in the financing of foreign and domestic trade.

ACTIVITY IN THE NEW YORK FOREIGN EXCHANGE MARKET. Sterling and the Canadian dollar continued to be the focal point of foreign exchange market activity in 1957. American-account sterling opened the year at \$2.78 $\frac{3}{4}$ but advanced to \$2.80 $\frac{1}{8}$ following the appointment of Prime Minister Macmillan in January. Partly reflecting uncertainties over Middle East conditions and the threat of labor troubles, the rate declined to around \$2.78 $\frac{5}{8}$ in March. Although by May the quotation had recovered to \$2.79 $\frac{1}{2}$, seasonal pressures, Middle East tensions, and rumors of a revaluation of European currencies after midyear pushed the rate down to \$2.78 $\frac{1}{4}$ in August, at which level it was held by extensive official support. The increase in the British bank rate on September 19 contributed to a subsequent recovery which, aided by the waning of seasonal demands for dollars in London, by short covering, and by increased commercial demand for sterling, raised the quotation to \$2.81 $\frac{1}{16}$ by the year end.

Reflecting the strong pressure against sterling, the discounts on three and six months' deliveries widened from $1\frac{1}{16}$ and $1\frac{7}{16}$ cents, respectively, in March to $4\frac{1}{4}$ and $6\frac{3}{16}$ cents in September, the widest spreads since 1951; these subse-

quently narrowed. The rate for transferable sterling advanced almost steadily from \$2.7505 in January to a high of \$2.7925 in December.

The Canadian dollar rate rose under the influence of strong American and European investment demand from $\$1.03\frac{1}{16}$ in January to an all-time high of $\$1.06\frac{1}{64}$ in August. Thereafter, a withdrawal of European investment funds, together with a decrease in the demand for Canadian dollars caused by the decline in new offerings of Canadian securities in the United States, depressed the rate to a low of $\$1.01\frac{7}{16}$, and at the close of the year the rate stood at $\$1.01\frac{2}{32}$.

On August 12, the French franc rate in the New York market shifted from $\$0.0028\frac{3}{16}$ (about 350 francs = U. S. \$1) to $\$0.0023\frac{7}{8}$ (about 420 francs = U. S. \$1) following a revision of the French foreign exchange structure. The German "capital" mark rose sharply during August to \$0.2456 on strong investment demand after having been quoted below the "official" rate of \$0.2380 for the first seven months of 1957. As demand tapered off and rumors of revaluation were denied officially, the rate eased to close the year at \$0.2375.

Foreign Economic and Financial Developments

Most countries of the free world experienced another year of prosperity in 1957. Although in the industrial countries the rate of growth slackened somewhat, the underlying vitality and resiliency of their economies were generally maintained. Output also expanded in the primary-producing countries, and development of resources proceeded at a high rate. However, in both industrial and primary-producing countries demand continued for most of the year to outpace resources, thus generating pressures on prices and balances of payments. Among countries that encountered particularly severe strains were France, Japan, and Brazil. Great Britain sustained heavy reserve losses during the third quarter, despite a surplus in current payments throughout the year; these losses resulted from speculative outflows of funds, which in turn reflected market fears of continuing price and wage inflation in Britain as well as doubts about the maintenance of the existing European exchange rate structure. To curb inflationary pressures, many countries reinforced monetary and other restraints, and toward the year end the

upward trend in prices was slowed or even reversed and payments positions showed some improvement.

DIVERGENT TRENDS AMIDST CONTINUING PROSPERITY. In Western Europe, the rise in investment in plant and equipment, which had been the main prop of the boom since 1953, continued generally into 1957. Later in the year, however, some moderate declines in business spending occurred, which were only partially offset by further increases in consumer outlays. As the year passed, industrial production in many countries expanded less rapidly; in some, output actually declined somewhat. Prices rose without exception in all Western Europe through mid-1957, in most countries at an annual rate of over 3 per cent and in Britain at close to 5 per cent; in the latter part of the year, the price advances subsided almost everywhere but continued in France.

In Canada, private investment, which had been the most active factor in economic expansion, began to slacken in mid-1957. Industrial production, in fact, reached its peak as early as February, and by the year end had dropped by over 5 per cent. Wholesale prices, which had risen noticeably between mid-1955 and the end of 1956, leveled off during the first half of 1957 and began to fall in the third quarter. In Japan, output continued to increase rapidly throughout the first seven months of the year, largely in response to sustained investment, but receded somewhat thereafter.

