Federal Reserve Bank of N.Y.
Annual Rept.

FEDERAL RESERVE BANK OF NEW YORK

ANNUAL REPORT 1958

FEDERAL RESERVE BANK OF NEW YORK

March 12, 1959

To the Member Banks in the
Second Federal Reserve District:

I am pleased to send you our forty-fourth Annual Report, reviewing the economic and financial developments of 1958. As you know, the year saw the end of the business recession and brought a vigorous upturn that set the economy on the road to new record levels of output. At the close of the year, however, the lagging recovery of employment remained a matter of serious concern while the risk of renewed inflation could hardly be ignored. More generally, the economy was squarely confronted with the necessity, in a more competitive world economy, of measuring up to a higher standard of performance in terms of productive efficiency, growth, and price stability.

Alfred Hayes

ALFRED HAYES
President

Federal Reserve Bank

of New York

FORTY-FOURTH ANNUAL REPORT

For the Year

Ended

December 31, 1958

Second Federal Reserve District

Contents:

Credit Policy in Recession and Recovery

During the past year, the American economy has been confronted by an unusually wide range of problems—those of limiting the force of a recession set off by the culmination of a capital boom, of making a clear turn at the bottom instead of merely leveling out, and then of generating strong recovery. Underlying all of these, and brought more sharply into focus by the end of the year, when activity had recovered to pre-recession levels, were the problems of assuring continued growth, to provide higher living standards and increasing employment opportunities for all segments of a rising population. Monetary and credit policy had a part to play, not the dominant but an essential part, as the economy sought ways to resolve these succeeding sets of problems within a framework of reasonable price stability.

As the year began, the recession seemed to be accelerating. Business capital formation had been pulled back sharply after the record expansion of the three preceding years. Demand for consumer durables, notably automobiles, appeared to be falling faster than at any time since World War II. And inventories were being liquidated at the most rapid rate on record. These and other depressing forces, coming in conjunction, generated fears, both at home and abroad, that the pattern of economic developments which followed World War I was being inexorably repeated, that a collapse was impending here which could spread throughout the world. The slowing pace of many of the European economies, and some others, seemed to lend credence to such fears.

Rarely indeed has an economy moved so swiftly to confound dire expectations. By the spring the decline had ended. By midsummer there was general awareness everywhere that American recovery was strongly under way. By the end of 1958, recovery was assured and our economy was on the threshold of new zones of growth and expansion. Abroad, the air had so cleared that, instead of looking inward for artificial methods to support declining markets, the principal European countries were able at the end of the year to widen the convertibility of their currencies, looking outward to conditions of increasing freedom for the expansion of world trade.

LIMITING THE DECLINE. What accounts for the decisive change in the economic conditions and atmosphere of the United States, during the course of a single year? Part of the statistical answer is in negative terms: capital expenditures stopped declining; so too, consumer spending for durables; and the rate of inventory liquidation slowed down. The upward thrust, again as measured by the statistics of gross national product, came from resumed increases in other consumer spending in the first quarter; expanding residential construction after the second; and an uninterrupted expansion of expenditures by Federal, State, and local governments throughout the year. Most of these in turn were both cause and effect of the rise in personal disposable income, and in corporate profits, that began in the second quarter. But the cold statistics do not answer the broader question: what prevented the launching of a cumulative downward spiral once retrenchment had begun on so many sides at the same time and a nervous psychology was beginning to spread among businessmen and consumers?

The nub of the answer seems to have been that the majority of businessmen and consumers kept their nerve. Perhaps partly because they had already seen two postwar recessions, both of which had run their course within a year, they were content to mark time for a while instead of rushing prematurely into drastic retrenchment. The result was that each producer or consumer, in so doing, helped to assure a continued high level of activity for the others. In such an environment, conditions were favorable for fulfilment of the analysis presented by several key Government officials soon after the recession began: that this was a necessary respite for correction among sectors of the economy which had been expanding so rapidly that they had slipped out of alignment with each other; that the magnitude of any clearly needed corrections was relatively small; and that the orderly processes of a market economy should be able to complete the job by the middle of the year. That calm reassurance, before the force of a downward spiral of expectations could take hold, was matched by a series of actions, not precipitate and extreme, but measured and moderate. Some of these, in the area of Government spending, taxation, and borrowing, and also including what are popularly called the "built-in stabilizers", undoubtedly braked the decline and will be mentioned again in later portions of this *Report.* Federal Reserve actions, too, certainly helped, as use was made during the decline of every one of the tools available for central bank action in this country. What the Federal Reserve System did on the way down, at the bottom, and during the recovery will be the principal subject of the next few pages. The economic background which the System kept under continuous study, including the disturbingly large unemployment that persisted through the recovery phase, will be discussed further, after this introductory review of what was actually done.

The earliest efforts of the Federal Reserve to limit the decline were made long before any downturn had occurred. By holding a tight rein on the elastic credit provided through the creation of money, the System averted whatever tendency there might otherwise have been to superimpose speculative excesses, financed through bank credit, upon the boom in plant and inventory spending that had continued into the summer of 1957. With no speculative bubble to be pricked, no dangerous overhang of weak credits on thin margins of equity to collapse at the first sign of general weakness, some of the potentially most explosive causes of a cumulative downward disintegration had been removed. Moreover, there was a sizable queue of users of funds, with many States and municipalities prominent among them, who had stepped aside as borrowers crowded each other out of the capital market during the boom, and who were eager to return as money became more readily available. To the extent that Federal Reserve action in denying additional bank credit had a part in effecting these postponements during the boom phase, it was also helping to strengthen the comparable demand that reappeared after the peak of business capital expansion had passed. In short, the limitation of credit expansion during the boom was subsequently an important help in limiting the duration of the decline.

The System's first overt act in the new year was the reduction of margin requirements from 70 per cent to 50 per cent on January 16. Within a week, on January 22, came the year's first move in what later proved to be a series of three waves of reductions in discount rates, the last occurring in late April and early May when all Reserve Banks reached a level of 1¾ per cent, completing reductions which had begun from a level of 3½ per cent in November 1957. In mid-February the Board of Governors announced the first round of reductions in reserve requirements, effective at the end of the month. Further reductions were announced in mid-March and mid-April. In total nearly 1½ billion of reserve balances were released to the member banks by these moves, through the one method available to the System for directly and promptly affecting every member bank. Alongside all of these other moves, Federal Reserve open market operations, after making an unusually small seasonal reduction in System holdings of Government securities in January, kept the System portfolio steady or rising until the summer.

In a very full sense, this was a program of credit ease. It was intended to remove, methodically, amply, but not rashly, all of the previous pressures for restraint that had been necessary in times of "overstretch" when inflation was the dominating problem. The new aim, carried forward from the closing months of 1957, was to encourage every bank to seek out opportunities to lend, or to invest, and thereby bring about the massive expansion in bank credit and the money supply which could, in the new conditions, serve as a partial offset to the forces of contraction then under way. It had been inherent in the nature of restraint that the liquidity of banks and businesses and individuals should, in relative terms, be shrinking; that the velocity of money, however measured, should rise. Conversely, it was an essential part of the easing process that liquidity positions should be improved, while velocity declined. This meant not only that money could safely be created at a much faster pace than in the three preceding years, without precipitating inflationary price reactions, but also that the increases should be much larger in order to fill the pent-up demands for liquidity as a first step toward promoting renewed business expansion.

There could and should, then, be large contraseasonal increases in bank reserves, and in bank portfolios and deposits, while the business decline continued. Yet it was always necessary to consider as well the problems that might be implanted further in the future if so much liquidity were created that banks, and the credit system, were eventually to emerge into a recovery phase with a fat cushion of liquid assets between them and the effects of any restrictive measures that might then be appropriate. Consequently, reserves were not released all at once early in the recession. But from the early stage of the decline there was clear assurance that additional reserves would be provided, out in front of any demands placed upon the banks. This assurance was confirmed step by step through the integrated program of open market operations and fractional reductions in reserve requirements.

By midyear, bank credit had risen almost 8 per cent since System policy had begun easing in October 1957. The economy had indeed become "comfortably liquid". The "prime" rate on bank loans to business had dropped, in two steps, from a 4½ per cent peak at the beginning of the year to 3½ per cent by the end of April. Treasury bills were trading at rates of interest well below 1 per cent; commercial paper at 1½ per cent; acceptances at 1¼ per cent; and most Treasury securities in the three- to five-year range were trading at yields close to 2 per cent. All had plummeted from the 3½ to 4 per cent range in less than nine months, prompting some question as to whether market expectations of ease had not outrun the realities. The increased liquidity had also spread to the longer term market where declines of about ½ of 1 per cent had occurred over the same period in interest rates on Government bonds and corporate issues of all grades. The underlying force which these changes in interest rates represented had helped, throughout the first half of the year, to energize market borrowing through debt issues, not merely for refunding but also for new money purposes. The estimated volume of new money borrowing by corporations and State and local governments was considerably larger than during comparable periods in the previous recessions since World War II.

Looking back, after the turn, a question may be raised as to whether the easing of bank reserves and credit availability was overdone. No clear-cut answer seems possible, either way. Perhaps it is inherent in the nature of monetary and credit policy that action taken to meet possible contingencies appears excessive when they do not actually occur. In any case, it was probably fortunate, though somewhat fortuitous, that much of the potential liquidity created by Federal Reserve action had found its way, by midyear, into the intermediate and long-term bonds issued by the Treasury as it carried through a program of debt lengthening that was of record volume for a peacetime period. Thus, the economy emerged from the downswing with less abundant liquidity than might have been suggested by looking at Federal Reserve operations alone.

PROBLEMS AND POLICY AT THE LOWER TURNING POINT. The economy began turning from recession toward recovery in April and May. Although the Federal Reserve was prepared to begin shifting moderately away from ease in June, bank reserves were in fact kept genuinely easy through July, mainly because of the unsettlement that developed in the money and capital markets as recovery came into view. The first significant moves away from ease occurred in August, with the change becoming more pronounced in September. The interval from May through July was of particular interest, however, not only because it was the incubation period of the recovery but also because a series of unusual problems arose in connection with a sequence of large Treasury financing operations.

Characteristically, the tasks of economic intelligence are most baffling at the cyclical turning points; but in a way this period was an exception. A mixture of uncertainty and hope in early June had gradually been transformed by early July into a widespread conviction that the economy had turned upward, and there was a revival in some quarters of the inflationary psychology that had been so disturbing during the boom. The consequences of this sweeping shift of expectations for the sensitive money and capital markets were unique and extreme; bond prices tumbled and interest rates shot upward, particularly following a brief "war scare" created by the landing of American troops in Lebanon in mid-July. The markets remained jittery, however, long after the Middle East had left the headlines.

The Treasury announced near the end of May that it would offer $1 billion of long-term bonds for cash subscription on June 3, and that its books would be open for refunding about $9½ billion of its maturing securities on June 4-6. The exchange gave subscribers the option of selecting between a bond of nearly seven years' maturity and a certificate of nearly one year. Although the issues of bonds, for cash and for exchange, came at the end of an impressive sequence of Treasury offerings in the long-term and intermediate range, their initial reception was good. They were attractively priced in relation to the going market. But when the exchange subscriptions were made, purchasers were still thinking in terms of a declining economy and, more specifically, in terms of declining interest rates. Many purchases of bonds were made by temporary holders—in substantial part on thinly margined credit—with the intention of selling the bonds at a profit. The size of the exchange into the bond, $7.4 billion, was surprisingly large and, when announced, confirmed market suspicions that a large speculative interest had developed in the refunding. Even before the new securities were physically delivered to subscribers in the middle of June, a serious deterioration began in the Government securities market. Purchasers suddenly began to realize that a turn had occurred in the direction of economic activity and that interest rates were more likely to rise than to decline further. Many saw again the prospect of inflation.

The intensity of investor reactions, rather paradoxically, was magnified by the growing sensitivity that many investors had been developing over the several preceding years to expectations concerning Federal Reserve policy. Deducing that a turn in economic conditions meant a turn in Federal Reserve policy, they attempted to discount as soon as possible the full effect of any shift in policy—almost without regard to whether such a shift might, in fact, occur only gradually, and perhaps irregularly, over many months ahead as the recovery gained momentum. As more and more investors moved to the same side of the market, with the same intention, the result eventually was outright disorder.

That extreme was not reached all at once, however, perhaps partly because a semblance of two-way trading was maintained in the market in late June and early July, as the United States Treasury purchased nearly $600 million of the newly issued seven-year bond upon which an unusually large part of the actual market selling had been concentrated. Most of its purchases were made with a view to retiring a part of the top-heavy supply of this bond; the rest, in order to acquire added holdings at attractive yields for the portfolios of some of the Treasury-administered Government trust funds and investment accounts. The publication of these purchases on July 9 was briefly effective in giving some assurance to the market that it was not being left entirely on its own as another large Treasury refinancing operation approached (which was to be followed shortly by more cash borrowing).

A new round of deterioration was set off, however, by the announcement on July 15 that American troops were landing in Lebanon. Market expectations then foresaw the possibility of increasing Government expenditures and deficits, superimposed on the already strong economic recovery. New waves of selling followed as uneasy investors attempted to dispose of their bond holdings before prices and interest yields fully reflected prospective economic developments or the expectation of further inflation. By Friday, July 18, with the books scheduled to be open for the Treasury's $16 billion refunding offer from Monday through Wednesday of the next week, the market had reached a condition of outright disorder. The Federal Open Market Committee thereupon announced its intention in the existing circumstances to purchase Government securities other than those of short maturity. Because much of the market's unsettlement at this time tended to concentrate on the securities involved in the Treasury's current refinancing operation, the Federal Reserve found itself making the greater part of its purchases in those issues. Even so, attrition was large, roughly $2¾ billion. The cash borrowing on July 29 had to be enlarged to a total of $3½ billion. Because of the unsettled market conditions, the Treasury could borrow only in the short-term market, issuing tax anticipation certificates to mature the following March.

Although Treasury financing operations seemed to occupy the center of the stage in the May-July period, it appears in retrospect that they served merely as the focal point on which attention centered as the financial markets attempted to adjust to a reversal in the direction of economic activity and to a reviving fear of inflation—fed by the release of revised budget estimates indicating a very large excess of Government expenditures over receipts that would have to be financed during the current fiscal year, together with prospective increases in private borrowing demands. The condition of substantial excess reserves and of generally low member bank borrowing remained virtually unchanged through this period. The System's purchases of more than $1¼ billion that occurred during the brief interval of "disorderly market operations" were unobtrusively offset by prompt sales and redemptions of bills, so that no marked deviation occurred from the magnitudes of reserves that had been maintained over the preceding months of genuine ease. Money market rates of interest remained low. The new factor, at least new in intensity, was the force exerted upon the credit markets by shifts in the expectations of both speculators and investors, when all of them seemed to reach the same conclusion at about the same time, and when all had become highly sensitive to changes in the direction of economic activity and to the implications of such changes for interest rates.

MAINTAINING THE MOMENTUM OF BALANCED RECOVERY. Late in August, the first steps in a shift of general credit policy away from ease were taken through open market operations, as a slight shrinkage in excess reserves was not replaced through further open market purchases. That approach was hardened further during September, as the System made net sales of Government securities and the banks came under pressure to increase their borrowings from the Federal Reserve by several hundred million dollars to meet seasonal growth in reserve needs.

