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MONEY MARKET IN APRIL

The money market remained tight in April, with member bank reserve positions heavily dependent upon borrowings from the Federal Reserve over the three weeks ended April 17. Although member bank borrowings declined in the final week covered by this *Review,* the rate on Federal funds remained at the 3 per cent level that had prevailed throughout the month. Over the month as a whole, prices of most Government securities were lower; in general, the longer the maturity the greater the decline. Treasury bill rates were about the same at the end of the month as at the beginning (although rates had generally risen until after the April 15 tax date), while prices of the 3 per cent bonds of 1995 were off more than 2½ points. These and other developments in member bank reserve positions, in the Government securities market, in other securities markets, and in the extension of member bank credit are described more fully below.

MEMBER BANK RESERVE POSITIONS

The tighter reserve positions during the four weeks ended April 24 were primarily attributable to the combined impact of a sharp advance in required reserves, a substantial outflow of currency before Easter, and a rise in Treasury balances at the Reserve Banks. The reserve drain was partially offset by an increase in Federal Reserve holdings of Government securities. System outright purchases of Treasury bills were confined to the week ended April 17, but funds were also supplied from time to time through the acquisition of short-term Treasury obligations under repurchase agreements. Holdings of Government securities under such contracts reached a daily average peak of 222 million dollars in the week ended April 10, but by the end of the period the outstanding balance had been reduced to zero.

In the first statement week of the month, the reserve pressure was heavily concentrated in the Chicago District, while banks in some other parts of the country actually acquired reserves on balance. This unevenness grew out of the April 1 tax on personal property in Cook County. In preparation for this assessment, member banks in the Chicago District borrowed heavily from the Reserve Bank while acquiring short-term securities to be sold to depositors who wished to switch into United States Government securities not subject to the local tax assessment. Thus, some funds flowed out of the area as payment was made for these securities, and returned to the District after the tax date, when the securities were liquidated or matured.

This vast interregional flow of reserves tended for a time to obscure the underlying tightening of reserve positions in the banking system as a whole. However, while available reserves were being shifted among regions, they were also being reduced in amount, particularly as the result of the large increase in required reserves at the end of March. This rise in required reserves stemmed almost entirely from the payment on March 28 for 3.3 billion dollars of newly issued Treasury 3½ per cent notes and 3⅜ per cent certificates. Commercial banks, which were permitted to credit Tax and Loan Accounts for their own as well as their customers' subscriptions, were allotted the major share of the new notes and certificates, with the result that required reserves of member banks were almost 350 million dollars higher on April 3 than a week earlier. The reserves absorbed in this fashion around the turn of the month were only partially restored to the banking system during the remainder of the month.

Similarly, the absorption of reserves as the result of larger Treasury balances at the Reserve Banks also de-

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veloped early in the period. The expansion in Treasury deposits represented a restoration to more normal working levels, following sharp reductions in mid-March as a result of quarterly interest payments and redemption of various maturing Treasury securities. The subsequent influx of personal income tax payments in April created no special problems in the management of Treasury balances. Unlike the corporate returns filed in March, these payments are made with a large number of checks of relatively small dollar amounts, thus requiring a longer time for processing at Internal Revenue offices. As a result, the transfer of funds into Treasury accounts at Reserve Banks proceeded very gradually from the end of March to April 22 and, on several occasions, was more than offset by expenditures apparently associated with defense activities. In fact, a number of special "calls" were made on Class C depositary banks during the month to prevent Treasury balances at the Reserve Banks from being drawn down again.

The expansion of currency in circulation, which began late in March, continued through the middle of April, with a heavy return flow beginning after Easter. The outflow of currency prior to the holiday was somewhat more pronounced than usual, perhaps associated with the fairly brisk pace of retail sales reported for the period, and this factor served, on balance, as a drain on reserves over the four weeks ended April 24.

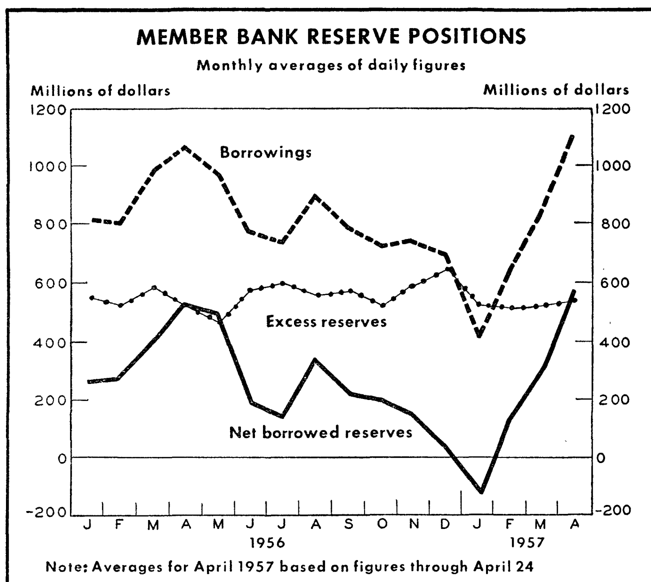
The advance in float in the middle of the period was surprisingly moderate, despite the curtailed operation of the postal service just at the time of the largest mail volume of income tax checks. Part of the explanation may lie in the fact that Post Office departments at several Federal Reserve Banks remained open on Saturday, April 13, when regular mail deliveries were suspended. In addition, some commercial banks were reported to have transmitted a fairly substantial volume of checks by special

Table I
Changes in Factors Tending to Increase or Decrease Member Bank Reserves, April 1957
(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	Apr. 3	Apr. 10	Apr. 17	Apr. 24	
Operating transactions					
Treasury operations*	− 157	+ 127	− 84	+ 42	− 72
Federal Reserve float	− 90	+ 4	+ 86	+517	+ 517
Currency in circulation	− 86	− 67	− 26	+ 71	− 108
Gold and foreign account	+ 41	− 45	+ 2	− 42	− 44
Other deposits, etc	− 137	− 29	+ 7	−153	− 312
Total	− 428	− 11	− 15	+436	− 18
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	− 11	—	+ 106	+ 23	+ 118
Held under repurchase agreements	+ 106	+ 73	− 86	− 68	+ 25
Loans, discounts, and advances:					
Member bank borrowings	+ 230	+ 156	+ 14	−297	+ 103
Other	—	—	—	—	—
Bankers' acceptances:					
Bought outright	—	+ 2	—	—	+ 2
Under repurchase agreements	—	+ 1	—	− 1	—
Total	+ 325	+ 231	+ 34	−342	+ 248
Total reserves	− 103	+ 220	+ 19	+ 94	+ 230
Effect of change in required reserves†	− 149	− 15	− 18	− 74	− 256
Excess reserves†	− 252	+ 205	+ 1	+ 20	− 26
Daily average level of member bank:					
Borrowings from Reserve Banks	1,049	1,205	1,219	922	1,099‡
Excess reserves†	342	547	548	568	501‡

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for four weeks ended April 24.

delivery service, which continued uninterrupted. In the last statement week of the month, however, a large expansion of float supplied reserves to the banking system. Railway Express strikes in several major cities interfered with normal check deliveries, with the result that float expanded in a period when it would normally have contracted substantially. This enabled the member banks to reduce their borrowings from the Reserve Banks to the lowest level since the end of March, and net borrowed reserves declined from 671 million dollars to 354 million.



Note: Averages for April 1957 based on figures through April 24

Government Securities Market

During this same period there was a further decline in prices throughout the list of Government bonds and notes. Prices declined over much of the period in response to current and prospective large demands for capital funds, expectations regarding Treasury debt management decisions to be made in the near future, and continued restrictive credit policies.

Attention was focused increasingly on the prospective refunding of 4.2 billion dollars of 1⅝ per cent Treasury notes due to mature May 15. In the prevailing atmosphere, the market apparently felt that a further rise in Treasury issuing rates might be necessary to encourage a successful exchange, which served to make prices on outstanding issues somewhat vulnerable. Market opinion also appeared to be influenced by the possibility that a new long-term marketable Treasury bond might soon be

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issued in exchange for the 1.8 billion dollars of Series F and G Savings bonds due to mature over the balance of 1957. The Treasury announced on April 9 that no action would be taken on this matter during April, but the apparent likelihood of an exchange offering in the near future continued to create uncertainties in the long-term market. In addition, the passage of legislation by Congress enabled the Treasury to announce on April 20 that the interest rate on Series E and H Savings bonds purchased on or after February 1 would be increased to 3¼ per cent from 3 per cent.

Although prices rallied somewhat toward the end of the month, most issues maturing between 1959 and 1972 fell by ¼ of a point to 1¾ points over the month as a whole. The 3¼'s of 1978-83 and the 3's of 1995 fell somewhat further, being more closely competitive with the possible long-term Treasury offering currently being discussed as well as with new corporate and municipal obligations being issued at higher yields.

Treasury bill yields advanced early in April under the influence of selling by Chicago banks and investors after the April 1 Cook County tax date. This had little effect on the longer maturities, however, which came under pressure only as a sizable volume of selling was begun by commercial banks adjusting to the more stringent reserve conditions and as corporate demand tapered off. After the middle of the month, rates drifted down again as nonbank and foreign demand expanded and as some volume of longer term money was diverted to the bill market pending clarification of the rate outlook in the bond markets. In illustration of the increased demand—which was perhaps stimulated in part by higher rate levels—the total tender for new bills in the weekly auction on April 15 was the largest in postwar history. Average issue rates moved up during the month, from 3.050 per cent in the auction on April 1 to 3.154 per cent on April 8, and then to 3.194 per cent on April 15. Thereafter, the average yield fell back to 3.054 per cent on April 22 and 3.039 per cent on April 29.

In the wake of higher bill yields early in the month, and an increased supply of acceptances, bankers' acceptance dealers increased their rates on April 11 by ⅛ per cent for acceptances of all maturities. Quotations on 90-day acceptances, for example, moved up to 3⅜ per cent bid and 3¼ per cent offered.

Other Securities Markets

An increasingly heavy tone developed in the corporate and particularly in the municipal bond market in April. Only moderate changes were registered in average price quotations for seasoned issues, but a fair amount of trading was reported to have taken place at substantially higher yields, and the distribution of new issues to investors slowed down markedly.

Pressure was greatest in the municipal bond market. The total volume of new public offerings was estimated at 710 million dollars, about 70 per cent greater than in March. In addition, as in the Government market, further uncertainty was generated by the prospective Treasury refunding operations. Most new highway revenue issues met with a poor reception, although it was reportedly technical considerations rather than market conditions that led to the postponement of one major turnpike issue during the month. As the month progressed, the municipal market approached a point of congestion, and dealer-advertised inventories rose to the highest point in almost a year. However, this situation improved in the last week of the month, and new municipal bond issues encountered a good reception at the higher yield levels.

In the corporate market, the buoyant tone introduced late in March by the initial response to a 250 million dollar issue of utility bonds carried over into the early part of April. By the middle of the month, however, the market had weakened and the new utility bonds were trading below the issue price. The volume of new offerings—250 million—was smaller than in the several preceding months, but the adverse influences present in other markets also had a depressing effect in this area.

Table II
Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks
(In millions of dollars)

Item	Statement weeks ended				Change from Dec. 26, 1956 to Apr. 17, 1957
	Mar. 27	Apr. 3	Apr. 10	Apr. 17	
Assets					
Loans and investments:					
Loans:					
Commercial and industrial loans	− 137	− 106	+ 55	+ 165	+ 278
Agricultural loans	+ 1	− 15	− 1	+ 6	− 44
Security loans	− 154	+ 288	− 115	+ 61	− 366
Real estate loans	− 6	− 49	− 1	+ 9	− 153
All other loans (largely consumer)	+ 10	− 1	+ 6	+ 122	− 66
Total loans adjusted*	− 284	+ 113	− 56	+ 363	− 526
Investments:					
U.S. Government securities:					
Treasury bills	− 446	− 74	− 131	+ 34	− 790
Other	− 380	+1,545	− 199	− 81	+ 394
Total	− 826	+1,471	− 330	− 47	− 396
Other securities	− 33	+ 65	+ 63	+ 22	+ 265
Total investments	− 859	+1,536	− 267	− 25	− 131
Total loans and investments adjusted*	−1,143	+1,649	− 323	+ 338	− 657
Loans to banks	+ 53	− 379	+ 1	+ 75	− 159
Loans adjusted* and "other" securities	− 317	+ 178	+ 7	+ 385	− 261
Liabilities					
Demand deposits adjusted	− 232	− 354	+ 470	+1,000	−1,626
Time deposits except Government	+ 47	+ 90	+ 15	− 75	+1,011
U. S. Government deposits	− 759	+1,643	−1,186	− 468	− 89
Interbank demand deposits:					
Domestic	− 138	+ 402	− 128	+ 265	− 543
Foreign	− 76	− 1	+ 32	+ 33	− 147

* Exclusive of loans to banks and after deduction of valuation reserves; figures for the individual loan classifications are shown gross and may not, therefore, add to the totals shown.

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Member Bank Credit

Total loans and investments of the weekly reporting member banks expanded 521 million dollars over the four-week period ended April 17, as loans rose 136 million dollars and investment holdings increased 385 million dollars.

The loan increase was concentrated in the "all other loans" category and mainly represented the purchase of consumer instalment paper by Chicago banks in the week ended April 17. Security loans also increased during the period, primarily as the result of a 288 million dollar expansion in the week ended April 3. For the most part this rise reflected increased broker and dealer borrowings associated with a large public utility bond issue and with the recent flotation of Treasury certificates and notes, paid for on March 28.

Business loans at the weekly reporting banks, on the other hand, declined 23 million dollars over the four weeks, as a decline of 243 million during the first two weeks more than offset a 220 million dollar rise in the two subsequent weeks. Bank loans extended to metals and metal products firms and to wholesale and retail trade concerns increased over the period, but loans to most other borrower categories declined. For the year thus far, business loans at the weekly reporting banks have increased 278 million dollars; in the first sixteen weeks of 1956—the comparable period a year ago—business loans increased 1.1 billion dollars. (The difference is even more marked if loans to sales finance companies are deducted from total business loans; business loans less loans to sales finance companies have increased only 16 million dollars thus far in 1957, while they expanded 1.5 billion dollars in the comparable period in 1956.)

Total investment holdings rose 385 million dollars during the four weeks ended April 17, with the delivery of the new 3⅜ per cent certificates and the 3½ per cent notes on March 28 more than offsetting the reduction of bank holdings largely associated with the maturity and redemption of tax anticipation obligations in mid-March. During the year thus far total investments of the weekly reporting member banks have declined 131 million dollars, compared with a 2.4 billion dollar decline in the similar weeks last year. Taken together, loans and investments at these banks declined 657 million dollars in the first sixteen weeks of 1957, compared with a 1.2 billion dollar decline in the comparable period in 1956.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

United Kingdom. The sharp fall in short-term interest rates, which began in December but had been interrupted in March, was resumed last month. The average Treasury bill tender rate, which rose to 4.15 per cent at the first tender of the month, thereafter declined sharply, falling to 3.91 per cent on April 26; the rate had not been below 4 per cent in any previous month since July 1955 (see chart on page 60). The tender issue has been reduced some 700 million pounds during the first four months of this year, while the demand for Treasury bills, especially on the part of industrial and other nondiscount-market buyers, has been strong. The sharp decline in the Treasury bill rate in April widened the gap between the yields on short and on long-term government securities; the yield of 2½ per cent Consols rose slightly above the March levels and on April 30 stood at 4.70 per cent, about ¾ percentage point above the Treasury bill rate.

In his annual budget message (the main features of which are summarized elsewhere in this *Review*) the Chancellor of the Exchequer stated that the policy of monetary restraint had been "by no means ineffective in checking inflation . . . in spite of rising costs and heavy demands, the banks succeeded both in keeping the total volume of bank credit in check and in distributing it in accordance with national needs". The Chancellor made it clear that no relaxation in the policy of monetary restraint was warranted, and noted that the banks had recently "renewed their assurance that they would continue to maintain their restrictive attitude toward advances". The only new measure of credit restriction announced in the budget message was that the Capital Issues Committee would again be required to pass on the appropriateness of the use of bank advances to finance capital expenditure. The Chancellor also revealed that it had been decided, after consultation with the Bank of England, to establish a committee to make a thorough inquiry "into the working of the monetary and credit system and to make recommendations".