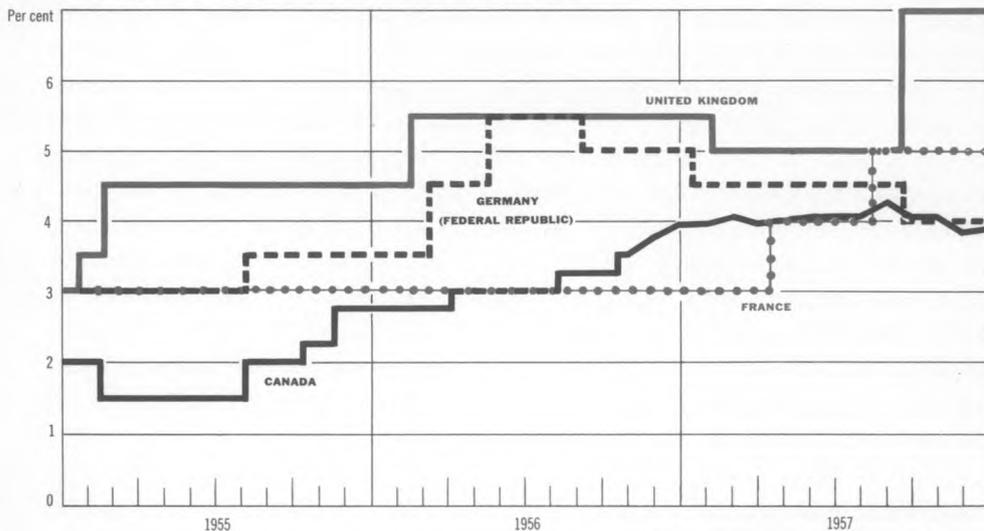
The output of primary commodities also increased in 1957, in part because of newly developed sources of supply. As production tended to exceed world demand, commodity prices weakened; this in turn adversely affected both the export earnings and the fiscal positions of most primary-producing countries. Since many of these continued to rely heavily on bank credit to finance their economic development outlays, inflationary pressures persisted and balance-of-payments difficulties were further aggravated. However, certain countries in Latin America, including Bolivia, Chile, and Colombia, made notable efforts to stabilize their economies. In India, external payments difficulties led the authorities to reduce deficit spending under the Second Five-Year Plan.

CONTINUED MONETARY RESTRAINT. To curb inflationary pressures and to ease their external payments difficulties, many foreign countries in 1957 reinforced the policies of monetary and credit restraint to which they had turned in

1955-56. The most vivid signs of such world-wide restraint were the numerous discount rate increases (see Chart 15). Discount rates were raised in eight European countries—twice in France and the Netherlands, and once in Belgium, Ireland, Spain, Sweden, Switzerland, and the United Kingdom. In the latter country, the rate, at 7 per cent, reached the highest level since 1921; in Switzerland, the increase was the first change since 1936. Differential or progressive discount rate structures were tightened in several countries, including Finland, France, Japan, Chile, and Cuba. In Germany, it is true, the discount rate was reduced twice last year, but this action largely reflected very special circumstances, as noted below. The Bank of Canada continued its policy, adopted in November 1956, of letting its discount rate fluctuate with—but $\frac{1}{4}$ per cent above—the average weekly Treasury bill tender rate. Both rates generally rose until August and declined thereafter.

Other monetary policy instruments were also frequently called into play. Substantial open market sales were conducted in Germany. Commercial bank

CHART 15
DISCOUNT RATES OF SELECTED FOREIGN CENTRAL BANKS



Note: Beginning November 1, 1956, the Canadian discount rate has been set each Thursday at $\frac{1}{4}$ per cent above the week's average tender rate for Treasury bills; the rate shown is as of the last Thursday of each month.

reserve requirements were tightened, as in Germany, Colombia, and Peru, and raised or lowered, according to circumstances, as in the Netherlands and New Zealand. These general or quantitative restraints were supplemented in a number of countries by over-all credit ceilings, "directives" to financial institutions, and selective controls over particular credit sectors. Consumer credit restrictions were thus imposed or tightened in Belgium, France, and Norway, and prior-deposit requirements on imports were applied or increased in a number of countries, notably in Latin America.

Policies of monetary restraint were associated in most countries with efforts to stimulate the flow of savings by allowing higher rates on various forms of savings deposits and savings-type bonds or by introducing special incentives. In some important countries, moreover, the governments increasingly supported monetary restraint by cutbacks in public expenditures and increases in taxation. Finally, the greater reliance on monetary policy led the authorities in some countries, notably in Belgium, to broaden existing money market arrangements.

The continued application of monetary restraint, in the context of increased demands for loan funds, led in many foreign countries to a marked rise in interest rates, at times to record levels. In Western Europe, particularly large increases in short-term yields on government securities took place in the Netherlands and the United Kingdom; in the latter country, some long-term rates reached the highest levels since the early twenties. With the substantial rise in the cost of credit in a number of countries and the reduction in credit availability, loans to business and consumers tended to level off or even to fall, as in the United Kingdom. In some countries, this shift in the trend of bank loans was a major factor retarding the rise in the money supply. As investment and consumption spending declined, the growth in demand was kept more closely in line with physical capabilities, and the drain on international reserves in several countries was halted or even reversed.

Credit restraint, which in many countries was pursued more vigorously in 1957 than at any other time since the war, thus appeared to have contributed significantly to the restoration of a workable internal and external balance over the year. Monetary policy alone could not, of course, carry the entire burden of economic adjustment. As the year drew to a close, however, fiscal and wage restraints in some of the principal trading nations seemed to have been better coordinated with monetary policy than heretofore. If these severe restraints proved generally acceptable, it was because of the increasing realization of the dangers of unrestricted expansion in aggregate demand. At the same time, how-

ever, there was continuing awareness that when a further increase in demand for goods could again be safely allowed, monetary policy would be used to support and encourage such an expansion.