Even earlier, on August 5, developments in the stock market had led the Board of Governors to restore stock market margin requirements to the 70 per cent level. After reaching a low point in the first quarter, stock prices began rising very rapidly, and customer credit, though not unusually large, also increased at a rapid rate. Uneasiness concerning the implications of the pattern of stock prices, particularly if the rise should come to depend significantly on expanding credit, led to concern over whether this might be one point at which the general liquidity, initially created as an offset to recession, could be seeping through to produce a distortion of an inflationary character. This use of margin requirement changes as a supplement to general credit policy was reinforced later in the year when on October 16 requirements were advanced from 70 to 90 per cent.

Meanwhile, another interesting aspect of the 1958 recession and the recovery was being mirrored by the differences in experience among various Federal Reserve Districts. All during the easing phase, the force of the recession centered in the northern and eastern sections of the country, with much of the west and southwest generally feeling the effects with some lag. The pattern of discount rate action among the Federal Reserve Banks, quite understandably, was influenced, among other factors, by that underlying difference in the regional incidence of the recession. This Bank, for example, had been among the leaders in each of the three rounds of discount rate reductions that occurred from January through early May. The sequence was reversed, however, when the general business situation turned around. Although the first rise in discount rates occurred on August 15, this Bank lagged about a month behind. To be sure, the action did not turn on regional factors alone, but these were of some influence in shaping the views of this Bank on national issues.

The New York financial center was also probably affected more pervasively than any other sector of the economy, during this recovery phase, by the decisive turnabout in the condition of the money and capital markets that had occurred during the summer. Within the space of a few weeks Treasury bills had shot up from the earlier lows to a range above 2½ per cent; commercial paper, above 3 per cent; all Government securities of three years or more maturity had returned to market rates above 3½ per cent; and all grades of outstanding corporate securities had swiftly returned to market rates very close to the previous peaks. For a time there was some risk that changes of these proportions might, in themselves, exert a restrictive influence well beyond anything called for by the current state of the recovery, or consistent with the current moderate change in credit policy. It was not until these rapid interest rate changes in the financial markets centered in New York had begun cresting out that the discount rate of this Bank was first raised, on September 12, from 1¾ per cent to 2 per cent. On the same date, commercial banks began raising their "prime" rate to 4 per cent, where it still remained at the end of the year. There was a second round of increases in discount rates, however, to 2½ per cent, toward the end of October and early in November.

During the last four months of the year Federal Reserve policy saw to it that additional reserves were provided in line with the expanding seasonal requirements of the recovery period, but these additional reserves were released only gradually as one member bank after another found itself in need of temporary borrowing from the Federal Reserve, and the aggregate of such outstanding borrowing showed a persistent tendency to rise. There was, correspondingly, a renewed tendency toward declining liquidity and a rise in the velocity (or rate of use) of existing reserves and of the money supply. The banks were not handicapped by an over-all shortage, or shrinkage, of reserves, but they felt a renewed inducement to conserve any liquidity which they had brought with them out of the period of business contraction.

In terms of the broader objectives of monetary and credit policy, the overriding aim during the recovery period was to provide an adequate base for credit expansion, so that no economic activity—neither the reabsorption of unemployed capacity and labor nor further growth in output potential—would be impeded because there was a general lack of bank credit. At the same time, the control of expansion in bank reserves had to take into account the substantial residue of liquidity remaining from the ease that had persisted through the first half of the year, and to have continuing regard for the inflationary potential inherent in any further rapid expansion of the money supply. The result was a pronounced slowing of the rate of growth in the money supply from August through December to an annual rate of about 1½ per cent. For the year as a whole, giving effect to the much more rapid rate of increase during the declining phase of economic activity early in the year, the over-all rise in the money supply was roughly 3¾ per cent, in contrast to increases that had averaged about 1½ per cent over the four preceding years, and slightly more than 2 per cent for the preceding eight years. These developments, and the fuller record of changes in production, employment, prices, and credit, are described further in later parts of this *Report*.

With recovery firmly established, attention returned again to several longer run problems. One of these was highlighted by the outflow during the year of $2¼ billion of gold from the United States, largely to Western Europe, as the bulk of current dollar earnings was withdrawn in this form, although foreign liquid dollar assets rose by about $1 billion. Fundamentally, this limited progress toward redistribution of the world's gold supply, which still left the

United States with more than one half of the known monetary gold stocks in the world, was gratifying evidence of the achievements made under the postwar programs to restore the viability of the economies and the currencies of Western Europe. The movement did, however, elicit widespread comment, both here and abroad, concerning the international position of the United States. In blunt terms, it was said that the United States had "priced itself" out of world markets. Comment abroad during the year pointed, too, to our unbalanced budget, the apparent "cost push" from wage rises in excess of average productivity gains, and the soaring stock market, as evidence of a renewal of inflationary psychology here. And indeed, as prices of a number of industrial products and services had risen further during the recession, warnings of this kind, brought into sharp relief by intensified foreign competition, were salutary. Whatever the facts might show, and there were many possible interpretations of them, this country was apparently beginning to see, through its balance-of-payments window, some of the same forces that have always been dominant influences, even disciplines, upon the domestic economies of other countries.

It was indeed disturbing that the American economy, with its vast new productivity potential, should have given so much more evidence of upward than of downward flexibility in prices and costs during the recession. Through the recovery period, however, the over-all indexes of wholesale and retail prices were relatively stable, and the influence of price competition in activating demand may, perhaps, have played some part in the strength and breadth of the expansion. And at any rate the economy's performance during the recovery gave some grounds for hope that it could meet successfully one of the major tests ahead in 1959—that of finding ways to encourage growth without at the same time promoting inflationary distortions which would cut into the foundations of that growth. Certainly it was in balanced and continuing growth that the answer lay, not only to the unemployment which still remained, and to the common desire for still higher standards of living, but also to the compelling requirements of national security.

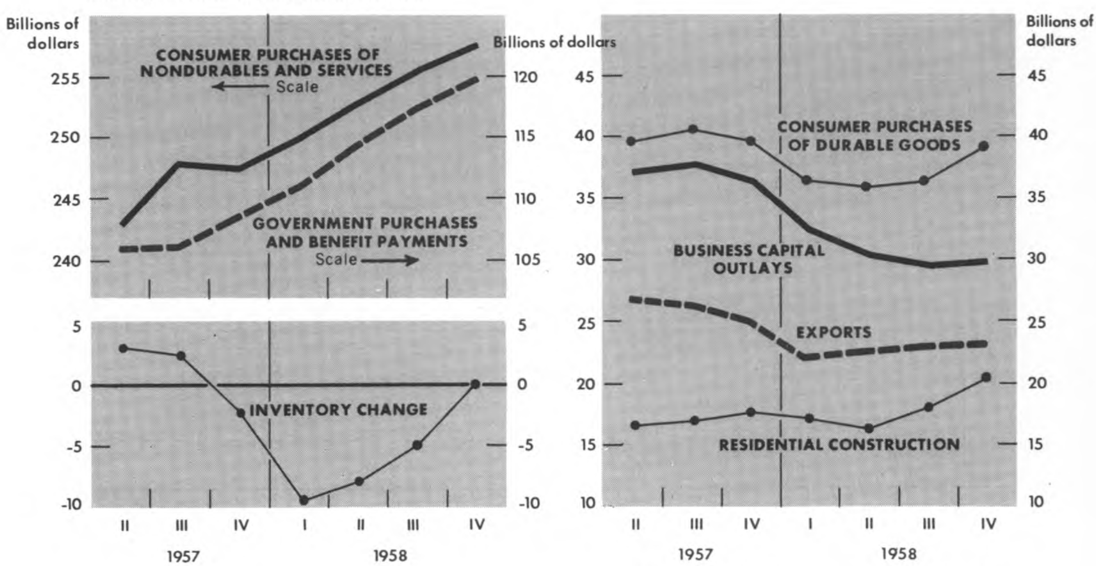
The Recession Arrested and Reversed

A SHARP BUT SHORT DECLINE. When the year began, the recession was in full sway. As mentioned earlier, business spending on plant and equipment was falling off, and consumer buying of autos and other durables was also declining sharply (see Chart 1). The liquidation of nonfarm inventories, which had started in the fourth quarter of 1957, was intensified in response to the contraction in both sales and orders, and speeded up to an unprecedented annual rate of $9.3 billion in the first quarter of 1958. Exports contracted further from the artificially high levels reached in 1957. Industrial output continued to drop appreciably every month through April, and unemployment climbed above the five million mark. Some informed observers feared that the decline might begin to feed on itself and develop into a downward spiral of the prewar variety, while others looked forward to a protracted period of sideways movement at a low level of activity. It was indeed fortunate at this stage that the preceding boom had not

CHART 1

FACTORS IN RECESSION AND REVIVAL

Quarterly at seasonally adjusted annual rates



Source: United States Department of Commerce.

generated speculative excesses or extreme distortions. If, in the face of generally slackened demand, major corrections had been necessary, a cumulative deterioration might well have occurred.

But, even as output was declining, several strong forces were operating to roll back the recession tide. Defense orders were being stepped up. The rise in State and local government spending (mainly on construction and payrolls) accelerated, at least partly reflecting the improvement in the terms on which financing could be obtained. The easing of mortgage markets cushioned and then helped to reverse the drop in the rate of housing construction.

In addition to these increases in demand, a number of other factors also were important in sustaining the flow of personal income. Increased output and firmer prices for farm products, and larger Government support payments, were expanding farm incomes. Corporations largely maintained dividend payments despite a one-third drop in profits. In some major industries, laid-off workers received unemployment benefits from funds accumulated through employer contributions stipulated in labor contracts. But perhaps most important was the support to incomes provided by the rapid expansion of government benefit payments under the existing unemployment compensation, social security, and other welfare programs.

Largely as a result of these sustaining factors, total personal income scarcely declined at all during the recession, and actually began to rise in March even though employment was still falling quite rapidly. In turn, the physical volume of consumer purchases of food and other essentials was maintained throughout the recession, despite sizable price increases on many foods and a number of essential services. The decline in sales was concentrated in durables.

A VIGOROUS UPTURN IN OUTPUT. With some two thirds of final demand largely unaffected by the recession, neither the rapid rate of inventory liquidation nor the contraction in sales of durable goods could continue indefinitely. Once the durable goods industries found a bottom in March and April, conditions became favorable for an upturn.

The huge rate of inventory liquidation in the first quarter apparently disposed of a large portion of the stocks that businessmen considered superfluous. By midyear, many firms that had curtailed production to rates far below current sales, in order to work off inventory that had been accumulated earlier in anticipation of rising sales, cautiously began to expand their output. At the same time, the easing in the credit markets, coupled with special Federal legislation to provide an additional $1 billion for low downpayment Government-insured mortgages, culminated in a spurt in housing construction. Industrial production turned strongly upward in May, and employment began to rise. In midyear, moreover, personal income received an additional boost from the lengthening of the unemployment insurance benefit period (as authorized by special Federal legislation) and from the raising of military and Federal civil service pay scales (the latter retroactively to the beginning of the year).

The factors that had arrested and reversed the recession—the slackening of inventory liquidation, the increase in housing starts, the rise in government spending, and the strength and subsequent expansion in the dollar volume of consumer purchases of nondurables and services—continued to supply most of the impetus for the recovery to the year end. Toward the close of the year, moreover, consumer demand for durable goods also increased substantially, and the year-long decline in business capital outlays came to a halt. While the strength of the capital goods sector remained a major question mark in the economic outlook, surveys of businessmen's intentions did point to a modest increase in plant and equipment expenditures in early 1959.

Even in December, however, industrial production had still not quite returned to its all-time high, reflecting the incomplete recovery in the durable goods industries. Output of nondurables, on the other hand, was already at a new record rate, and total construction activity also attained a new peak. In the fourth quarter of 1958, the nation's total output of goods and services (GNP) reached a new high level in dollar terms, and in real terms almost matched the peak that had previously been reached in mid-1957. Full recovery in terms of per capita output had not, of course, been achieved.

UNEMPLOYMENT REMAINS LARGE AS PRODUCTIVITY ADVANCES. Although production increased rapidly over the last eight months of the year, employment expanded very slowly and unemployment persisted at relatively high levels. At the end of 1958, private nonfarm employment was still substantially below its pre-recession peak, while unemployment stood at 6 per cent of the labor force as compared with a little over 4 per cent during most of 1955, 1956, and 1957 and about 3 per cent in 1951-53. Slower recovery in employment than in production is typical of cyclical revivals, but in 1958 the lag was more pronounced. During recovery, employers always tend to restore longer workweeks before hiring new help, while output per manhour is usually increasing so that fewer workers than previously are needed to produce any given output. After the upturn in 1958, however, the advance in output per manhour appeared to be particularly rapid, as the fruits of the enormous outlays on modern plant and equipment during 1955-57 were finally being reaped. In addition, the recession gave impetus to the introduction of cost-reducing techniques and greater cost discipline in general. The resulting economies became particularly significant as output again began to expand, making possible the more efficient use of the new equipment.

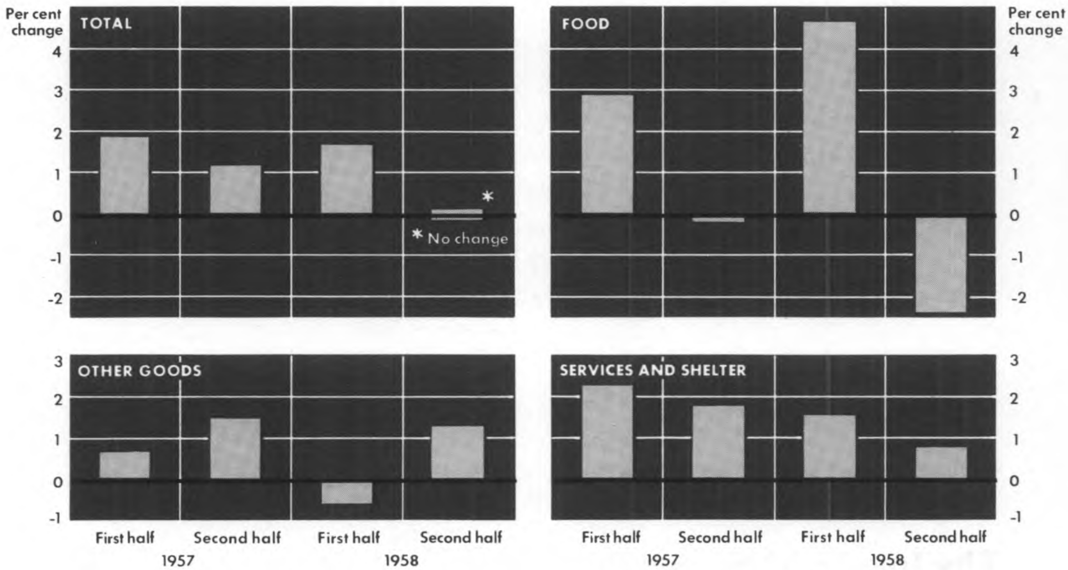
The reduction in the need for labor, compared with the pre-recession period, was particularly marked for production and other manual workers. Furthermore, the rise in the demand for additional clerical and sales help during the upturn appeared to be smaller than during other post-World War II periods of recovery. Meanwhile the labor force expanded but, as in 1957, by less than would have been indicated on the basis of longer range trends. On the average, the total labor force in 1958 was about half a million persons larger than in 1957, compared with an average annual rise of one million during the preceding decade.