France. The Bank of France announced on April 11 a 1 per cent increase in its discount rate to 4 per cent; the rate had been unchanged since December 1954. The raising of the discount rate was accompanied by changes in several other Bank of France lending rates: (a) the rate for advances against securities was increased to 6 per cent from 4½; (b) the penalty rate for discounts in excess of an individual bank's discount ceiling up to 110 per cent of the ceiling was increased to 6 per cent from 5; (c) discounts in excess of 110 per cent of the ceiling are to be made at penalty rates above 6 per cent, to be established at the discretion of the governor of the Bank of France. However, the 3 per cent rate was retained for export-paper discounts, for thirty-day advances against short-term government paper, and for purchases of Treasury bills maturing within three months. At the same time, the National Credit Council directed the banks to increase their rates

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on advances to 7 per cent from 6; it also tightened consumer credit regulations by raising the minimum down-payment on instalment sales and reducing the maximum repayment period.

The rapid expansion of economic activity in France over the past two years—industrial production rose about 10 per cent in both 1955 and 1956—has been accompanied by mounting inflationary pressures. A major factor in the rise in demand last year was the increase of nearly 15 per cent in investment; in the monetary sphere, total credits to private borrowers rose 22 per cent in 1956. The economy has also been under special strain as the result of the increase in the budgetary deficit, the diversion of productive resources to the Algerian campaign, and large wage increases. The pressure of excessive demand in France has been most clearly manifest in the 5 per cent increase in wholesale prices last year, following nearly three years of relative price stability, and a 23 per cent increase in imports. The trade deficit soared to 1.2 billion dollars' equivalent in 1956 and, despite some improvement in exports, the import surplus during the first quarter of 1957 averaged higher than at any time in 1956. This deterioration in the balance of payments has caused a fall of nearly 1 billion dollars in France's international reserves over the past fifteen months; to ease the pressure on the reserves, the French Government has adopted additional measures to discourage imports and has obtained assistance from the International Monetary Fund. Domestically, the government has announced its intention of reducing the budget deficit by cutting expenditures and raising taxes.

West Germany. The German central bank tightened its credit policy as of May 1 by lowering the rediscount quotas of the banks 15 per cent and raising their minimum reserve requirements 1 per cent; in addition, it announced that henceforth the total of the banks' borrowings abroad would be deducted from their rediscount ceilings. Minimum reserve requirements (which vary according to the location and size of the banks) now range from 9 to 13 per cent for demand deposits and 7 to 9 per cent for time deposits, and are 6 per cent for savings deposits. However, the central bank for the first time has also established special minimum reserve requirements for deposits held by nonresidents; these requirements are substantially higher than for domestically owned deposits, being 20 per cent for demand deposits (the legal maximum) and 10 per cent for time and savings deposits.

The central bank's new monetary restraint measures come against the background of a rapid rise in the liquidity of the banking system and of some indications that a renewed expansion of demand may be in the offing. In the first quarter of this year, industrial production rose much more than seasonally, partly as a result of the mild winter, and consumption has continued to rise rapidly. While prices have been steady during the past three months, after having risen some 3 per cent last year, the recent increases in wages and social benefits and the shortening of the work-week from forty-eight to forty-five hours may raise production costs. In addition, short-term bank lending has again begun to rise rapidly, at a time when the potential for a large credit expansion exists in the highly liquid position of the banks, which is largely a result of the huge influx of foreign exchange over the past twelve to fifteen months. Germany's export surplus continues to grow, and its balance-of-payments position has been swollen by an increase in short-term credits from abroad and by an influx of foreign short-term capital. The authorities have been concerned about the impact of the balance-of-payments surplus on the liquidity of the banking system and the German central bank has engaged in heavy open market sales; recently, the Treasury agreed to convert an additional 1 billion marks of the bank's equalization claims into short-term government paper in order to replenish the central bank's rapidly diminishing portfolio of marketable securities.

Latin America. Monetary policy has been tightened in several countries where inflationary pressures have been threatening. In *Peru,* the superintendent of banks, acting on the recommendation of the central bank, established new supplementary reserve requirements. The commercial banks are now required to maintain minimum reserves of 69 per cent against demand deposits and 57 per cent against time deposits that exceed their February 28, 1957 levels (previously a 45 per cent reserve requirement against increases in both demand and time deposits over the June 1956 level had been in force). The *Colombian* central bank has announced that its rediscounting for the commercial banks was being frozen at the March 27 levels. The banks will be permitted to exceed this ceiling only in the cases of agricultural, livestock, or industrial paper approved by the central bank on an individual basis.

Exchange Rates

American-account sterling met with occasionally good commercial demand during April, with the spot rate rising as high as $\$2.79\frac{11}{32}$. Early in the month the quotation rose $\frac{5}{16}$ cent, to $\$2.78\frac{15}{16}$, as union officials announced that strikers in the shipbuilding and engineering trades would return to work pending results of a court of inquiry. Commercial buying then maintained the rate at about $\$2.78\frac{13}{16}$ until April 10, when the quotation rose sharply to $\$2.79\frac{1}{8}$ following the Chancellor of the Exchequer's budget message. Thereafter the rate continued at about $\$2.78\frac{7}{8}$ until April 23 when it resumed its upward movement; with heavy offerings of dollars in London on the following day, the quotation reached $\$2.79\frac{11}{32}$. At the month end it stood slightly lower, at $\$2.79\frac{3}{16}$.

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Early in April rather strong demand for forward sterling narrowed the discounts on three and six months' sterling to $^{1}\!/\!_{16}$ and $1^{7}\!/\!_{32}$ cents. After widening slightly at the midmonth, they again narrowed, reflecting commercial demand for forward sterling as well as some market anticipation of a possible change in the British discount rate; by April 25, discounts were at $^{11}\!/\!_{16}$ and $1^{7}\!/\!_{16}$ cents. At the month end discounts stood at $^{25}\!/\!_{32}$ and $1^{17}\!/\!_{32}$ cents.

Transferable sterling met with good demand early in the month, and on April 10 was quoted at $2.7690. The rate soon weakened, however, as offerings of such sterling, particularly from Swiss sources, came into the market; by the midmonth the rate had dropped as low as $2.7620. The quotation then held at about the $2.7630 level until April 24 when reportedly demand by some central banks and South American interests sharply firmed it to $2.7705. On April 30 it was quoted at $2.7715. Securities sterling declined in a quiet market from a high of $2.61½ early in April to $2.56½ at about the midmonth—the lowest rate since December 1956. At the month end the quotation was only slightly higher at $2.58.

The Canadian dollar, after declining $^{15}\!/\!_{32}$ cent to 1.04^{1}\!/\!_{32}$ early in April, moved sharply higher to 1.04^{21}\!/\!_{64}$ on April 9, when it met with good demand, particularly from Switzerland and London. The movement proved short-lived, however, and by April 12 the rate had declined to 1.03^{15}\!/\!_{16}$—its lowest level since mid-January—as rather heavy offerings came into a market where demand was small. After the midmonth the rate fluctuated between $1.04⅛ and 1.04^{17}\!/\!_{64}$ until April 25 when buying of Canadian dollars in connection with auctions of oil leases in Canada, together with commercial and investment demand, again firmed the quotation which, on April 30, reached 1.04^{7}\!/\!_{16}$.

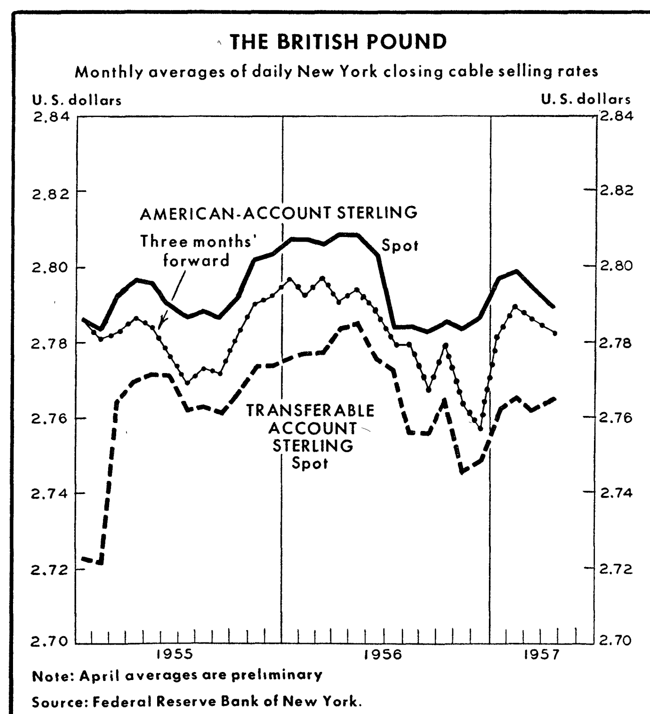
STERLING AFTER SUEZ

Sterling has staged a notable recovery from the severe speculative pressures generated by the Middle East crisis late last year. The recovery has been greatly aided by prompt international action in support of the pound, but basically it has rested on the current-account payments surplus that Britain and other sterling countries have maintained with the rest of the world. If sterling has not yet fully recovered, the remedy, according to Britain's Chancellor of the Exchequer, is to enlarge this surplus further; this remains the first objective of the British Government, which holds that "Britain's influence in the world depends first and foremost on the health of her internal economy and the success of her export trade".

Crisis and Recovery

Sterling came under pressure early in the summer of 1956. Even before the seizure of the Suez Canal Company at the end of July, the sterling rates were gradually declining; after the seizure they dropped sharply, the spot rate for American-account sterling falling nearly to $2.78¼, where it remained almost until the end of the year (see chart on this page). The main factor in the pressure up to the end of October was concern as to what a Suez Canal closing would mean for Britain's Middle East oil interests and for its foreign exchange earnings from them, as well as for sterling-area trade generally. Following the British and French intervention at Suez, this concern was deepened by the fear of a new surge of domestic inflationary pressure arising from increased military expenditures, freight rates, and commodity prices. In the foreign exchange markets consequently, purchases of sterling were delayed as long as possible, sterling receipts were sold forthwith, dollar requirements were covered promptly, and holdings of sterling were generally reduced.

These pressures were at first reflected chiefly in the decline in sterling rates; however, as official intervention to support the rates subsequently became necessary, Britain's gold and dollar reserves, which had increased by 285 million dollars in January-July 1956 to 2,405 million, began to decline. If special receipts—notably the 177 million in September from the sale of the Trinidad Oil Com-



Note: April averages are preliminary
Source: Federal Reserve Bank of New York.

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pany to an American concern and the 561 million from the International Monetary Fund (IMF) in December—are excluded, the drain averaged somewhat over 100 million dollars monthly during August-October; it then accelerated in November to 300 million and apparently continued at about this rate during early December. Although, according to an official British statement, such speculative pressure against sterling had virtually ended by mid-December, a further drain on the reserves occurred in the second half of that month, owing to the annual 181 million payment to the United States and Canada under the postwar loan agreements. Except for the special receipts, the reserves would therefore have declined by more than 1 billion dollars in the five months ended December.

That speculative pressures disappeared so quickly was partly attributable to the determination of the British authorities to defend sterling at the existing parity and to their mobilization of massive financial reinforcements for this purpose. Early in December the British Government drew 561 million dollars from the IMF, and was granted additional stand-by facilities of 739 million on which drawings could be made at any time during the following twelve months. Later in the month, the United States Export-Import Bank announced that it would grant a 500 million dollar line of credit against the British Government's holdings of dollar securities. In addition, the United States and Canadian governments, in response to a British request under the postwar loan agreements, initiated steps that led to the postponement of 104 million dollars of interest due on the loans at the year end. This 104 million, which had been placed in special accounts when the payments on the loans were made at the year end, was returned to Britain's gold and dollar reserves in April.

The response of the foreign exchange markets to these measures was rapid. Whereas the spot rate for American-account sterling in New York had, until early December, been held a little above $2.78¼ only by almost continuous support from the authorities, it recovered to $2.78 11/16 at the year end and strengthened further to $2.80 toward the end of January. Rates for transferable sterling also strengthened, and forward discounts narrowed markedly. Thereafter, the continued uncertainty about the Suez Canal, together with renewed difficulties in the British labor market, led to some decline in the rates, but the pressures were neither severe nor prolonged.

Furthermore, the gold and dollar drain was stopped. Indeed, the reserves increased to 2,320 million dollars at the end of April from 2,133 million at the year end, despite enlarged dollar payments for oil imports and reportedly substantial disbursements on account of India. The latter, however, were more than offset by the transfer to the sterling area's central reserves of India's 127.5 million dollar drawing on the IMF. Moreover, the reserves benefited during the period not only by the return of the 104 million interest payment but also by seasonal sales of sterling-area commodities to both dollar and European Payments Union countries. Consequently, Britain avoided drawing on the 739 million dollar IMF stand-by credit and the 500 million Export-Import Bank line of credit.

The Sterling Area's Balance of Payments

While the recovery of sterling after mid-December owed much to the prompt actions of the IMF and of the authorities in Britain, Canada, and the United States, the success of these measures in turn depended very largely on the strengthening that had already occurred during 1956 in the sterling area's balance of payments on current account. The improvement in Britain's own position was especially striking, its current-account balance of payments changing to a surplus of 233 million pounds in 1956 (of which 79 million was earned in July-December) from a 79 million deficit a year earlier. Most of this improvement was achieved with nonsterling rather than sterling countries, and was the result of an expansion of exports rather than a decrease in imports. Britain's 1956 exports to the United States and Canada were up 23 per cent in value from 1955; to other dollar-area countries, 37 per cent; to Western European countries and their dependencies, 11 per cent. At the same time Britain's imports from nonsterling countries rose only slightly, with the result that Britain's 1956 trade deficit with those countries was reduced to about two fifths of the 1955 deficit. Since net invisible earnings also rose, Britain's total current-account deficit with the nonsterling world declined to only 51 million pounds from 304 million in 1955.

How much the recovery of Britain's over-all current-account balance has been set back by the closing of the Suez Canal is uncertain. The known effects so far have been surprisingly small. While net earnings of British oil companies have doubtless been reduced, Britain's imports in the five months ended March 1957 actually averaged 4 per cent higher than the 1956 average, exports were up 5 per cent, and the over-all merchandise trade deficit was virtually unchanged.

The improvement in Britain's own current-account balance was in marked contrast to the weakening of the overseas sterling area's balance with nonsterling countries, although the latter balance still showed a substantial surplus. Among the independent sterling countries, it is true, Australia's balance of payments improved during 1956 as the result of both a tightening of import restrictions and increased receipts from exports—especially wool, the price of which rose during most of the year. New Zealand's position also improved, imports being held in check by the government's financial-restraint policy and exports of meat and dairy products expanding greatly. On the other hand, India's imports rose sharply, largely because of increased outlays on its development program; the result

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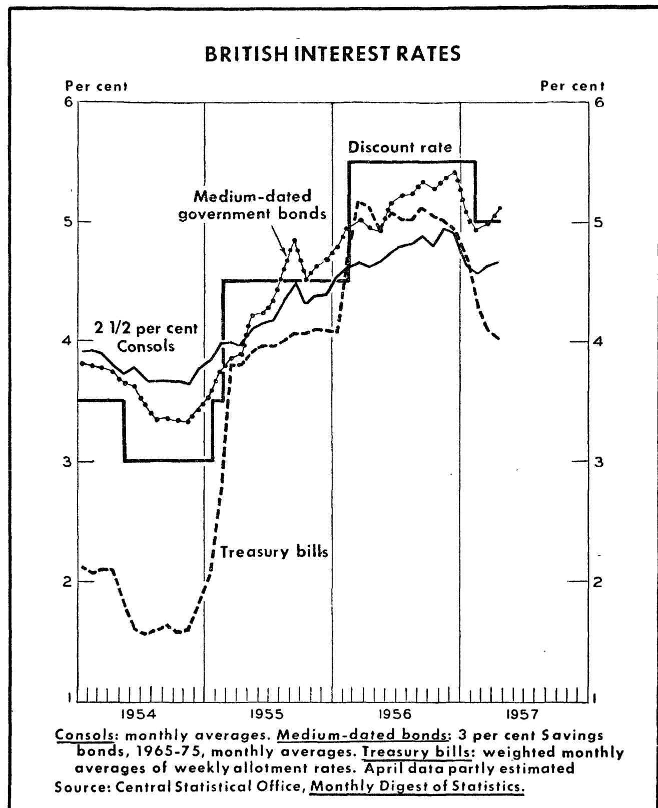
was a substantial balance-of-payments deficit that was largely financed through a drawing-down of its sterling balances. All told, the imports of the independent sterling countries from both the OEEC[1] and dollar areas, expanded more rapidly than their exports to these areas, the consequent increase in their merchandise trade deficit being only partly offset by a rather substantial rise in gold sales (mainly from South Africa) in Britain. The independent sterling area's balance-of-payments surplus from transactions with the dollar and OEEC areas, and from gold sales in Britain, thus declined to 48 million pounds in 1956 from 62 million a year earlier.

