

# MONTHLY REVIEW

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### MONEY MARKET IN FEBRUARY

The money market continued tight in February. Federal funds were quoted in New York at rates close to the discount rate throughout the month, and a few transactions were reported at a rate equal to the discount rate. Total member bank borrowings exceeded excess reserves on every day in February, and average daily borrowing for the four statement weeks was slightly higher than in January. However, in the last half of the month, the pressures on reserves eased somewhat and member banks were able to reduce the average daily volume of their borrowings considerably. The outflow of domestic gold increased in February to an average weekly rate of 94 million dollars, compared with a weekly average of 38 million dollars in both December and January. Not all of the gold outflow was reflected in bank reserve balances, however, since part of the gold was paid for from foreign official balances at the Reserve Banks.

The Treasury completed with marked success the refunding of 8.9 billion dollars of certificates of indebtedness due February 15; cash redemptions totaled only 1½ per cent of the outstanding amount. The Federal Reserve System made no supporting purchases before or during the exchange, thus avoiding a related increase of bank reserves. The markets were generally unaffected by the Treasury's announcement on February 13 that an issue of 725 million dollars of partially tax-exempt bonds due June 15, 1955 is to be called for redemption on June 15, 1953, and that four other issues of taxable bonds, also callable next June 15, will not be called.

Toward the month end, there was a general sag in prices throughout the list of Government securities, and several longer-term bonds reached new lows. The moderate price decline in shorter securities was attributable mainly to accumulating tightness in the money market and a belief in some quarters that further tightness as the March tax date approached would act to force yields higher. Prices of the longer issues were marked down as light selling developed, reflecting investor anticipation that later this year the Treasury might undertake long-term financing at higher yields.

Announcement was made by the Board of Governors of the Federal Reserve System that, effective February 20, margin requirements on security loans under Regulations T and U were reduced from 75 to 50 per cent. Subsequent to the announcement, the share volume of trading activity in the stock markets increased considerably.

The seasonal contraction of business loans was extended during February, and for the three weeks ended February 18 the reporting banks showed a decline of 122 million dollars, compared with a reduction of 12 million in the comparable period last year. For the eight weeks from December 24, 1952 to February 18 of this year, the total earning assets of all reporting banks were down 1.8 billion dollars, as against a 1.4 billion decline last year, largely because of heavier sales of Government securities by the banks this year in meeting the sustained pressure on their reserves.

#### MEMBER BANK RESERVE BALANCES

The factors other than member bank discounts causing changes in reserve balances in February, shown in the accompanying table, largely offset each other for the month as a whole. However, free reserves (excess reserves less member bank borrowings at the Reserve Banks) increased during the month largely as the result of a decline in required reserves. At the end of the January 28 statement week, excess reserves

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had totaled 397 million dollars and member bank borrowing from the Reserve Banks amounted to 1,307 million dollars. On the February 25 statement date, excess reserves had fallen to 166 million, while discounts had dropped to 806 million.

Over the first two weeks in February, Treasury expenditures in excess of cash collections released funds to the banking system, and a sizable decline in required reserves occurred. But reserves lost as a result of the gold outflow, a pre-holiday increase in currency in circulation, and other factors offset these gains, and the total of bank borrowings and excess reserves remained substantially unchanged. In the week ended February 18, float expansion, a return of currency to the banks, and other factors enabled the member banks to retire nearly 600 million dollars of indebtedness at the Reserve Banks, but some of the borrowing was restored in the following week when float and currency movements drew reserve balances from the banks.

The reserve positions of the New York City banks remained under pressure throughout most of February. In the first two statement weeks, the outflow of funds on commercial transactions more than offset reserves supplied through net Treasury expenditures in New York, and excess reserves were reduced despite heavier borrowing from the Federal Reserve Bank. The City banks were able to reduce their borrowings in the third statement week as banking and commercial funds flowed into New York, and subsequent increases during the final week of February were repaid by the February 25 statement date.

A comparison of the gains and losses to member bank reserve balances during the first two months of last year and this year illustrates the tighter reserve situation that has existed thus far in 1953. Between December 26, 1951 and February 27, 1952, member banks acquired a total of more than 1.9 billion dollars in reserves from the return flow of currency, from foreign official balances (including the proceeds of gold sales to the United States), and from a decrease in required reserves. Approximately 950 million dollars of this total was

absorbed by reductions in System holdings of Government securities. Over the comparable period this year, these factors have added less than 1.4 billion dollars net to the available reserves of member banks, of which 760 million dollars has been absorbed by reductions in System security holdings. The net outflow of gold on foreign account which began late last year and has now reached a total of 675 million dollars was paid for in part by drawing upon foreign funds in the Reserve Banks, but has also involved the withdrawal of 249 million dollars from member banks since December 24, 1952. By contrast, there was a gain of 576 million dollars to bank reserves from this source during the first two months last year.

Member bank reserve positions have consequently remained tight. The only important easing influence has been of a qualitative nature, growing out of the fact that the last two months have witnessed seasonal repayments of loans and a substantial nonbank investment demand that has enabled banks to dispose of security investments, whereas the predominant pressures in the latter part of last year were toward bank credit expansion. Despite the easing influence of these factors, however, commercial banks in the early months of 1953 have found it necessary, at most times, to maintain a daily average level of indebtedness at the Reserve Banks of a billion dollars or more.

#### THE MARKET FOR GOVERNMENT SECURITIES

The market for United States Government securities was generally quiet and steady during the first three weeks in February. Nonbank investment in Treasury bills continued to provide the basis for trading in the short-term area, with banks the major source of supply for these issues. Some part of the firming in bill yields as February drew to a close apparently was related to market expectations of money market stringency in March, when corporations are expected to sell or redeem short-term securities and, to some extent, to borrow to meet their tax liabilities. (A similar expectation at this time last year proved to be a considerable overestimate of the degree of stringency that actually developed.) Trading in other short-term issues was largely desultory, at yields that were steady to slightly lower until the general rise in market yields occurred near the close of the month. Awards of new weekly issues of Treasury bills during February were made successively at average rates of 2.031 per cent, 1.993 per cent, 1.976 per cent, and 2.070 per cent.

The market for intermediate to longer-term Treasury issues was generally inactive until the latter part of February. Some trading developed early in the month as scattered investors sold intermediate securities on switches into "rights" to the Treasury's refunding offering. A steady but small supply of longer-term bonds which reached the market from commercial banks and institutional investors during the first two thirds of the month was largely absorbed by investment buying for public funds and other accounts at gradually declining prices. Selling of the longer issues expanded somewhat and buying diminished late in the month, and prices moved sharply lower

**Weekly Changes in Factors Tending to Increase or Decrease  
Member Bank Reserves, February 1953**  
(In millions of dollars; (+) denotes increase,  
(—) decrease in excess reserves)