Despite the high level of unemployment, wage rates continued to edge upward, partly as a result of the automatic increases received by large groups of workers under long-term contracts that included cost-of-living "escalator" and productivity clauses or provisions for "deferred" pay increases. In contrast to the preceding two years, however, when wage rates rose faster than gains in productivity could be realized, the 1958 rise in wage rates was probably less than that in output per manhour, at least in many manufacturing lines. With some progress toward better balance between costs and productivity, there appeared to be a better basis for stability in average prices in the period ahead. Attainment of such stability will depend, of course, among other things, on avoiding a return to conditions of general excess demand, and sellers' markets, in which the incentives to cost discipline and price competition would be impaired.

A SMALL RISE IN PRICES. The average level of prices, as measured by the major official indexes, rose moderately in 1958. To an important extent this reflected a rise in food prices, which advanced more sharply than they normally do during the first half of the year, but then declined only about seasonally in the second half (see Chart 2). For the year as a whole, food prices paid by

CHART 2

CHANGES IN CONSUMER PRICES AND MAJOR COMPONENTS



Source: United States Department of Labor Statistics.

consumers averaged some 4 per cent higher in 1958 than in 1957, and at the end of 1958 were still more than 2 per cent above the level of a year earlier. Meat prices advanced sharply as farmers held back on cattle marketings in order to rebuild their herds, and fruit and vegetable prices also rose considerably, especially early in the year when adverse weather reduced the crop. In December 1958, retail prices of meat were 9 per cent, and of fruits and vegetables 5 per cent, higher than in the same month of the previous year. While wholesale prices of other key farm products fell, the declines were lessened by the Federal price support programs, outlays on which are expected to rise 70 per cent in fiscal 1959 to roughly $5.4 billion.

For goods other than food, prices on balance were little changed between the beginning and the end of the year. In the earlier part of the year, wholesale prices of "sensitive" raw materials (such as nonferrous metals) dropped sharply, and there was reportedly rather widespread, though unpublicized, price cutting on machinery and other fabricated products, particularly where larger orders were involved. However, these reductions were in many cases reversed during the latter part of 1958. At the consumer level, prices of goods other than food showed little change except for seasonal fluctuations.

In the latter part of the year, when recovery was well along, both wholesale and retail prices of manufactured goods began to move up slowly. At the retail level, the largest rise was that in new car prices, which for November-December, according to the Bureau of Labor Statistics, averaged 5 per cent higher than a year earlier and about 15 per cent higher than in 1955. On the other hand, the advance in the cost of consumer services and shelter, which had amounted to about 4 per cent annually between early 1956 and early 1958, slowed to about 2 per cent per year during the last three quarters of 1958.

The Image of National Trends in the Second District

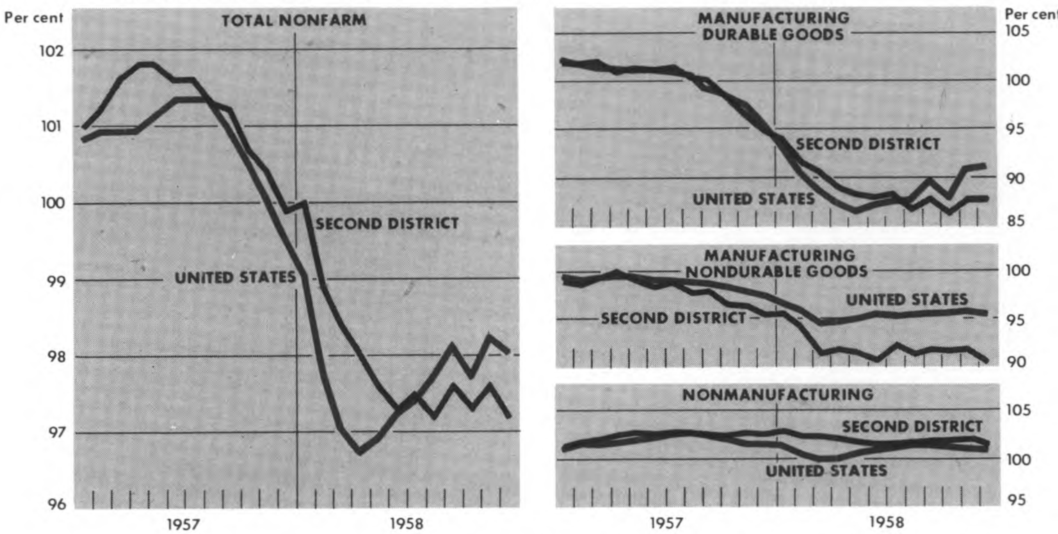
As might be expected in a region accounting for an important and diversified share of the nation's total product, economic activity in the Second District during 1958 followed a pattern roughly similar to that of the national economy. There were differences, however, in the extent and timing of the cyclical movement. The decline in general business activity in the District may have begun a bit earlier, but does not seem to have been so sharp as in some other parts of the country. On the other hand, the decline in the Second District apparently lasted for several months longer into 1958. As in the rest of the country, the recession was concentrated in the District's manufacturing industries; outside of manufacturing, its impact was relatively mild. When the turnaround in the business situation came in the District, it was not so marked as in the rest of the country, and the pace of recovery was slower. Total nonfarm employment, which dropped about as sharply as in the country as a whole during the recession, recovered more slowly in the latter part of the year (see Chart 3).

A SLACK YEAR IN MANUFACTURING. In the District, as in the country at large, the recession centered in durable goods manufacturing. However, the

CHART 3

NONFARM EMPLOYMENT IN THE SECOND DISTRICT AND THE UNITED STATES

Monthly, adjusted for seasonal variation; index numbers, 1956=100



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

reverses suffered by these industries were not quite so sharp in this District. In contrast, in the soft goods sector the impact of the recession was more severe in the District than elsewhere. At its 1958 low point, seasonally adjusted employment in factories turning out nondurable goods was some 9 per cent below the pre-recession peak, compared with a 5 per cent peak-to-trough decline in the nation generally. This was mainly the result of the much sharper contraction in the District's apparel industry, which is still by far its most important single source of manufacturing employment—even though it has been declining in relative importance throughout the postwar period. Most of the contraction was in the ladies' garment trade, but the manufacture of men's clothing was also cut back sharply. There was only a moderate falling-off in business in most other soft goods lines, with the most severe employment losses outside of apparel manufacturing taking place in the textile and leather industries.

The impact of the recession on the District's major industrial centers varied considerably. In the Buffalo area, where the steel and auto industries play a dominant role, unemployment reached a peak of over 12 per cent of the total labor force and in July Buffalo was accordingly placed in the United States Labor Department's highest labor surplus category, a classification in which it remained through the year end. Bridgeport was also classified in this category in July, when layoffs in the machinery industry reached their peak. And in the Utica-Rome and the Perth Amboy and Paterson areas unemployment was in the 9 to 11.9 per cent range for several months during the year. While the District's other business centers fared somewhat better, only Rochester and Stamford-Norwalk among the twelve major labor market areas in the District were not designated as having a "substantial labor surplus" (more than 6.0 per cent of the labor force unemployed) at some time during 1958. New York City weathered the recession relatively well, owing to the lesser role of manufacturing and especially durable goods manufacturing in its economy. The over-all decline in employment in the city during the recession was only about one-half as sharp as in the rest of the District.

The decline in the District's manufacturing output, which had begun about midway through 1957, came to an end in the second quarter of 1958. However, the ensuing revival was not so strong as elsewhere in the nation—mainly because of a slower pickup in activity in the District's durable goods industries. A better recovery occurred in the soft goods sector, as business improved in the apparel industry. By the year end factory employment in the District had increased only about seasonally from the recession low point in the summer. The sluggish revival in manufacturing was largely responsible for the fact that by December the total number of persons receiving unemployment insurance in the District had fallen only about 10 per cent from the year's high, compared with a 26 per cent decline in the country as a whole.

STRENGTH IN NONMANUFACTURING. Nonmanufacturing industries were a source of strength in the District, as in the rest of the country. Nonmanufacturing employment declined only about 1 per cent during the recession, mostly reflecting cutbacks in the transportation and construction industries. Government, finance, services, and retail trade, however, continued to add to their payrolls last year. Construction activity reached record proportions during 1958, as substantial increases in public works and utilities construction (both public and private) and in residential building more than offset a decline in nonresidential building. Contracts valued at some $1.3 billion, nearly 50 per cent more than in 1957, were awarded for the construction of public works and utilities; most of the increase was due to expanded road-building programs and to the letting of contracts for the Niagara Power project. After declining for the two preceding years, home building turned upward sharply in 1958; the 21 per cent increase in residential construction contract awards in the District was considerably greater than in the country at large.

Consumer spending seems to have been somewhat better maintained in the District than elsewhere in the country. District department store sales averaged nearly 2.5 per cent ahead of the 1957 level, while there was an increase of less than 1 per cent nationally. The sales pattern within the District was uneven, however, with the increase coming almost entirely in the suburban shopping centers in the New York-New Jersey metropolitan area. Elsewhere, sales averaged appreciably lower than in 1957, especially in the areas in which unemployment was most serious.

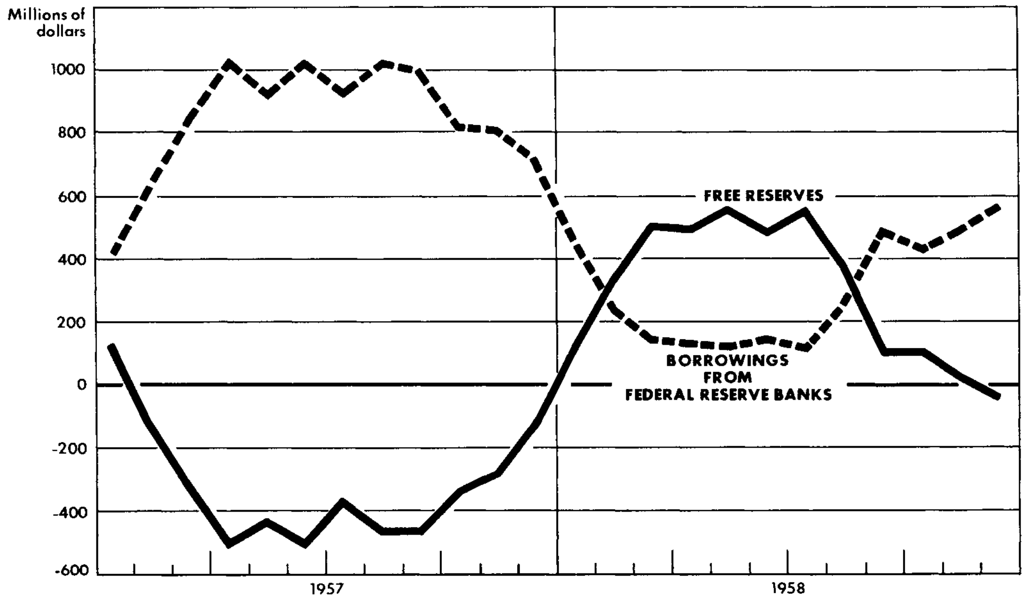
Federal Reserve Operations and the Credit and Capital Markets

CREDIT EASE DURING THE FIRST HALF. During the first quarter of 1958, the easing of bank reserve positions that had begun in the fall of 1957 grew increasingly pronounced as business activity continued to decline. At the beginning of the year the member banks emerged with a moderate amount of free reserves—that is, their excess reserves exceeded their borrowings from the Federal Reserve Banks—the total rising to about $500 million in March and remaining there through July and most of August (see Chart 4). The banks obtained reserves during the first quarter from the usual return flow of currency from circulation (in January), which was offset only in part by a drop in float and by System open market operations (see table below). In addition, reserve requirements for all member banks were reduced by a full percentage point on net demand deposits, a move that released altogther about $1 billion of reserves. The reductions were made in two stages of ½ percentage point each, taking effect on February 27 and March 20 for central reserve and reserve city banks and on March 1 and April 1 for country banks.

CHART 4

MEMBER BANK FREE RESERVES AND BORROWINGS

Monthly averages of daily figures



Free reserves of member banks remained at around the $500 million level during the second quarter, despite substantial reserve drains from gold outflows (amounting to more than $1 billion over this period), from an increase in currency in circulation, and the increases in required reserves arising from the deposit expansion associated with heavy securities acquisitions. To offset these reserve needs the Federal Reserve System increased its holdings of Government securities by about $1.3 billion, and in April about $450 million of reserves was freed by a further reduction in reserve requirements against demand deposits at central reserve city and reserve city banks, the reductions amounting to 1 percentage point and ½ percentage point, respectively. (Following these adjustments, and for the balance of the year, reserve requirements against net demand deposits were 18 per cent for central reserve city banks, 16½ per cent for reserve city banks, and 11 per cent for country banks, the reductions during the year amounting to 2 percentage points, 1½ points, and 1 point, respectively. Reserve requirements on time deposits were unchanged during the year at 5 per cent for all member banks.)

FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES DURING 1958 (In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	CHANGE IN MONTHLY AVERAGE Dec. 1957 to Mar. 1958	Mar. 1958 to June 1958	June 1958 to Sept. 1958	Sept. 1958 to Dec. 1958	Dec. 1957 to Dec. 1958
Operating transactions					
Treasury operations★	— 21	+ 90	+ 19	— 10	+ 78
Federal Reserve float	— 550	+ 23	+ 74	+ 506	+ 53
Currency in circulation	+1,343	— 450	— 303	—1,029	— 439
Gold and foreign account	— 141	—1,074	— 594	— 314	—2,123
Other deposits, etc.	— 243	+ 10	+ 6	— 35	— 262
Total	**+ 387**	**—1,399**	**— 798**	**— 884**	**—2,694**
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	— 150	+1,233	+ 353	+1,165	+2,601
Held under repurchase agreements	— 346	+ 30	— 51	+ 96	— 271
Member bank borrowings	— 572	+ 4	+ 334	+ 81	— 153
Other	— 9	+ 2	— 13	+ 16	— 4
Total	**—1,077**	**+1,269**	**+ 623**	**+1,358**	**+2,173**
Total reserves	— 690	— 130	— 175	+ 474	— 521
Effect of change in required reserves	+ 746	+ 123	+ 120	— 529	+ 460
Excess reserves	+ 56	— 7	— 55	— 55	— 61
Last month in quarter, average level of member bank:					
Excess reserves	633	626	571	516	
Borrowings from Reserve Banks	138	142	476	557	
Free reserves	495	484	95	— 41	

Note: Because of rounding, figures do not necessarily add to totals.
★ Includes changes in Treasury currency and cash.

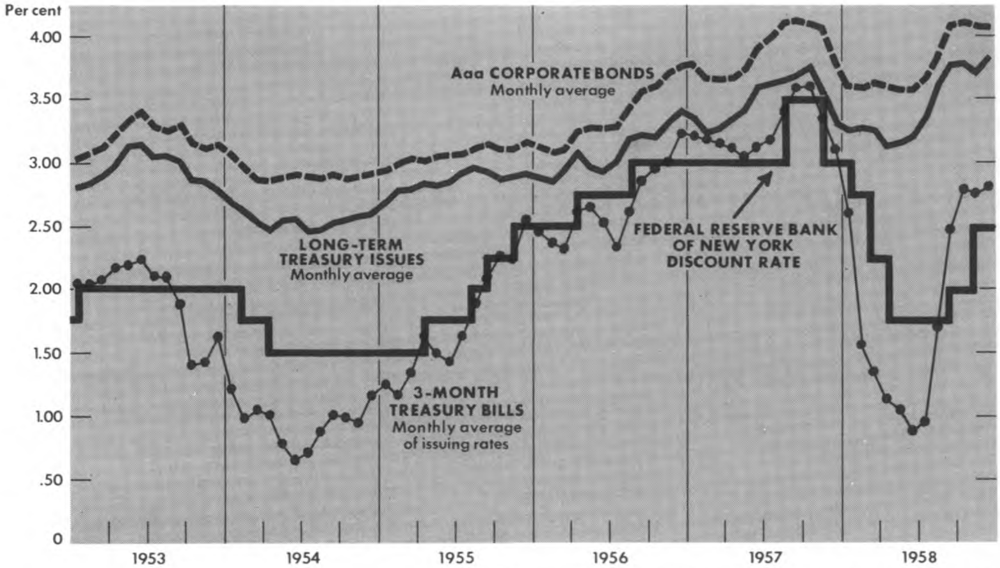
Discount rate reductions during the first half of the year accompanied the downward movement in short-term rates associated with the easing of credit conditions (see Chart 5). Meanwhile, the weekly auction rate on 90-day Treasury bills moved down sharply, reaching an eleven-year low of 0.64 per cent on May 26 or slightly below the lowest point reached in 1954. Long-term rates, however, after the marked decline in late 1957, changed little on balance after the first few weeks of 1958, as flotations of new issues by the Treasury, corporations, States, and municipalities made heavy demands on the capital markets.