The dependent territories of the sterling area experienced a similar weakening in their balance with nonsterling countries. Like the independent sterling countries, the dependencies as a whole increased their imports more than their exports; West African exports were particularly affected by the low price of cocoa. While their over-all balance-of-payments surplus with the dollar and OEEC areas remained substantial, it declined moderately to 146 million pounds in 1956 from 173 million in the year before.



Consols: monthly averages. Medium-dated bonds: 3 per cent Savings bonds, 1965-75, monthly averages. Treasury bills: weighted monthly averages of weekly allotment rates. April data partly estimated
Source: Central Statistical Office, Monthly Digest of Statistics.

Britain's Domestic Adjustments

If the way for sterling's recovery after the November Suez crisis was prepared by the strengthening of Britain's current-account balance of payments, this strengthening in turn reflected mainly the decline of inflationary pressures in Britain. These pressures had reappeared in 1954 and increased further in 1955, largely because of rising consumption and investment. The 1955 increase in Britain's aggregate domestic expenditure exceeded the rise in gross domestic production by a considerable margin, and the balance of payments consequently swung into deficit. At the same time, labor market conditions became exceedingly tight, and wage rates rose during the year at a considerably faster pace than productivity.

The restraint policy by which the government countered these pressures was unfolded gradually. Initially, it was implemented through monetary policy alone: the Bank of England's discount rate was raised from 3 per cent to 3½ at the end of January 1955, to 4½ per cent four weeks later, and to 5½ in February 1956 (see chart on this page). At the time of the second increase, controls over hire purchase (instalment credit), which had been dropped the previous summer, were reimposed; later on, the interest rates charged by various government lending agencies were progressively increased. However, the restraint exerted by these monetary measures was partially offset by the reduction in income and sales taxes under the government's budget for the year beginning April 1955. Not until the fall and winter of 1955-56 was government fiscal policy used to increase the restraints on personal consumption and on public and private investment. Consumption, which already had been subjected to increasingly stringent hire-purchase controls, was further restricted by increases in sales taxes, in the charges of various state utilities, and in the tax on distributed profits, as well as by reductions in food subsidies. Investment in housing was curtailed by requiring the local authorities to rely as much as possible on funds raised in the capital market rather than obtained from the Treasury. To curb business investment, special tax incentives for certain capital outlays were reduced, and access to the capital market was made more difficult by tightening up the rules under which the Capital Issues Committee operated. Curbs were also placed on the capital programs of the nationalized industries. Finally, incentives for personal saving were increased under the budget for the fiscal year beginning April 1956.

These monetary and fiscal measures brought a marked change in the British economy. On the financial side, the money supply was stabilized in 1955 and 1956 after having increased significantly in the two previous years (see table). Note circulation, it is true, continued to rise rapidly but the London clearing banks' net deposits turned downward. The decline in net deposits during 1955 and 1956 actually wiped out more than half of the rise in the two preceding years, and was accounted for by a substantial reduction in the banks' bond holdings, partially offset by a moderate rise in the total of loans, Treasury bills, and other money market assets. Since economic activity continued to

[1] Organization for European Economic Cooperation.

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Money Supply Changes in the United Kingdom
(In millions of pounds)

Year	Bank of England notes in circulation*	Net deposits of London clearing banks†	Total money supply	Changes from year previous		
				Bank of England notes in circulation*	Net deposits of London clearing banks	Total money supply
1951.....	1,342	5,930	7,272	+ 55	+119	+174
1952.....	1,435	5,857	7,292	+ 93	− 73	+ 20
1953.....	1,532	6,024	7,556	+ 97	+167	+264
1954.....	1,630	6,239	7,869	+ 98	+215	+313
1955.....	1,760	6,185	7,945	+130	− 54	+ 76
1956.....	1,875	6,013	7,888	+115	−172	− 57

* Average of Wednesdays.
† Average of monthly figures.
Source: Central Statistical Office, *Monthly Digest of Statistics*, March 1957.

expand, the rate of turnover of the stabilized money supply rose mainly through the drawing of idle balances into more intensive use.

Tightness in the financial markets was accompanied during 1956 by striking changes in the national economy as a whole. While the gross national product continued to rise—although the "real" increase was very much less than in the two previous years—the rapid expansion of domestic expenditure was checked, primarily because of a slowing-down in the rate of inventory accumulation. With reduced pressure from domestic demand, the rapid rise in imports of the two previous years was greatly moderated, while increased supplies from domestic output facilitated a rather substantial expansion of exports. Only slightly less significant than the resulting improvement in the balance of payments was the reduced pressure in the labor market where, for the first time since early 1954, total unemployment rose above vacancies during the winter of 1956-57. New uncertainties arose from wage demands in the engineering and shipbuilding trades. Strikes in March were called off only after a government court of inquiry had been appointed to investigate the disputes.

Monetary Control Problems

While there is no doubt that the government's restraint policy has reduced inflationary pressures in Britain, there has been much discussion about the efficacy of the various policy instruments used—particularly of the monetary instruments—in the novel conditions of the postwar economy. Thus, in October 1955 Mr. R. A. Butler, the then-Chancellor of the Exchequer, observed that the authorities had had "little practical experience" in using the discipline of credit restriction "in conditions of full employment when the trend of consumption and investment was rising". His successor, Mr. Harold Macmillan, subsequently noted that since the government's monetary "technique had not been used for many years—and even then under vastly different circumstances—there are many new problems, especially as between the Exchequer and the monetary system".

Some of these problems were reviewed in the following terms by Governor Cobbold of the Bank of England in his October 1955 Mansion House address:

> The proportion of the economy which is directly affected by credit policy through the banking system, both as to investment and as to consumption spending, is much smaller than it used to be. With the enormous growth of the public sector, monetary action to restrict the borrowing and spending of individuals, firms and companies can be outweighed by the action of Government, local authorities and the nationalized industries. Moreover, with the redistribution of income since before the war, the immediate impact of credit policy on consumption spending is outweighed by the level of earnings and by fiscal policy.
>
> Secondly, with present high taxation levels, business people are less sensitive to an increase in the cost of bank borrowing. International capital movements are less free than before the war and also less sensitive, though by no means wholly insensitive, to interest rate changes.

On a similar occasion a year later, Governor Cobbold noted that the size and form of government borrowing had a very great influence on the level of bank deposits. He added that:

> Our consistent objective has been to keep the floating debt, vastly expanded during the war, down to manageable size. By a series of funding operations over the postwar years, a more healthy position was restored. Unfortunately, at some periods during more recent years, it has not proved possible to match the total requirements of Government and public bodies by the sale of long-term securities. Floating debt has again at times become excessive, bank deposits too high and technical pressures more difficult to maintain.

One of the symptoms of these difficulties was the easing of the banks' liquidity ratios[2] during 1955 and 1956, and the consequent lessening of the pressures on them to restrain their advances. The authorities, in order to maintain their control, therefore found it necessary in July 1955 to request the banks to curtail their lending to the private sector, and this "directive" has since been reaffirmed on several occasions.

While the authorities continued during 1956 to rely on the "directive" technique to reinforce their traditional controls, they simultaneously attempted to deal with the problem of excessive bank liquidity. They aimed, in Governor Cobbold's words, "to reduce the creation of new short-term debt and to fund existing short-term debt—by [budgetary] economies, a savings drive and a general funding program". However, the implementation of this program encountered a number of obstacles. Of these, one of the most important was the prevailing rate structure in the government securities market which, for some time after the discount rate was increased to 5½ per cent in mid-February 1956, was characterized by higher yields on bills than on government bonds. While it is true that yields on medium-dated bonds rose above the bill rate in May, those on short and long-dated issues remained below the bill rate during most of the rest of the year. The emergence of this pattern of rates, accom-

[2] The ratio of the banks' cash, call money, and bills to total deposits.

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panied by uncertainty as to the future trend of market rates, enhanced the attractiveness of short-term assets to investors generally and consequently tended to divert funds from the longer term market.

The authorities attempted to deal with these obstacles to funding during the ensuing months. Thus, the Chancellor was apparently seeking to strengthen bond prices when he stated in June that "we can surely find the way out of our troubles . . . without recourse to the most extreme monetary measures" and, in October, that "there is in practice, if not in theory, a limit beyond which the rate for money could not be driven". Similarly, the desirability of changing the rate structure seemed to be implied in Governor Cobbold's statement at Mansion House last October that "we shall obviously feel more comfortable when circumstances justify a somewhat lower pattern of short-term interest rates".

The conditions for the achievement of these objectives were in fact created by the improvement in Britain's economic balance as the year progressed, but short-term interest rates declined only slightly until the most acute of the Middle East difficulties had passed. Soon after the beginning of December, however, the average rate for tender bills, which had been quite steady at about 5 per cent for some weeks, resumed its decline. As the decline continued from week to week, expectations of a discount rate cut became increasingly strong, and a minor boom developed in the government bond market, which in turn facilitated what seem to have been substantial sales of bonds from official portfolios.

The expected discount rate change came on February 7, 1957, when the Bank of England reduced the rate by ½ per cent to 5. This prepared the way for the next stage in the government's funding program, the flotation of 300 million pounds of 3½ per cent Funding Stock, 1999-2004, priced to give a gross redemption yield of 4.50 per cent. Sales of this issue—together with Treasury receipts from earlier official bond sales and from the seasonally high tax payments—enabled the authorities to reduce the tender bill issue by no less than 730 million in the fifteen weeks to mid-March—more than double the reduction achieved a year earlier. The clearing banks' average liquidity ratio consequently dropped to an eighteen-month low.

Although the liquidity pressure on the banks has thus been increased, the authorities have not yet found it feasible to place full reliance on their more traditional monetary techniques. The "directive" technique is regarded as an "unpleasant necessity" and, as the Chancellor stated in his budget message last month, is evidence "that the monetary machine is working under great difficulties". There is "general agreement as to objectives of monetary policy", but there are "the widest differences of opinion" about the means to attain them. The Macmillan Report, continued the Chancellor, was an authoritative exposition of the way the monetary system worked before 1931, but present problems are altogether different, involving Treasury finance, the management of the "vast" government debt, and changes in the structure of the banks' assets that are making them "less susceptible to monetary pressure". Accordingly, the government has decided to set up a committee, headed by Lord Radcliffe, "to inquire into the working of the monetary and credit system and to make recommendations". In launching another in the long series of distinguished official studies of Britain's financial institutions and problems, the government has thus taken a significant step toward clarifying the problems of monetary control.

Recent Changes in Fiscal Policy

Meantime, changes have already been announced in the government's financial policy that are designed to strengthen further the authorities' monetary control and buttress sterling as an international currency. In his April budget message, the Chancellor indicated that the policy of financing the government's over-all budgetary deficit from noninflationary sources would be continued, and that the government's fiscal policy would be "dictated by the need to place and keep our external position on a really sound footing". Although the current-account balance of payments was considerably improved last year, the surplus, as the government's *Economic Survey* for 1957 observed, "was still quite inadequate to enable [Britain] to meet all its overseas commitments and to start to build up the reserves to a point at which they are strong enough to take in their stride a temporary reverse such as they have recently suffered". Exports, according to the *Survey,* must therefore be increased more rapidly than in recent years.

The need to facilitate such an increase has led the government to continue its financial-restraint policy, and in particular to reduce its own expenditures. Most of this reduction has been concentrated in defense expenditures. The recent Defense White Paper has noted that:

> Some 7 per cent of the working population are either in the [armed] Services or supporting them. One-eighth of the output of the metal-using industries, upon which the export trade so largely depends, is devoted to defence. An undue proportion of qualified scientists and engineers are engaged in military work. In addition, the retention of such large forces abroad gives rise to heavy charges which place a severe strain upon the balance of payments.

Accordingly, the government has announced plans which among other things would curtail various military procurement programs, and which envisage a reduction of almost one half in the country's armed forces by the end of 1962. The immediate budgetary effects of these changes, as estimated by Chancellor Thorneycroft, will be to cut defense expenditures in 1957-58 to 1,420 million pounds, 105 million below actual expenditures in the fiscal year ended

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last March; this cut would more than offset a slight increase in other budgetary expenditures. The total of ordinary and net below-the-line (mainly capital) expenditures is consequently estimated at 5,414 million pounds, 75 million less than in the year just ended. Since prices rose appreciably during the past fiscal year, the cut in "real" terms is considerable.

Apart from curtailing budgetary expenditures, the government also proposed a variety of measures to strengthen the British economy. Thus certain mining, oil-extracting, agriculture, manufacturing, processing, and other companies, controlled and managed from the United Kingdom but having all their actual trading operations abroad, are to be exempted from income and profits tax on their trading profits earned abroad. This change, said the Chancellor, would serve to remove the serious disadvantage under which such firms operated, compared with local companies, especially in countries whose tax rates were lower than in Britain. It was, he said, "a step towards more investment, more trade, and more exports".

To provide "better incentives and opportunities for initiative and effort", the Chancellor proposed to grant tax relief to middle and upper-income groups, whose tax load has been especially heavy in recent years. Relief was given especially to individuals whose annual incomes were £2,000 or more, a group that, in the Chancellor's view, included "the very men whose activities and decisions do most to determine our rate of economic expansion. In their hands rests, for good or ill, much of the future of the national economy. In penalizing them, the nation penalizes itself."

Finally, with a view to easing the tax burden the Chancellor proposed to give special tax relief to the aged, to increase certain income tax deductions for children, and to reduce or eliminate a variety of taxes on consumers' goods—part of the revenue lost in these concessions being recouped by an increase in the television license fee.

All told, the Chancellor's proposed tax concessions were expected to cost 98 million pounds of the 229 million by which revenues would otherwise have increased in 1957-58. Ordinary revenues after the tax changes were thus expected to total 5,289 million, as against estimated net expenditures of 5,414 million. The estimated over-all budgetary deficit of 125 million would be less than two fifths of last year's, and as the Chancellor observed, could "be amply covered by small savings and other noninflationary methods of finance".

Concluding Remarks

How far these measures will help in the achievement of Britain's balance-of-payments objectives—the strengthening of its international competitive position, the fulfilment of its manifold overseas financial obligations, and the rebuilding of its gold and dollar reserves—only time can tell. Assessing the prospects earlier in this year, a Treasuury spokesman indicated that Britain's current-account balance of payments would probably show "a small but by no means unsubstantial surplus" in the year ending June 1957. The government's recently published *Economic Survey* is also hopeful. It cautions that "competition from the other main manufacturing countries will be keen", but it foresees that "there should be no lack of markets" for exports. It also states that:

> The very heavy investment of the last two or three years has improved our industrial efficiency and expanded our capacity . . . [Thus] equipment for a further export drive has been considerably strengthened. With good prospects for world trade, and with a record of rising exports, the external conditions for a successful year are already present. Internally, high savings and all possible restraint in Government expenditure should create a situation favorable to the export effort and help us to avoid any undue increase in the level of imports . . .

While the government thus regards its policies as being "consistent with our large responsibilities as a trading and a banking nation", it still faces many difficult problems. Not the least of these is the continued upward pressure on wage costs. Although a somewhat better balance was achieved in the labor market last year, wage rates rose notably whereas output per man remained virtually unchanged. This upward pressure continued during the early months of 1957, threatening not only to weaken the competitive position of Britain's export industries but also to draw exportable goods into domestic use.

Another problem is to achieve the level of investment in industry that is requisite for the strengthening of the country's long-term international competitive position, and to do so without bringing about renewed balance-of-payments strains. To achieve these objectives involves more than the expansion of production and the restraint of over-all domestic expenditures, essential as these are; it also requires more effective restraint of the tendency for personal consumption to absorb the bulk of each year's increment in production, and the encouragement, instead, of capital investment that will strengthen the foundation on which Britain's international economic influence rests.

Policies designed to reconcile monetary stability with expanding output and growing investment would also strengthen the confidence of other trading nations in sterling. Indeed, if any single lesson emerges from last year's sterling crisis, it is that a sizable current-account payments surplus is a necessary but not a sufficient condition for the stability of the pound. As a major international currency held for both reserve and trading purposes by many countries, sterling is subject to massive and sudden movements of funds that originate in changes in world opinion about the economic and political outlook of Britain and the rest of the Commonwealth. The maintenance of international confidence in the pound is thus one of the essential prerequisites for the strengthening of Britain's place in world trade and payments.