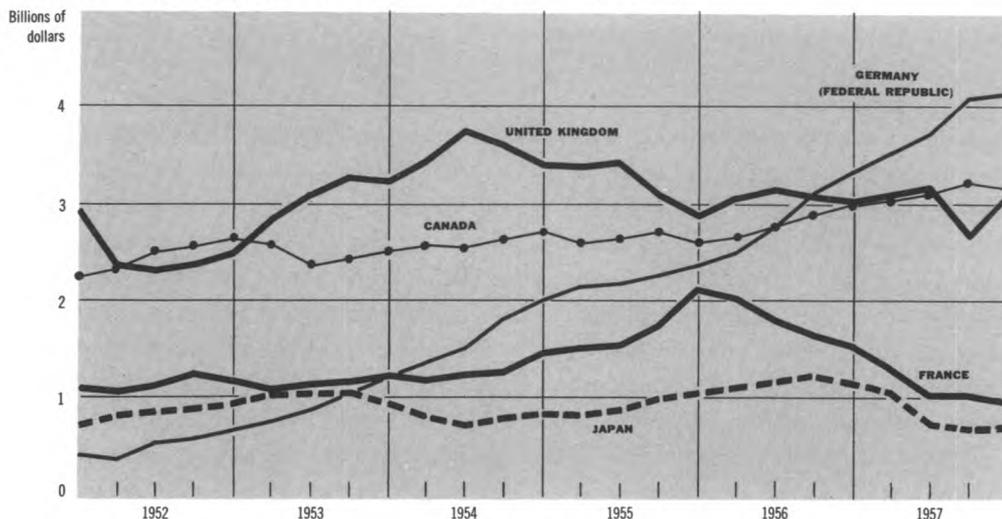
TRENDS IN INTERNATIONAL PAYMENTS AND RESERVES. The strains in the balances of payments of many countries that had reappeared in late 1955 and in 1956 continued through most of 1957, reaching a climax in Western Europe during the summer. As a result, foreign countries had greater recourse to the International Monetary Fund during 1957 than in any previous year, drawing about 900 million dollars net. These drawings made possible an increase of about 700 million dollars in total foreign gold and dollar holdings, despite the reserve losses to the United States noted previously. During the preceding three years, such increases had averaged 2 billion dollars.

The gold and dollar position of individual countries was, of course, affected not only by transfers of reserves to the United States but also by such transfers among themselves. In Western Europe, Germany's gold and dollar holdings rose by 770 million dollars (see Chart 16), partly because of the country's continued trade surplus and partly because of a speculative inflow of funds. This inflow, which was particularly marked during the summer, largely reflected expectations that the value of the German mark would be raised in terms of other European currencies. From October on, however, the German payments surplus declined, mainly as a result of an abatement of the speculative inflow. Austria and Italy also had sizable gold and dollar gains during the year. On the other hand, several Western European countries that were in deficit on both current and capital account lost reserves. France lost particularly large amounts, its payments difficulties being a compound of excessive internal demand, the direct and indirect foreign exchange cost of the Algerian campaign, and a speculative outflow of capital. At the turn of the year, however, France's external position showed signs of improvement.

Unlike most other countries that lost reserves, the United Kingdom continued to have an international current-account surplus, globally as well as with the United States. Moreover, the current-account deficit of the overseas sterling countries with the United States was more than offset by receipts of dollars on capital account. The overseas sterling countries ran sizable trade deficits with nonsterling countries, but the major factor behind the severe reserve losses sustained by the United Kingdom during the third quarter of 1957 was the

CHART 16

GOLD AND DOLLAR HOLDINGS OF SELECTED FOREIGN COUNTRIES



Note: Holdings include official gold reserves and official and private dollar holdings (primarily bank deposits, United States Government securities, and bankers' acceptances). For France, the gold holdings of the Exchange Stabilization Fund are not included. End-of-quarter data are used throughout.

speculative outflow of funds from sterling into dollars and, to an even larger extent, into German marks, as noted earlier. Following the rise in the Bank of England's discount rate in September and other measures indicating Britain's determination to defend the pound, sterling strengthened considerably and Britain recovered some of the reserves lost earlier. These reserve losses and the more recent gains have again underscored the major impact that short-term capital movements can have on an international currency like sterling.

Canada's gold and United States dollar holdings rose moderately. The state of the Canadian balance of payments vis-a-vis the United States is, however, reflected not only in gold and dollar reserves but also in the fluctuations in the United States-Canadian dollar exchange rate; the latter, after rising to over U. S. \$1.06 in August, gradually fell to less than \$1.02 at the year end as the inflow into Canada of capital from the United States was greatly reduced during the second half of the year. In Latin America, Venezuela added greatly to its gold and dollar holdings, but most other countries (particularly Argentina and Brazil)

sustained losses. Many Asian countries, notably Japan and the Philippines, also lost dollar reserves.