MARKET DISTURBANCES AND THE SHIFT AWAY FROM CREDIT EASE. As described earlier in this *Report,* business conditions and market expectations changed rapidly during the summer. In the course of the Treasury financings of June and earlier months, a large volume of Government securities had been acquired by temporary holders expecting that a continuation of the business recession would lead to further credit-easing moves by the Federal Reserve System and to rising bond prices. Some of these securities were held on very thin margins. Toward the end of June and in July, the expectations underlying this speculative interest underwent a sharp turnabout, as signs multiplied that business had reached a turning point. This change in expectations was reinforced by the disturbances in the Middle East, predictions of a large Federal deficit with consequent heavy Treasury borrowing needs, and widespread discussion of the dangers of a renewal of inflationary pressures. In the resulting efforts to reduce Government securities portfolios, speculative holders were joined by institutional investors, while downward pressures on bond prices were further aggravated by margin calls by lenders (including nonbank lenders) who had financed securities holdings on thin margins. When the deterioration of market conditions had reached the stage of outright disorder, the Federal Reserve System made substantial purchases of Government securities—including longer term securities and the "rights" in a Treasury refunding, neither of which ordinarily is included in System transactions. Continuing conditions of credit ease were maintained through all of July, but in August, when the market turbulence had largely subsided, monetary policy moved away from ease.

Both long- and short-term interest rates continued to rise sharply during August. Liquidation of speculative bond holdings remained a drag on the market, and various actions taken by the Federal Reserve System—the rise in margin requirements and the first increases in discount rates—were interpreted as con-

CHART 5

SELECTED INTEREST RATES



Sources: Board of Governors of the Federal Reserve System and Moody's Investors Service.

firming a shift away from credit ease. Toward the end of August free reserves of member banks were reduced, declining from a range of roughly \$400-\$700 million in July and most of August to about \$100 million in September.

During the third quarter of the year, open market operations offset only a part of the reserve drains arising from the continued gold outflow (which was, however, smaller than during the second quarter) and from a seasonal increase in currency in circulation. As a result, and indicative of the movement toward less easy reserve positions, an increasing number of banks found it necessary to borrow from their Reserve Banks for short periods, while appraising changes in their reserve positions and effecting more lasting adjustments. The average monthly amount of such borrowing, which had ranged between \$109 million and \$142 million during the period March to July, rose to \$252 million in August and to \$476 million in September. The average level then continued above \$400 million through the balance of the year. Short-term interest rates, meanwhile, rose sharply. The average issuing rate on three-month Treasury bills, which had been below 1 per cent in July, had reached almost 3 per cent by the end of September.

During the last quarter of 1958 free reserves gradually disappeared as aggregate borrowings and excess reserves moved toward a rough balance. Reserve positions remained generally comfortable, however, with most of the changes concentrated at reserve city and country banks, and the banks were in a position to meet seasonal credit demands without strain. Interest rates, after rising to a peak in September and early October, changed little on balance during the rest of the year, as the awareness spread that neither seasonal pressures nor Federal Reserve action was making credit progressively tighter. With longer term rates appearing "high" to some investors in light of the underlying credit situation, the market became more receptive to new bond issues.

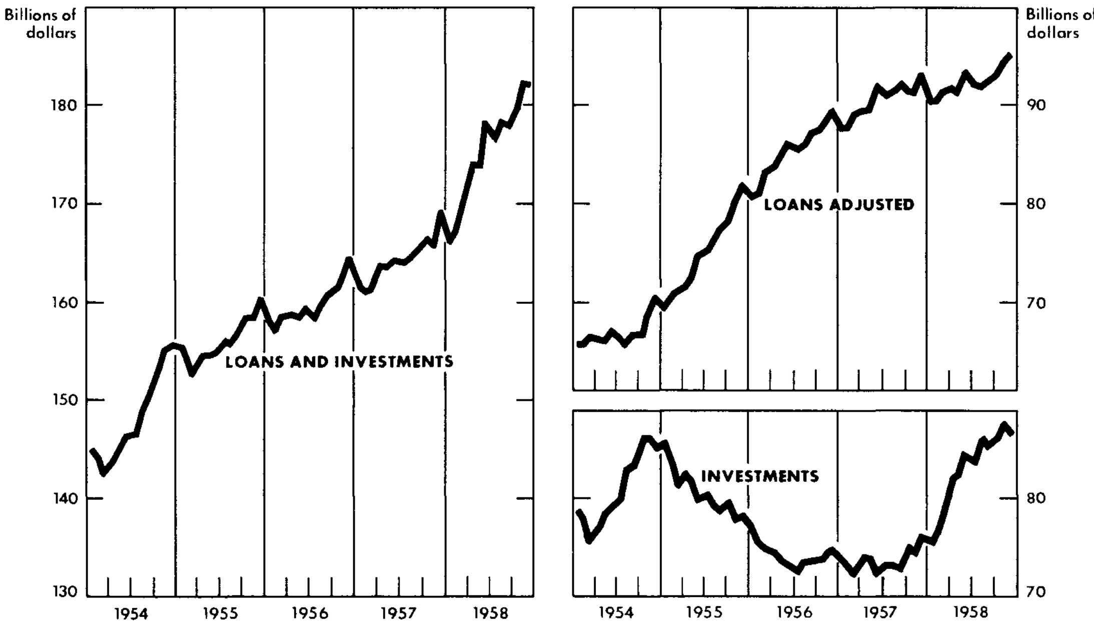
The second round of discount rate increases in October and November, which brought the rate to 2½ per cent at all Reserve Banks, represented a technical adjustment to the sharp upward movement in short-term market rates since midyear. A second increase in margin requirements also was made in October, bringing them to 90 per cent. Unlike the increases in discount rates and margin requirements in August, these changes had no observable effect on the bond market nor did they give rise to expectations of a further change in credit policy.

EXPANSION IN BANK CREDIT. Total commercial bank credit rose by $14.5 billion during 1958, the largest increase for a calendar year since World War II. The previous high had been $10.2 billion in 1954, while during the intervening three years increases had ranged between $4 billion and $5 billion (see Chart 6). Underlying the record expansion during 1958 was the Federal Reserve System's policy of credit ease during the first half of the year, when the largest part of the expansion occurred. A second factor was the continued heavy credit demand, by the Treasury as well as by States and municipalities and mortgage borrowers, which more than offset a decline in business loan demand.

The increase in bank credit during 1958 was concentrated in securities, particularly United States Government obligations. Bank holdings of these securities rose by a towering $8.0 billion in 1958, with most of the increase occurring in the first half of the year. The aggressiveness of the banks in acquiring Governments during that period reflected the ready availability of bank reserves, smaller aggregate loan demands, and the desire to repair bank liquidity positions

CHART 6

LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS



Note: Data are as of the last Wednesday or the last day of the month.

which had been substantially reduced during previous years of rapid loan expansion. Most of the new Treasury issues during the first half were of relatively long maturity, and the average maturity of commercial bank holdings of Government securities increased sharply, thus somewhat limiting the banks' liquidity gains.

During the second half of the year the increase in Government securities holdings moderated, as reserves became less freely available and loan demands increased moderately. The tendency toward a lengthening of maturities in bank portfolios also diminished or was reversed, as banks prepared to meet larger loan demands and Treasury financing shifted toward shorter maturities.

Other components of total bank credit that expanded appreciably in 1958 included real estate loans and "other securities" (chiefly obligations of States and municipalities), each category increasing by about $2.5 billion. These increases reflected the sensitivity of State, municipal, and mortgage borrowers to lower interest rates and more favorable borrowing terms, as well as the tendency of banks, during periods when business loan demands are slack and reserves are ample, to turn to these outlets for their funds. Farm loans, after three years of decline, also rose appreciably in 1958, as output of farm produce rose sharply over the previous year.

Despite the upswing in real estate loans and farm loans, the increase in total bank loans was only slightly larger than in 1957. Primarily this was because business, consumer, and securities loans showed on balance little change over the year. The light demand for business loans reflected the heavy inventory liquidation by business, particularly during the first half of the year, as well as the decision on the part of many corporations to retire bank debt with the proceeds of securities issues. The small contraction of business loans over the full year contrasted sharply with increases of $1.8 billion in 1957, $5.5 billion in 1956, and $6.3 billion in 1955. Business loans picked up somewhat in the fourth quarter of the year but only about in line with normal seasonal requirements, as businesses in general enjoyed the usual favorable cash flow associated with the early stages of an economic upturn. The relatively minor change in consumer loans was also largely a product of the recession, and particularly of the drop in purchases of consumer durable goods.

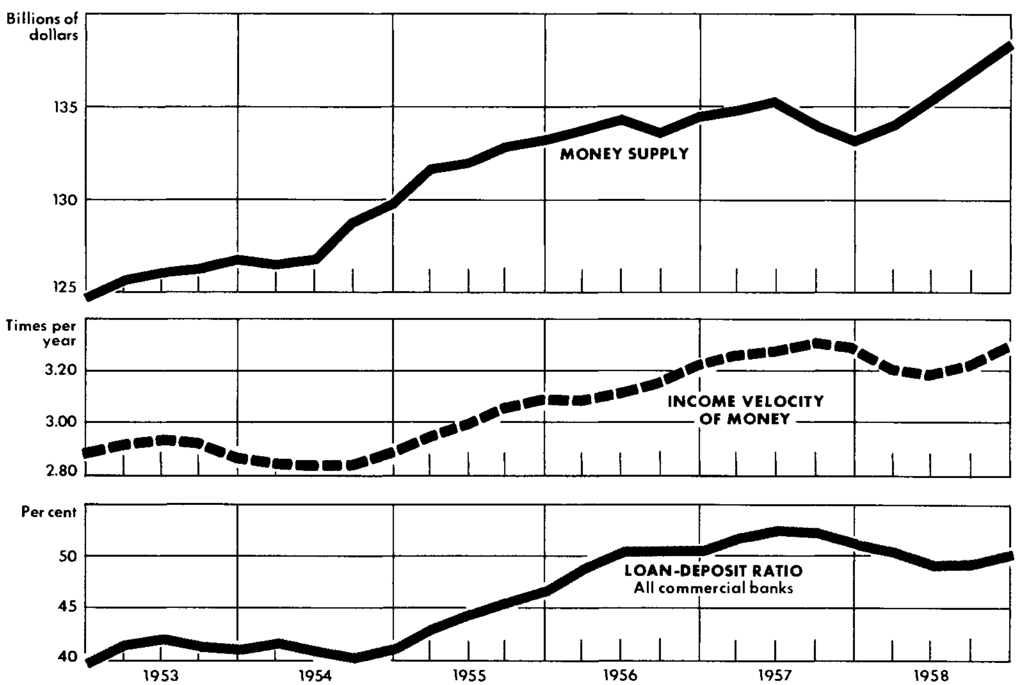
MONEY SUPPLY AND LIQUIDITY. Reflecting the sharp rise in bank earning assets, time and demand deposits at commercial banks rose by $11.0 billion during 1958, the largest increase for a calendar year since World War II. The money supply (defined as demand deposits adjusted plus currency outside banks) on a seasonally adjusted basis rose by $5.1 billion or by 3.8 per cent during 1958. Although considerably larger than the average annual increase of 2.4 per cent during the preceding seven years, this expansion followed two years during which the money supply was virtually unchanged.

Time deposits at commercial banks rose by a record $6.9 billion during 1958. During the first half of the year, when most of the increase occurred, time deposits accounted for a large part of the sharp expansion in the public's holdings of all types of fixed-value liquid assets in response to the recession. Apparently this bulge in time deposits was partly at the expense of marketable securities such as Treasury bills on which the decline in yields was considerably greater than on time deposits. The much smaller increase in the second half, although partly the result of seasonal influences, apparently reflected also the sharp rebound in interest rates on marketable securities.

As discussed earlier, the marked increase in banks' securities holdings and the reduced growth in loans during the first half of the year permitted banks to rebuild their liquidity positions somewhat from the reduced levels of 1957. Loan-deposit ratios for all commercial banks declined from a postwar high of 0.52 in the third quarter of 1957 to 0.49 in the second quarter of 1958, remaining well above the 1953-54 ratios, however (see Chart 7). The recovery in bank liquidity positions during this period, as suggested earlier, was limited by the lengthening of the maturity of the banks' portfolios of Government securities.

CHART 7

MONEY SUPPLY, INCOME VELOCITY, AND LOAN-DEPOSIT RATIO



Note: Data on money supply are seasonally adjusted end-of-quarter figures. Income velocity is equal to gross national product (annual rate for each quarter) divided by average money supply for that quarter, both seasonally adjusted. Loan-deposit ratio is end-of-quarter ratio of loans (adjusted) to total deposits less cash items in process of collection. Data for the last quarter of 1958 are estimates.

As bank liabilities to the public increased, some easing also occurred in the liquidity position of the nonbank public. The income velocity of money—the ratio of GNP to the money supply—declined from a postwar high of 3.30 in the third quarter of 1957 to 3.18 in the second quarter of 1958 (see Chart 7), suggesting that cash balances were being used less intensively. This decline in income velocity, however, offset only about one fourth of the rise between 1954 and 1957. Judging from these and other measures, the period of actively easy credit conditions and declining investment outlays—that is, the period favorable to recovery in liquidity positions—was too brief to allow more than a partial recovery of the liquidity lost during the preceding years of economic expansion. Of course, if the public's liquidity position is broadened to include liquid assets other than money, such as time and savings deposits, savings and loan shares, and Treasury bills and certificates, the recovery between the third quarter of 1957 and the second quarter of 1958 assumes more impressive proportions since these assets grew faster than the money supply during this period. However, these assets provide less liquidity to the nonbank public than demand deposits or currency since they are not immediately spendable funds. The liquidity of the banking system, furthermore, would be reduced by the conversion of substantial amounts of such assets to demand deposits or currency. For example, the conversion of a large volume of time deposits to demand deposits would place the banks under severe reserve pressure because of the higher reserve requirements on demand deposits. During the second half of the year the rise in bank and nonbank liquidity was reversed, and by the end of the year part of the earlier gains in liquidity apparently had been lost.

SHARP SWING IN BORROWING COSTS AND MARKET CONDITIONS. The period between the autumn of 1957 and that of 1958 encompassed by far the sharpest decline and recovery in interest rates since the early 1930's. Following the cut in discount rates at several Federal Reserve Banks effective November 15, 1957, bond yields fell precipitously. From early November to the end of December 1957, yields on long-term Treasury issues dropped more than 60 basis points while top-grade municipal and corporate bond yields fell more than 40 basis points. By the end of 1957, long-term interest rates on the highest grade securities had fallen almost as much as during the entire 1953-54 recession.