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THE LOCATION OF BUSINESS CUSTOMERS OF SECOND DISTRICT BANKS

There has long been general recognition of the role of the principal money market banks in providing credit and banking facilities to serve the needs of the country as a whole. That recognition usually has centered, however, on their role in meeting the residual reserve adjustments of the nation's banking system, as reserve pressures are transmitted to the principal centers through shifts in interbank balances and transfers of Federal funds. Recognition has extended, too, to the important role of the large banks in serving the national needs of the large corporations whose head offices tend to cluster in the same cities as those in which the lending banks are located. But there has never been a statistical basis for appraising the important contribution made by the large metropolitan banks to the financing of the nation's business through the granting of loans to firms which maintain head offices, as well as much of their operations, in areas located hundreds or thousands of miles away from such financial centers as New York City.

The survey of commercial loans at member banks which was conducted by the Federal Reserve System in October 1955 provided quantitative information on this subject for the first time, in addition to data on many other aspects of business borrowing. While some other findings of the survey have already been published, the information on location of borrowers is, due to processing difficulties, only now becoming available.[1] Results for the Second District are analyzed in this article.

Most businesses which borrow from Second District banks are located in the same city, metropolitan area,[2] or county as the banks from which they receive loans, and therefore the great majority of the *number* of bank loans is made to local borrowers. But nearly half of the total *amount* of loans outstanding at Second District member banks at the time of the 1955 loan survey had been extended to borrowers outside the metropolitan area or county in which the banks were situated. Over 40 per cent of the total amount of loans went to borrowers outside the

[1] The information on location of borrower for all member banks is still being processed by the Board of Governors of the Federal Reserve System. However, some figures for the Seventh District have been published by the Federal Reserve Bank of Chicago (see *Bank Loans to Business,* August 1956, and the article on "Location of Business Borrowers" in the April 1957 issue of *Business Conditions*). These data indicate that Seventh District member banks made 40 per cent of their loans to nonlocal borrowers, compared with 45 per cent for Second District banks.

[2] As defined by the Bureau of the Census.

Table I
Commercial Loans Made by Second District Member Banks, Classified by Location of Bank and Borrower, Outstanding on October 5, 1955

Borrower location relative to location of lending bank	Location of lending banks in the Second Federal Reserve District									
	Central reserve New York City banks	Other Second District member banks								Total Second District
		All other Second District member banks	New York City reserve city banks	Newark, Jersey City, Paterson, and Passaic	Buffalo	Rochester	Syracuse	Albany, Schenectady, and Troy	All other locations	
	Amount of loans (in millions of dollars)									
Within same city	3,959	918	183	82	128	67	58	32	368	4,876
Outside same city but within same metropolitan area or county	406	523	18	130	28	2	6	10	329	929
Inside Second District, but not in same city, metropolitan area, or county	148	237	4	2	75	31	30	33	62	385
Outside Second District but within United States*	4,027	149	7	21	65	5	6	15	30	4,176
Outside United States	218	†	†	0	0	0	0	†	0	219
Total—all borrowers	8,758	1,827	212	235	296	105	99	91	789	10,585r
	Number of loans (in thousands)									
Within same city	62.5	84.9	11.3	5.6	5.2	3.0	2.6	3.0	54.1	147.5
Outside same city but within same metropolitan area or county	7.6	51.7	0.8	7.4	2.6	0.3	0.6	0.8	39.3	59.4
Inside Second District, but not in same city, metropolitan area, or county	0.9	11.5	0.1	0.1	1.0	1.2	1.9	1.6	5.6	12.4
Outside Second District but within United States*	6.7	3.0	0.3	0.4	0.2	0.1	0.1	0.1	1.8	9.7
Outside United States	0.4	‡	‡	0	0	0	0	‡	0	0.4
Total—all borrowers	78.1	151.2	12.6	13.5	9.1	4.5	5.2	5.5	100.9	229.3r

Note: Details may not add to totals shown because of rounding.
r Revised.
* Includes loans to borrowers in United States territories.
† Less than $500,000.
‡ Less than 50.

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District (including 2 per cent to borrowers outside the United States).

The sharp contrast between the number and amount of loans made to nonlocal borrowers mainly reflects the heavy volume of nonlocal lending by the central reserve New York City banks which figure so prominently in the District totals. As shown in Table I, the business loans of the eighteen central reserve New York City banks on October 5, 1955 amounted to 8.8 billion dollars—over 80 per cent of the amount held by all Second District member banks on the survey date. More than 4.2 billion dollars, or 48 per cent, of these loans went to borrowers outside the Second District. For other District banks, on the other hand, no more than 149 million dollars, or 8 per cent, of their total commercial loans were extended to borrowers outside the Second District.

The survey also indicated that more than a fifth of the commercial loans of the central reserve New York City banks involved participation through pool arrangements. In the case of reserve city and country member banks, pool participations were less prevalent and participations generally took the form of "over-line" arrangements. As was expected, the survey verified earlier impressions that the bulk of nonlocal loans is extended to the larger corporations.

New York City Bank Loans to Nonlocal Borrowers

At the time of the October 1955 survey, lending by the central reserve New York City banks to nonlocal borrowers amounted to 4.4 billion dollars, of which more than 4.2 billion represented loans to borrowers outside the Second District. The City banks had loans outstanding to borrowers in all but five of sixty-four major cities which were coded separately in the survey. The amount of loans to borrowers in individual cities ranged downward from 375 million dollars each for Chicago and Houston and 218 million for Los Angeles. Total loans outstanding to borrowers in seven other major cities ranged from 138 million to 89 million dollars.[3] More than 30 per cent of their loans outside the District were made to borrowers located outside major cities.

Table II

Commercial Loans Made by Second District Member Banks to Borrowers in Other Federal Reserve Districts, by District of Borrower Outstanding on October 5, 1955

(Dollar amounts in millions)

Location of borrower—Federal Reserve District	Central reserve New York City banks		Other Second District member banks		All Second District member banks	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Boston	145	3.6	20	13.6	165	4.0
Philadelphia	308	7.7	29	19.4	337	8.1
Cleveland	310	7.7	5	3.2	314	7.6
Richmond	457	11.4	27	18.3	484	11.6
Atlanta	210	5.2	5	3.1	215	5.2
Chicago	716	17.9	33	22.2	749	18.0
St. Louis	148	3.7	3	2.2	151	3.6
Minneapolis	147	3.7	8	5.4	155	3.7
Kansas City	332	8.3	*	0.1	332	8.0
Dallas	685	17.1	5	3.2	690	16.6
San Francisco	554	13.8	14	9.5	568	13.6
Total—all borrowers	4,012	100.0	149	100.0	4,161	100.0

Note: Details may not add to totals shown because of rounding.
* Less than $500,000.

An idea of the flow of funds to various sections of the country from the Second District (mainly originating with the New York City banks) can be obtained from Table II, in which loans are classified by the Federal Reserve District in which the borrower was located.[4] The Districts receiving the largest shares were the Chicago District with 18 per cent of the total, Dallas with only slightly less, and San Francisco with 14 per cent.

The role of the central reserve New York City banks in the national market was even greater than these figures suggest since many national concerns have headquarters in New York City, and although they may disburse their borrowed funds in other parts of the country, loans to such businesses were classified for purposes of the survey as loans to local borrowers. The extent to which local loans are made to concerns doing a nation-wide business cannot be accurately determined but a partial indication is the fact that on the books of the central reserve New York City banks on the survey date were 814 loans of 1 million dollars or more which had been made to borrowers in the New York metropolitan area. These loans amounted to 2.2 billion dollars, or a quarter of all business loans made by the money market banks.

The central reserve New York City banks were responsible for virtually all of the 219 million dollars of business loans made to borrowers outside the United States by Second District banks. Borrowers in Latin American countries accounted for nearly 45 per cent of the amount of loans outstanding to foreign borrowers on the survey date (of which 10 per cent went to Mexico), and another third was held by continental Western European countries. Japan and Canada were next in line with 8 per cent and 5 per cent, respectively, while borrowers in the United Kingdom and other sterling-area countries together had 4 per cent.

Nonlocal Loans by Other Second District Banks

Loans of other Second District banks tended to be concentrated much nearer home than those of the money market banks (see the accompanying chart). Nearly 80 per cent of the total amount of loans outstanding at the other banks in the Second District had been made to borrowers in the same city, county, or metropolitan area as

[3] Detroit, 138 million; Dallas, 125 million; Philadelphia, 113 million; Baltimore, 98 million; Minneapolis, 97 million; San Francisco, 93 million; St. Louis, 89 million.

[4] Undoubtedly, some Second District businesses borrowed from banks in other parts of the country, but figures on these loans are not yet available, so no net interdistrict flow can be computed.

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the lending bank, compared with 50 per cent for the central reserve banks. Only 8 per cent of the business loans of other Second District banks went to borrowers outside the District, in contrast to 48 per cent for the big New York City banks. But the percentage of loans made by other Second District banks to borrowers within the District but outside their own metropolitan areas was larger than for the central reserve New York City banks (13 per cent, compared with 2 per cent).

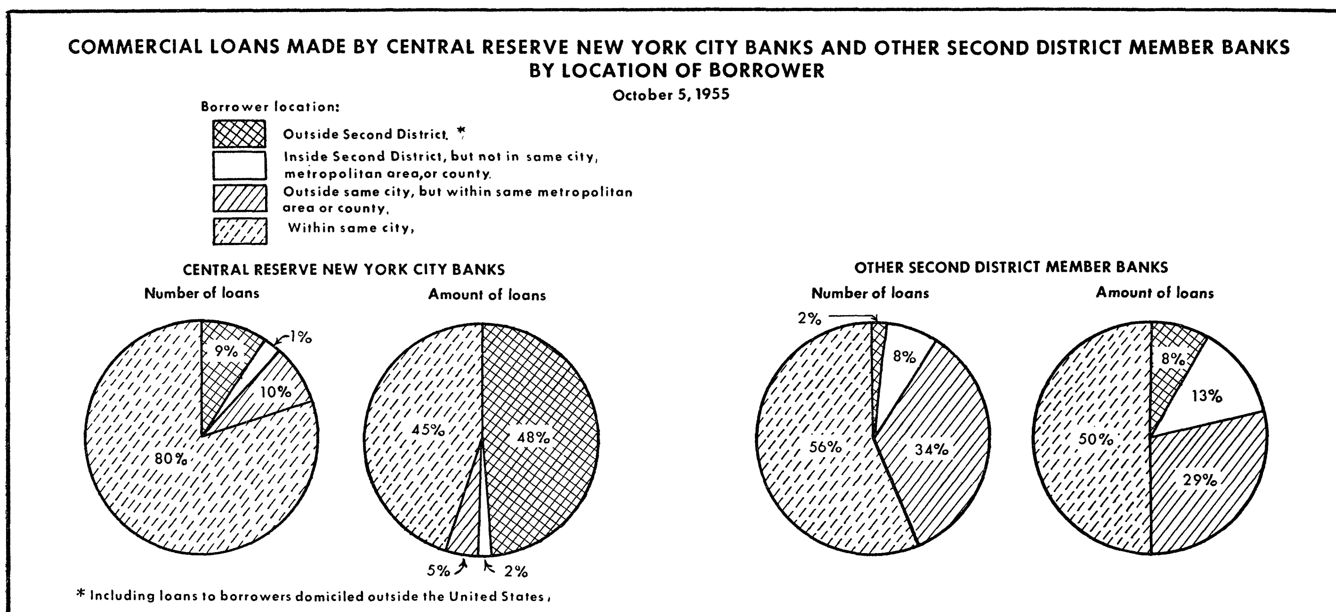
The loan pattern, however, varied somewhat from city to city. The reserve city and country banks located in the major cities of the New York metropolitan area for which separate figures were obtained, i.e., New York City, Newark, Jersey City, Paterson, and Passaic, concentrated their lending operations in their local area to a greater degree than banks in other major cities in the District. Over 90 per cent of the amount of these loans outstanding on the survey date, or 413 million dollars, had been made to local borrowers; only 6 million had been made to borrowers elsewhere in the District and 28 million to borrowers in other parts of the country. This pattern was also typical of banks in the smaller cities and towns and rural areas of the District.

For banks in Rochester and in Syracuse, on the other hand, local borrowers accounted for somewhat less than two thirds of the total amount of their loans outstanding, and for banks in Buffalo and in the Albany, Schenectady, and Troy area, local borrowers accounted for only about half of the outstanding amount of business loans. Most of the remainder of the loans at Rochester and Syracuse banks went to borrowers in other parts of this District. But roughly a fifth of the outstanding loans of the Buffalo and capital-area banks had been extended to borrowers outside the District.

Table III
Commercial Loans Made by Second District Member Banks by Kind of Participation and Location of Borrower Outstanding on October 5, 1955

Borrower location relative to location of lending bank	Per cent distribution of amount of loans				
	All Second District member banks	Central reserve New York City banks	Other member banks in New York City	Member banks in other major cities*	All other member banks in Second District
All locations:					
No bank participation	74.7	71.1	98.1	88.2	94.0
Excess or overline participation initiated by lending bank	2.1	2.0	0.7	3.2	2.7
Excess or overline participation initiated by another bank	4.4	4.5	1.2	5.7	2.6
Pool-type participation	18.8	22.4	0	2.9	0.7
Total	100.0	100.0	100.0	100.0	100.0
Within same city, metropolitan area, or county:					
No bank participation	83.9	80.4	98.0	93.2	95.0
Excess or overline participation initiated by lending bank	2.5	2.3	0.8	4.0	2.8
Excess or overline participation initiated by another bank	2.0	2.1	1.3	1.9	1.7
Pool-type participation	11.6	15.2	0	0.9	0.6
Total	100.0	100.0	100.0	100.0	100.0
Inside Second District but not in same city, metropolitan area, or county:					
No bank participation	78.1	76.0	100.0	75.2	89.6
Excess or overline participation initiated by lending bank	1.3	0	0	2.2	2.0
Excess or overline participation initiated by another bank	10.8	8.6	0	14.1	7.5
Pool-type participation	9.8	15.4	0	8.5	0.9
Total	100.0	100.0	100.0†	100.0	100.0
Outside Second District:‡					
No bank participation	62.2	61.4	100.0	83.3	81.0
Excess or overline participation initiated by lending bank	1.7	1.7	0	1.1	1.7
Excess or overline participation initiated by another bank	7.0	6.9	0	11.3	13.0
Pool-type participation	29.1	30.0	0	4.3	4.2
Total	100.0	100.0‡	100.0†	100.0	100.0

Note: Details may not add to totals shown because of rounding.
* Including Newark, Jersey City, Paterson, Passaic, Buffalo, Rochester, Syracuse, Albany, Schenectady, and Troy.
† Less than 10 million dollars of loans.
‡ For central reserve New York City banks this includes 218 million dollars of loans to borrowers outside the United States, distributed as follows: No bank participation, 88.1 per cent; excess or overline participation initiated by lending bank, 1.4 per cent; excess or overline participation initiated by another bank, 1.5 per cent; pool-type participation, 9.0 per cent.



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Participated Loans

Banks who wish to participate, with other banks, those customer requests for loans, which are larger than they can or wish to handle alone, usually do so in one of two ways. The first is a pool-type arrangement in which two or more banks share a loan; in their negotiations with the borrower the participating banks may operate through a syndicate leader or they may jointly or separately work out the loan details with the borrower. This method is most often used by large banks in connection with loans to large borrowers. The second is an excess or "over-line" arrangement in which the initiating bank offers another bank that part of a loan which exceeds the bank's legal limit for loans to a single customer, or which exceeds the line of credit which the bank wishes to extend to the customer concerned.

Participated loans accounted for about one quarter of the total amount of loans outstanding at Second District member banks in October 1955 (see Table III), pool loans for 19 per cent, and excess loans for 6 per cent.[5] Nearly all pool participations were made by the central reserve New York City banks. The proportion of their loans in this form ranged from about 15 per cent of their loans to borrowers within the Second District to 30 per cent of their loans to borrowers outside this District. Overline credits, on the other hand, were found in banks throughout the District. About 4.5 per cent of all business loans of the central reserve banks were derived from overline loan arrangements initiated by other banks.

[5] Accommodation loans are included in the figures for pool loans; a loan to a railroad in which the lending bank agrees to give certain banks along the right of way a portion of the loan is an example of an accommodation loan.