Factor	Statement weeks ended				Four weeks ended Feb. 25
	Feb. 4	Feb. 11	Feb. 18	Feb. 25	
<i>Operating transactions</i>					
Treasury operations*	+ 45	+260	+ 61	+ 3	+369
Federal Reserve float	+ 43	-121	+373	-279	+ 16
Currency in circulation	- 65	-119	+122	- 81	-143
Gold and foreign account	- 51	- 99	- 10	- 56	-216
Other deposits, etc.	+ 15	- 14	+ 31	+ 34	+ 66
Total	- 14	- 93	+578	-380	+ 91
<i>Direct Federal Reserve credit transactions</i>					
Government securities	+ 19	- 60	- 39	- 37	-117
Discounts and advances	+ 77	- 35	-597	+ 74	-501
Total	+ 96	-115	-636	+ 37	-618
<i>Total reserves</i>	+ 82	-208	- 58	-343	-527
Effect of change in required reserves	+ 59	+115	- 50	+172	+296
<i>Excess reserves</i>	+141	- 93	-108	-171	-231

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

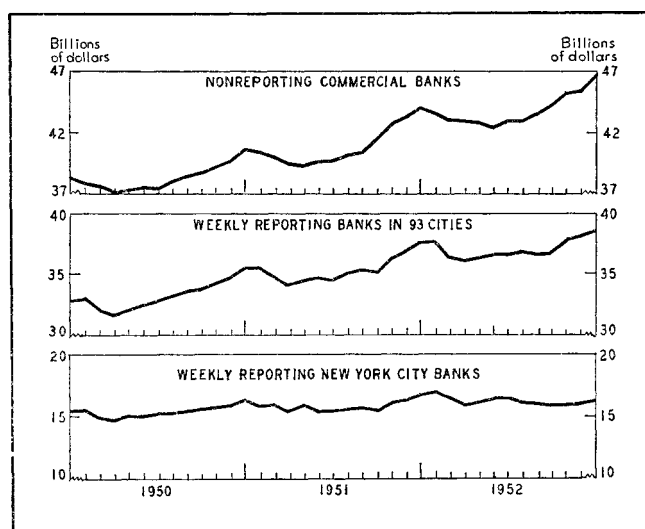
throughout the long-term list. The belief in some market circles that opportunities may later arise to acquire long-term Treasury issues on direct subscription at higher rates acted as a deterrent to potential buyers. Another probable influence on prices at this time was the large volume of new corporate and municipal bond financing and the upward yield adjustment in the pricing of such issues. For the month, prices of taxable long-term Treasury bonds registered losses of as much as  $1\frac{1}{4}$  points. Intermediate bonds and notes were steady to fractionally lower in price over the month, on a limited volume of trading.

Treasury subscription books were open from February 2 through February 5 for refunding of the  $1\frac{7}{8}$  per cent February 15 certificate of indebtedness. The Treasury's exchange offering to holders of the 8.9 billion dollars of maturing certificates included a  $2\frac{1}{4}$  per cent one-year certificate and, optionally, a five-year ten-month  $2\frac{1}{2}$  per cent bond. Subscriptions were received for 8.1 billion dollars of the new certificates and 620 million dollars of the intermediate bonds. Cash redemptions were 134 million dollars, or only 1.5 per cent of the matured issue. The opening premium of  $4/32$ , and the fact that the exchange was accompanied by less shifting of "rights" in the market than has characterized other recent Treasury rollovers, indicated a general market acceptance of the Treasury's offerings, particularly for the one-year certificate. Some selling reached the market from nonbank holders of "rights", either attracted by the premium or preferring a less-than-one-year maturity, but most of this selling was absorbed by other nonbank investors and some banks on switches out of other issues. Rights not taken up by other investors were taken into dealer positions. Trading in the new securities was light following the closing of the subscription books, indicating that investors who did not wish to hold these securities had conducted their own "refunding" in the market during the exchange. A premium of  $1/32$  or more was generally maintained on the new bond issue during the remainder of February, and a premium of  $5/64$  or more on the new certificate, even during the period of greatest weakness in the market.

#### MEMBER BANK CREDIT AND THE MONEY SUPPLY

The seasonal decline in total loans at the weekly reporting member banks which had begun in the last week in December and continued through January was reversed temporarily during the three statement weeks ended February 18, largely because of an increase in interbank loans. However, the total earning assets of reporting banks declined in this three-week period, as commercial banks continued to dispose of substantial quantities of Government securities. Total loans and investments of the weekly reporting banks were reduced by 290 million dollars during the first three weeks in February, representing the net effect of a 500 million dollar reduction in security portfolios and a 210 million dollar increase in loans. Within these totals, Government security holdings were lowered by nearly 600 million dollars and 120 million dollars in

Privately Owned Demand Deposits Adjusted, 1950-52  
(As of the last Wednesday in the month)



business loans were repaid on balance. For the full period since the credit contraction began, from December 24, 1952 to February 18, 1953, total loans and investments of all reporting banks have declined by 1.8 billion dollars. Reductions of more than 1.5 billion in Government security portfolios and almost 600 million in business loans have been only partially offset by other increases.

The contraction of earning assets at the weekly reporting banks in New York City has accounted for the largest share of the total seasonal decline for all reporting centers since December 24. Of the decrease in total loans and investments through February 18, 1.1 billion dollars, or 60 per cent, occurred at the New York City reporting banks. A similar comparison for business loans shows 240 million, or 40 per cent, and for Government security holdings 780 million, or 51 per cent. By February 18, total loans and investments of the weekly reporting New York City banks were some 100 million dollars below the level of the comparable date last year, and Government security holdings of these banks were down almost 970 million.

The accompanying chart illustrates a basic reason for the relative stability of earning assets at the weekly reporting New York City banks. From December 26, 1951 to December 31, 1952, demand deposits adjusted at these banks fell by nearly 400 million dollars, while at reporting banks in the other 93 cities they were increasing by almost one billion dollars. The loss of deposits by the New York City banks in a period when total bank credit was increasing—and when New York banks, too, were expanding their loan credit in response to customer demand—made necessary a concerted effort to dispose of other earning assets, in this case Government securities. Perhaps more striking is the fact that demand deposits adjusted at New York City reporting banks increased by only about 700 million dollars, or roughly 5 per cent, in the three years 1950-52, inclusive, while deposits at the other 93 cities and

at the nonreporting banks were increasing by nearly 17 per cent and 24 per cent, respectively. The relative—and in 1952, absolute—loss of deposits by New York City banks may be related to the pattern of industrial production and economic development fostered by the rearmament program, or it may be an outgrowth of other dynamic changes occurring in the economy.

The chart also shows that the over-all increase in demand deposits in 1952 was smaller than in either of the two pre-

ceding years. In 1952, demand deposits adjusted at all commercial banks increased by 2.9 billion dollars, in contrast to increases of 6.0 billion and 6.5 billion dollars in 1951 and 1950, respectively. Data are not yet available for the non-reporting banks beyond December 1952, but the statistics for the reporting member banks show that through February 18 their demand deposits had declined sufficiently to reduce the net gain over the comparable date last year to roughly 500 million dollars.

## RECENT TRENDS IN UNITED STATES FOREIGN TRADE

Since the end of World War II the value of United States foreign trade has reached unprecedented levels. During the first six postwar years merchandise exports (including all shipments under our military and economic aid programs) fluctuated between 10.2 billion and 15.3 billion dollars annually, while merchandise imports moved steadily from 4.9 billion dollars in 1946 to an all-time high of almost 11 billion in 1951. The data for 1952 indicate that exports totaled well over 15 billion and that imports were 250 million dollars below the high recorded in the previous year.