In view of their balance-of-payments difficulties, a few countries retreated last year from their earlier level of foreign trade and payments liberalization; thus, France and India tightened direct controls over trade, and Belgium, the Netherlands, and the United Kingdom their controls over capital movements. On the other hand, some countries, notably Germany, Italy, and Sweden, further relaxed their controls. Six Continental Western European nations ratified the Common Market Treaty, providing for the progressive elimination of all tariffs among the participants and the establishment of a common tariff toward other countries, while the United Kingdom and other countries in Western Europe continued to consider a limited form of association with the "common market" countries.

From time to time during 1957, concern was expressed abroad over the re-emergence of a "dollar gap". Yet United States outpayments, in fact, were larger in 1957 than in any previous year. While a number of countries suffered serious balance-of-payments difficulties, these difficulties arose in their over-all external position, and not with the United States alone. This suggests maladjustments linked largely to internal inflationary pressures, which gave rise to heavy import demand and undermined confidence in national currencies. By the close of 1957, however, many countries had made determined efforts to bridle inflation and were approaching a more balanced external position.

Volume and Trend of the Bank's Operations

DOMESTIC OPERATIONS. The volume of operations in most departments of the Bank showed some increase in 1957 over the previous year, reflecting generally higher levels of business activity, higher prices, and a more extensive use of available funds.

During 1957 this Bank processed 534 million bank checks amounting to 389 billion dollars. This represented an increase of 3.6 per cent in dollar volume, which fell short, however, of the increase of 11.9 per cent in 1956. Thus, for the year as a whole, the rate of growth in the dollar volume of bank check collection slowed down appreciably; moreover, in the final quarter of the year the

expansion came to at least a temporary halt as business activity slackened.

In spite of the larger volume of bank checks processed, the average level of float at this Bank in 1957 was slightly lower than in 1956, and the monthly fluctuations in the amount of float outstanding were somewhat smaller. These reductions were made possible, in part, by increased employment, more overtime work, and greater productivity in the Check Department.

Contrary to the continuous upward trend in bank check collection figures, the dollar volume and the number of United States Government checks handled declined by 11 and 7 per cent, respectively, during 1957. This was largely because, as a result of a change in procedure, Government checks which were formerly drawn payable through this Bank and were sent to it for collection by the other Federal Reserve Banks were made payable through the Treasury in Washington and are now sent directly to it by the Reserve Banks.

The dollar volume of wire and mail transfers made through the facilities of this Bank, other than Treasury transfers and Reserve Bank interdistrict settlements, rose more rapidly in 1957 than in 1956 and totaled 471 billion for the year. This total was nearly twice as large as it was as recently as 1952. The 1957 figure reflected an increase of 13 per cent over 1956, compared with a 9 per cent rise from 1955 to 1956. The number of transfers of funds in 1957 was also substantially higher than in 1956. The increase in the volume of transfers apparently reflected a more intensive use of the nation's money supply and of the Federal funds market. Due to improved equipment and changes in procedures, the Wire Transfer Division was able to handle the increased volume with only a negligible expansion in operating costs.

The more extensive use of available funds appears also to be reflected in the volume of currency counted. The dollar amount of currency received and counted at this Bank increased by 2.8 per cent in 1957 and 5.4 per cent in 1956. In contrast, the average level of currency circulating outside banks for the country as a whole rose by only 1.3 per cent in 1957, and 1.4 per cent in 1956. The volume of currency shipments received by this Bank from banks in the District has increased steadily throughout the postwar period. The 8 billion dollars of currency received and counted in 1957 was, for example, approximately 40 per cent higher than the comparable amount ten years earlier.

In contrast to the upward trend in currency shipments, the volume of coin received at this Bank has remained relatively stable over the past decade. The volume of gold handled by this Bank in 1957 was 2.7 billion dollars, compared with 2.2 billion in 1956 and 968 million in 1955.

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

Number of pieces handled *	1957	1956
Discounts and advances	3,106	3,453
Currency received and counted	1,255,818,000	1,207,083,000
Coin received	1,772,812,000	1,731,964,000
Gold bars and bags of gold coin handled	198,000	142,000
Checks handled:		
United States Government checks	60,349,000	65,048,000
All other	534,285,000	510,638,000 ^r
Postal money orders handled	48,290,000	50,715,000
Collection items handled:		
United States Government coupons paid	3,889,000	3,956,000
Credits for direct sendings of collection items	396,000	382,000
All other	10,584,000	9,203,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	30,724,000	29,585,000
All other United States obligations	5,077,000	3,887,000
Obligations of the International Bank for Reconstruction and Development	212,000	61,000
Safekeeping of securities:		
Pieces received and delivered	7,091,000	4,740,000
Coupons detached	2,583,000	2,429,000
Transfers of funds [†]	467,000	422,000
Amounts handled		
Discounts and advances	\$ 29,410,688,000	\$ 25,345,725,000
Currency received and counted	8,045,632,000	7,822,909,000
Coin received	219,900,000	212,400,000
Gold bars and bags of gold coin handled	2,725,867,000	2,172,311,000
Checks handled:		
United States Government checks	18,443,732,000	20,746,793,000
All other	389,354,518,000	375,848,239,000 ^r
Postal money orders handled	802,303,000	835,182,000
Collection items handled:		
United States Government coupons paid	1,685,790,000	1,306,052,000
Credits for direct sendings of collection items	805,408,000	852,262,000
All other	2,009,581,000	1,606,846,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	3,059,125,000	2,625,051,000
All other United States obligations	396,504,969,000	343,051,230,000
Obligations of the International Bank for Reconstruction and Development	291,821,000	195,485,000
Safekeeping of securities:		
Par value pieces received and delivered	574,124,044,000	473,527,789,000
Transfers of funds [†]	471,063,822,000	415,149,394,000

* 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.