Table IV

Commercial Loans Made by Second District Member Banks to Nonlocal Borrowers As a Per Cent of the Banks' Total Loans to Specified Types and Sizes of Borrowers, Amount Outstanding on October 5, 1955

Business of borrower	Asset-size of borrower (in thousands)							
	Less than $50	$50–250	$250–1,000	$1,000–5,000	$5,000–25,000	$25,000–100,000	$100,000 and over	All borrowers
	Central reserve New York City banks							
Manufacturing and mining—total:	8	4	10	29	57	68	58	51
Food, liquor, and tobacco	*	*	9	28	72	79	44	56
Textiles, apparel, and leather	†	3	5	22	32	44	74	30
Metals and metal products	*	4	6	36	52	57	54	49
Petroleum, coal, chemicals, and rubber	*	*	61	59	80	77	66	73
All other manufacturing and mining	*	3	8	21	32	54	43	31
Trade—total:	4	3	9	27	35	70	76	38
Wholesale trade	1	1	3	25	26	90	5	19
Retail trade	7	9	4	17	42	58	66	41
Commodity dealers	*	*	48	54	37	73	95	67
Other—total:	13	16	34	47	55	63	59	54
Sales finance companies	*	*	17	33	54	66	66	61
Transportation, communication, and other public utilities	*	*	62	62	63	82	59	64
Construction	*	11	10	18	45	63	*	32
Real estate	*	18	39	62	74	76	*	58
Service firms	14	9	15	66	31	13	6	23
All other borrowers	1	9	39	17	23	37	44	26
Total—all borrowers	9	7	16	35	53	67	60	50
	Other Second District member banks							
Manufacturing and mining—total:	7	10	17	31	46	37	87	29
Food, liquor, and tobacco	*	*	36	72	*	*	*	58
Textiles, apparel, and leather	*	2	25	35	*	*	*	20
Metals and metal products	*	11	8	14	56	*	81	28
Petroleum, coal, chemicals, and rubber	*	*	*	72	*	8	*	29
All other manufacturing and mining	*	12	13	23	74	*	*	22
Trade—total:	10	12	9	9	19	*	75	12
Wholesale trade	6	10	10	3	*	*	*	8
Retail trade	11	12	9	17	23	*	75	14
Commodity dealers	*	*	*	*	*	*	*	19
Other—total:	11	9	13	22	28	63	75	23
Sales finance companies	*	*	*	40	*	*	99	69
Transportation, communication, and other public utilities	*	18	38	*	23	48	59	41
Construction	14	10	9	17	*	*	*	11
Real estate	6	6	7	21	39	*	*	13
Service firms	13	9	18	8	*	*	9	13
All other borrowers	7	6	7	*	*	*	*	9
Total—all borrowers	10	10	13	24	35	44	78	22

* Less than 10 million dollars of loans.

† Less than 0.5 per cent.

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Nonlocal Loans by Asset-Size of Borrower and Type of Business

The percentage of loans to nonlocal borrowers generally increased with the asset-size of the borrower. For the central reserve banks only 9 per cent of the total amount of loans outstanding on the survey date to borrowers with assets of $50,000 or less had been made to customers outside the New York metropolitan area. As Table IV indicates, the proportion of out-of-town loans to total loans by size classes increased from 9 per cent until it reached a maximum of 67 per cent for businesses with assets of from 25 million to 100 million dollars. But it decreased to 60 per cent for loans to borrowers with assets of 100 million dollars or more. This decline in the percentage of loans made to nonlocal companies in the largest asset class—which occurred in a number of industry categories—is probably explained by a fact mentioned earlier: that many of the largest firms have national headquarters in New York City. Loans to these firms were classified as loans to borrowers within the New York metropolitan area.

In the case of the central reserve New York City banks, nonlocal loan percentages were relatively high in most industry classifications, with the notable exceptions of wholesale trade, textile, apparel, and leather firms, construction, and service firms. For other Second District member banks, the table indicates that there were only three industry categories in which more than two fifths of all loans were made to borrowers outside the banks' own metropolitan areas or counties; these were food, liquor, and tobacco manufacturers; sales finance companies; and transportation, communication, and other public utilities.

COMMERCIAL LOAN SURVEY

In July the Bank will publish a pamphlet combining all the articles that have appeared in the *Monthly Review* on the 1955 commercial loan survey and some supplemental statistical data. Requests for copies of this pamphlet may be addressed to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y. Requests will be filled as soon as the pamphlet is available.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1957			1956	Percentage change	
		March	February	January	March	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49=100	146*p*	146	146	141	#	+ 4
Electric power output*§	1947-49=100	226*p*	224	227	214	+ 1	+ 6
Ton-miles of railway freight*	1947-49=100	—	104*p*	102	106	+ 2	− 3
Manufacturers' sales*	billions of $	28.9*p*	29.1	29.2	27.1	− 1	+ 7
Manufacturers' inventories*	billions of $	52.2*p*	51.9	51.5	47.4	+ 1	+10
Manufacturers' new orders, total*	billions of $	27.8*p*	28.2	28.9	26.9	− 1	+ 3
Manufacturers' new orders, durable goods*	billions of $	13.6*p*	14.0	14.4	13.3	− 3	+ 2
Retail sales*	billions of $	16.3*p*	16.5	16.4	15.7	− 1	+ 4
Residential construction contracts*	1947-49=100	—	n.a.	n.a.	317	n.a.	n.a.
Nonresidential construction contracts*	1947-49=100	—	323	297	267	+ 9	+ 8
Prices, wages, and employment							
Basic commodity prices†	1947-49=100	88.7	88.9	91.7	89.7	#	− 1
Wholesale prices†	1947-49=100	116.9*p*	117.0	116.9	112.8	#	+ 4
Consumer prices†	1947-49=100	118.9	118.7	118.2	114.7	#	+ 4
Personal income (annual rate)*	billions of $	337.6*p*	336.6	335.0	318.6	#	+ 6
Composite index of wages and salaries*	1947-49=100	—	154*p*	154	147	#	+ 5
Nonagricultural employment*	thousands	52,008*p*	52,105*p*	52,046	51,057	#	+ 2
Manufacturing employment*	thousands	16,930*p*	16,977*p*	17,033	16,804	#	+ 1
Average hours worked per week, manufacturing†	hours	40.0*p*	40.2	40.2	40.4	− 1	− 1
Unemployment	thousands	2,700	2,881	2,940	2,834	− 6	− 5
Unemployment‡	thousands	2,882	3,121	3,244	n.a.	− 8	n.a.
Banking and finance							
Total investments of all commercial banks	millions of $	72,020*p*	72,960*p*	73,660*p*	75,240	− 1	− 4
Total loans of all commercial banks	millions of $	90,710*p*	89,420*p*	89,010*p*	84,690	+ 1	+ 7
Total demand deposits adjusted	millions of $	104,960*p*	106,780*p*	109,210*p*	104,400	− 2	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,846*p*	30,811	30,916	30,531	#	+ 1
Bank debits (337 centers)*§	millions of $	77,414	80,287	83,158	73,862	− 4	+ 5
Velocity of demand deposits (337 centers)*	1947-49=100	141.3*p*	143.8	141.3	130.6	− 2	+ 8
Consumer instalment credit outstanding†	millions of $	31,273	31,233	31,298	29,112	#	+ 7
United States Government finance (other than borrowing)							
Cash income	millions of $	12,235	7,427	4,886	12,351	+65	− 1
Cash outgo	millions of $	7,203	6,802	5,599	6,149	+ 6	+17
National defense expenditures	millions of $	3,873	3,968	3,651	3,396	− 2	+14
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49=100	155*p*	159	160	155	− 2	#
Residential construction contracts*	1947-49=100	—	n.a.	n.a.	243	n.a.	n.a.
Nonresidential construction contracts*	1947-49=100	—	n.a.	n.a.	320	n.a.	n.a.
Consumer prices (New York City)†	1947-49=100	116.0	115.9	115.6	112.2	#	+ 3
Nonagricultural employment*	thousands	7,829.4*p*	7,803.7	7,856.3	7,795.6	#	#
Manufacturing employment*	thousands	2,663.2*p*	2,662.0	2,696.0	2,685.2	#	− 1
Bank debits (New York City)*§	millions of $	69,893	74,483	74,233	68,424	− 6	+ 2
Bank debits (Second District excluding New York City)*§	millions of $	4,997	5,170	5,470	4,781	− 3	+ 5
Velocity of demand deposits (New York City)*	1947-49=100	181.3	191.6	183.6	175.6	− 5	+ 3
Department store sales*	1947-49=100	115	115	119	107	#	+ 7
Department store stocks*	1947-49=100	132	129*r*	131	121*r*	+ 2	+ 9

Note: Latest data available as of noon, May 1, 1957.
p Preliminary.
r Revised.
n.a. Not available.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ New basis. Under a new Census Bureau definition, persons laid off temporarily and those waiting to begin new jobs within thirty days are classified as unemployed; formerly these persons were considered as employed. Both series will be published during 1957.
# Change of less than 0.5 per cent.
§ Seasonal factors revised. Back data available from the Domestic Research Division, Federal Reserve Bank of New York.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

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MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN SEPTEMBER

The flow of funds through the money market was unusually large during the past month, as transactions associated with the sale of 3.3 billion dollars of new securities by the Treasury augmented the seasonally heavy volume of financial and other payments. Flows of funds are generally enlarged during September in any case as the result of quarterly corporate tax and dividend payments, the seasonal expansion of business, crop movements, and the post-Labor Day pickup in securities flotations. These vast shifts of funds took place during the month just completed in an atmosphere of continued monetary and credit restraint but without evidence of undue strain on the money market. The money market remained tight throughout, with the effective rate for Federal funds holding at 3½ per cent on almost every day, despite a sharp midmonth rise in float which helped to moderate the pressures on aggregate member bank reserve positions. However, there was a tendency for these reserve gains to accrue to country and reserve city banks, so that the reserve positions of the large banks in New York City and Chicago were kept under almost continuous pressure. Shorter term interest rates moved moderately higher during the first half of September, but then fell back as the month progressed; longer term yields remained relatively stable throughout.

After the close of the market on September 12 the Treasury announced that subscription books would be opened on September 16 for an offering of about 3 billion dollars of new securities for cash. Three issues, each carrying a 4 per cent coupon, were offered to investors: an additional 750 million dollars of the recently issued certificates of indebtedness due next August; 1,750 million dollars of new Treasury notes due in five years but redeemable in two and one-half years on three months' notice by the holder; and 500 million dollars of new Treasury bonds maturing in twelve years. All three of the issues were heavily oversubscribed, and both of the two longer maturities were initially quoted at a premium in "when-issued" trading. However, bid quotations on the new notes and bonds dropped to a small discount after allotments had been announced, and all three issues closed the month slightly below par. These and other developments are described more fully below.

Member Bank Reserve Positions

Average member bank borrowings from the Reserve Banks declined slightly to 974 million dollars in the four-week period ended September 25, about 40 million dollars below the average for the previous four weeks. At the same time, average excess reserves expanded, to 590 million dollars from about 530 million. Net borrowed reserves thus averaged 384 million dollars during September, compared with 484 million during August. In good part the increased availability of reserves was due to the midmonth expansion of float, which rose by almost 500 million dollars on a daily average basis during the week ended September 18. The bulge in float came unusually early in September, partly because of check shipment delays due to bad weather, but the rise was prevented from reaching record proportions by accelerated check clearing processes instituted by the individual Reserve Banks.

Although the rise in float led to a sharply lower average of net borrowed reserves during the week ended September 18, such an average, taken alone, gives an inadequate picture of developments during the midmonth period. For one thing, day-to-day fluctuations in reserve positions were rather wide; while net borrowed reserves averaged below 260 million dollars for the week as a whole, they had risen to over 430 million by Wednesday, September 18. In addition, the aggregate reserve statistics obscured some of

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the significant shifts of funds during that week. In particular, reserve positions of banks in the central money market remained under rather heavy pressure, as they were throughout the month. Member banks outside New York and Chicago cut their average borrowings from the Reserve Banks from 666 million dollars in the week ended September 11 to 573 million dollars in the succeeding week, but the New York and Chicago central reserve city banks had to maintain their average indebtedness to their Reserve Banks at about 365 million dollars during both weeks. Apparently the reserve gains were concentrated at smaller banks and were not readily available to the money market.

An added factor influencing the reserve positions of the central money market institutions after the middle of the month was the movement in the Treasury's balances at the Reserve Banks, which rose sharply as tax receipts flowed in. Between September 16 and September 20, for example, the balance jumped from 501 million to 947 million, despite redeposits in the "C" depositaries. In part, this was responsible for an increased degree of pressure on the reserve positions of the New York and Chicago central reserve city banks during the last statement week of the month. These banks stepped up their average borrowings from their Reserve Banks to 500 million from about 365 million the preceding week; average borrowings by other banks, however, rose only slightly, from 573 million to 600 million.

Currency movements also were rather unusual during the month. The outflow of currency into circulation was considerably lighter than normal before the Labor Day holiday, but subsequently expanded somewhat more than had been anticipated. On a daily average basis the movement of currency into circulation absorbed 258 million dollars of reserve balances over the two weeks ended September 11, 34 million less than in the corresponding period last year. In the succeeding two weeks, however, most of these reserve balances were restored as currency flowed back.

System holdings of Government securities showed a net reduction of 196 million dollars between August 28 and September 25, with outright holdings of Treasury bills declining by 160 million dollars and short-term Government securities held under repurchase agreements falling by 36 million. On a number of occasions during the middle of the month one-day repurchase agreements were made in order to moderate pressures converging on the central money market. Outright holdings of Treasury bills increased by 111 million dollars in the week ended September 4, as System purchases were made early in that week to meet the need for funds usually associated with the approach of the long Labor Day week end. Over the three subsequent weeks, however, sales and redemptions totaled 271 million dollars.

Table I

Changes in Factors Tending to Increase or Decrease Member Bank Reserves, September 1957

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	Sept. 4	Sept. 11	Sept. 18	Sept. 25	
Operating transactions					
Treasury operations*	− 10	+ 60	− 73	− 261	− 284
Federal Reserve float	− 119	+ 95	+ 489	− 124	+ 341
Currency in circulation	− 147	− 111	+ 72	+ 132	− 54
Gold and foreign account	− 1	− 17	− 71	+ 44	− 45
Other deposits, etc.	− 7	+ 5	− 10	+ 39	+ 27
Total	− 285	+ 31	+ 410	− 172	− 16
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 248	− 96	− 81	− 113	− 42
Held under repurchase agreements	+ 43	− 16	− 15	− 12	—
Loans, discounts, and advances:					
Member bank borrowings	− 81	+ 199	− 81	+ 156	+ 193
Other	− 1	—	—	—	− 1
Bankers' acceptances:					
Bought outright	+ 4	− 1	− 1	− 4	− 2
Under repurchase agreements	+ 1	− 1	—	—	—
Total	+ 214	+ 85	− 178	+ 27	+ 148
Total reserves	− 71	+ 116	+ 232	− 145	+ 132
Effect of change in required reserves†	+ 65	+ 36	− 153	+ 72	+ 20
Excess reserves†	− 6	+ 152	+ 79	− 73	+ 152
Daily average level of member bank:					
Borrowings from Reserve Banks	826	1,025	944	1,100	974‡
Excess reserves†	455	607	686	613	590‡

Note: Because of rounding, figures do not necessarily add to totals.

* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for four weeks ended September 25.

Government Securities Market

Attention in the Government securities market during much of September centered primarily on the Treasury's sale of 3.3 billion dollars of new securities for cash, the terms of which were made public on September 12. During the early part of the month activity was light and prices generally moved moderately higher. In general some feeling seemed to be developing that interest rates might have reached their cyclical peak, reflecting primarily less optimistic appraisals of the business outlook. For the most part trading in notes and bonds during this period was limited to tax switching by commercial banks and some professional short covering. The occasional investment buying interest that appeared centered in the two longest bonds.

As mentioned above, the Treasury's 3 billion dollar offering included a certificate maturing next August, a five-year note, and a twelve-year bond. The 4 per cent certificates were issued on September 26 and dated August 1, 1957, with an interest adjustment from that date; they will mature on August 1, 1958. The 4 per cent notes were dated September 26, 1957 and will mature on August 15, 1962; however, they are redeemable at the option of the holder at par plus accrued interest on February 15, 1960 upon three months' advance notice. The 4 per cent bonds were dated October 1, 1957 and will mature on October 1, 1969. Payment for the certificates and notes was due at issue on September 26. One half of the payment for the twelve-year bonds was due on October 1, but the remainder may be deferred if desired until not later than October 21, with an interest adjustment in the latter case for the

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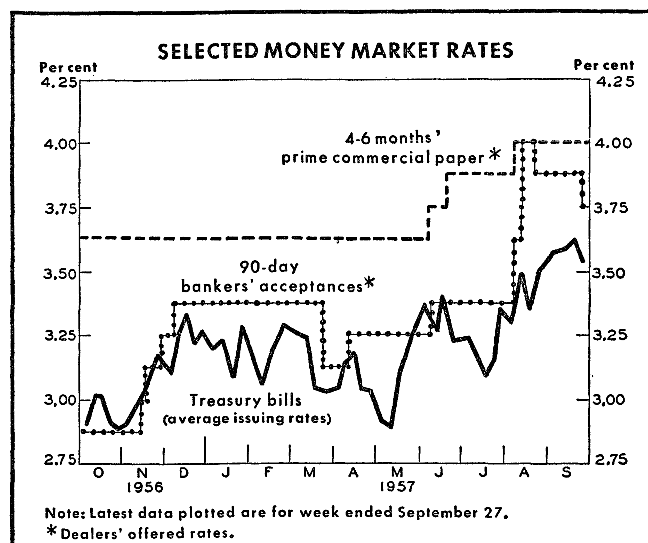
interval between October 1 and the actual date of payment. In all cases, commercial banks were permitted to pay for their own and their customers' allotments by credit to Treasury Tax and Loan Accounts.