A closer look at the statistics for the first six postwar years reveals two distinct periods of equal length, but of markedly different structure. During the first three years (1946-48) United States exports, amounting to a total of 38.2 billion dollars, were more than double the 17.8 billion dollars of foreign goods acquired by us. In the 1949-51 period, on the other hand, foreign countries were able to cover over 70 per cent of their purchases of goods from the United States with the proceeds of their sales to this country; this trend continued throughout 1952 as well. This significant change came about almost entirely through a rise in United States imports, since exports (which totaled 37.4 billion dollars in 1949-51) were of almost equal magnitude during both three-year periods. Generally speaking, this fact reflects clearly the strides made abroad in repairing the damage wrought by the war and in overcoming the economic dislocations that had ensued. The quickening tempo of economic activity in the rest of the world during 1949-51 and the resulting stimulus given to international trade can be measured also by the rising contribution which foreign countries' exports made to total world exports; in both 1950 and 1951, their share was more than four fifths, compared with slightly over two thirds in 1947 and close to three fourths in 1948.

While the above rough comparison of the two postwar periods gives an over-all view of our foreign trade since the war, it fails to take due account of a number of important developments which left their imprint on both our export and import transactions. Some of these developments during the three-year period 1949-51, and in 1952, are discussed below.<sup>1</sup>

<sup>1</sup> For a discussion of United States foreign trade during the postwar period through mid-1949, see the November 1949 issue of this *Review*.

### THE OVER-ALL PATTERN OF EXPORTS AND IMPORTS

The United States trade surplus (which had reached its postwar peak in the spring of 1947) declined almost continuously throughout 1949 and the first nine months of 1950; it had practically disappeared by the third quarter of that year, before the forces set in motion by the Korean conflict had begun to exert their influence on our foreign trade.<sup>2</sup> This general trend toward a balance in our commercial transactions with foreign countries during that period resulted from a sharp curtailment of foreign purchases in the United States, under the impact of the 1949 exchange crisis, together with a steady rise in United States imports once economic activity here had resumed its rising trend after the 1949 recession. Increases in the prices of certain important commodities also contributed to the higher import totals.

At the outbreak of the Korean war the domestic economy was already expanding rapidly, with both the demand for imports of raw materials and their prices increasing steadily. Even the rise of about 24 per cent in imports during the third quarter of 1950, compared with the previous quarter, has been ascribed to orders placed before June, and is not believed to have reflected the great upsurge in demand that followed in the wake of hostilities. These developments, in themselves favorable to the exchange position of foreign countries, were accompanied furthermore by a considerable drop in United States exports. While a part of this fall can be attributed to a decline in Government aid, it reflected above all the 1949 currency devaluations abroad and the restrictions on dollar imports imposed by the sterling area and some other countries during 1949; the effects of these two factors did not become fully discernible until early 1950.

United States imports, already on the increase, rose further during the first half of 1951 when consumers, businessmen, and the Government, haunted by the memory of shortages of goods and materials during World War II, sought to accumulate stocks and inventories over and above their current needs. From an annual rate of just over 10 billion dollars during the second half of 1950, our imports rose to an annual rate of more than 12 billion during January-June 1951. However,

<sup>2</sup> During August and October of 1950, and again the following January, our imports actually exceeded our exports.

Table I  
United States Foreign Trade  
(In millions of dollars)

Quarterly total	Exports*	General imports	Trade surplus
1946-48†	3,181	1,485	1,696
1949 I	3,338	1,789	1,549
II	3,376	1,601	1,775
III	2,695	1,478	1,217
IV	2,643	1,755	888
1950 I	2,366	1,889	477
II	2,510	1,931	579
III	2,451	2,388	63
IV	2,949	2,645	304
1951 I	3,345	3,037	308
II	4,020	2,981	1,040
III	3,688	2,497	1,190
IV	3,979	2,453	1,524
1952 I	4,045	2,779	1,266
II	3,992	2,628	1,364
III	3,339	2,533	806
IV	3,787	2,774	1,013

\* Including re-exports and "special category" exports (defined in footnote 4 on page 38).

† Quarterly average.

Source: U. S. Department of Commerce, *United States Foreign Trade—Total Trade*.

since foreign supplies to meet the increased United States demand were severely limited, this rise reflected much more an increase in prices of many commodities than a change in volume. While the volume of United States imports rose by only 20 per cent between June 1950 and its peak in January 1951, unit values on the other hand went up by 37 per cent from mid-1950 to their high-water mark one year later. At the same time, foreign demand for United States goods was subject to the same stimuli that had heightened this country's demand for foreign products. However, the improvement of foreign reserve positions and the subsequent relaxation of import and exchange controls as well as higher incomes abroad made themselves felt only with a lag. Thus, the rise in United States exports occurred somewhat later than the rise in imports; exports, however, kept increasing for a longer period and then continued at a high level for four successive quarters, through June 1952, by which time imports already had been at a lower rate for many months. Indeed, the decline in United States purchases abroad, once the process of inventory accumulation had ceased, was just as rapid as the earlier buying spurt had been; our merchandise imports fell from the above-mentioned annual rate of over 12 billion dollars during the first half of 1951 to an annual rate of 9.9 billion in the second half. In the meantime, the annual rate of our exports had increased greatly, from 10.8 billion during the second half of 1950 to 14.7 billion in the first half and 15.3 billion in the second half of 1951, respectively; during January-June of 1952 they were at an annual rate of over 16 billion. However, in 1952 arms shipments under the Mutual Security Program, amounting to almost 2 billion dollars as compared with slightly under 1.1 billion in 1951, weighed more heavily in our total exports.

The sharp increase in foreign demand for United States goods stemmed in part from the fear that severe scarcities of

metals and other materials would hamper the operations of United States industry and that foreign demand for many types of goods would therefore have to remain unsatisfied. Moreover, in the course of 1951 many foreign governments found themselves for the first time in years in a comfortable reserve position and considered the time ripe for the relaxation of import and exchange controls and the pursuit of various domestic development plans. When, during the latter part of 1951, there was a large decline in sales of foreign goods to United States importers, fears—and eventually the announcement—of the reimposition and tightening of import and exchange controls by foreign governments gave further impetus to quick and heavy purchases in the United States. Thus abnormally high dollar expenditures on the part of foreign countries coincided with a significant shrinkage in dollar availabilities (due to declining imports by the United States).

The new import restrictions of foreign countries were not reflected in our exports until the middle of 1952. This delayed response may be attributed both to the normal lapse of time between a drop in orders and a decline in actual shipments and to the fact that our exports consist in a substantial degree of goods which are important, if not essential, to the economies of foreign countries. While certain additional factors, such as the steel strike and the traditional seasonal drop in third-quarter exports of agricultural commodities, exerted a depressing influence on United States exports during the latter part of 1952, more basic developments abroad also contributed to the re-emerging trend toward closer balance in our foreign trade transactions. Improved foreign harvests, rising production of coal and petroleum, and the abatement of inflationary pressures in important trading areas have been significant factors in reducing the dollar import demand of foreign countries. As a result of these various influences, our export surplus (excluding military aid shipments) fell to 620 million dollars in the second half of 1952, compared with 1.8 billion during the preceding six months.