Following this decisive change, rates turned slightly higher in the first quarter of 1958, as investors were called upon to absorb a continuing heavy volume of new securities offerings. Late in January, the Treasury announced that a new 32-year Government bond would be included in February's refunding, and this was followed in February with an announcement of an 8½-year cash offering.

A brief flurry of bidding for high-quality bonds early in the second quarter brought long-term rates on these securities to the lowest levels of the year in April and May, setting the stage for the dramatic turnaround in interest rates beginning in mid-June. As indicated above, the pronounced rebound in interest rates grew out of a combination of events, including speculation in Treasury bonds, a quick turnabout in the direction of business activity, increased concern over inflation, and a rise in international tension. The rapid flow of events produced a new set of expectations that contrasted sharply with the outlook of a few weeks earlier, and speculative purchasing of Government bonds was replaced by speculative liquidation.

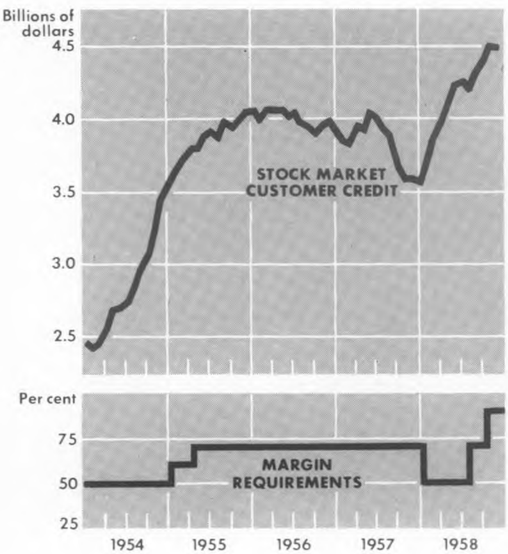
Consequently, interest rates on long-term debt instruments rose almost steadily through July and August and, by September, were approaching their 1957 peak levels. Corporations were paying from 4½ to 4¾ per cent for money raised on new Aaa-rated bond issues, compared with about 3⅝ per cent in May. At the end of September, yields on long-term Governments briefly surpassed year-earlier levels to reach their highest point since the early 1930's.

During the last quarter, the pressure on the market eased and rates stabilized as it appeared that monetary policy was not becoming severely restrictive. Inflationary fears were reduced by stability of the consumer price index and by the success of the Treasury in raising new money in October and November from nonbank investors. At the end of 1958 long-term interest rates, although no longer rising abruptly, were close to the peaks reached several months earlier and in 1957.

Stock prices climbed throughout much of 1958, a rise variously interpreted as a reflection of inflation fears or as a sign of confidence in future economic growth. As in the recovery from the two previous postwar recessions, stock prices began moving upward well before the recession hit bottom. The recession low in stock prices was reached in October 1957, but gains were quite moderate until April 1958 when prices began to climb steadily. Stock market credit, in the meantime, rose with extreme rapidity during the first seven months of the year (see Chart 8). On August 4, therefore, the Board of Governors announced the restoration of margin requirements to the 70 per cent level from which they had been cut to 50 per cent in January. The further increase to 90 per cent

CHART 8

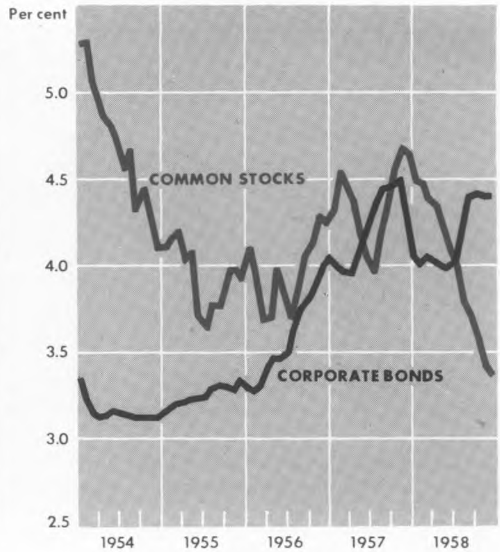
STOCK MARKET CREDIT



Sources: Data are from the New York Stock Exchange and the Board of Governors of the Federal Reserve System.

CHART 9

YIELDS ON SECURITIES



Sources: Data are Standard and Poor's dividends-price ratio for common stocks and Moody's Investors Service average corporate bond yields, Aaa through Baa quality.

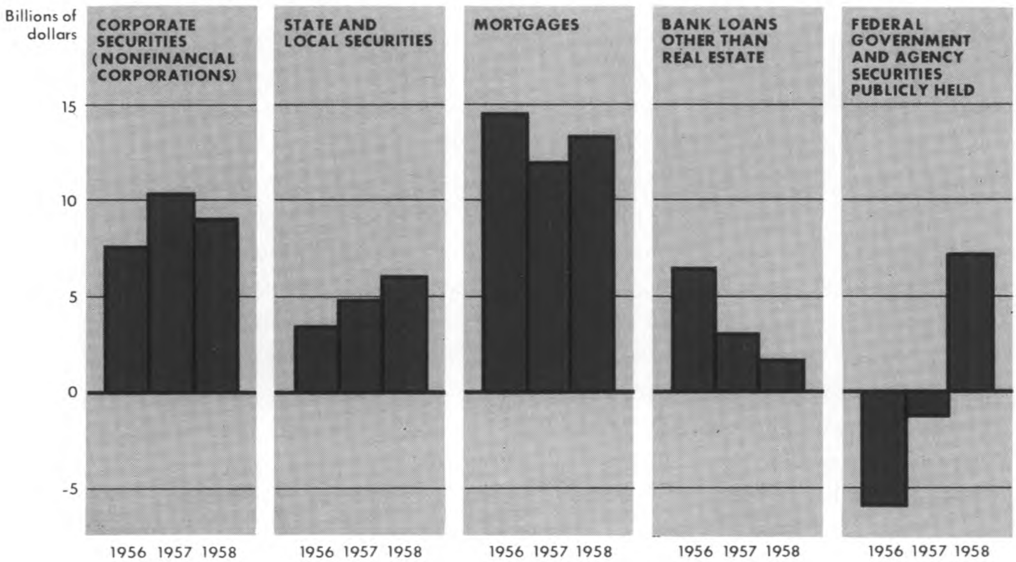
was made on October 16, as stock market borrowing and prices continued to advance.

The marked rise in stock prices during 1958 reduced average stock yields by the end of the year to about 3¼ per cent, the lowest in many years and more than 1 per cent below the average yield on corporate bonds (see Chart 9). In spite of high prices, however, the volume of new stock offerings during the year was well below that of 1957.

CONTINUED STRONG DEMAND IN THE CAPITAL MARKET. The total acquisition of funds through the capital market was greater in 1958 than in 1957. Business demands were, in the aggregate, smaller than last year but the Federal Government, after supplying funds to the market in 1957, became a heavy borrower in 1958 (see Chart 10). The volume of borrowing by State and local

CHART 10

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



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

governments and mortgage borrowers also increased, as these groups took advantage of the lower interest rates during part of the year and the generally increased availability of funds.

Corporations were much less pressed for funds in 1958 than in 1957, even though retained earnings were cut by reduced sales and profits. Depreciation allowances continued to rise, while cash needs were lessened by reductions in plant and equipment expenditures and in inventories. Nevertheless, the volume of corporate securities issued was only moderately below the previous year's record level. A significant part of the new money raised through the sale of long-term securities was apparently applied to paying off bank loans and other short-term instruments used to finance earlier expansion, as well as to rebuilding liquidity positions. Corporation holdings of cash and Government securities rose moderately during 1958, thus reversing the trend of the past several years when liquidity positions were reduced to finance expansion and growth.

State and local government borrowing in 1958 was at a new high. Building programs continued to expand, as highway construction gained momentum and needs for new community facilities such as schools and hospitals remained high. Part of the record volume of borrowing was done by localities which had postponed seeking funds during the previous year because of high interest rates. While the pace of such borrowing slackened after the upturn in interest rates, voters approved a record $2 billion of new bond issues in the November elections.

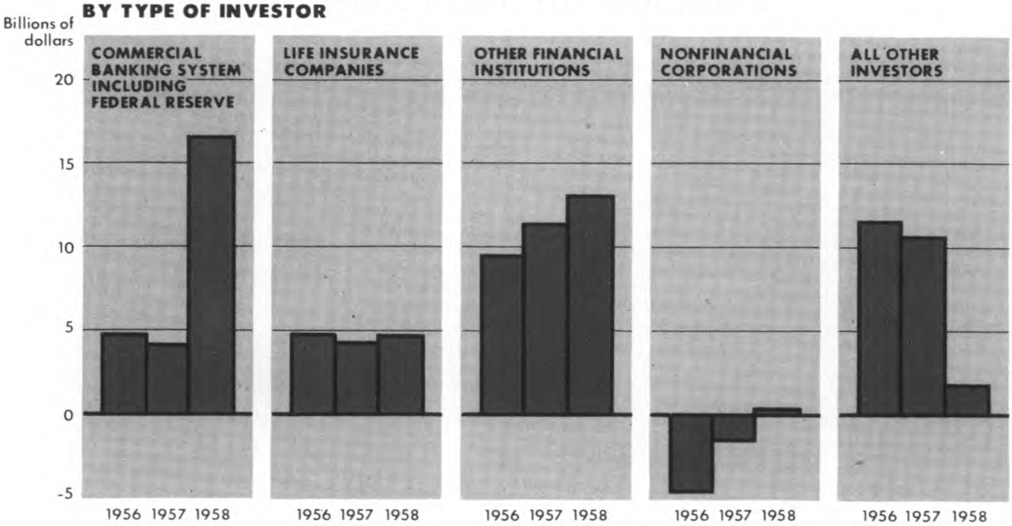
The greatest change in borrowing patterns from the previous year resulted from the budget deficit of the Federal Government. During 1958 publicly held Government debt (including obligations of Federal agencies) rose by $7.2 billion, whereas during 1956 and 1957 the Government had been a net supplier of funds to the market. Federal Government debt operations also had an important impact on the capital market through efforts to lengthen the average maturity of outstanding debt. More than $15 billion of Treasury bonds (including a limited amount of long-term bonds) was issued in the first half of 1958. While no new bonds were issued in the second half of the year, market expectations that the Treasury would again issue long maturities in the near future were generally regarded as a major factor depressing Government securities prices at various times during this period.

The net flow of funds into mortgages also increased during 1958. The lower level of long-term interest rates during the first half of the year and increased availability of credit stimulated greater investor interest in Federally underwritten mortgages, while actions taken by the Federal Government to stimulate housing construction also contributed to the pickup in mortgage activity. The Emergency Housing Act of 1958 effective in April extended the loan guarantee program and the direct loan program of the Veterans Administration for two years, raised the maximum interest rate on VA mortgages by ¼ per cent to 4¾ per cent, relaxed discount controls on Federal Housing Administration (FHA) and VA mortgages, and gave the Federal National Mortgage Association special authority to purchase at par up to $1 billion of Federally underwritten mortgages on low-cost housing. In addition, downpayment requirements were liberalized on VA mortgages by administrative action (downpayment requirements on FHA mortgages had been reduced late in 1957 by legislation). In large part these developments underlay the rising volume of housing starts during the April-December period, as explained above.

The banking system absorbed an unusually large share of the net increase in capital and credit instruments during 1958 (see Chart 11). As noted earlier, commercial banks' loans and investments rose by $14.5 billion during the year, or more than three times as much as in 1957, while Federal Reserve holdings

CHART 11

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



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

of securities expanded by $2.3 billion. Life insurance companies and other financial institutions also provided an expanded volume of funds to the capital markets during the year. Although total personal saving was little changed from 1957, the volume of individual savings channeled through financial institutions rose appreciably, providing institutions such as savings and loan associations and savings banks with record amounts of new funds. In contrast, the direct acquisition of securities by individuals (and miscellaneous investors) declined sharply. The increase in individuals' savings through financial institutions was accompanied by a reluctance to go further into debt; the volume of consumer credit outstanding showed almost no change during 1958. Debt on automobiles declined over the year, but this was offset by a rise in other types of consumer debt.

Balance of Payments of the United States

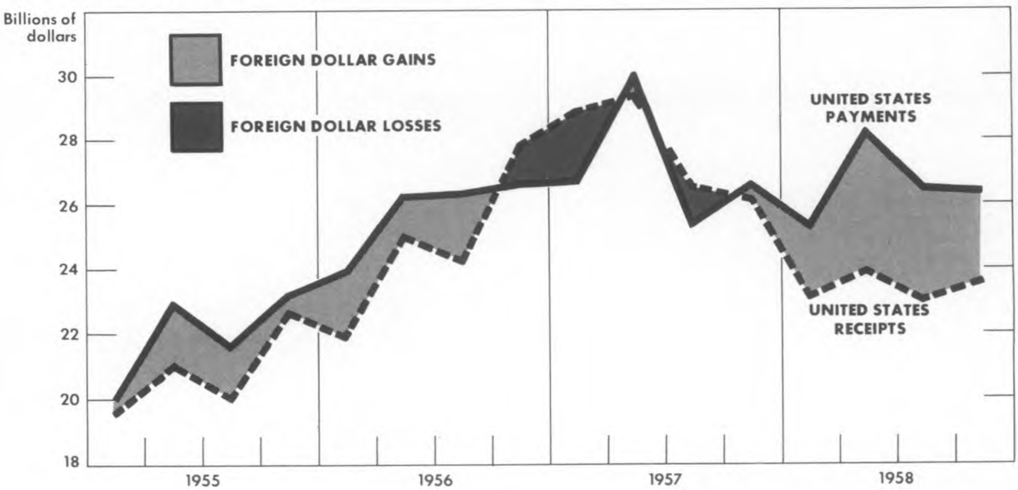
TURNABOUT IN GOLD FLOWS. The rest of the world, through its transactions with the United States, gained about $3.3 billion in gold and liquid dollar assets during 1958, a sharp reversal from the loss recorded in 1957 (see Chart 12). Of this gain as much as $2.3 billion was accounted for by foreign gold purchases from the United States Treasury. Foreign gold and dollar gains of varying magnitudes have characterized the United States balance of payments throughout the 1950's with the notable exception of 1957, but in no year during this period has there been so large a gold outflow to foreign countries, both absolutely and relative to foreign dollar acquisitions.

Much of the upsurge in foreign gold purchases may be explained by the fact that the main beneficiaries of foreign dollar gains were central banks in Western Europe, which traditionally hold the bulk of their international reserves in gold. Western Europe's extraordinary reserve gains were due to three main causes.

CHART 12

UNITED STATES TRANSACTIONS WITH FOREIGN COUNTRIES

At annual rates; not seasonally adjusted



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

In the first place, the area's terms of trade with the primary-producing countries improved sharply as a result of substantial declines in the prices of several major commodities. Secondly, as domestic demand in Europe eased, excessive inventories of industrial materials and other commodities were worked off, thus reducing the import needs of the industrial countries of Western Europe (as described below). Finally, inasmuch as interest rates in the United States during the first half of 1958 dropped much more rapidly than in Europe, foreign governments and corporations found it attractive to borrow heavily in our market. A large share of the resulting outflow of funds found its way to Europe. This outflow was swelled, moreover, by some repatriation of private capital, notably to Switzerland. The sharp decline in interest rates, especially of money market instruments, may also have been partially responsible for the increased preference for gold relative to dollars, as investments in United States Treasury securities and acceptances became much less attractive to foreign central banks.