The subscription books for the financing operation were open only on Monday, September 16. Total subscriptions aggregated 13.8 billion dollars, of which 3.1 billion dollars were for the certificates, 6.1 billion for the notes, and 4.6 billion for the twelve-year bonds, the oversubscription reflecting mainly subscribers' expectations that only limited percentages of the amounts subscribed for would actually be allotted by the Treasury. Subscriptions of $100,000 or less were allotted in full for the certificates and notes, and $50,000 or less for the bonds, with 22 per cent of subscriptions in excess of these amounts allotted on the certificates, 28 per cent on the notes, and 10 per cent on the bonds. With a modest overallotment, a total of 3.3 billion of the securities was issued to the public: 833 million of the certificates, 1,901 million of the notes, and 557 million of the bonds. (In addition, 100 million dollars of each issue was allotted to Government investment accounts.)

Prices of outstanding bonds and notes moved lower for a few days after the announcement of the financing terms. No strong selling pressures were evident, however, and the favorable reception accorded the new issues seemed to bolster the confidence of dealers and investors in the current level of prices. Trading in the new securities on a "when-issued" basis began on September 17, with the notes rapidly moving to a $\frac{4}{32}$ premium bid and the bonds to about $\frac{10}{32}$ above par. The certificates, as widely anticipated, were bid slightly below par, since the market felt that the issue would have been taken chiefly by commercial banks who would in turn sell much of their allotments promptly at some discount, reflecting the advantage to subscribing banks of the Tax and Loan payment feature. Subsequently, the new notes and bonds also dropped slightly below par bid after the announcement of the percentage allotments, which were somewhat higher than some observers had anticipated. In addition, and perhaps more important, some offerings from speculative sources were prompted by uncertainties created by news of the rise of 2 percentage points in the Bank of England's discount rate on September 19. As the month progressed, however, sufficient demand appeared to absorb the intermittent supply and prices steadied at their new levels. At the close of the month the certificates were bid at $99\frac{29}{32}$, the new notes at $99\frac{30}{32}$, and the new bonds at $99\frac{31}{32}$.

Over the month as a whole, the prices of most Treasury bonds and notes maturing through 1962 showed mixed changes, ranging from losses of about ½ of a point to gains of about ⅜ of a point. Issues due after 1962 and through 1972 generally fell by ⅝ of a point to 1 point. The 3¼'s of 1978-83 closed at $93\frac{14}{32}$ (bid), up ½ of a point over the month, and the 3's of 1995 closed at $88\frac{14}{32}$, up $\frac{22}{32}$.



Note: Latest data plotted are for week ended September 27.
*Dealers' offered rates.

Treasury bill yields rose gradually over the first half of the month but then fell back. Nonbank demand contracted during much of the first half of the month, apparently reflecting the cash needs of corporations for quarterly tax and dividend payments. The average issuing rate in the weekly auction thus rose from 3.571 per cent in the last auction held in August to 3.575 per cent on September 9 and to 3.633 per cent on September 16. (The two longest bills, the March tax anticipation issue and the special April 15 bills, were both exceptions to this general heaviness of the bill market, with the former declining 7 basis-points to 3.94 per cent and the latter 17 basis-points to 3.93 per cent between September 9 and September 19.) Buying interest strengthened in the latter part of the month, however, partly as a result of reinvestment demand arising from holders of tax anticipation bills maturing on September 23, who had held the securities for cash redemption instead of using them to discharge tax liabilities. The average issuing rate thus declined slightly—for the first time since mid-August—to 3.534 per cent in the auction held on September 23 and then to 3.528 per cent on September 30.

Other Securities Markets

The corporate and municipal bond markets were generally steady during September, despite a heavy volume of new flotations. Investor reception accorded new corporate issues was rather selective, with yield usually taking precedence over quality, as measured by ratings, so that a number of high-grade issues moved slowly. By and large, however, the distribution of new issues was successful, particularly in view of the heavy volume, and by the end of the month most issues that had moved slowly originally had been largely distributed. Public offerings of corporate bonds for new capital purposes are estimated to have totaled 590 million dollars during the month, 120 million

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above the August volume and 110 million more than in September 1956. New public municipal offerings amounted to 355 million dollars, compared with 490 million the previous month and 300 million in September of last year.

Initial investor response to new high-grade issues was less than enthusiastic in many cases, but nevertheless, in the general feeling of confidence in the market regarding the stability of current yield levels, underwriters bid rather aggressively for the successive new offerings at fairly steady rates. This atmosphere was reflected in the secondary markets, as indicated by the decline of 1 basis-point in Moody's index of yields on seasoned long-term Aaa-rated corporate bonds, from 4.13 per cent at the end of August to 4.12 per cent at the end of September. This was in marked contrast to the almost steady advance which had taken place between the 3.66 per cent of mid-April and the 4.13 per cent at the end of August. The long-term Aaa-rated municipal bond index closed the month 4 basis-points lower at 3.41 per cent. In mid-April yields as measured by this index averaged 2.84 per cent and during the month of August alone rose 20 basis-points.

On September 11, a 30 million dollar flotation of 36-year Aaa-rated public utility debentures was poorly received when reoffered to yield investors 4.75 per cent. This yield was 32 basis-points above the yield on the preceding Aaa-rated corporate flotation which had been marketed early in July. (However, the July issue, which had been priced to yield somewhat less than similar offerings marketed in mid-June, had also encountered a poor response. In mid-June two Aaa-rated issues had moved well when priced to yield 4.80 and 4.85 per cent.) As the month progressed, three additional Aaa-rated corporate offerings were marketed at successive reoffering yields of 4.63 per cent, 4.86 per cent, and 4.71 per cent, with the differences related to some extent to call features. They all moved slowly at first, as investors seemed inclined to favor the lower rated but higher yielding flotations. Thus a 110 million dollar Baa-rated issue of 5½ per cent debentures moved quickly when reoffered at par shortly before midmonth, as did a later similarly rated 20 million dollar flotation priced to yield 5.70 per cent.

Table II
Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks
(In millions of dollars)

Item	Statement week ended				Change from Dec. 26, 1956 to Sept. 18, 1957
	Aug. 28	Sept. 4	Sept. 11	Sept. 18	
Assets					
Loans and investments:					
Loans:					
Commercial and industrial loans	− 207	+ 33	+ 227	+ 320	+1,315
Agricultural loans	+ 2	+ 1	+ 6	+ 4	− 25
Security loans	+ 43	− 105	− 34	+ 129	− 496
Real estate loans	+ 14	− 13	+ 25	+ 10	− 134
All other loans (largely consumer)	+ 18	+ 11	+ 28	+ 19	+ 346
Total loans adjusted*	− 129	− 71	+ 251	+ 482	+ 820
Investments:					
U. S. Government securities:					
Treasury bills	− 295	− 150	− 4	− 11	− 478
Other	− 94	+ 23	− 21	− 4	−1,429
Total	− 389	− 127	− 25	− 15	−1,907
Other securities	+ 15	+ 9	+ 74	+ 4	+ 214
Total investments	− 374	− 118	+ 49	− 11	−1,693
Total loans and investments adjusted*	− 503	− 189	+ 300	+ 471	− 873
Loans to banks	− 20	+ 307	− 376	− 1	− 102
Loans adjusted* and "other" securities	− 114	− 62	+ 325	+ 486	+1,034
Liabilities					
Demand deposits adjusted	+ 491	− 560	+1,258	− 577	−3,120
Time deposits except Government	+ 23	+ 32	+ 80	+ 18	+1,677
U. S. Government deposits	− 477	− 445	−1,182	+1,024	− 333
Interbank demand deposits:					
Domestic	− 329	+ 673	+ 235	+ 93	− 353
Foreign	− 125	+ 37	− 13	− 27	− 29

* Exclusive of loans to banks and after deduction of valuation reserves; figures for the individual loan classifications are shown gross and may not, therefore, add to the totals shown.

On September 6, three of the major finance companies that sell their short-term obligations directly to investors announced increases in the rates paid on their paper, following the upward movement in other short-term rates during the preceding six weeks. They were joined on September 10 and 11 by the two other large companies. Rates on paper maturing up to 239 days were raised by ¼ of 1 per cent, on 240 to 270-day paper by ⅛ of 1 per cent. These changes brought the rate to 3¾ per cent for 30 to 89-day paper, 3⅞ for 90 to 179 days, 4 per cent for 180 to 239 days, and 4⅛ per cent for 240 to 270 days. On the other hand, on September 20 dealers in bankers' acceptances reduced their rates by ⅛ of 1 per cent on all maturities, the second reduction in four weeks after three increases earlier in August. This move, which was in response to increased investor demand for acceptances, brought quotations on 90-day maturities down to 3⅞ per cent bid and 3¾ per cent offered, still ⅜ per cent above the August 1 level.

Member Bank Credit

Total loans and investments of the weekly reporting member banks expanded by 79 million dollars during the four weeks ended September 18. Loans rose by 533 million, but this was in large part offset by a 454 million dollar drop in securities holdings.

Loans declined by almost 130 million dollars in the week ended August 28, as heavy business loan net repayments overshadowed increases in other types of loans. A large part of the business loan decline in this week was accounted for by net repayments by sales finance companies and by concerns in the petroleum and related industries. Subsequently, however, business loans advanced, rising by 580 million dollars in the three following weeks. Sales finance companies stepped up their borrowings, and food processors and trade concerns also contributed substantially to the increase. Over the complete four-week period business loans expanded by 373 million dollars.

Investment holdings of the reporting banks decreased by 454 million dollars over the four weeks, mainly because of a sharp sell-off of Treasury bills in the weeks ended August 28 and September 4. Treasury bill holdings had increased by almost 750 million dollars in the week ended August

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21, primarily reflecting bank acquisition of the new 237-day bills that had been auctioned by the Treasury in mid-August. The decline in holdings in the two weeks ended September 4 presumably represented some distribution of these securities to nonbank investors by banks which had bid for the issue, in effect as underwriters, because of the Tax and Loan payment feature.

Thus far this year, total loans adjusted have grown by 820 million dollars at the weekly reporting banks, with business loans expanding by 1.3 billion and unclassified (largely consumer) loans by 346 million. Securities loans and real estate loans, on the other hand, have declined by 496 million and 134 million, respectively. Through the similar interval last year, total loans had grown by 3.2 billion dollars, business loans by 3.1 billion, consumer loans by 684 million, and real estate loans by 651 million. Securities loans had declined by 1.0 billion dollars. Investment holdings of the reporting banks have fallen by 1.7 billion dollars during the first thirty-eight weeks of 1957; in the corresponding period last year they had declined by 4.1 billion. Taking total loans and investments together, the decline amounts to 873 million dollars thus far this year, almost the same as the 893 million dollar contraction in the similar period last year.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

The United Kingdom. Effective September 19, the Bank of England raised its discount rate by 2 per cent to 7, the highest since 1921; the rate previously had been reduced ½ per cent to 5 last February. In announcing this exceptional increase—the rate had been raised 2 per cent only twice before since the beginning of the century, on the eve of the first and the second world wars—the Chancellor of the Exchequer stated that it was "made necessary because of the heavy speculative pressure against sterling". At the same time, however, he emphasized that a rise was required "in any event" to support other measures for restraining monetary expansion in the private and public sectors: the banks have been requested to hold their advances during the coming year to the average level of the past twelve months, while investment in the public sector, which had been expected to rise substantially, is to be kept at this year's level in 1958 and 1959. As the Chancellor stated, "there can be no remedy for inflation and the steadily rising prices which go with it which does not include, and indeed is not founded upon, a control of the money supply. So long as it is generally believed that the Government are prepared to see the necessary finance produced to match the upward spiral of costs, inflation will continue and prices will go up". In discussing the new monetary restraints at the annual meeting of the International Monetary Fund, the Chancellor reiterated these views and added that "I am confident that they will be effective. They will be pushed to the lengths necessary for that purpose".

In August, Britain's reserves of gold and United States and Canadian dollars declined by 225 million dollars—a fall that wiped out most of the increase of the preceding six months and reduced total reserves to 2,142 million dollars. The speculative origin of the present exchange crisis is apparent in that Britain is running a substantial surplus in its balance of payments on current account; the surplus amounted to around 600 million dollars during the year ended June 1957. "The evidence of the United Kingdom's balance of payments and trade figures", the Chancellor pointed out, supports the view that the existing exchange rate parity is "right" and therefore "the Government intend to maintain the existing exchange rate parity of $2.80 to the pound, and they do not intend to allow the margins to widen". To underline Britain's determination to maintain the present value of the pound, the Chancellor announced on September 24 that Britain's reserves would be buttressed by drawing on the 500 million dollar line of credit opened by the United States Export-Import Bank last February.

Domestically, the pace of economic activity has quickened this year but, while production has revived substantially after having changed little during 1956, there has been a still more rapid growth in demand. Although investment has been expanding, the major source of inflationary pressure in the British economy has been the rise in consumption as wages have been pushed upward; weekly wage rates rose 5 per cent during the first eight months of this year.

The steady rise in demand has pressed hard against the authorities' monetary restraint policy. There has actually been a substantial expansion of the money supply and of bank credit this year; in the five months ended mid-July, the net deposits of the London clearing banks increased by 286 million pounds, compared with 89 million a year earlier. In the four weeks ended mid-August, however, bank credit contracted, partly because of a decline in the banks' liquid assets associated with the foreign exchange drain, and partly because of the continuation of the decline in advances which began in July. However, the recent decline in advances has only partly offset the increase in the first half year, and the latest analysis of advances reveals that the seasonal decline in private borrowing during May-August was substantially less than in 1956.

In the money market, the recent upward movement of interest rates was sharply accentuated following the discount rate increase (see chart); the average Treasury bill tender rate rose from 4.23 per cent on September 13 to

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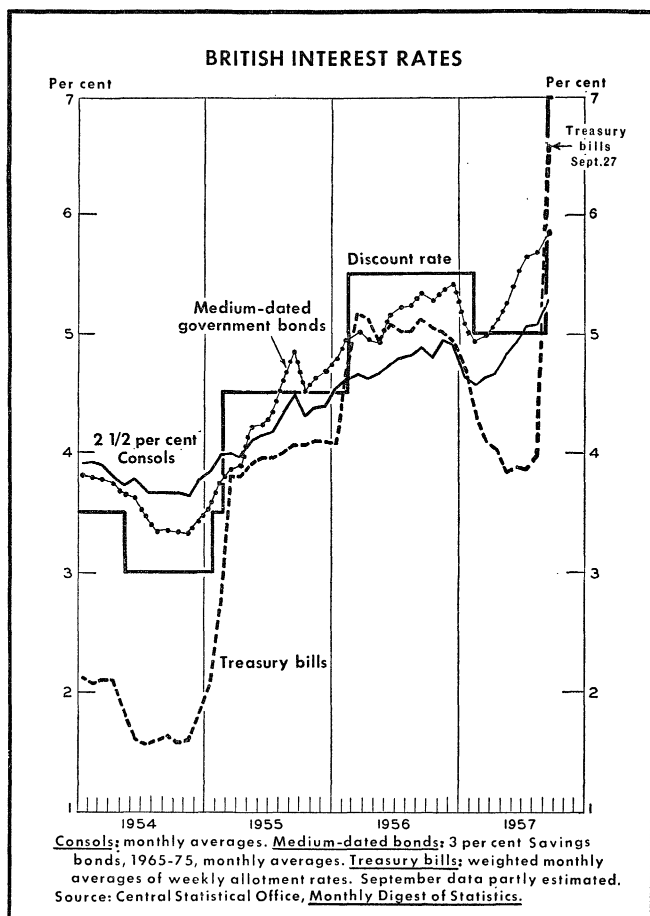

Consols: monthly averages. Medium-dated bonds: 3 per cent Savings bonds, 1965-75, monthly averages. Treasury bills: weighted monthly averages of weekly allotment rates. September data partly estimated.
Source: Central Statistical Office, Monthly Digest of Statistics.