^r Revised.

A substantial expansion in the Treasury's refunding and financing operations, as well as the high level of activity in the Government securities market during 1957, influenced the volume of the Bank's fiscal agency operations. Issues, redemptions, and exchanges of United States Savings bonds during 1957 amounted to 3.1 billion dollars, 16.5 per cent more than during 1956. The comparable increase in 1956 was only 4.3 per cent. The dollar volume of all other Government securities processed by this Bank in 1957 was 397 billion dollars representing 5 million pieces, and the yearly rise in the dollar volume in 1957 was 15.6 per cent as compared with 1.5 per cent in 1956. The number and the dollar amount of securities received and delivered in conjunction with safekeeping operations rose sharply, by 50 and 21 per cent, respectively. The volume of coupons detached and entered for collection—the by-product of the safekeeping of securities—rose 6.3 per cent in number and 55.6 per cent in dollar volume in 1957.

The tight credit conditions which prevailed during most of the year caused the total volume of advances to member banks to increase from 25.3 billion dollars in 1956 to 29.4 billion in 1957. However, the number of advances was reduced by 10 per cent, from 3,453 in 1956 to 3,106 in 1957. Also, the number of banks accommodated by advances in 1957 was slightly lower than that in 1956.

Over the year as a whole, a substantially increased volume of work was carried out by a slightly larger number of employees. The average number of employees on the staff was 2.6 per cent more than in 1956, while the rate of turnover was below that in 1956.

FOREIGN AND INTERNATIONAL OPERATIONS. Gold and dollar assets held for foreign account by this Bank on behalf of all Federal Reserve Banks remained during the year close to the peak of nearly 10 billion dollars reached in December 1956, after four years of virtually uninterrupted rise. At the end of 1957 they stood at 9,926 million dollars, compared with 9,961 million at the end of 1956. Of the total, 5,488 million was in the form of earmarked gold, 3,729 million was represented by United States Government securities, 356 million by deposits, and 353 million by miscellaneous securities, including bankers' acceptances. Earmarked gold declined 156 million dollars and Government securities 127 million, while miscellaneous securities rose 214 million and deposits 34 million. Gold and dollar assets held for "international account", i.e., the International Bank, International Finance Corporation, and International

Monetary Fund, which are not included above, registered a relatively substantial net decline of 670 million as was to be expected from the heavy drawings by foreign countries on the IMF's resources in 1957.

During the year there developed a slightly larger demand for loans on gold. Arrangements were in effect for five borrowers at various periods during the year. They amounted to 61.5 million dollars but advances made under these arrangements, in which all Federal Reserve Banks participated, did not exceed 41.5 million, and at the year end only one loan, in the amount of 5.0 million, was outstanding. Loans on gold, and commitments for such loans, are made to foreign monetary authorities to assist them in meeting seasonal and other dollar shortages of a temporary nature.

General accounts were opened for the three recently organized central banks of Nepal, Surinam, and Israel, and for the central banks of Haiti and Curaçao, both of which had heretofore maintained gold custody accounts. The account of De Surinaamsche Bank, which formerly had performed the duties of a central bank for Surinam, was closed.

The Bank continued to certify rates of exchange of foreign currencies for use by the Bureau of Customs in the assessment and collection of duties on imports.

As fiscal agent, it continued the administration of the blocking regulations affecting both assets held in the United States by Communist China and North Korea and their nationals, and transactions with those countries, and of regulations affecting assets of the Government of Egypt and the Suez Canal Company. A total of 3,758 applications was filed pursuant to both regulations.

Financial Statements

STATEMENT OF CONDITION. At the end of 1957 the Bank had total assets of 13.6 billion dollars, of which 5.9 billion consisted of cash or gold certificates and 6.5 billion of Government securities. The Bank's principal liabilities were 6.5 billion of Federal Reserve notes and 6.0 billion of deposits.