In the second half of 1958 foreign gold and dollar assets increased by roughly the same amount as in the previous six months, but a much smaller proportion of the over-all increase was used for purchases of gold from the United States Treasury. To a certain extent, this reflects the fact that the rate of dollar gains of several European central banks that habitually convert all or the bulk of their dollar acquisitions into gold eased off noticeably during the latter part of the year.

SUSTAINED IMPORTS AND DECLINE IN EXPORTS. United States imports of foreign goods were only about 2 per cent lower in value in 1958 than in 1957, and the decline was by no means general. In fact, foreign suppliers of foodstuffs and finished manufactures were able to increase their sales in the American market. The most conspicuous example of successful market penetration by foreign manufactures was automobile imports from Western Europe, which rose 60 per cent over 1957. On the other hand, a decline took place in the dollar value of imports of most industrial materials—including copper, lead, zinc, wool, and iron ore but excluding petroleum.

In contrast, United States merchandise exports (excluding military aid) were over 16 per cent below the record level of 1957 though not much below the 1956 level. In part, this decline was a reaction from the burst of demand that had been generated by crop failures in Europe and by the Suez crisis late in 1956 and early in 1957. It also reflected, however, the topping-off of the boom in many of the other industrialized countries during 1958. To a lesser extent, it resulted from the deterioration of the payments position of many countries exporting primary commodities. Because of the decline in exports, the United States trade balance fell sharply from its record 1957 surplus, but the surplus still remained above that of most preceding years.

Most of the decline in exports was to Western European countries, Japan, and Canada, with smaller shipments of materials such as steel scrap, coal, petroleum, wheat, and cotton. For many of these commodities the United States has in recent years been a supplementary, and in 1957 an emergency, source of supply. Exports of finished manufactures also declined from 1957 levels, as demand from the primary-producing countries of Latin America, Africa, and Asia fell off.

The average price level of United States exports generally was little changed from 1957, as lower prices of raw materials and of semimanufactures sold in world markets were offset by a 2 per cent increase in the price of exported finished manufactures. The competitive position of United States manufactures in world markets was affected, moreover, by the easing of domestic pressures in other exporting countries which enabled them to improve their export delivery terms. However, our terms of trade improved considerably, as prices for imports into this country fell by about 5 per cent.

INCREASED IMPORTANCE OF FOREIGN SECURITIES. When seen in longer perspective, rather than in comparison with the abnormal export developments of 1957, the major shift in the United States balance of payments occurred in the outflow of portfolio capital. United States investment in new issues of foreign and international securities amounted to about $1 billion for the year as a whole. Flotations were greater than in any previous postwar year, largely as the result of relatively easy capital and money market conditions in the first half. More countries were represented among the borrowers, while the International Bank was the largest single external borrower.

The net direct investment outflow was, however, smaller than during the two preceding years and accounted for only one third of the total private capital outflow, in contrast to over one half in other recent years. On the other hand, long-term Government loans abroad were almost twice those of 1957, reflecting the increased activity of the Export-Import Bank. Bank lending and other short-term credit extensions also contributed to the large capital outflow in the first half of 1958. After the midyear, the outflow of this type of short-term credit slackened somewhat.

ACTIVITY IN THE NEW YORK FOREIGN EXCHANGE MARKET. The outstanding development in the New York foreign exchange market during 1958 came near the year end with the announcement on December 29 of nonresident convertibility for most Western European currencies. On balance, convertibility should result in greater trading activity since New York exchange dealers, for the first time since 1939, will be able to carry out arbitrage transactions in all the leading European currencies in exchange markets throughout the world.

During 1958, the pound sterling and the Canadian dollar again dominated trading activity. American-account sterling was traded through most of the year above its International Monetary Fund parity of $2.80, reflecting the underlying strength of the United Kingdom economy. A four-year high of $\$2.81\frac{31}{32}$ was reached in April, and a 1958 low of $\$2.79\frac{13}{16}$ in September. Transferable-account sterling generally followed the movement of American-account sterling and was traded at only a small discount. It was affected on several occasions by convertibility rumors and just prior to the actual announcement rose to $2.80. Convertibility, which brought about the merger of all foreign-owned sterling balances (except securities sterling) into a single external-account sterling, had only a minor effect on the exchange rate. The rate dipped on the first day from $\$2.80\frac{15}{32}$ to $\$2.80\frac{3}{32}$ but closed the year at $\$2.80\frac{9}{32}$ with a firm undertone. Securities sterling, which continues in a blocked status, gradually improved during the year as a result of investment demand for British securities, with the quotation advancing from $2.73 to $\$2.80\frac{1}{4}$ at the year end.

The most significant feature in the forward-sterling market was the marked decline in forward discounts near the year end. Three months' forward sterling, at a discount of $2\frac{7}{8}$ cents in the spring, was quoted at par with spot sterling just prior to the convertibility announcement. By the year end, however, the discount had widened to $\frac{3}{16}$ cents.

The Canadian dollar, quoted at $\$1.00\frac{7}{8}$ in January, gradually strengthened during the first half of the year, reflecting particularly the transfer to Canada of the proceeds of Canadian borrowings in New York. In June the Canadian dollar was quoted at $\$1.04\frac{15}{32}$, the high for the year. Thereafter, the rate moved rather erratically, responding to day-to-day market requirements including occasional demands from the Continent, oil lease bids on the part of American companies, and grain buying. Subsequently the quotation eased below the $1.03 level in September but by mid-October was again above that level. At the year end it was quoted at $\$1.03\frac{23}{32}$.

Other factors which affected the exchange market during 1958 were the abolition in July of the liberalized "capital" mark account by the Federal Republic of Germany, the devaluation of the French franc in December from 420 to 493.706 francs per dollar ($0.00202550), and the revisions in the exchange systems of Argentina, Brazil, Chile, and Colombia.

Foreign Economic and Financial Developments

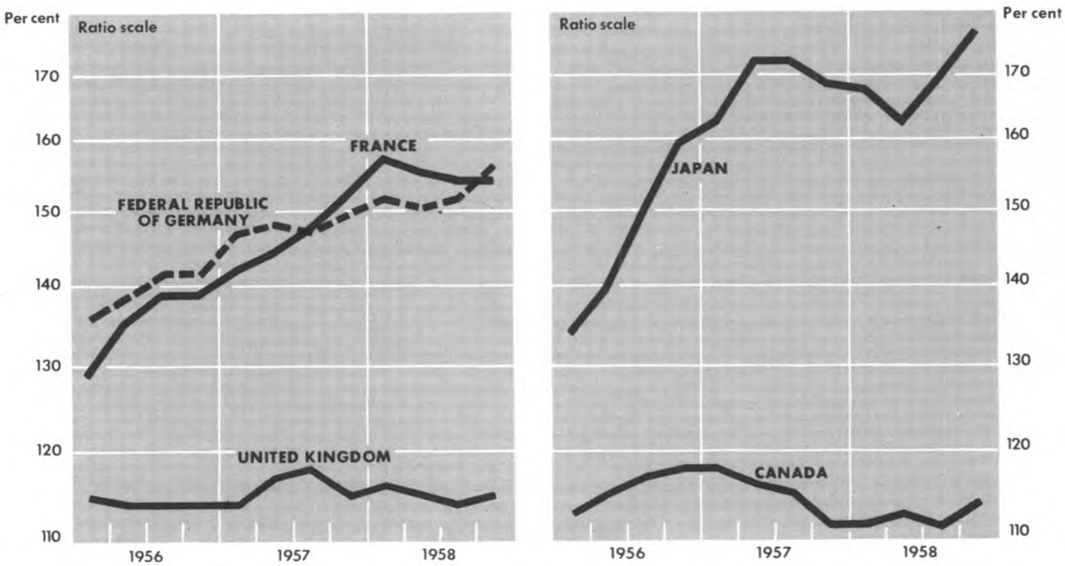
The recovery staged by the Western European economies in the past decade was highlighted at the close of 1958 by the establishment of nonresident convertibility for most Western European currencies. This concerted move reflected the substantial improvement in 1958 in the external accounts of virtually all Western European countries. As noted above, the balance-of-payments positions of these and other industrial countries abroad benefited from the improvement in their terms of trade, as well as from the general easing of their own domestic demand. These developments, in turn, permitted a widespread relaxation of monetary restraints. The primary-producing countries, on the other hand, generally continued to face both internal and external difficulties as a result of their large-scale development programs and the decline in their export prices during much of the year. By the year end, economic activity in industrial countries once more showed signs of picking up and commodity prices began to firm.

DECLINE AND PARTIAL RECOVERY OF ECONOMIC ACTIVITY. In the course of 1958, Western Europe as a whole registered a slight decline in industrial production, the first since 1952. This decline, the timing and degree of which varied widely in individual countries, was largely independent of the contraction in the United States. Similarly, at the close of the year economic activity abroad appeared to have been little affected by the recovery here. In the United Kingdom, production had begun to slacken as early as 1956 (see Chart 13); in other countries, such as the Netherlands and Belgium, output turned down in early or mid-1957. Elsewhere, notably in France and Germany, continuing expansion into 1958 was largely responsible for boosting Western European industrial

CHART 13

INDUSTRIAL PRODUCTION ABROAD

Seasonally adjusted, 1953=100



Note: Fourth quarter 1958 partially estimated.

production as a whole to an all-time peak in the first quarter of 1958, or about a year after the peak in the United States. In most European countries the 1957-58 downturn was generally less severe than in the United States and in some economic activity merely expanded less rapidly. Although some recovery appeared at the year end, a vigorous expansion was not yet under way.

The dip in Western Europe largely reflected widespread inventory liquidation, together with a decline in business demand for plant and equipment in some countries. At the same time, however, private consumption expenditures and residential construction activity remained high—partly with the aid of easier credit conditions—and thus continued to check declines in aggregate output. In contrast to wholesale prices, which generally fell in 1958, consumer prices in many Western European countries continued to rise, albeit in most cases more slowly than in earlier years. These increases, at a time when economic activity was slowing down, reflected not only a general rise in the price of services, but in some countries higher prices for food and nonfood consumer goods as well.

The authorities in a number of European countries have been displaying increasing awareness of the necessity of guarding against inflationary pressures arising, not only from excessive demand, but also from the upward push of costs.

In Canada, both the decline and the subsequent recovery of economic activity occurred earlier and were milder than in the United States. While Canadian industrial production reached its low point as early as December 1957, the 1958 revival was by no means uniform and continuous; in the closing months of the year, however, a definite upward trend became evident. Throughout the Canadian recession, increasing consumer and government expenditures, together with record residential construction, tended to offset the drop in business investment. In Japan, the end of the investment boom in the second half of 1957 led to a decline in economic activity that was felt through the spring of 1958 but gave way to a vigorous upturn thereafter.

In a number of primary-producing countries, economic activity likewise declined last year, with mineral producers in particular reducing their output. The fall in export receipts, as industrial countries cut back their purchases, often led to tighter exchange restrictions, with the result that some industries had to curtail output because of the scarcity of needed imports. The weakness in international commodity prices, which dates from early 1957, was intensified by the decline in economic activity both in the United States and in other industrial nations, and in the case of aluminum and tin by Soviet sales on world markets. Moreover, the expansion in raw material production that had begun in the early fifties had led to increased supplies, which also exerted a depressing influence on world prices. However, the present problems of primary-producing countries are not related only to adverse movements in the prices received for their products. More and more of these countries are grappling with the formidable task of raising incomes from their extremely low levels through development programs and economic diversification. The domestic financial and monetary policies adopted in pursuance of this goal, however, have not always been such as to prevent inflationary excesses. Even in years of high export earnings these countries often have found it difficult to channel additional resources into investment or to provide for an increase in exchange reserves to tide the economy over years when export earnings decline.

THE FINANCIAL FRAMEWORK. The trend toward credit restraint and tighter money in the industrial countries that began in 1955-56 and reached its climax in the third quarter of 1957 was halted toward the end of that year. Credit restrictions were eased in 1958, as the investment boom slackened, inflationary pressures receded, and reserves of gold, dollars, and other foreign currencies increased. In France, however, the persisting inflation necessitated the maintenance of some restrictive measures throughout 1958, while in West Germany the accumulation of international reserves had led to a reduction of the discount rate as early as September 1956—with further reductions in 1957 and 1958. On the other hand, among the primary-producing countries, many of which have suffered severe economic stress, the tendency to keep credit restrictions in force, or even to strengthen them, generally continued through 1958.

The move away from the 1955-57 phase of credit restraint was spearheaded in virtually all industrial countries by successive reductions in official discount rates. In a number of cases, these reductions followed declines in short-term market rates, and thus merely represented technical adjustments. In other instances, they constituted conscious attempts to adapt credit conditions to the abatement of inflationary pressures, the decline in economic activity, or the increase in international reserves. Relaxation of monetary policy also involved shifts in open market operations and changes in commercial bank reserve requirements in countries where these instruments are actively used. Elsewhere, as in the Netherlands, these same tools were employed, however, to offset excessive additions to market liquidity arising from gains in gold and foreign exchange reserves. In fact, the monetary measures taken last year were generally not intended as outright stimulants to economic expansion, but rather represented a removal of the often severe credit restraints imposed in 1957. In the United Kingdom and Canada, however, the authorities adopted a combination of monetary policy and of fiscal measures in order to pave the way for economic expansion.

As conditions in money and capital markets eased and interest rates declined, public and corporate borrowers abroad were often able to fund their short-term debt and to finance projects that had been postponed during the prior phase of economic expansion. In Canada, in particular, the government undertook a massive funding operation to consolidate outstanding issues maturing in 1959-66. In a number of Western European countries the easing of monetary and credit conditions last year made possible the broadening of consumer credit and personal loan facilities, which still are less developed abroad than in the United States. These enlarged facilities may well provide a stimulus to further development of mass-produced consumer durables and, if supported by sound credit practices, may set the stage for a further rise in the standard of living.

CROSSCURRENTS IN INTERNATIONAL PAYMENTS AND RESERVE TRENDS. The sharp shift in the terms of trade in favor of foreign industrial countries, which to an important extent made possible the notable improvement in their payments position, at the same time led to a corresponding deterioration in the payments position of primary-producing countries. The value of imports into the industrial countries dropped sharply with the reduction in domestic demand and, more important, with the fall in the prices of imported raw materials. On the other hand, the exports of these countries declined only slightly. Moreover, the balances of payments of a number of Western European countries were favorably affected in 1958 by the reversal of the speculative flow of funds into the dollar that had marked the winter of 1956-57, following the Suez crisis, and again the summer of 1957 when fears had arisen that certain Western European currencies would be devalued. In contrast, the payments difficulties of primary-producing countries were intensified as these countries received lower prices for their exports. Moreover, their demand for imports in many instances remained high despite efforts to curb prevailing inflationary pressures.