6.60 per cent on September 20 and again on September 27, its highest since February 1921. The gilt-edged securities market had been weak for several months, and prices fell further following the discount rate increase; the yield of 2½ per cent Consols rose to a record high of 5.56 per cent on September 19 but declined somewhat thereafter and stood at 5.46 per cent on September 30.

Germany. The German Federal Bank lowered its discount rate to 4 per cent from 4½, effective September 19; this was the third ½ per cent decrease since early September 1956, when the rate was 5½ per cent. In the background of the discount rate reduction is the slackening of the pace of economic expansion in Germany in recent months. There has recently been a more-than-seasonal decline in investment activity in several important sectors, and consumption has increased more slowly than had been expected. Also in the background of the reduction of the discount rate is the rapid increase in the liquidity of the banking system this year, as a result of which commercial bank borrowing from the central bank has dwindled sharply and day-to-day money rates have dropped considerably, ranging as low as 2¼ per cent toward the end of August. The central bank has endeavored to offset the increase in liquidity by open market sales totaling 3.9 billion marks this year through the middle of September. As on four occasions earlier this year, the Treasury agreed in September to replenish the central bank's portfolio by converting 1 billion marks more of the so-called equalization claims into marketable short-term paper. The authorities have had to contend with an inflow of foreign exchange that has raised Germany's gold and foreign exchange reserves this year by 1.4 billion dollars' equivalent to almost 5.7 billion in mid-September and has had serious international as well as domestic repercussions. The German Federal Bank has estimated that about half of the exceptional 538 million dollar net increase in its gold and foreign exchange holdings in July and August may be attributed to the intensification of speculation, largely prompted by rumors about a possible appreciation of the German mark—rumors that have been forcefully denied by the German authorities.

Netherlands. Following up their increase in the discount rate in August, the Dutch authorities last month announced further measures of monetary and fiscal restraint to combat domestic inflationary pressures and improve the balance of payments. To prevent a further expansion of bank credit beyond what is necessary to meet seasonal business needs, the Netherlands Bank has requested the commercial banks to hold their lending to the private sector during the last half of this year to an average of not more than 2 per cent above the level of the preceding quarter; banks that are deemed not to have complied fully with this request may be charged a penalty rate of 1 per cent above the normal rate when borrowing from the central bank. Under the 1958 budget presented to Parliament last month the government, by increasing taxes further on nonessential consumer goods, proposes to reduce substantially the budgetary deficit next year. A reduction of the central government's borrowing requirements would leave more room on the capital market for the municipalities, whose extensive short-term borrowings have been a major source of credit expansion. The reduction of the municipalities' short-term borrowing is reportedly also to be facilitated by an upward revision of the present limits on the rate of interest at which they may borrow at long term. Meanwhile, the speculative pressures on the guilder, which caused a nearly 15 per cent drain in the official gold and foreign exchange reserves in August, seem to have abated; in the first three weeks of September, there was a net decline of only about 6 million dollars' equivalent in the central bank's reserves, after allowing for the Netherlands' 69 million dollar drawing from the International Monetary Fund.

Exchange Rates

American-account sterling continued weak during the first half of September, largely as the result of substantial commercial offerings and widespread rumors of a widening of the margins within which the pound is permitted to fluctuate. Spot sterling was maintained at the support level of about $2.78¼, with the exception of September

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3 and 17 when short covering raised the quotation to \$2.78$\frac{3}{8}$ and \$2.78$\frac{7}{16}$, respectively. After the British Government's measure of September 19 (see above) and the subsequent announcement of restrictions on the credit facilities available to nonresidents of the sterling area, the quotation rose to \$2.79$\frac{9}{32}$ on September 24. At the month end, the rate stood at \$2.79$\frac{5}{8}$. In the forward market the discounts on three and six months' sterling moved erratically, with the spreads narrowest at 2$\frac{1}{2}$ cents and 3$\frac{11}{32}$ cents early in September and widening at midmonth to 4$\frac{1}{4}$ and 6$\frac{3}{16}$—the widest spreads since December 1951. The discounts subsequently narrowed to 2$\frac{3}{4}$ and 4$\frac{1}{16}$ on September 24, and at the month end stood at 3$\frac{1}{16}$ and 4$\frac{7}{16}$ cents.

Transferable sterling moved within the narrow range of \$2.75-\$2.7535 during the first half of the month in a rather inactive market. At midmonth, however, as the rate began to weaken again toward the lower level, bidding reportedly from London developed, strengthening the rate to \$2.7560 on September 17. The rate further improved to \$2.7720 on September 24 on covering of short positions. On September 30 the rate was quoted at \$2.7745.

Securities sterling generally held at about the \$2.68$\frac{1}{2}$ level until midmonth in a relatively inactive market. Thereafter, the quotation moved upward, as demand developed, reaching \$2.73 on September 24. By September 30, however, the rate had eased to \$2.71.

The Canadian dollar weakened in the first half of September. Following the September 7 address of the Canadian Prime Minister in which he mentioned the uneasiness in Canada "over the political implications of large-scale and continuing external ownership and control of Canadian industries", a strong demand for United States dollars developed in Canada, and the Canadian dollar declined from \$1.05$\frac{3}{16}$ at the beginning of the month to \$1.03$\frac{51}{64}$ on September 16. The rate recovered to \$1.04$\frac{9}{32}$, however, on September 18 under strong demand for Canadian dollars from London and offerings of United States dollars from Canada. It then dipped to \$1.03$\frac{11}{16}$ at the month end.

RECENT TRENDS IN UNITED STATES FOREIGN TRADE

The vigorous economic expansion of the world overseas in recent years has had its favorable counterpart in the domestic economy of the United States. Our nonmilitary exports have forged ahead impressively in the years since 1953. In the short space of three years our merchandise shipments abroad rose some 41 per cent to 17.2 billion dollars in 1956; the first six months of 1957 witnessed a further sharp rise to an annual rate of 20.2 billion. United States exports over the period rose proportionately more than the aggregate of world trade, testifying to our significant stake in the continued growth of the world economy. Our share of world exports rose between 1953 and 1956 from 17 per cent to 19 per cent of the total (excluding our own military shipments but not those of other countries).

The export boom since 1953 has been an important expansionary force in the growth of total output and employment. Overseas sales began to pick up vigorously early in 1954 from the levels to which they had declined from their Korean war highs. This export rise was one of the significant stimulating factors in the recovery of the economy from the 1953-54 decline in business activity. The advance in merchandise exports continued at a moderate pace through 1955 with export prices as a whole exhibiting considerable stability. This movement became a strong upward surge in 1956 as foreign economies continued to expand rapidly, United States capital flowed abroad at a record pace, and special Government programs boosted agricultural exports. The volume of goods shipped rose 16 per cent in 1956 over 1955 and export unit values moved upward 4 per cent. The export boom continued on into the first half of 1957, with the value of exports rising 14 per cent above the rate of the preceding six months. Suez-induced shipments of fuels and special agricultural programs played a considerable role in this movement. Since the first quarter, exports have receded as special factors have spent their force, but continue at a high level.

While expansion abroad enlarged our foreign sales, expansion of domestic economic activity also lifted our own purchases of foreign raw materials and consumer goods. United States imports for consumption advanced 16 per cent over the three years to 12.5 billion dollars last year. In 1953 they had remained at the 10.8 billion dollar level achieved in the two preceding years (see chart). By that time, raw material prices had fallen sharply from their post-Korea heights, and the value of raw material imports had slipped below the totals of earlier years despite the greater volume associated with a high level of domestic business activity and continued Government stockpiling.[1] Buoyed by high domestic income, imports of foodstuffs were maintained in 1953, with their prices strong, while foreign manufactures were entering in increasing volume. The 1953-54 United States recession caused imports to slip in 1954 as raw material purchases were cut back. However, the renewal of the advance of the domestic economy in the fourth quarter of 1954 brought in its train a general increase in most of our imports. The volume of goods arriving from abroad rose one fifth between 1954 and 1956 with import prices advancing slightly. In the first half of 1957 the value of imports edged ahead to a 12.8 billion dollar annual rate. Purchases of crude

[1] See "Recent Trends in United States Imports", *Monthly Review*, July 1956.

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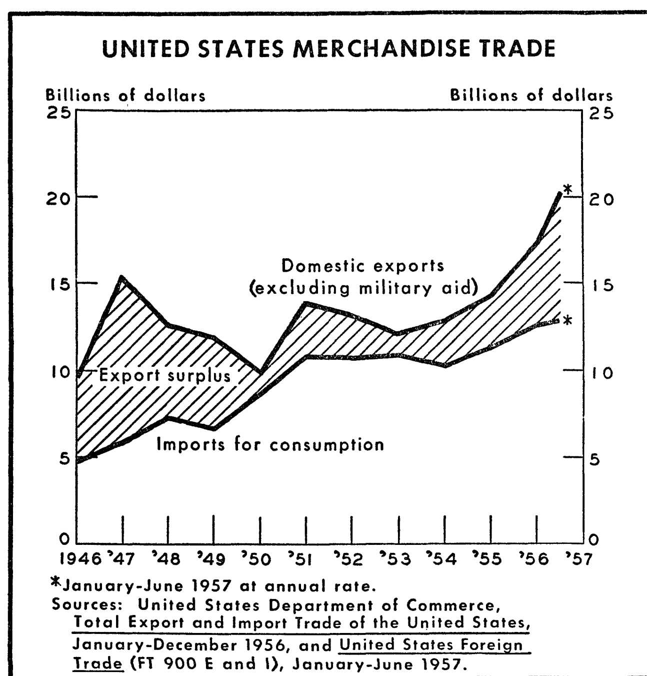

*January-June 1957 at annual rate.
Sources: United States Department of Commerce, Total Export and Import Trade of the United States, January-December 1956, and United States Foreign Trade (FT 900 E and I), January-June 1957.

materials declined, presumably because of a cessation in the build-up of some kinds of inventory associated with the leveling-off in domestic business activity.

The vigorous growth of our nonmilitary exports in combination with the much more modest rise in our merchandise imports has resulted in a widening trade gap (see chart). In 1953 the export surplus was down to 1.4 billion dollars from a Korean war high of twice that in 1951, but by 1956 it had grown to 4.7 billion dollars. The impact of the Suez situation and of surplus shipments helped lift the trade surplus even higher this year, to an annual rate of 7.5 billion dollars in the first six months. Surpluses of such size have not been experienced since the immediate postwar period of reconstruction. The rising outflow of United States capital—both private and governmental—has facilitated this growth, but recently several foreign countries have had to draw upon the International Monetary Fund and their own international reserves. Obviously, there are limits to the length of time such reserves can be drawn down. Indeed, several important countries abroad have already found it necessary to initiate policies aimed at curbing inflation and curtailing imports. In time such measures and the lessening of special stimuli can be expected to cut into our present export surplus.

The Commodity Composition of United States Exports

A closer look at the export boom since 1953 shows it to be the product of notable advances scored by three major groups of United States products: agricultural products, nonagricultural industrial raw materials, and capital goods. Conspicuous individual items notwithstanding, only a very small part of total export gains took the form of overseas sales of finished consumer goods by which the American "way of life" is so widely identified. A small part of the gains discussed below reflect higher prices; the bulk, and almost all of the gains for agricultural products, represent increased quantities exported.

The higher levels of foreign output is the common cause, although each group of exports is affected by other influences as well. Agricultural exports—cotton, wheat, coarse grains, dairy products, and the like—benefited particularly from the economic expansion in Western Europe and Japan as well as from the large-scale surplus disposal program of the United States. The world-wide advance of industrial production gave a similar impetus to our export sales of nonagricultural industrial raw materials—notably chemicals, coal, and nonferrous metals. A large increase in United States direct investment abroad and further progress in the economic development of less fully developed regions produced a substantial increase in shipments of industrial machinery and other capital equipment.

The gains scored by agricultural exports have been quite imposing. Between 1953 and 1956 such exports advanced from 2.8 to 4.2 billion dollars; in the first five months of 1957 they were running at an annual rate of 4.9 billion. Although agricultural exports were low in 1953, most of the increase has occurred since 1955 when such exports were 3.2 billion dollars.

While the growth of foreign economies and populations has been basic to the rise in foreign requirements for agricultural products, special programs of the United States Government have been a major factor in translating foreign needs into effective demand for our farm commodities. In fiscal years 1956 and 1957 some 40 per cent of all agricultural exports moved under legislation permitting domestic agricultural surpluses to be sold for foreign currencies or raw materials, or to be donated for specified purposes. Agricultural exports under these programs rose by about 1.3 billion dollars between the 1952-53 and 1956-57 fiscal years, while commercial sales were increasing by only about 550 million dollars. Larger surplus sales against foreign currencies were the biggest factor in the export gain. In addition to these special programs, the Commodity Credit Corporation has sold substantial quantities of several commodities from its stocks at competitive prices for export for dollars. These pricing policies have generally been cited as responsible for an increase in United States raw cotton exports from 3.8 million bales in fiscal years 1954 and 1955 to 7.9 million bales in the year ended June 30, 1957.

A breakdown of the main commodity groups involved in the export advance shows that four major agricultural categories were responsible for over one fourth of the total gain between 1953 and 1956 (Table I). Cotton shipments in 1956 did not fully reflect the effects of the special competitive pricing program until the last five months of the

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period. Even so, the year witnessed a volume of export sales appreciably greater than that of 1953 in the case of Europe and far above in the case of the Far East, especially Japan. Exports in the first half of 1957 rose still further as restocking abroad continued. Shipments of fats, oils, and oilseeds made even larger gains as world consumption continued to expand; Western Europe provided the chief market. Wheat, flour, and coarse grains accounted for most of the 280 million dollar increase recorded in exports of grains and preparations; Western Europe, which had a poor harvest in the 1956 season, took most of the increase in shipments. Overseas sales of other foodstuffs—meat and dairy products, lard, vegetables, and fruits—made the largest advance of all over the 1953-56 period, increasing by 480 million dollars to virtually double the 1953 figure. Greater trade liberalization as well as short crops helped such shipments to increase to Europe, while the Far East also took larger quantities.

The United States has been called upon increasingly to provide fuel and raw materials for industrial growth abroad which, in important instances, has outstripped the short-run capacities of foreign economies. The vigorousness of overseas growth is evidenced by the fact that manufacturing production in December 1956 stood above the 1953 average by 30 per cent in the OEEC countries of Western Europe and by 59 per cent in Japan, compared with a rise of only 10 per cent in the United States. The pattern of United States exports reflects the supply bottlenecks abroad produced by the rapidity of this advance (Table I). Coal shipments to Western Europe rose from 74 million dollars in 1953 to 445 million dollars in 1956, accounting for nearly all of the global gain in coal shipments. Our foreign sales of chemicals expanded over 50 per cent during the period; Japan and Europe accounted for about half of the increase, Latin America for one quarter. Copper and copper-base alloys, iron and steel scrap, and nonferrous metals were also in strong demand by industrial areas abroad.

The accelerated pace of investment overseas in plants, equipment, mines, and public works provides the third key to our recent export boom. As a result of this massive investment effort, part of it the result of American lending and direct investment abroad, our exports of industrial machinery rose by 38 per cent to 2.1 billion dollars last year and this upward movement was extended in the first half of 1957. Construction, excavating, and mining machinery scored the largest gains, with Canada and Latin America the principal markets. Iron and steel-mill products—a category which includes raw as well as fabricated steel—were in heavy demand in nearly all world markets. Our exports of these products more than doubled during the 1953-56 period; in the first five months of 1957 they ran at an annual rate 50 per cent above the 1956 level. Shipments to the Far East, principally Japan, and Western Europe made particularly large percentage advances, but our older markets in Canada and Latin America also absorbed substantially larger amounts. Foreign purchases of commercial trucks rose by 180 million dollars and of civilian aircraft by half that amount.

A brief word is also in order about those export products which showed little gain or receded over the recent period. Tractors and farm implements lost ground, partly at least because of increased deliveries from American-owned plants established abroad. Textile manufactures have dipped a bit since 1953 as well, but some crosscurrents are also in evidence since exports of synthetic fabrics have increased slightly. Agricultural products have also not all advanced; for instance, sales of tobacco products in 1956 remained at about their 1953 level.