#### THE COMMODITY COMPOSITION OF TRADE

The general pattern in the commodity composition of United States foreign trade that had been in evidence in the immediate postwar period continued to prevail in more recent years. While the swings in exports and imports, described in the previous section, were generally reflected by all major commodity groups, some slight variations occurred in the share of these groups (and of the most important individual commodities therein) in total exports and imports. Large-scale economic aid, which has been financing an important part of United States exports during the past few years and which undoubtedly has contributed to the export volume, has probably had little bearing on the commodity composition of exports, i.e., on the relative distribution of the various commodity groups in our total exports.

The share of finished manufactures in the aggregate value of United States exports, which had been rising for many

decades, expanded considerably after the war and, at more than 60 per cent, came close to a record in 1952. As is shown by Table II, exports of investment goods, such as iron and steel mill products, electrical equipment, and industrial machinery stayed at high levels, with the latter subgroup reaching its postwar peak last year. These shipments, while reflecting to some extent greater needs of foreign countries for such goods in connection with their defense efforts, are chiefly the result of expanded investment activity in the Western Hemisphere, as is indicated by the fact that fully two thirds of our exports of industrial machinery during 1951 and early 1952 went to Canada and Latin America. The unusually high amount of crude materials exported in 1951 (although comprising only one sixth of total exports) was due to special circumstances, such as sizable coal shipments to Europe, where coal production had fallen behind expanded industrial and defense needs. At the same time, exports of wheat and wheat flour jumped considerably over the previous year's level, because of large shipments to India, Yugoslavia, and Western Europe. In part, the heavy grain and coal exports to Europe in 1951 and in early 1952 reflected a slow decrease in the supply of these commodities from Eastern Europe.

In the case of United States exports, broadly speaking, increases usually reflect substantially higher physical volume and only to a small extent higher prices, but in the case of imports

the relative role of these variables is quite different. This is not surprising, given the fact that raw materials and crude foodstuffs, which are subject to rather violent price fluctuations, constitute a large share of aggregate imports.<sup>3</sup> While the sizable increase in the aggregate value of imports during the first half of 1951 over the corresponding period of 1950 reflected a volume increase of approximately 14 per cent and a rise in unit value of about 35 per cent, in the case of crude materials volume was higher by only 4 per cent and unit value by 69 per cent during the second six-month period. The predominant influence of commodity price fluctuations on the dollar earnings of foreign countries is further illustrated by the fact that of the 4.2 billion dollar increase in our imports for consumption between 1949 and the peak year of 1951 as much as 1.6 billion (or 38 per cent) was accounted for by only three commodities—coffee, rubber, and wool—even though quantity-wise our imports of these three commodities, taken together, were practically alike in the two years. During the three-year period 1949-51 monthly unit values of United States imports ranged from 25 cents to 52 cents per pound for coffee, from 15 to 55 cents for rubber, and from 70 cents to \$2.43 for wool.

#### THE GEOGRAPHICAL DISTRIBUTION OF TRADE

In any discussion of the area distribution of United States foreign trade, it is necessary to draw attention to the effect that Government foreign aid has had and still is having on the magnitude of our exports to Western Europe and thus of our exports as a whole. Throughout 1949 and 1950 and into the first quarter of 1951, goods of United States origin shipped under the European Recovery Program generally accounted for over half of our exports to ERP countries, shown in Table III;<sup>4</sup> in certain individual quarters this ratio even exceeded 75 per cent.

Western Europe was the destination of most of the initial increase in our exports to the major trading areas following (after a lag) the invasion of Korea. Our exports to these countries (the so-called OEEC countries) registered the greatest absolute increase during the first half of 1951 but, despite greater relative increases in shipments to some other areas, the share of Western Europe in our total exports did not change as compared with the previous six months. Western Europe's share of somewhat over one quarter continued to be maintained during the second half of 1951, when exports to that area no longer rose spectacularly, and even during the first six months of 1952, when they had begun to fall once more. Imports from Western Europe, on the other

<sup>3</sup> About half of total imports for consumption is made up (in the order of their importance in 1951) of imports of coffee, rubber, wool, newsprint, sugar, petroleum, woodpulp, copper, cocoa, burlap, copra, tin, lead, aluminum, and zinc.

<sup>4</sup> The export figures for the various areas in Table III do not add to the world totals given in Table I, since published export statistics on a geographical basis exclude the so-called "special category" exports, comprising military-type goods exported either under aid programs or on a cash basis.

Table II  
United States Exports and Imports by Major Commodity Groups  
(In millions of dollars)

Commodity group and selected commodities	1946-48 average	1949	1950	1951	1952*
<b>Domestic Exports</b>					
Crude materials.....	1,500	1,780	1,886	2,471	1,965
Cotton, unmanufactured.....	485	875	1,025	1,146	854
Coal.....	468	298	269	586	511
Tobacco, unmanufactured.....	279	252	251	325	242
Foodstuffs.....	2,566	2,228	1,362	2,242	2,075
Wheat and wheat flour.....	968	1,001	488	996	951
Semimanufactures.....	1,346	1,356	1,121	1,663	1,618
Iron and steel products.....	329	353	240	356	416
Finished manufactures.....	6,913	6,573	5,773	8,492	9,077
Industrial machinery†.....	1,143	1,315	1,101	1,369	1,549
Motor vehicles and parts†.....	795	692	660	1,144	980
Cotton and synthetic textile manufactures.....	723	503	376	575	483
Iron and steel manufactures.....	641	563	383	486	528
Electrical machinery†.....	455	430	396	534	594
Total.....	12,325	11,937	10,142	14,868	14,735
<b>Imports for Consumption</b>					
Crude materials.....	1,864	1,854	2,466	3,364	2,933
Rubber, crude.....	290	242	462	814	633
Wool.....	268	222	428	714	387
Petroleum, crude.....	132	341	370	374	428
Foodstuffs.....	1,664	2,074	2,648	3,084	3,097
Coffee.....	539	793	1,091	1,358	1,337
Cane sugar.....	306	372	382	558	433
Cocoa or cacao beans.....	134	125	167	197	163
Meat products.....	43	72	113	187	157
Semimanufactures.....	1,268	1,418	2,126	2,455	2,498
Wood pulp.....	221	182	240	353	266
Copper.....	133	170	193	223	321
Gas and fuel oil.....	89	127	205	209	221
Tin.....	55	134	155	77	232
Finished manufactures.....	1,046	1,246	1,504	1,909	2,075
Newsprint.....	332	433	452	514	565
Total.....	5,842	6,502	8,744	10,813	10,602

\* Annual rate based on January-November data.

† Excluding "special category" exports, mainly military equipment, for which no commodity detail is published.

Source: U. S. Department of Commerce, *United States Foreign Trade—Trade by Commodity*.