STATEMENT OF CONDITION

(In thousands of dollars)

Assets	DEC. 31, 1987	DEC. 31, 1986
Gold certificates	5,522,298	5,402,485
Redemption fund for Federal Reserve notes	182,497	198,738
Federal Reserve notes of other Banks	95,948	53,311
Other cash	66,423	61,629
Total cash	5,867,166	5,716,163
Discounts and advances	4,695	8,550
Acceptances	65,689	68,763
United States Government securities	6,451,005	6,498,803
Total loans and securities	6,521,389	6,576,116
Other assets:		
Due from foreign banks*	4	6
Uncollected items	1,173,568	1,039,318
Bank premises	10,664	9,397
All other	55,343	62,064
Total other assets	1,239,579	1,110,785
Total Assets	13,628,134	13,403,064

*After deducting participation of other Federal Reserve Banks amounting to

11

16

STATEMENT OF CONDITION

(In thousands of dollars)

Liabilities	DEC. 31, 1957	DEC. 31, 1956
Federal Reserve notes	6,500,863	6,414,299
Deposits:		
Member bank — reserve accounts	5,716,993	5,540,767
United States Treasurer — general account	68,735	56,548
Foreign*	111,163	110,925
Other	150,962	269,748
Total deposits	6,047,853	5,977,988
Other liabilities:		
Deferred availability cash items	717,765	672,671
All other	5,368	6,060
Total other liabilities	723,133	678,731
Total Liabilities	13,271,849	13,071,018
Capital Accounts		
Capital paid in	102,215	93,991
Surplus (Section 7)	223,963	208,002
Surplus (Section 13b)	7,319	7,319
Other capital accounts	22,788	22,734
Total Capital Accounts	356,285	332,046
Total Liabilities and Capital Accounts	13,628,134	13,403,064
Contingent liability on acceptances purchased for foreign correspondents†	21,398	14,498
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	45.5%	45.2%
* After deducting participation of other Federal Reserve Banks amounting to	245,179	211,344
† After deducting participation of other Federal Reserve Banks amounting to	54,716	35,557

For the year as a whole, total assets rose by 1.7 per cent, or 225 million. The increase in assets was approximately equally distributed between cash holdings and uncollected cash items; loans and investments declined moderately. Among cash holdings the largest increase was in total holdings of gold certificates, which at the end of 1957 were 104 million dollars higher than a year earlier. For the System as a whole gold certificate holdings rose 815 million dollars, but this Bank's share of the increase was substantially less than proportionate due to the net unfavorable balance of this Bank in the Interdistrict Settlement Fund. In 1956 there had been a net inflow of funds to the Second District from other parts of the country, but this flow was reversed in 1957. The 134 million dollar increase in uncollected cash items was largely attributable to the steadily growing dollar volume of checks processed by this Bank.

The total Government securities holdings of this Bank declined by only 48 million dollars, as a 214 million dollar increase in the amount of securities held by the Bank under repurchase agreements largely offset its share of an 891 million reduction in the System Account's outright holdings. Bankers' acceptances held by the Bank decreased about 3 million dollars over the year.

Discounts and advances (including foreign loans on gold) outstanding declined by 3.9 million dollars to a level of 4.7 million on December 31, 1957, the lowest year-end figure since 1951. This decline did not, however, indicate a less extensive member bank use of Reserve Bank borrowing facilities during 1957. On the contrary, the dollar volume of such borrowing was, as already noted, larger during 1957 than 1956.

Total liabilities of this Bank increased by 201 million dollars during 1957. This increment was divided among Federal Reserve notes (87 million), deposits (70 million), and deferred availability cash items (45 million). Federal Reserve notes of this Bank outstanding rose by 87 million dollars to 6,501 million on December 31, a new high for a year end. The expansion of this Bank's outstanding notes contrasted with a decline of 27 million in the total notes outstanding of the other eleven Federal Reserve Banks and reflected a continued net exportation of the notes of this Bank to other Districts. Total capital accounts increased 7.3 per cent, or 24 million dollars, to 356 million dollars.

EARNINGS AND EXPENSES. Total current earnings of this Bank in 1957 rose 42 million dollars, or 28 per cent, to an all-time high of 194 million dollars. Almost all of the increase was accounted for by a rise in the amount of interest

**STATEMENT OF EARNINGS AND EXPENSES FOR
THE CALENDAR YEARS 1957 AND 1956** (In thousands of dollars)

	1957	1956
Total current earnings	194,070	151,769
Net expenses	26,667	24,544
	<hr/>	<hr/>
Current net earnings	167,403	127,225
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	41	65
Reimbursement for Fiscal Agency expenses incurred in prior years	129	0
All other	44	14
	<hr/>	<hr/>
Total additions	214	79
Deductions from current net earnings:		
Retirement System (adjustment for revised benefits)	2,115	0
Reserves for contingencies	55	56
All other	0	3
	<hr/>	<hr/>
Total deductions	2,170	59
Net additions or deductions (—)	—1,956	20
	<hr/> <hr/>	<hr/> <hr/>
Net earnings before payments to United States Treasury	165,447	127,245
Paid United States Treasury (interest on Federal Reserve notes)	143,648	109,580
Dividends paid	5,838	5,490
Transferred to surplus (Section 7)	15,961	12,175
SURPLUS ACCOUNT (Section 7):		
Surplus—beginning of year	208,002	195,827
Transferred from net earnings for year	15,961	12,175
	<hr/> <hr/>	<hr/> <hr/>
Surplus - end of year	223,963	208,002

earned on this Bank's share of the Government obligations held by the System Open Market Account. However, earnings on discounts and advances rose by 1.1 million dollars, and on Government securities held under repurchase agreements by 1.2 million dollars.