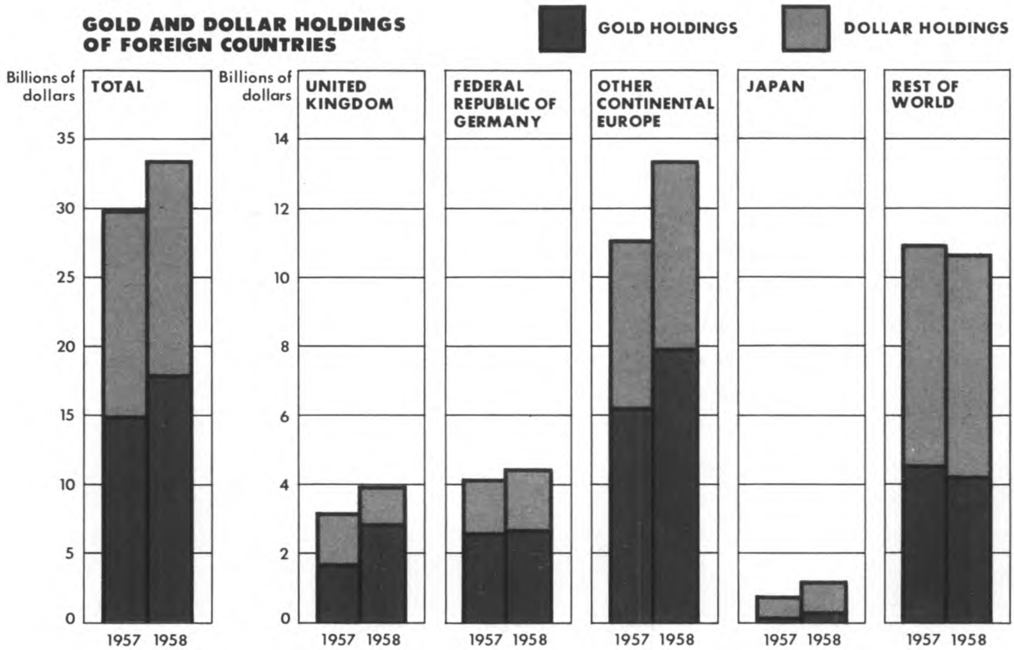
Aggregate official gold reserves and official and private dollar holdings of foreign countries rose by a record $3.6 billion last year. By far the most important single factor in this increase was the over-all balance-of-payments surplus the rest of the world had with the United States, noted earlier. Foreign countries, in addition, acquired about $800 million of gold from new production outside the United States as well as from Soviet gold sales and other sources abroad.

The increase in foreign gold and dollar holdings, however, was most unevenly distributed, being confined largely to Western European countries, Japan, and Canada (see Chart 14). The official gold and dollar reserves held by the United Kingdom as banker for the sterling area thus rose by $796 million in 1958 to $3,069 million, despite the year-end repayment of $188 million on the United States and Canadian postwar loans. The countries of Continental Western Europe accounted for over $2.7 billion of last year's total increase in reserves, their aggregate holdings rising to $17.8 billion.

Western Europe's economic and financial resurgence since the end of World War II, as already mentioned, was dramatically confirmed by the convertibility moves in the closing days of 1958. Foreign holdings of these currencies, with the exception in most countries of certain capital proceeds, may now be freely converted in the exchange markets within official support margins into any other currency, including the dollar. This long-planned and long-awaited decision

CHART 14

GOLD AND DOLLAR HOLDINGS OF FOREIGN COUNTRIES



Note: Holdings include official gold reserves and official and private dollar holdings (primarily bank deposits, United States Government securities, and bankers' acceptances).

represents a substantial advance toward a sound international monetary system, which has been a major goal of United States postwar policy. The convertibility move also drastically changed the pattern of intra-European payments arrangements. The eight-year-old European Payments Union was terminated and was replaced by the European Monetary Agreement which had been signed on a stand-by basis in August 1955. In France, external convertibility was accompanied by a devaluation of the franc and by a series of sweeping fiscal and other measures to strengthen the country's economy.

During the year, Canada's holdings of gold and dollars rose some $230 million, as its trade deficit declined and the capital inflow from the United States continued to be relatively high. And in Japan, a sharp reduction in imports was reflected in a $383 million rise in reserves.

Total gold and dollar holdings of primary-producing countries declined only moderately despite a substantial rise in these countries' current-account deficits. The decline, however, might have been greater had not their increased current-account deficits been largely met by credits from international financial institutions, United States lending agencies, and, in the case of primary-producing countries in the sterling area, by a substantial drawing-down of their sterling balances.

The international payments developments of the past year tended to dispel earlier fears that a severe and general international liquidity crisis would develop as a result of the United States recession. On the contrary, the increase in foreign reserves last year established a new record. Moreover, the governors of the International Monetary Fund and the International Bank for Reconstruction and Development, looking to the future, approved the United States proposal under which (subject to approval of the national legislatures) additional international liquidity would be provided through increases in the resources of these institutions. Finally, the improved reserve positions of Western European countries, coupled with the moves to convertibility, should make Western European currencies more useful in international trade and finance, thereby adding to international liquidity.

International reserves, however, are concentrated in the hands of industrial nations. While last year the often more-than-adequate reserves of the industrial countries abroad rose further, the already inadequate holdings of many primary producers declined further. This, of course, is another aspect of the gap that exists between the economies of the major industrial countries and the economies of the less developed areas of the world. The Western European economies, however, are now sufficiently strong to take part in a much-needed cooperative effort to aid these areas in raising their very low living standards.

Volume and Trend of the Bank's Operations

DOMESTIC OPERATIONS. In spite of the decline in business activity during 1958, some major departments of the Bank showed increases in the volume of operations over the previous year. However, the increases were generally smaller than in previous years, and some departments showed a decline in activity.

During 1958 this Bank processed 552 million checks amounting to $394 billion, excluding United States Government checks. This represented a rise of 3.4 per cent in the number of items handled and of 1.2 per cent in dollar volume over the preceding year and compared with an average annual increase during the previous six years of 4.4 per cent and 6.6 per cent, respectively. Despite the large volume of checks processed, the average level of float at this Bank in 1958 was lower than in 1957, and the monthly fluctuations in the amount of float outstanding were generally smaller.

The number of United States Government checks handled at this Bank during 1958 fell by about 9 per cent from the previous year's total, thus continuing the downward trend that had begun in 1957 with the adoption of the Treasury's new payment and reconciliation procedure, under which all United States Government checks are now payable at the Treasury Department in Washington rather than through individual Federal Reserve Banks. Further simplifications, instituted during 1958, in the procedures for making social security benefit payments also contributed to the reduction. In contrast to the decline in the number handled, the dollar volume of Government checks collected during 1958 rose by 4.4 per cent.

A further expansion in the Treasury's refunding and financing operations, as well as the high level of activity in the Government securities market during 1958, again boosted the volume of most of this Bank's fiscal agency operations, although not by so great a margin as in the previous year. The dollar volume of all Government obligations, other than United States Savings bonds, processed by this Bank in 1958 was $415 billion, an increase of 4.5 per cent over the volume for 1957. The number of pieces handled during 1958 was 5.3 million, or 3.7 per cent more than in 1957. On the other hand, the dollar volume of issues, redemptions, and exchanges of United States Savings bonds in 1958 contracted to $2.3 billion, which was 26 per cent less than the volume of 1957 and the lowest level since 1953. The number and the dollar volume of securities received and delivered in conjunction with safekeeping operations, which rose sharply from 1956 to 1957, increased only slightly during 1958.

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

Number of pieces handled ★	**1958**	**1957**
Discounts and advances	2,087	3,106
Currency received and counted	1,249,986,000	1,255,818,000
Coin received	2,165,780,000	2,049,247,000r
Gold bars and bags of gold coin handled	292,000	198,000
Checks handled:		
United States Government checks	54,675,000	60,349,000
All other	552,224,000	534,285,000
Postal money orders handled	43,037,000	48,290,000
Collection items handled:		
United States Government coupons paid	4,003,000	3,889,000
Credits for direct sendings of collection items	359,000	396,000
All other	12,115,000	10,584,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	28,501,000	30,724,000
All other United States obligations	5,266,000	5,077,000
Obligations of the International Bank for Reconstruction and Development	701,000	212,000
Safekeeping of securities:		
Pieces received and delivered	7,368,000	7,091,000
Coupons detached	3,342,000	2,583,000
Transfers of funds†	509,000	467,000
Amounts handled		
Discounts and advances	$ 11,072,095,000	$ 29,410,688,000
Currency received and counted	8,165,085,000	8,045,632,000
Coin received	226,977,000	219,988,000r
Gold bars and bags of gold coin handled	4,062,503,000	2,725,867,000
Checks handled:		
United States Government checks	19,261,007,000	18,443,732,000
All other	393,860,426,000	389,354,518,000
Postal money orders handled	733,765,000	802,303,000
Collection items handled:		
United States Government coupons paid	2,087,965,000	1,685,790,000
Credits for direct sendings of collection items	702,094,000	805,408,000
All other	1,989,532,000	2,009,581,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	2,251,751,000	3,059,125,000
All other United States obligations	414,542,707,000	396,504,969,000
Obligations of the International Bank for Reconstruction and Development	1,134,564,000	291,821,000
Safekeeping of securities:		
Par value pieces received and delivered	580,961,706,000	574,124,044,000
Transfers of funds†	598,770,651,000	471,063,822,000

★ Two or more checks, coupons, etc., handled as a single item are counted as one "piece".

† Includes wire and mail transfers; excludes Treasury transfers and Reserve Bank interdistrict settlements.

r Revised.

The dollar volume of wire and mail transfers of funds made through the facilities of this Bank, other than Treasury transfers and Reserve Bank inter-district settlements, rose 27 per cent during 1958 and totaled $599 billion for the year. This rise apparently reflected a more intensive use of funds in the New York money market. The number of transfers was also higher in 1958 than in 1957, but the rise was only 9 per cent.

As a result of easier credit conditions during the past year the dollar volume of advances to member banks contracted sharply from $29.4 billion in 1957 to $11.1 billion in 1958—a reduction of 62 per cent. While the number of advances declined by one third, the number of banks accommodated decreased by only 9 per cent, as 282 member banks borrowed one or more times during the year.

FOREIGN AND INTERNATIONAL OPERATIONS. Gold and dollar assets held for foreign account by this Bank on behalf of all Federal Reserve Banks—including dollar deposits, securities, and gold earmarked for foreign account—increased from $9,926 million to $12,115 million during the year. This rise of $2,189 million represented a vigorous resumption of the uptrend which began in July of 1952, when total assets were $6.1 billion, but which was interrupted by a leveling-off period in 1956 and 1957. Of total assets held for foreign accounts, $7,668 million was represented by earmarked gold, a rise of $2,180 million. United States Government securities held for foreign account amounted to $3,695 million at the year end, a decrease of $34 million over the year; deposits were $272 million, down slightly; and miscellaneous securities, including bankers' acceptances, aggregated $480 million, a rise of $127 million. Gold and dollar assets in the accounts of the International Bank, International Finance Corporation, and the International Monetary Fund, not included in the foregoing figures, increased by $508 million; other Federal Reserve Banks do not participate in this Bank's operations for these accounts.

New gold loan arrangements were made with four foreign monetary authorities, involving a total of $43.3 million. These arrangements were made within the framework of this Bank's policy of extending credits against gold for the purpose of meeting seasonal and other dollar shortages of a temporary nature.

The newly organized central bank of Rhodesia and Nyasaland, and the new central bank of Ghana, opened accounts.

As fiscal agent, the Bank administered the blocking regulations affecting assets held in the United States for Communist China and North Korea and their nationals, and transactions with those countries; also, the regulations affecting the assets of the Government of Egypt and the Suez Canal Company until their revocation on May 1.

Financial Statements

STATEMENT OF CONDITION. At the end of 1958 the Bank had total assets of $13.7 billion, of which $5.6 billion consisted of cash or gold certificates and $6.7 billion of Government securities. The Bank's principal liabilities were $6.5 billion of Federal Reserve notes and $6.0 billion of deposits.

Over the year, the dollar volume of total assets remained virtually unchanged but there were some significant shifts in the distribution of particular asset items. These changes were an increase of $254 million (3.9 per cent) in total loans and securities and a decrease of $247 million (4.2 per cent) in cash holdings. The change in cash holdings reflected primarily a $229 million reduction in holdings of gold certificates, resulting from the outflow of gold to foreign countries. However, this Bank's share in the $2.1 billion decline of the System's gold certificate holdings was substantially less than proportionate, due to the favorable net balance of this Bank in the Interdistrict Settlement Fund.

Liabilities changed little during the year. Federal Reserve notes of this Bank outstanding increased by only $12 million, although the note circulation of the other eleven Federal Reserve Banks increased by $325 million. Thus, there was either a net importation of notes of other Banks into the Second District or a decline in the demand for currency in this area relative to demand in other parts of the country.

The capital accounts increased $11 million, or 3.2 per cent, to $368 million, compared with the $24 million rise in 1957. One factor contributing to the slower growth of capital accounts was the transfer of $7.8 million from this Bank's surplus accounts to the Treasury, pursuant to the provisions of the Small Business Investment Act of 1958.

STATEMENT OF CONDITION

(In thousands of dollars)

Assets	DEC. 31, 1958	DEC. 31, 1957
Gold certificates	5,277,366	5,522,298
Redemption fund for Federal Reserve notes	198,412	182,497
Federal Reserve notes of other Banks	83,865	95,948
Other cash	60,901	66,423
Total cash	5,620,544	5,867,166
Discounts and advances	11,568	4,695
Acceptances	49,089	65,689
United States Government securities	6,714,791	6,451,005
Total loans and securities	6,775,448	6,521,389
Other assets:		
Due from foreign banks★	4	4
Uncollected items	1,215,353	1,173,568
Bank premises	10,313	10,664
All other	36,478	55,343
Total other assets	1,262,148	1,239,579
Total Assets	**13,658,140**	**13,628,134**

★ After deducting participation of other Federal Reserve Banks amounting to 11 (1958) 11 (1957)

STATEMENT OF CONDITION

(In thousands of dollars)

Liabilities	**DEC. 31, 1958**	**DEC. 31, 1957**
Federal Reserve notes	6,512,632	6,500,863
Deposits:		
Member bank — reserve accounts	5,570,787	5,716,993
United States Treasurer — general account	35,307	68,735
Foreign★	103,755	111,163
Other	307,036	150,962
Total deposits	6,016,885	6,047,853
Other liabilities:		
Deferred availability cash items	755,659	717,765
All other	5,375	5,368
Total other liabilities	761,034	723,133
Total Liabilities	**13,290,551**	**13,271,849**
Capital Accounts:		
Capital paid in	105,850	102,215
Surplus (Section 7)	238,902	223,963
Surplus (Section 13b)	0†	7,319
Other capital accounts	22,837	22,788
Total Capital Accounts	**367,589**	**356,285**
Total Liabilities and Capital Accounts	**13,658,140**	**13,628,134**
Contingent liability on acceptances purchased for foreign correspondents‡	19,119	21,398
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	43.7%	45.5%

★ After deducting participation of other Federal Reserve Banks amounting to 168,730 245,179

† Pursuant to the Small Business Investment Act of 1958, $7,752,044 was repaid to the United States Treasury; of this amount, $7,318,631 was transferred from Section 13b surplus account and $433,413 from Section 7 surplus account.

‡ After deducting participation of other Federal Reserve Banks amounting to 48,680 54,716

EARNINGS AND EXPENSES. Total current earnings of this Bank declined by $6 million, or 3.1 per cent, to $188 million between 1957 and 1958, thus reversing the trend of rising earnings observed during 1956 and 1957. The major portion of the decline, amounting to $5.1 million, was accounted for by a reduction in earnings on loans extended by this Bank. Earnings on Government securities held by this Bank under repurchase agreements declined by $1.9 million, but those on this Bank's share of securities held by the System Open Market Account increased by $1.0 million.