Table III  
United States Exports and Imports by Major Areas\*  
(In millions of dollars)

Quarterly total	OEEC countries		Overseas sterling area		Canada		Latin America		Rest of world†	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1946-48‡	1,027	196	295	240	460	302	760	521	528	222
1949 I	1,119	250	300	263	471	380	782	625	652	273
II	1,169	190	320	237	571	382	686	548	611	246
III	800	175	227	180	465	348	605	530	478	245
IV	840	228	196	231	435	442	593	597	461	256
1950 I	741	232	183	278	389	404	577	680	378	295
II	733	243	190	291	519	479	616	601	363	317
III	587	323	154	313	505	504	669	865	363	384
IV	756	455	181	385	583	575	765	761	392	468
1951 I	813	514	221	469	623	529	830	1,026	512	497
II	1,027	515	292	542	756	586	919	846	578	492
III	871	457	311	407	606	553	935	701	551	376
IV	1,110	426	412	278	603	607	921	775	567	367
1952 I	1,046	454	421	400	623	560	939	874	570	490
II	787	440	296	379	788	595	879	786	560	429
III	566	431	187	281	722	580	749	854	402	386

\* Exports including re-exports (but excluding "special category" shipments) and general imports.

† Non-OEEC Europe; Africa, Asia, and Oceania (other than sterling area countries); and French and Dutch possessions in the Western Hemisphere.

‡ Quarterly average.

Source: U. S. Department of Commerce, *United States Foreign Trade—Trade by Countries*.

hand, experienced just one quick spurt in the half year immediately after the outbreak of the Korean war. This brief rise can be attributed in part to the lag between the rearmament effort in the United States and in Europe since, once the defense programs of European countries began to get under way, the exporting capacity of these countries was again reduced.

Largely because of the substantial share of United States foreign aid goods in total exports to Western Europe, there was no easily discernible relationship between our export and import transactions with that area during the period under review. In the case of other major areas, however, the figures in Table III seem to point to a more or less close response of exports, usually after one or two quarters, to swings in our imports. Evidently these trading areas were quick to utilize any increase in their dollar earnings resulting from an expansion of this country's imports and, conversely, quick to offset by dollar import cuts any drop in their dollar earnings resulting from a decline in this country's purchases from them. Canada, Latin America, and the overseas sterling area generally tended to translate their dollar earnings into purchases of United States goods, possibly anticipating continued brisk demand for their exports and shortages or price rises of the goods important in their import requirements. For instance, after United States imports from the overseas sterling area had risen to an annual rate of over 2 billion dollars during the first half of 1951, compared to an annual rate of 1.1 billion in the corresponding period of 1950, our exports to the same group of countries rose to an annual rate of 1.4 billion dollars in the last half of 1951 from 670 million one year earlier. Similar swings, although less pronounced, can be observed in the case of Latin America.

## CONCLUSION

It appears that the trend toward equilibrium in United States foreign trade that began in late 1949 and lasted through mid-1951 was due to special circumstances. Although, as has been pointed out, some temporary factors were again present in the latter part of 1952, the trend toward greater balance which then emerged seems to have been of a decidedly sounder nature and to have reflected the more vigorous strides toward internal and external economic stability made by foreign countries during the past year. The experience of recent years serves to reinforce the already established fact that a sustained high level of United States imports is a prerequisite for the continuance of such balanced trade, at correspondingly high levels of exports. This problem assumes special significance at this particular time when the extent of future United States foreign aid (which since the days of lend-lease has been financing an important share of our exports) is again under discussion. At the same time, the call abroad for "trade, not aid" is symptomatic of the increased uneasiness on the part of foreign countries over continued dependence upon United States gifts.

A thorny question thus arises of the potential effects of trade and tariff policy changes on the volume of United States imports, particularly from the countries of Western Europe. Recent investigations indicate that price changes (which occur when duty rates are changed) have had a greater influence on import volume than had hitherto been assumed, especially in the case of manufactured goods, which are the main European exports to the United States.<sup>5</sup> Existence of a high price responsiveness with respect to demand in the United States for imports of finished manufactures points to the eventual effect-

<sup>5</sup> See John H. Adler, Eugene R. Schlesinger, and Evelyn Van Westerborg, *The Pattern of United States Import Trade Since 1923*, published by the Federal Reserve Bank of New York, May 1952.



tiveness of tariff reductions as regards this class of commodities. However, as far as Western European countries are concerned, nearly all the tariff concessions of any significance which under existing statutes might be granted, with respect to this type of import, seem to have been given already. This is noteworthy since our imports from other areas, such as Latin America and the overseas sterling area, consist to a considerable extent of crude materials and foodstuffs, most of which enter this country duty free, although they may be subject to other import obstacles, such as those which the proposed customs simplification bill aims to remove. Further important

reductions in tariffs on Western European products would be possible only if Congress were to approve additional legislation authorizing the President to make tariff concessions over and above those that are permitted under his present powers. Under present circumstances, the ability of Western European countries to strengthen their position in the American market will therefore depend to a considerable extent on whether they pursue the types of monetary and general economic policies which will permit their exports to compete with American products in price (including present duty rates) as well as in quality and delivery schedules.

## EARNINGS AND EXPENSES OF THE SECOND DISTRICT MEMBER BANKS

Net profits of the central reserve New York City member banks (after all charges but before payment of dividends) increased 23 per cent to 174.6 million dollars in 1952 and were the highest since 1945, when they amounted to 214.2 million dollars.<sup>1</sup> For the other Second District member banks as a group, net profits showed a smaller rise of 9 per cent from 1951 to 54.6 million dollars and were slightly below the 1950 total of 55.8 million dollars. Nevertheless, despite their smaller gain in comparison with the results for the large City banks, their increase appears favorable when compared with the 6.2 per cent rise for all member banks in the United States outside this District.

The increase in net profits for member banks in this District and for member banks in the country as a whole stemmed primarily from a continued expansion in net current operating earnings offset in part by larger income tax payments. In the New York City banks, the greater-than-average gain in net profits arose from a larger proportionate increase in net current operating income although an important contributory factor was a substantial reduction (not paralleled by the other member banks in this District) in the amounts deducted from profits and added to valuation reserves for loan losses.

### OPERATING INCOME AND EXPENSE

Total earnings increased 14 per cent in the New York City banks and 11 per cent in the other Second District member banks and reflected continued expansion in virtually all types of income, although the major factor was the further sharp rise in interest and discount received on loans. Income of this type expanded 69.8 million dollars, or 23 per cent, in the City banks and 21.8 million dollars, or 13 per cent, in the District members outside the City and, in both groups, accompanied an increase of approximately 10 per cent in the average outstanding volume of loans. The increase in the effective rate received on their aggregate loans by the City banks resulted in large measure from the higher rates charged on business

and security loans, which together constitute four fifths of their aggregate loan portfolio. The average short-term rate charged on loans to business firms by leading New York City banks, as reported in sample surveys covering two weeks in each quarter of the year, increased from 2.79 per cent in 1951 to 3.21 per cent in 1952, while the average long-term rate on business loans increased from 2.89 per cent to 3.28 per cent. At the same time, the rate to brokers and dealers on loans secured by customers' stock exchange collateral was raised from an average of 2.25 per cent to 2.50 per cent. In the other Second District member banks, the rise in loan income exceeded the growth in the average volume of outstanding loans by a narrow margin, indicating that there was only a modest rise in the effective rate obtained on their aggregate loan portfolio. Moreover, this increase probably resulted more from greater volume gains in the higher-rate real estate and consumer loans than from increases in rates charged for any given type of loans.