Net expenses of this Bank increased by 2.1 million dollars, or 8.6 per cent. Nearly all expense items showed some advance over the previous year's figures but the major portion of the over-all expense increase represented higher salary and wage payments (\$1,026,000) and a higher assessment for the expenses of the Board of Governors (\$586,000). Earnings were further reduced by the payment of 2.1 million dollars to the Retirement System of the Federal Reserve Banks to cover accrued liabilities resulting from the retroactive provisions of a more liberal retirement program which was adopted during the year.

Net earnings, after all adjustments, amounted to 165 million dollars. Of this total nearly 6 million dollars was paid to member banks as the statutory 6 per cent dividend payment. Ninety per cent of the remainder, or 144 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 10 per cent, or 16 million, was added to the Bank's surplus account.

Changes in Membership

During 1957 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 587 to 560. The net decrease of 27 banks was the result of 29 mergers of member banks and the organization and admission to membership of one new national bank and one new State bank. The 560 banks constitute 86 per cent of all national banks and State banks 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)

Type of Bank	DECEMBER 31, 1957			DECEMBER 31, 1956		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	386	0	100	405	0	100
State banks and trust companies	174	90	66	182	94	66
Total	560	90	86	587	94	86

**CHANGES IN FEDERAL RESERVE MEMBERSHIP IN
SECOND DISTRICT DURING 1957**

Total membership at the beginning of the year	587
Increases:	
State bank admitted	1
National bank admitted	1
Decreases:	
Member banks combined with other members	23
Member banks combined with nonmembers	6
Total membership at the year end	560

Changes in Directors and Officers

CHANGES IN DIRECTORS. In May 1957, member banks in Group 3 elected Augustus C. Long, Chairman of the Board of Directors of The Texas Company, New York, N. Y., a Class B director of this Bank to hold office for the then unexpired term ending December 31, 1957. Mr. Long succeeded John E. Bierwirth, President of the National Distillers and Chemical Corporation, New

York, N. Y., who had resigned as a Class B director to accept appointment as a Class C director and designation as *Chairman* of the Board of Directors and *Federal Reserve Agent*. In November, Mr. Long was re-elected a Class B director by member banks in Group 3 for a three-year term beginning January 1, 1958.

Also in November 1957, member banks in Group 3 elected Cyrus M. Higley, President and Trust Officer of The Chenango County National Bank and Trust Company of Norwich, Norwich, N. Y., a Class A director for a term of three years beginning January 1, 1958. Mr. Higley succeeds Ferd. I. Collins, President and Trust Officer of the Bound Brook Trust Company, Bound Brook, N. J., whose term expired December 31, 1957.

In December 1957, the Board of Governors of the Federal Reserve System redesignated Mr. Bierwirth as *Chairman* of the Board of Directors and *Federal Reserve Agent*, for the year 1958. At the same time, Forrest F. Hill, Vice President of the Ford Foundation, New York, N. Y., was reappointed by the Board of Governors as a Class C director for a three-year term beginning January 1, 1958. Dr. Hill was also reappointed *Deputy Chairman* for the year 1958.

At the Buffalo Branch of the Federal Reserve Bank of New York, in December 1957, Ralph F. Peo, Chairman and President of Houdaille Industries, Inc., Buffalo, 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 1958. At the same time, the Board of Directors of this Bank appointed E. Perry Spink, President of the Liberty Bank of Buffalo, Buffalo, N. Y., a director of the Buffalo Branch for a three-year term beginning January 1, 1958. Mr. Spink succeeds Charles H. Diefendorf, Chairman of the Executive Committee of The Marine Trust Company of Western New York, Buffalo, N. Y., whose term expired December 31, 1957. Also in December 1957, the Board of Governors of the Federal Reserve System appointed Daniel M. Dalrymple, fruit grower, Pomona Fruit Farms, Appleton, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1958. Mr. Dalrymple succeeds Clayton G. White, dairy farmer of Stow, N. Y., whose second successive term expired December 31, 1957.

CHANGES IN OFFICERS. Thomas O. Waage, Secretary, returned to the Bank on April 1, 1957, after a four-month leave of absence to serve as Staff Director to the New York State Joint Legislative Committee to Revise the Banking Law.

On January 16, 1958, Mr. Waage was appointed Assistant Vice President and assigned to the Cash function.

Arthur Phelan, Vice President assigned to Loans and Credits, and Government Bond and Safekeeping of Securities, retired August 31, 1957, upon reaching retirement age. Mr. Phelan had completed thirty-seven years of service with the Bank and had been an officer since 1932.

Harold A. Bilby, Vice President formerly assigned to Personnel, was assigned to Loans and Credits, and Government Bond and Safekeeping of Securities, effective August 1, 1957.

Walter H. Rozell, Jr., formerly Assistant Vice President, was appointed Vice President, effective August 1, 1957, continuing in the Personnel function.