Table I

United States Exports by Selected Commodity Groups, 1953 and 1956*

Group/Item	1953	1956	Increase 1953 to 1956	Share of total increase
	In millions of dollars		Per cent	Per cent
Agricultural products	**2,407**	**3,734**	**55**	**26.9**
Cotton (unmanufactured)	521	729	40	4.2
Fats, oils, and oilseeds	318	675	112	7.2
Foodstuffs other than grains, fats, or oils	509	992	95	9.8
Grains and preparations	1,059	1,338	26	5.7
Nonagricultural raw materials	**1,262**	**2,255**	**79**	**20.1**
Chemicals and related products	800	1,235	54	8.8
Coal and related products	346	745	115	8.1
Copper and copper-base alloys	116	275	137	3.2
Capital goods	**2,304**	**3,645**	**58**	**27.2**
Commercial trucks	264	440	67	3.6
Industrial machinery	1,545	2,137	38	12.0
Iron and steel-mill products	495	1,068	116	11.6
Other exports	**5,675**	**6,950**	**22**	**25.8**
Total exports	**11,648**	**16,584**	**42**	**100.0**

* Includes re-exports but excludes all "special category" items. Domestic exports (including "special category" items but excluding military aid) totaled 12.1 billion dollars in 1953 and 17.2 billion in 1956.

Sources: *Foreign Commerce Weekly*, May 9, 1955 and April 29, 1957.

The Changing Pattern of Export Markets

The outstanding change of the past few years in the geographic picture of our overseas markets has been the re-emergence of Western Europe as the largest outlet for United States products. The striking advance scored by exports to Western Europe lifted the area from third place in 1953 to its leading position in 1956 (Table II). Shipments to other regional markets rose less than half as rapidly although all shared in the general increase. Canada yielded first place but enlarged its margin slightly over the American Republics. Sales to other areas kept pace with those to Canada.

In the three years ended in 1956 our exports (excluding military aid) to Western Europe rose almost 80 per cent to a total of 5.1 billion dollars. This advance reflected larger European dollar receipts from commercial sales to the United States and from capital outflows from this country, and a greater use of these receipts to make dollar

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Table II
United States Exports by Destination, 1953 and 1956*

Area	1953	1956	Increase	Share of increase
	In millions of dollars		Per cent	Per cent
Western Europe	2,868	5,122	78	45
Canada	2,996	3,972	32	20
American Republics	2,921	3,680	26	15
Far East	1,908	2,534	33	13
Other	954	1,276	34	7
Total	**11,648**	**16,584**	**42**	**100**

* Includes re-exports but excludes all "special category" items.
Sources: See Table I.

purchases. A sharp decline in United States grant assistance was largely offset by a rise in the expenditures of the armed forces overseas. As may be surmised from the foregoing discussion, shipments of agricultural products and industrial raw materials—both crude materials and semimanufactures—provide the principal explanation for Europe's gains. Grains, other foodstuffs, and oils alone accounted for over one third of the export advance. Chemicals, coal, iron and steel-mill products, and copper and copper-base alloys made up another third. Exports of machinery and other finished manufactures made only modest advances to this highly industrialized area.

The investment boom in both Canada and Latin America was the chief force behind the rise in our shipments to these areas. Machinery and iron and steel-mill products accounted for over half of the export gains in both cases. Some part of this expanded flow of capital goods probably reflects the accelerated pace of direct investment by United States concerns in both areas as well as the markedly larger volume of Canadian securities floated in the United States in 1956. Chemicals and related products also enjoyed strong demand in the markets of the Western Hemisphere, and some foodstuffs moved in somewhat larger volume.

Agricultural products were important in the increased sales to the Far East and the rest of the world. Cotton and foodstuffs accounted for almost one third of the increased shipments to the Far East, foodstuffs about one quarter of the gains to the rest of the world (principally the Near East and Africa). Machinery and iron and steel-mill products needed for economic development loomed large in Far Eastern gains but were much less important elsewhere. Chemical products also moved strongly to Asian markets, while automobiles and trucks were second only to foodstuffs in accounting for the export rise to the Near East and Africa.

The Commodity Pattern of Recent Import Gains

The economic growth of recent years has left its mark not only on the structure of our export trade but upon the composition of our imports as well. The expansion of United States production and resulting higher personal incomes appear to be the dominant factors behind the recent increases in our foreign purchases (Table III). The moderate 16 per cent rise in United States imports over the three years ended in 1956 was chiefly the result of a greater inflow of raw materials, petroleum and petroleum products, and manufactured consumer goods. Imports of crude and manufactured foodstuffs, which made up one quarter of our total imports last year, failed to advance in dollar value over the period.

Taking a longer view, as domestic industrial production has expanded in recent decades, there has been a marked tendency for the United States to turn to foreign sources of supply for a part of its growing needs. This has been the natural result of the gradual depletion of some of the richer mineral deposits within our borders. Recourse to foreign sources has helped hold down the rise in domestic costs which would necessarily have accompanied sole reliance on domestic supplies. Variations in business activity and the volatility of raw material prices make it difficult to observe this process in operation within a brief period, but its fundamental importance requires that it be borne in mind when import developments are examined.

The recent increase in our intake of iron ore and concentrates does, however, provide a good example of this process at work. Over this period such imports, drawn chiefly from Canada and Venezuela, rose from 97 million dollars in 1953 to 250 million in 1956. Nonferrous metals and ferroalloys, on the other hand, have as a group made only minor gains, although this may reflect a decline in Government stockpiling rather than stable commercial demand. Within the group copper imports, principally from Chile, rose in dollar value as steep price rises up through 1956—subsequently reversed—more than offset a decline in volume. Ferroalloy imports dropped in both price and volume. In contrast, our purchases of lead, nickel, and

Table III
United States Imports for Consumption by Selected Commodity Groups, 1953 and 1956

Group/Item	1953	1956	Increase or decrease 1953 to 1956	Share of total increase
	In millions of dollars		Per cent	Per cent
Foodstuffs	**3,096**	**2,966**	**− 4**	**− 7.5**
Coffee	1,468	1,438	− 2	− 1.7
Cane sugar	425	437	3	0.7
Other foodstuffs	1,203	1,091	− 9	− 6.5
Fuels and raw materials	**3,785**	**4,719**	**25**	**54.5**
Crude rubber	331	398	20	3.9
Iron ore and concentrates	97	250	158	8.9
Nonferrous metals and ferroalloys	1,661	1,710	3	2.9
Paper and paper materials	934	1,092	17	9.2
Petroleum and products	762	1,269	66	29.6
Finished manufactures	**817**	**1,279**	**56**	**27.0**
Machinery and vehicles	353	631	79	16.2
Textile manufactures	464	648	40	10.8
Other imports	**3,081**	**3,526**	**14**	**26.0**
Total imports	**10,779**	**12,490**	**16**	**100.0**

Sources: See Table I; United States Department of Commerce, *Total Export and Import Trade of the United States*, January-December 1956.

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zinc rose as both prices and volume advanced. United States demand for Canadian newsprint, paper base stocks, and sawmill products lifted our imports of these products by 228 million dollars. Imports of natural rubber, which is meeting stiff competition in the domestic market from the synthetic product, declined in volume but advanced in value as prices rose above the depressed 1953 level. Wool imports declined both in volume and dollar value.

Imports of petroleum and petroleum products scored very sharp gains over the 1953 to 1956 period, rising by two thirds to almost 1.3 billion dollars. Over one quarter of the over-all three-year increase in imports was contributed by this category alone. In the first five months of 1957 petroleum replaced coffee as our largest import. The strength of this inward movement, which has led to official efforts to control petroleum imports, reflects the low production costs of Venezuelan and Middle Eastern oil.

An outstanding feature of the developing import picture has been the sharp advance made in recent years in United States imports of finished manufactures. Such imports, exclusive of newsprint and jute burlaps which may be considered raw materials, rose from 1.5 billion dollars in 1953 to 2.4 billion last year. These gains were extended in the first half of 1957, bringing manufactured imports to two and a half times their 1950 level. Expanded domestic production and greater prosperity appear basic to this development, but the easing of United States trade restrictions has probably also facilitated import gains. Sales here of foreign industrial, electrical, and office machinery have grown steadily. Textile imports, largely from Japan and the United Kingdom, accounted for one tenth of the three-year increase in all imports but have not risen further in 1957 because of steps taken on behalf of the United States industry. European producers of automobiles have made a very successful entry into the domestic market. Their sales almost tripled to 145 million dollars in 1956 and climbed further to an annual rate of 280 million dollars in the first five months of this year. A wide range of other consumer items mostly from Europe and Japan also enjoyed substantial increases in sales here over the period.

In contrast to the fine showing made by many manufactured consumer items, imports of foodstuffs have exhibited little buoyancy over the past several years (Table III). Over the period as a whole, a modest decline in food prices has practically offset a small rise in import volume. In the case of coffee which makes up almost half of our import bill for food, slightly lower prices caused the import value to slip a little to 1.4 billion dollars despite a small rise in volume. Both lower prices and reduced volume were behind the decline in cocoa imports. The volume of sugar imports, however, rose sufficiently to lift import values despite slightly lower average prices. Imports of meat and dairy products slipped back over the period, but United States purchases of nuts, fish, and distilled spirits increased appreciably.

Shifts in the Source of United States Imports

The changing pattern of our imports of late reveals significant differences in the pace at which the several regions have developed their sales to us but no major shifts in the relative standing of our suppliers (Table IV). The American Republics remain our chief source of imports, although our purchases from them have advanced only slightly since 1953. Canada's second position is now challenged by Western Europe. Imports from the Far East have kept pace with the rise of total imports, while those of other regions have moved ahead at a slightly faster clip.

The very modest gain recorded in our imports from Latin America is due entirely to our larger purchases of petroleum and petroleum products. These enlarged supplies, as well as increased imports of nonferrous metals and iron ore, reflect the success of United States private investment in bringing these resources into production. Agricultural commodities, on the other hand, have given ground. Lower coffee prices reduced Latin American receipts for that important commodity, and wool shipments fell off considerably over the period.

United States purchases from Canada continue to consist largely of raw materials and semifinished goods. Paper and paper manufactures, the largest import from Canada, alone accounted for some 30 per cent of the increase in that country's shipments to us. Larger imports of nonferrous metals and iron ore were responsible for an equal share, as investments by a number of United States companies began to reach the productive stage. The rise of petroleum imports from only 8 million dollars in 1953 to 121 million dollars last year also reflected the operations of United States corporations in Canada. Canadian shipments of foodstuffs, however, declined over the period.

Western Europe and Japan have scored the largest percentage gains in domestic markets since 1953. Indeed, without the nearly 300 million dollar increase in Japan's exports to us, the Far East would have shown a decline for the period. The two industrial areas have been the principal beneficiaries of the large increase scored by our manu-

Table IV

United States Imports for Consumption by Area of Origin, 1953 and 1956

Area	1953	1956	Increase	Share of increase
	In millions of dollars		Per cent	Per cent
American Republics	3,417	3,608	6	11
Canada	2,456	2,869	17	24
Western Europe	2,270	2,862	26	35
Far East	1,603	1,873	17	16
Other	1,033	1,278	23	14
Total	**10,779**	**12,490**	**16**	**100**

Sources: See Table I.

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factured imports. Machinery, vehicles, and textiles were responsible for about half of Europe's gains; textiles alone made up half of the increase recorded by the Far East as a result of Japan's export drive. A wide variety of other manufactured goods accounted for much of the remainder in both instances. About two thirds of the increase in our imports from the Near East and Africa was made up of petroleum from the area of the Persian Gulf, again in large part produced by United States companies operating abroad. An increase in coffee imports from Africa is also worthy of note.

Concluding Remarks

The United States economy has reaped very tangible benefits from the world-wide economic growth and easing of trade restrictions of recent years. As the world economy continues to grow, these benefits can be expected with some confidence to expand if restrictive policies do not intervene. Growing overseas markets should promote greater productive efficiency at home, especially in industries supplying highly competitive capital goods. The further expansion of foreign supplies should provide raw material requirements at less cost than if we depended on domestic resources alone. These gains from trade could, however, be placed in jeopardy by the acceleration of either of two trends observable in past developments. A widespead policy of pursuing economic growth at the expense of price stability might well lead to sizable fluctuations in United States exports as they rose in response to overexpansion abroad and fell back when adjustments were undertaken abroad to end the reserve drains thus set in motion. Another obstacle to trade expansion might arise if pressures for a more restrictive import policy should become stronger in the United States. It should be clear from the record since 1953 that sustained exports depend upon the release of purchasing power to other countries through large imports and the sustained export of capital.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1957			1956	Percentage change	
		August	July	June	August	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947–49=100	144p	144	144	143r	#	+ 1
Electric power output*	1947–49=100	231	233	234	216	− 1	+ 7
Ton-miles of railway freight*	1947–49=100	—	99p	107	102	− 8	+ 3
Manufacturers' sales*¶	billions of $	—	28.9p	28.1	27.6	+ 3	+ 8
Manufacturers' inventories*¶	billions of $	—	54.1p	53.9	50.4	#	+ 8
Manufacturers' new orders, total*¶	billions of $	—	27.1p	27.1	31.1	#	− 2
Manufacturers' new orders, durable goods*¶	billions of $	—	13.1p	13.2	17.3	− 1	− 7
Retail sales*	billions of $	17.2p	17.0p	16.8	16.1	+ 1	+ 7
Residential construction contracts*	1947–49=100	—	n.a.	n.a.	264	n.a.	n.a.
Nonresidential construction contracts*	1947–49=100	—	252	267	257	− 6	+ 1
Prices, wages, and employment							
Basic commodity prices†	1947–49=100	89.3	90.2	89.7	90.6	− 1	− 1
Wholesale prices†	1947–49=100	118.3p	118.2	117.4	114.7	#	+ 3
Consumer prices†	1947–49=100	121.0	120.8	120.2	116.8	#	+ 4
Personal income (annual rate)*¶	billions of $	347.3p	346.2	344.8	329.3	#	+ 5
Composite index of wages and salaries*	1947–49=100	—	157p	156	149	+ 1	+ 5
Nonagricultural employment*	thousands	52,788p	52,809p	52,773	52,180	#	+ 1
Manufacturing employment*	thousands	16,828p	16,869p	16,924	16,901	#	#
Average hours worked per week, manufacturing†	hours	39.9p	39.7p	40.0	40.3	+ 1	− 1
Unemployment	thousands	2,380	2,687	3,030	2,195	−11	+ 8
Unemployment‡	thousands	2,609	3,007	3,337	n.a.	−13	n.a.
Banking and finance							
Total investments of all commercial banks	millions of $	72,760p	72,740p	72,010p	73,560	#	− 1
Total loans of all commercial banks	millions of $	92,860p	92,360p	93,280p	87,470	+ 1	+ 6
Total demand deposits adjusted	millions of $	105,110p	106,570p	105,540p	104,500	− 1	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of $	31,128p	31,147	31,089	30,742	#	+ 1
Bank debits (337 centers)*	millions of $	83,608	86,048	77,684	79,932	− 3	+ 5
Velocity of demand deposits (337 centers)*	1947–49=100	146.3p	149.4	145.0	141.9r	− 2	+ 3
Consumer instalment credit outstanding†	millions of $	33,045	32,699	32,344	30,644	+ 1	+ 8
United States Government finance (other than borrowing)							
Cash income	millions of $	7,104	3,615	12,214	6,579	+97	+ 8
Cash outgo	millions of $	7,404	7,092	7,297	6,855	+ 4	+ 8
National defense expenditures	millions of $	4,402	4,194	3,474	3,545	+ 5	+24
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947–49=100	163	159	168	153	+ 3	+ 7
Residential construction contracts*	1947–49=100	—	n.a.	n.a.	197	n.a.	n.a.
Nonresidential construction contracts*	1947–49=100	—	n.a.	n.a.	235	n.a.	n.a.
Consumer prices (New York City)†	1947–49=100	118.7	118.4	117.9	114.4	#	+ 4
Nonagricultural employment*	thousands	7,828.2p	7,830.7	7,827.6	7,849.0	#	#
Manufacturing employment*	thousands	2,637.3p	2,655.3	2,661.6	2,691.9	− 1	− 2
Bank debits (New York City)*	millions of $	75,175	77,614	69,637	73,933	− 3	+ 2
Bank debits (Second District excluding New York City)*	millions of $	5,272	5,507	4,946	5,162	− 4	+ 2
Velocity of demand deposits (New York City)*	1947–49=100	197.3	193.9	181.7	195.8	+ 2	+ 1
Department store sales*	1947–49=100	126	120r	117	117	+ 5	+ 8
Department store stocks*	1947–49=100	134	136	134	129r	− 1	+ 4

Note: Latest data available as of noon, October 1, 1957.

p Preliminary.
r Revised.
n.a. Not available.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ New basis. Under a new Census Bureau definition, persons laid off temporarily and those waiting to begin new jobs within thirty days are classified as unemployed; formerly these persons were considered as employed. Both series will be published during 1957.
# Change of less than 0.5 per cent.
¶ Revised series. Back data available from the United States Department of Commerce.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

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