Income from United States Government securities increased moderately throughout the District, thus reversing the long downward trend that had been in evidence during the entire post-World War II period. This reversal resulted mainly from the higher yields obtainable on the issues refunded by the Treasury during the past year and did not represent an increase in the volume of member bank holdings nor any notable change in the maturity distribution of their holdings. Actually, the New York City banks had to reduce their average Government security holdings in 1952 in order to expand their loans and meet a net loss of reserves caused by an unfavorable balance in clearing operations with the rest of the country. For the District banks outside New York City, reserve positions were not under so great a degree of pressure as in the City banks. Consequently, they were able in general to meet the credit requirements of their customers without making any net sales of Government securities and their average holdings remained approximately unchanged between 1951 and 1952.

Interest and dividends received on "other securities", which consist primarily of tax-exempt State and municipal obligations, increased about 15 per cent in each of the two classes of Second District banks, owing not only to continued sub-

<sup>1</sup> Net profits for the member banks in this District have also been summarized in ratio form in Circular No. 3952, entitled "Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1952". Copies of this circular are available upon request from the Research Department, Financial Statistics Division.



stantial additions to their portfolios of such securities but also to the considerably higher yields obtainable on new issues of these securities in 1952. Receipts from service charges on deposit accounts and gross trust department income both continued to rise moderately throughout the District.

Salaries and wages, the major component of operating expenses, moved steadily upward in 1952, rising 9 per cent in the central reserve New York City banks and 10 per cent in this District's reserve city and country banks. The increases in wage payments resulted not only from higher rates of pay but also from the larger staffs necessary to handle the year's record volume of banking transactions. Interest paid on time and savings deposits showed large percentage increases—50 per cent in New York City banks and 25 per cent in the banks outside New York City—because of the higher rates which most of the member banks began to pay depositors. These rate increases have apparently been effective in discouraging withdrawals from commercial banks in this area, and their time deposits in the aggregate continued to rise moderately in 1952. All other current expenses, consisting principally of the expenses of occupancy and maintenance of banking quarters, were moderately above 1951 levels in both groups of Second District banks. Proportionately, the increase in total operating expense was approximately the same in both groups of Second District banks, but the greater growth in total operating income in the City banks enabled them to show a rise of 17 per cent in net current operating earnings, compared with 9½ per cent for the Second District member banks outside New York City.

#### NONRECURRING ITEMS, TAXES, AND THE DISTRIBUTION OF PROFITS

Additions to net current operating earnings as a result of net security profits and recoveries on previously charged-off securities, were reduced 8.4 million dollars to zero in the City banks, while in the other Second District banks a moderate net loss was sustained for the second successive year. This item, which has been a source of profit for the member banks during most of the war and postwar years, has declined irregularly from a peak of 100.2 million dollars in 1945 for the City banks and from a peak of 26.1 million for the reserve city and country banks. Net profits might have a greater degree of stability today, however, because they are determined more by fluctuations in operating income than by changes in more volatile items such as security profits and recoveries.

Net additions to valuation reserves for loan losses were reduced sharply in the City banks, indicating that the accumulated reserves of most of these institutions had reached their allowable ceilings for tax purposes, namely, three times the average loss experience of the past twenty years. Outside New York City, however, charges against net profits for this purpose increased moderately and probably indicated that more banks elected to shift from an actual loan-loss basis to a reserve-for-bad-debt basis in order to reduce current taxable incomes and income tax payments. The twenty-year period used for measuring the allowable tax-free reserve ceiling or maximum now includes the high-loss years of the early thirties. This ceiling, however, is based on a moving average. As a result, when the early thirties drop out of the average and are replaced

**Earnings and Expenses of Member Banks in the Second Federal Reserve District  
during Selected Post-World War II Years**  
(In millions of dollars)

Item	Central reserve New York City banks					Reserve city and country banks				
	1945	1947	1949	1951	1952	1945	1947	1949	1951	1952
<b>Earnings</b>										
On United States Government securities	222.1	177.0	147.8	126.9	133.8	81.5	79.9	75.3	70.4	76.0
On other securities	24.2	25.2	25.8	37.3	42.9	10.3	12.3	15.0	17.5	20.2
On loans	105.6	144.2	188.8	308.0	377.8	45.2	85.6	123.1	165.1	186.9
Service charges on deposit accounts	7.5	11.2	14.9	17.6	18.2	9.0	11.8	17.9	20.9	22.4
Trust department	40.7	46.8	51.9	63.5	66.6	5.3	7.4	7.7	8.6	9.3
Other earnings	32.1	46.3	46.9	54.5	52.0	12.9	14.1	15.6	17.8	18.0
<b>Total earnings</b>	<b>432.2</b>	<b>450.7</b>	<b>476.1</b>	<b>607.8</b>	<b>691.3</b>	<b>164.2</b>	<b>211.1</b>	<b>254.6</b>	<b>300.3</b>	<b>332.8</b>
<b>Expenses</b>										
Salaries and wages	116.8	159.7	164.2	195.9	212.7	46.4	64.4	80.8	96.4	106.2
Interest on time deposits	5.6	7.9	7.7	11.9	17.9	23.8	30.2	31.3	33.8	42.1
Other expenses	94.0	107.2	110.2	126.2	140.0	42.2	54.1	65.3	75.6	81.0
<b>Total expenses</b>	<b>216.4</b>	<b>274.8</b>	<b>282.1</b>	<b>334.0</b>	<b>370.6</b>	<b>112.4</b>	<b>148.7</b>	<b>177.4</b>	<b>205.8</b>	<b>229.3</b>
Net current operating earnings before income taxes	215.8	175.9	194.0	273.8	320.7	51.8	62.4	77.2	94.5	103.5
Security profits and recoveries (+) or charge-offs (-)*	+100.2	+13.5	+12.0	+8.4	—	+26.1	+2.9	+8.3	-3.2	-3.8
Net additions to (-) or deductions from (+) loan valuation reserves†	+1.3	-9.7	-30.1	-31.1	-11.9	+1.2	-1.7	-11.8	-11.4	-12.4
Net recovery (+) or charge-offs (-) on loans‡	-12.4	+0.5	-5.7	+4.5	+2.4	-2.7	+1.0	-3.7	-2.2	-1.6
All other net recoveries (+) or charge-offs (-)‡			-3.9	+0.6	+3.0			+0.5	-1.9	-1.2
<b>Net profits before income taxes</b>	<b>304.9</b>	<b>180.2</b>	<b>166.3</b>	<b>256.2</b>	<b>314.2</b>	<b>76.4</b>	<b>64.6</b>	<b>70.5</b>	<b>75.8</b>	<b>84.5</b>
Income taxes	90.7	47.3	55.0	114.3	139.6	16.0	18.5	16.9	25.7	29.9
<b>Net profits after income taxes</b>	<b>214.2</b>	<b>132.9</b>	<b>111.3</b>	<b>141.9</b>	<b>174.6</b>	<b>60.4</b>	<b>46.1</b>	<b>53.6</b>	<b>50.1</b>	<b>54.6</b>
Cash dividends paid or declared	73.0	79.9	82.3	93.2	94.7	13.9	16.5	19.4	21.7	23.4
<b>Retained earnings</b>	<b>141.2</b>	<b>53.0</b>	<b>29.0</b>	<b>48.7</b>	<b>79.9</b>	<b>46.5</b>	<b>29.6</b>	<b>34.2</b>	<b>28.4</b>	<b>31.2</b>

\* Also includes transfers to or from valuation reserves for losses on securities.