Everett B. Post, formerly Chief of the Personnel Relations Division, Personnel Department, was appointed Manager and assigned to the Personnel Department, effective August 1, 1957.

Charles A. Coombs, formerly Manager of the Research Department, was appointed Assistant Vice President and assigned to Research and Statistical, effective January 1, 1958.

Frederick L. Smedley, formerly Manager of the Personnel Department, was appointed Assistant Vice President and assigned to the Personnel function, effective January 1, 1958.

Paul R. Fitchen, Assistant Vice President, resigned from the Bank, effective January 14, 1958. Mr. Fitchen, who had been with the Bank since 1934 and an officer since 1945, became associated with The New York Clearing House Association, on January 15, 1958, as Executive Vice President.

William H. Braun, Jr., formerly Assistant Counsel and Assistant Secretary, was appointed Secretary, effective January 16, 1958, continuing as Assistant Counsel.

Carl H. Madden was appointed Assistant Secretary, effective January 16, 1958. Mr. Madden continues as Manager of the Public Information Department.

William A. Heintz, formerly Manager of the Savings Bond Department, was assigned Manager of the Security Custody Department, effective January 16, 1958.

Kenneth E. Small, formerly Manager of the Security Custody Department, was assigned Manager of the Savings Bond Department, effective January 16, 1958.

Robert W. Stone, formerly Chief of the Personnel Relations Division, Personnel Department, was appointed Manager and assigned to the Securities Department, effective January 16, 1958.

MEMBER OF FEDERAL ADVISORY COUNCIL—1958. The Board of Directors of this Bank selected Adrian M. Massie to serve during 1958, for a third 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	<i>Term expires Dec. 31</i>	<i>Class</i>	<i>Group</i>
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, City Trust Company, Bridgeport, Connecticut	1959	A	2
CYRUS M. HIGLEY President and Trust Officer, The Chenango County National Bank and Trust Company of Norwich, Norwich, N. Y.	1960	A	3
CLARENCE FRANCIS Director, General Foods Corporation, New York, N. Y.	1958	B	1
LANSING P. SHIELD President, The Grand Union Company, East Paterson, N. J.	1959	B	2
AUGUSTUS C. LONG Chairman, Board of Directors, The Texas Company, New York, N. Y.	1960	B	3
JOHN E. BIERWIRTH, <i>Chairman, and Federal Reserve Agent</i> President, National Distillers and Chemical Corporation, New York, N. Y.	1959	C	
FORREST F. HILL, <i>Deputy Chairman</i> Vice President, The Ford Foundation, New York, N. Y.	1960	C	
FRANZ SCHNEIDER Consultant, Newmont Mining Corporation, New York, N. Y.	1958	C	

DIRECTORS — BUFFALO BRANCH

RALPH F. PEO, <i>Chairman</i> Chairman and President, Houdaille Industries, Inc., Buffalo, N. Y.	1958		
LELAND B. BRYAN President, First National Bank and Trust Company of Corning, Corning, 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		
DANIEL M. DALRYMPLE Fruit grower, Pomona Fruit Farms, Appleton, N. Y.	1960		
E. PERRY SPINK President, Liberty Bank of Buffalo, Buffalo, N. Y.	1960		

MEMBER OF FEDERAL ADVISORY COUNCIL — 1958

ADRIAN M. MASSIE Chairman of the Board, The New York Trust Company, New York, N. Y.	1958		
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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*

HAROLD V. ROELSE, *Vice President and
Economic Adviser*

ROBERT V. ROOSA, *Vice President*

ROBERT G. ROUSE, *Vice President*

WALTER H. ROZELL, JR., *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*

CHARLES A. COOMBS, *Assistant Vice President*

HOWARD D. CROSSE, *Assistant Vice President*

FELIX T. DAVIS, *Assistant Vice President*

NORMAN P. DAVIS, *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*

HORACE L. SANFORD, *Assistant Vice President*

FREDERICK L. SMEDLEY, *Assistant Vice President*

THOMAS O. WAAGE, *Assistant Vice President*

ARTHUR I. BLOOMFIELD,
Senior Economist

WILLIAM H. BRAUN, JR.,
Secretary, and Assistant Counsel

HARDING COWAN,
Assistant Counsel

TILFORD C. GAINES,
Manager, Securities Department

GEORGE GARVY,
Senior Economist

CLIFTON R. GORDON,
Assistant Counsel

EDWARD G. GUY,
Assistant Counsel

WILLIAM A. HEINL,
Manager, Security Custody Department

JOHN P. JENSEN,
Manager, Accounting Department

PETER P. LANG,
Manager, Foreign Department

CARL H. MADDEN,
*Manager, Public Information Department,
and Assistant Secretary*

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

EVERETT B. POST,
Manager, Personnel Department

CHARLES R. PRICHER,
Manager, Collection Department

THOMAS J. ROCHE,
Foreign Exchange Officer

WALTER S. RUSHMORE,
Manager, Cash Custody Department

KENNETH E. SMALL,
Manager, Savings Bond Department

GEORGE C. SMITH,
Manager, Check Department

ROBERT W. STONE,
Manager, Securities Department

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