Net expenses of this Bank increased by $1.5 million, or 5.5 per cent. The largest item was an increase in salary and wage payments amounting to nearly $1.0 million. Expenditures for purchases of equipment and furniture as well as for repairs and alterations rose by $0.6 million, while this Bank's regular contribution to the Retirement System of the Federal Reserve Banks increased by $0.3 million. Among the items showing a decline from the previous year's figures the largest was a $0.4 million reduction in the assessment for the expenses of the Board of Governors.

Net earnings, after all adjustments, amounted to $160 million, out of which slightly more than $6 million was paid to member banks as the statutory 6 per cent dividend on outstanding Federal Reserve Bank stock. Of the remainder, 90 per cent, or somewhat more than $138 million, was transferred to the Treasury as an interest charge levied by the Board of Governors under Section 16 of the Federal Reserve Act on Federal Reserve notes not covered by gold certificates. The remaining 10 per cent, or somewhat more than $15 million, was added to the Bank's surplus account.

STATEMENT OF EARNINGS AND EXPENSES FOR
THE CALENDAR YEARS 1958 AND 1957 (In thousands of dollars)

	1958	1957
Total current earnings	188,059	194,070
Net expenses	28,139	26,667
Current net earnings	159,920	167,403
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	39	41
Reimbursement for Fiscal Agency expenses incurred in prior years	0	129
All other	12	44
Total additions	51	214
Deductions from current net earnings:		
Retirement System (adjustment for revised benefits)	0	2,115
Reserves for contingencies	49	55
All other	1	0
Total deductions	50	2,170
Net additions or deductions (—)	1	—1,956
Net earnings before payments to United States Treasury	**159,921**	**165,447**
Paid United States Treasury (interest on Federal Reserve notes)	138,349	143,648
Dividends paid	6,200	5,838
Transferred to surplus (Section 7)	15,372	15,961
Surplus Account (Section 7):		
Surplus—beginning of year	223,963	208,002
Transferred from net earnings for year	15,372	15,961
	239,335	223,963
Paid United States Treasury (pursuant to Small Business Investment Act of 1958)	433	0
Surplus - end of year	**238,902**	**223,963**

Changes in Membership

During 1958 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 560 to 531. The net decrease of 29 banks was the result of mergers of 31 member banks with other banks and the admission of two State banks to membership. The 531 banks constitute 86 per cent of all national banks, State banks, and trust companies in this District and hold 96 per cent of the total assets of all such institutions in this District.

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

	DECEMBER 31, 1958			DECEMBER 31, 1957		
Type of Bank	**Members**	**Non-members**	**Per cent members**	**Members**	**Non-members**	**Per cent members**
National banks	366★	0	100	386★	0	100
State banks and trust companies	165	85	66	174	90	66
Total	**531★**	**85**	**86**	**560★**	**90**	**86**

★ Includes one national bank located in the Virgin Islands.

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1958

Total membership at the beginning of the year	**560**
Increases:	
Newly organized State bank admitted	1
Nonmember State bank admitted	1
Decreases:	
Member banks combined with other members	28
Member banks combined with nonmembers	3
Total membership at the year end	**531**

Changes in Directors and Officers

CHANGES IN DIRECTORS. In December 1958, member banks in Group 1 elected Henry C. Alexander, Chairman of J. P. Morgan & Co. Incorporated, New York, N. Y., a Class A director of this Bank for a term of three years beginning January 1, 1959. Mr. Alexander succeeded Howard C. Sheperd, Chairman of the Board of The First National City Bank of New York, whose term expired December 31, 1958.

At the same time, member banks in Group 1 elected Philip D. Reed, Chairman of the Finance Committee, General Electric Company, New York, N. Y., a Class B director for a term of three years beginning January 1, 1959. Mr. Reed succeeded Clarence Francis, Director of General Foods Corporation, New York, N. Y., whose term expired December 31, 1958.

Also in December 1958, the Board of Governors of the Federal Reserve System redesignated John E. Bierwirth, Chairman of the National Distillers and Chemical Corporation, New York, N. Y., as *Chairman* of the Board of Directors of this Bank and *Federal Reserve Agent* for the year 1959. At the same time, Forrest F. Hill, Vice President of The Ford Foundation, New York, N. Y., was reappointed by the Board of Governors as *Deputy Chairman* of the Board of this Bank for the year 1959.

In January 1959, the Board of Governors of the Federal Reserve System appointed James DeCamp Wise, Chairman of the Board of the Bigelow-Sanford Carpet Company, Inc., New York, N. Y., a Class C director for the unexpired portion of the term ending December 31, 1961. Mr. Wise succeeded Franz Schneider, Consultant of the Newmont Mining Corporation, New York, N. Y., whose term expired December 31, 1958.

At the Buffalo Branch of the Federal Reserve Bank of New York, in December 1958, Raymond E. Olson, President of Taylor Instrument Companies, Rochester, N. Y., was designated by the Board of Directors of this Bank as *Chairman* of the Board of Directors of the Buffalo Branch for the year 1959. At the same time, the Board of Directors of this Bank appointed Denton A. Fuller, President of The Citizens National Bank of Wellsville, Wellsville, N. Y., a director of the Buffalo Branch for the three-year term beginning January 1, 1959. He succeeded Leland B. Bryan, President of the First National Bank and Trust Company of Corning, Corning, N. Y., whose term expired December 31, 1958. The Board of this Bank also reappointed John W. Remington, President of the Lincoln Rochester Trust Company, Rochester, N. Y., a director of the

Branch for the three-year term beginning January 1, 1959. Also in December 1958, the Board of Governors of the Federal Reserve System appointed Whitworth Ferguson, President of the Ferguson Electric Construction Co., Inc., Buffalo, N. Y., a director of the Buffalo Branch for the three-year term beginning January 1, 1959. Mr. Ferguson succeeded Ralph F. Peo, Chairman and President of Houdaille Industries, Inc., Buffalo, N. Y., whose term expired December 31, 1958. In January 1959, the Board of Governors appointed Cameron G. Garman, fruit grower of Burt, Niagara County, N. Y., a director of the Buffalo Branch for the unexpired portion of the term ending December 31, 1960. Mr. Garman succeeded Daniel M. Dalrymple, Manager of Pomona Fruit Farms, Appleton, N. Y., who resigned from the Buffalo Branch board on January 9, 1959.

CHANGES IN OFFICERS. George Garvy, formerly Senior Economist in Research and Statistical, was appointed Adviser, effective May 16, 1958. The new position of Adviser, equivalent to the position of Assistant Vice President, was created at the time to handle special assignments over the entire range of the Research and Statistical function's responsibilities.

Alan R. Holmes, formerly Special Assistant in the Research Department, was appointed Manager and assigned to the Research Department, effective May 16, 1958.

Robert G. Link, formerly Special Assistant in the Research Department, was appointed Manager and assigned to the Research Department, effective May 16, 1958.

Frank W. Schiff, formerly Chief of the Domestic Research Division, Research Department, was appointed Senior Economist, Research and Statistical, effective May 16, 1958.

Arthur I. Bloomfield, Senior Economist, Research and Statistical, resigned as an officer of the Bank, effective August 31, 1958, to become Professor of Economics at the University of Pennsylvania. Mr. Bloomfield had been with the Bank since December 1, 1941, and Senior Economist since June 1, 1953. From April 1957 to April 1958, Mr. Bloomfield had been on a leave of absence of one year during which he was engaged in a special study project in Europe under a Rockefeller Foundation award.

G. Morgan Browne, formerly Emergency Planning Assistant, was appointed Manager, effective August 8, 1958, and assigned to the Emergency Planning Department, a newly created department in the Accounting, Planning, Building

Operating, and Service function. Mr. Browne died on January 14, 1959. He had been a member of the Bank's staff since August 1942.

Thomas O. Waage, Assistant Vice President, formerly assigned to Cash (Cash and Cash Custody), was assigned temporarily to emergency planning work, effective August 8, 1958. Effective January 16, 1959, Mr. Waage was reassigned to Cash (Cash and Cash Custody).

Tilford C. Gaines, Manager of the Securities Department, returned to the Bank September 30, 1958, following a leave of absence of six months granted under the Bank's Program for Advanced Education of Personnel to enable him to complete his dissertation for a doctoral degree.

Edward G. Guy, formerly Assistant Counsel, was appointed Assistant General Counsel, effective January 15, 1959.

John P. Ringen, formerly Chief of the Credit Division, Credit and Discount Department, was appointed Manager, effective January 15, 1959, and assigned to the Bank Examinations Department.

Thomas C. Sloane, formerly an Attorney in the Legal Department, was appointed Assistant Counsel, effective January 15, 1959.

Lawrence E. Quackenbush, Assistant Vice President, in addition to his assignment to Accounting, Planning, Building Operating, and Service, was assigned to Emergency Planning, effective January 16, 1959.

Fred W. Piderit, Jr., Manager, formerly assigned to the Bank Examinations Department, was assigned, effective January 16, 1959, to the Bank Relations Department, to succeed A. Chester Walton.

MEMBER OF FEDERAL ADVISORY COUNCIL—1959. The Board of Directors of this Bank selected John J. McCloy to serve during 1959 as the member of the Federal Advisory Council representing the Second Federal Reserve District. Mr. McCloy is Chairman of the Board of The Chase Manhattan Bank, New York, N. Y. He replaced Adrian M. Massie, Chairman of the Board of The New York Trust Company, who had served as a member of the Council for the past three years.

Directors of the Federal Reserve Bank of New York

DIRECTORS	Term expires Dec. 31	Class	Group
HENRY C. ALEXANDER Chairman, J. P. Morgan & Co. Incorporated, New York, N. Y.	1961	A	1
CHARLES W. BITZER Chairman, City Trust Company, Bridgeport, Connecticut	1959	A	2
CYRUS M. HIGLEY President and Trust Officer, The Chenango County National Bank and Trust Company of Norwich, Norwich, N. Y.	1960	A	3
PHILIP D. REED Chairman, Finance Committee, General Electric Company, New York, N. Y.	1961	B	1
LANSING P. SHIELD President, The Grand Union Company, East Paterson, N. J.	1959	B	2
AUGUSTUS C. LONG Chairman, Board of Directors, The Texas Company, New York, N. Y.	1960	B	3
JOHN E. BIERWIRTH, *Chairman, and Federal Reserve Agent* Chairman, National Distillers and Chemical Corporation, New York, N. Y.	1959	C	
FORREST F. HILL, *Deputy Chairman* Vice President, The Ford Foundation, New York, N. Y.	1960	C	
JAMES DECAMP WISE Chairman of the Board, Bigelow-Sanford Carpet Company, Inc., New York, N. Y.	1961	C	

DIRECTORS — BUFFALO BRANCH

RAYMOND E. OLSON, *Chairman* President, Taylor Instrument Companies, Rochester, N. Y.	1959
VERNON ALEXANDER President, The National Bank of Geneva, Geneva, N. Y.	1959
E. PERRY SPINK President, Liberty Bank of Buffalo, Buffalo, N. Y.	1960
CAMERON G. GARMAN Fruit Grower, Burt, Niagara County, N. Y.	1960
WHITWORTH FERGUSON President, Ferguson Electric Construction Co., Inc., Buffalo, N. Y.	1961
DENTON A. FULLER President, The Citizens National Bank of Wellsville, Wellsville, N. Y.	1961
JOHN W. REMINGTON President, Lincoln Rochester Trust Company, Rochester, N. Y.	1961

MEMBER OF FEDERAL ADVISORY COUNCIL — 1959

JOHN J. MCCLOY Chairman of the Board, The Chase Manhattan Bank, New York, N. Y.	1959

Officers of the Federal Reserve Bank of New York

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

HAROLD A. BILBY, *Vice President*
JOHN EXTER, *Vice President*
MARCUS A. HARRIS, *Vice President*
HERBERT H. KIMBALL, *Vice President*
HAROLD V. ROELSE, *Vice President, and Economic Adviser**
ROBERT V. ROOSA, *Vice President*
ROBERT G. ROUSE, *Vice President*
WALTER H. ROZELL, JR., *Vice President*
TODD G. TIEBOUT, *Vice President, and General Counsel*
VALENTINE WILLIS, *Vice President**
REGINALD B. WILTSE, *Vice President*

JOHN J. CLARKE, *Assistant General Counsel*
EDWARD G. GUY, *Assistant General Counsel*

CHARLES A. COOMBS, *Assistant Vice President*
HOWARD D. CROSSE, *Assistant Vice President*
FELIX T. DAVIS, *Assistant Vice President*
NORMAN P. DAVIS, *Assistant Vice President*
GEORGE GARVY, *Adviser*
JOHN J. LARKIN, *Assistant Vice President*
ANGUS A. MACINNES, JR., *Assistant Vice President*
SPENCER S. MARSH, JR., *Assistant Vice President*
LAWRENCE E. QUACKENBUSH, *Assistant Vice President*
HORACE L. SANFORD, *Assistant Vice President*
FREDERICK L. SMEDLEY, *Assistant Vice President*
THOMAS O. WAAGE, *Assistant Vice President*

WILLIAM H. BRAUN, JR., *Secretary, and Assistant Counsel*
HARDING COWAN, *Assistant Counsel*
TILFORD C. GAINES, *Manager, Securities Department*
CLIFTON R. GORDON, *Assistant Counsel*
WILLIAM A. HEINL, *Manager, Security Custody Department*
ALAN R. HOLMES, *Manager, Research Department*
JOHN P. JENSEN, *Manager, Accounting Department*
PETER P. LANG, *Manager, Foreign Department*
ROBERT G. LINK, *Manager, Research Department*
CARL H. MADDEN, *Manager, Public Information Department, and Assistant Secretary*
WILLIAM E. MARPLE, *Manager, Credit and Discount Department*
HERBERT A. MUETHER, *Manager, Building Operating Department*
DONALD C. NILES, *Manager, Planning Department*
ARTHUR H. NOA, *Manager, Service Department*
GREGORY O'KEEFE, JR., *Assistant Counsel*
WILLIAM F. PALMER, *Manager, Government Bond and Safekeeping Department*
FRANKLIN E. PETERSON, *Manager, Cash Department*
FRED W. PIDERIT, JR., *Manager, Bank Relations Department*
JOHN F. PIERCE, *Chief Examiner*
EVERETT B. POST, *Manager, Personnel Department*
CHARLES R. PRICHER, *Manager, Collection Department*
JOHN P. RINGEN, *Manager, Bank Examinations Department*
THOMAS J. ROCHE, *Foreign Exchange Officer*
WALTER S. RUSHMORE, *Manager, Cash Custody Department*
FRANK W. SCHIFF, *Senior Economist*
THOMAS C. SLOANE, *Assistant Counsel*
KENNETH E. SMALL, *Manager, Savings Bond Department*
GEORGE C. SMITH, *Manager, Check Department*
ROBERT W. STONE, *Manager, Securities Department*
A. CHESTER WALTON,† *Manager, Bank Relations Department*

DONALD J. CAMERON, *General Auditor*

*Retired March 1, 1959.
†Retired February 1, 1959.

OFFICERS — BUFFALO BRANCH

INSLEY B. SMITH, *Vice President*

HAROLD M. WESSEL, *Assistant Vice President*

GEORGE J. DOLL, *Cashier*

GERALD H. GREENE, *Assistant Cashier*

M. MONROE MYERS, *Assistant Cashier*

INDUSTRIAL ADVISORY COMMITTEE

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

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

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

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* Died on February 16, 1959.
† Term of office expired on February 28, 1959.
‡ Died on December 28, 1958.

THE SECOND FEDERAL RESERVE DISTRICT