† Includes transfers to or from both bad debt and all other valuation reserves for loan losses.

‡ Includes recoveries from tax reserves.

Source: Board of Governors of the Federal Reserve System, 1945-51; 1952 preliminary figures compiled by Federal Reserve Bank of New York.

by the current years of low losses, the reserve ceiling for banks as a group will decline, and the reserve now being accumulated may temporarily be above the allowable ceiling in coming years. Thus, in future years, loan losses could conceivably be sustained without any accompanying replacement in the reserve, and there would be no allowable deduction that could be used in the computation of taxable income.

Recoveries of previously charged-off loans exceeded new charge-offs in the New York City banks in 1952. In the remainder of the District, net losses on loans were sustained but they were comparatively small in actual dollar amount and negligible when compared with today's large loan volumes.

Owing principally to the higher level of taxable income, taxes on net income increased an additional 22 per cent in the City banks and 16 per cent in this District's reserve city and country banks. The burden of income taxes on banks has

risen very sharply in the years since World War II. For the District as a whole, profits before taxes were at an all-time high of 398.7 million dollars in 1952. After the increase in income taxes, however, net profits amounted to 229.2 million and were exceeded by the 274.6 million earned in 1945 and 241.4 million in 1929.

Dividend payments in 1952 continued the gradual uptrend that has been in progress for the past decade and increased 2 per cent in the City banks and 8 per cent in the other areas of the District. Virtually all of the increase in the net profits of the New York City banks was used to strengthen their capital accounts, and the amount retained rose to 79.9 million dollars, or 46 per cent of the year's profits. Outside the City, the dollar increase in retained earnings was much more moderate but, nevertheless, these banks as a group retained 31.2 million dollars, or 57 per cent of their aggregate profit.

## MARKETABLE ISSUES OF THE UNITED STATES TREASURY

The cash borrowing of the Treasury through nonmarketable public issues was described in the February issue of this *Review*. This article is a companion study of the marketable public issues, in terms of their different characteristics and of the maturity and ownership pattern of the outstanding issues.

At the beginning of 1953, marketable securities amounted to nearly 149 billion dollars, or about 56 per cent of the total direct and guaranteed Federal debt. In the past two decades, however, and especially since the end of World War II, marketable issues have shown a marked decline in relative importance in the debt structure. In the early thirties, practically all of the Federal debt was in marketable issues, but after 1935, with the establishment of the social security trust funds and the introduction of Savings bonds, special issues and non-marketable public issues showed a substantial growth. By the time of our entry into World War II, marketable issues had already declined to three quarters of the Federal debt and to about 84 per cent of public issues. During the war, marketable issues were used in about these same proportions and, when the debt reached its peak on February 28, 1946, marketable securities amounted to about 71 per cent of all Federal securities. Since that time, however, marketable issues have lost ground almost steadily as the outstanding volume declined (despite the recent emphasis on such issues in Treasury deficit financing), while nonmarketable public and special issues increased. Thus, by the beginning of 1953, the marketable issues represented only about 56 per cent of the total debt and 66 per cent of the outstanding public issues.

At the peak of wartime borrowing, marketable issues amounted to almost 200 billion dollars. This was 154 billion dollars more than the amount outstanding before Pearl Harbor. By the beginning of 1953, however, marketable issues were 51 billion less than at the peak of borrowing in February 1946.

Over the same period, the total Federal debt in contrast was reduced by 12 billion dollars.

### TYPES OF ISSUES

Currently, the Treasury has outstanding four major types of marketable issues—Treasury bills, certificates of indebtedness, notes, and bonds.<sup>1</sup> In general, the different issues have been used as required to meet both the Treasury's needs and investors' preferences for different maturities. Bills and certificates of indebtedness, which are used for the shortest borrowing periods, must mature by statute within a year or less from the time they are issued. Notes are used to borrow funds for a period of more than one year and less than five years, while bonds are used for longer-term borrowing (although bonds could be issued legally for any borrowing period). There is no limit on the amount which the Treasury may issue of the various types of issues, although there is a statutory limit, apart from minor exceptions, on the total amount of Federal debt, now set at 275 billion dollars.

The relative importance of these four types of securities at the present time reflects, in part, the long-term borrowing of both World War II and the prewar period and, in part, the Treasury's choice of issues since the end of World War II. In the postwar period, the Treasury relied largely on short-term issues, and in 1951 and 1952 afforded investors an opportunity to shift a substantial segment of long-term marketable bonds into nonmarketable Investment bonds, convertible into marketable notes. Consequently, marketable bond issues by the beginning of 1953 amounted to less than 80 billion dollars, having dropped 42 billion dollars from their level at the peak

<sup>1</sup> A small amount of other marketable issues, including the Panama Canal loan, Postal Savings bonds, and guaranteed Government corporation debt, are also outstanding.

of Federal borrowing on February 28, 1946. Certificates and notes, together, totaled almost 47 billion dollars at the beginning of 1953, about 14 billion dollars less than at the borrowing peak. Bill issues outstanding early in 1953, at nearly 22 billion dollars (including 4.5 billion in two issues of tax anticipation bills), were at a record level, almost 5 billion dollars higher than at the 1946 peak of the Federal debt. As a result, bond issues at the beginning of 1953 represented less than 55 per cent of marketable issues and only 30 per cent of total Federal debt, whereas at the peak of World War II borrowing, bond issues were more than 60 per cent of marketable securities and almost 44 per cent of total debt. Bills, certificates, and notes together now represent over 45 per cent of the marketable debt and 25 per cent of the total Federal debt, compared with about 40 per cent of the marketable issues and roughly 28 per cent of Federal debt at the peak of borrowing.

### CHARACTERISTICS OF ISSUES

While the four types of marketable issues differ mainly in the varying length of the original borrowing periods, there are other important distinguishing features of the currently outstanding marketable issues. These include such characteristics as whether the issues are (1) fully marketable or ineligible for bank purchase, (2) fully taxable or partially tax exempt, (3) discount or fixed-rate securities, and (4) payable only at maturity or redeemable before maturity upon call by the Treasury. Other differences which also influence investor preferences include acceptability for tax payments and eligibility for payment in the form of tax and loan credits at the time of issuance. Some of these features are a result of differences in the Treasury's borrowing customs, while others are a result of legislative changes and shifts in emphasis on certain terms by the Treasury over the past two decades. The detailed characteristics of each issue are given in the formal offering circular, and once the issue is sold the Treasury may not change the original terms (under most conditions) or retire the issue before the stipulated redemption or call dates. However, if the Treasury should desire for any reason to replace an outstanding issue, it could offer the holders a voluntary exchange or it could purchase, within the limit of available funds (which might involve the sale of a new issue), whatever part of the old issue investors were willing to sell in the market.

By far the major portion of the outstanding marketable issues are fully taxable securities and are readily transferable. Altogether, such issues at the beginning of 1953 amounted to 120 billion dollars, or over 80 per cent of marketable obligations. The remaining marketable Treasury securities—all bond issues—were of two types. There were six issues, amounting to 7.4 billion dollars, sold before February 1941 which were partially tax exempt and eligible for bank purchase, and there were six issues, amounting to 21.0 billion dollars, sold after May 1, 1942 which were taxable but not eligible for bank purchase until a specified date, except in limited amounts.

### BANK INELIGIBILITY

The feature of ineligibility for purchase by commercial banks was introduced by the Treasury after April 1942 as a part of the World War II financing "basket" to restrict bank purchases of bonds with a maturity of over ten years and bearing more than 2 per cent interest.<sup>2</sup> Normally, commercial banks are not interested in more than limited amounts of long issues, but under the fixed-interest-rate pattern that prevailed during the war financing a tendency to reach out for higher returns appeared inevitable. Altogether, over 53 billion dollars of bank-restricted issues were sold, but in the past two years almost 14.9 billion of these bonds were converted into nonmarketable Investment bonds. Prior to 1952, only one issue of less than 4 billion dollars in 2¼ per cent bonds had become fully marketable (in September 1946). In 1952, however, 13.7 billion of the previously restricted bonds became eligible for bank purchases, and in 1953 and 1954 around 7.6 billion dollars of these bonds will become eligible each year. The remaining 5.7 billion in two issues of restricted bonds will not become eligible until 1962.

### TAXABILITY

The partial tax exemption of Government securities was eliminated on new issues under the Public Debt Act of 1941 at the request of the Treasury in connection with a move to finance the defense program on a widespread basis. For some time, it had been felt that the tax exemption accorded preferential treatment to subscribers who paid income taxes. Also, exemption from normal income taxes favored corporate investors because they paid higher normal taxes than individuals.

The fully taxable securities are subject to all Federal income taxes and to both Federal and State inheritance, estate, gift, or other excise taxes, but they are exempt from all taxation now or hereafter imposed on principal or interest by any State, possession, or any local taxing authority. The partially tax-exempt securities, in contrast, are subject only to estate or inheritance taxes (both Federal and State) and to Federal graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profit taxes; holdings up to \$5,000, however, are exempt from these taxes.<sup>3</sup>

<sup>2</sup> All long-term bonds sold after April 1942 were originally ineligible for bank purchase, but beginning with the Fourth War Loan (January 1944), commercial banks were permitted to subscribe for new issues of restricted bonds in amounts related to their time deposits, and since May 1946 they have been permitted to own a limited amount of restricted issues for the purpose of servicing customers. Bonds purchased by banks during the War Loans if sold may not be repurchased by banks except to cover their trading account requirements.

The 2½ per cent bonds issued from May 1942 to June 1945 were not made available freely for commercial bank purchase until after a lapse of ten years from issue date, irrespective of maturity, but beginning with the Seventh War Loan (June 1, 1945), this provision was changed so that the later issues of 2½ per cent bonds were ineligible for commercial bank purchase until the time remaining to maturity should be ten years. Similar but shorter restricted-purchase periods were used for 2¼ per cent bonds.

<sup>3</sup> Interest on larger holdings of "tax-exempts" by individuals, thus, are now exempt from the 3 per cent individual normal tax, while those of corporations are exempt from the 30 per cent corporate normal tax.

## TYPE OF RETURN

The only marketable securities that the Treasury in recent years has sold at a discount on a competitive basis have been Treasury bill issues—both the regular weekly bills and the recently introduced tax anticipation bills. The other issues have been offered to investors at par at rates stipulated by the Secretary of the Treasury, although the Treasury, since February 1942, may sell any of the other issues at a discount on a competitive basis.<sup>4</sup>

## CALLABLE ISSUES

Bond issues, being long term and thus more likely to carry a rate which may ultimately vary from the going market rates, are usually sold with an optional redemption date as well as a maturity date. The optional redemption date, which is also known as the "call" date, indicates the earliest time the Treasury may elect to redeem the particular issue. The Treasury must notify holders of a redeemable issue four months in advance of an actual redemption before maturity; if the first call date is passed, the issue may be redeemed, upon four months' notice, at any subsequent interest date until maturity. At the beginning of 1953, all presently outstanding Treasury bonds—except the 2⅜ per cent issue of 1958, sold last July—had been issued with a call option. At issuance, these optional redemption dates varied from two to five years ahead of the maturity date. When market rates are below the issue rate, the call feature permits the Treasury to refund ahead of maturity and take advantage of the current low rates. The Treasury did this throughout the period of falling or low rates from the early thirties until September 1951; all redeemable issues were refunded, or in some instances retired, at the earliest possible date.

## ACCEPTABILITY FOR TAX PAYMENTS

Of all the outstanding marketable issues only 4.5 billion dollars in tax anticipation bills are presently acceptable at maturity for the direct payment of Federal income and profits taxes. Almost all of the outstanding Treasury long-term bond issues sold during the World War II financing drives, however, are acceptable before maturity at par and accrued interest for the payment of Federal estate taxes; when so used, the redeemed bonds must not exceed the taxes due and must constitute part of the deceased owner's estate at the time of death.

The TABs, as the tax anticipation bills are commonly called, were sold in the fall of both 1951 and 1952 in a move to reduce the impact on the money market of the seasonal fluctuations in tax receipts which had become accentuated

under the Mills plan for the payment of corporate taxes. The TABs are intended to anticipate, in the autumn, part of the funds which the Treasury will receive in taxes in the subsequent spring. So far, two issues have been sold each year, one dated to mature about March 15 and one about June 15. The TABs may be redeemed for cash or taxes; thus investors other than those intending to use the TABs for tax payments (chiefly banks) initially supply part of the funds.

## PAYMENTS THROUGH THE TAX AND LOAN ACCOUNTS

To reduce the impact of sizable new money borrowings on the money market as payment is made, the Treasury generally permits qualified bank depositaries, instead of paying cash immediately into Treasury accounts at the Reserve Banks, to make payments for themselves and their customers by crediting the Treasury's Tax and Loan Accounts maintained on their books. In such offerings, commercial banks are permitted to submit subscriptions for the account of their customers as well as for their own account and these need not be accompanied by a "deposit" or partial payment. Subscriptions by others require a specified deposit when submitted, and when allotments are made the remaining full amount must be covered by the actual date of issue by cash payments (which represent a transfer of bank reserves to the Treasury's account at the Federal Reserve Banks). Commercial banks initially have to provide only enough funds to cover the reserves required against the increase in Treasury deposits on their books. These deposits, of course, must be fully collateralized by pledged specified securities, including Treasury issues. When the funds placed at the Treasury's disposal in Tax and Loan Accounts are needed by the Treasury, they are withdrawn and deposited in the Treasury accounts at the Reserve Banks. This is generally done with the briefest practicable interval before the funds are to be spent by the Treasury and thus returned to the commercial banks.<sup>5</sup>

## INTEREST RATES

There are substantial differences in issuing rates among various issues of any one type of obligation, reflecting in part the differing conditions in the money and capital market at the time of issuance and in part the several characteristics discussed previously. Issuing rates, of course, must be closely related to yields of comparable securities in the market at time of issue. Actual market yields on outstanding issues are determined by the current forces of supply and demand at any given time, so that effective yields may vary widely above or below the original issuing rate during the life of any outstanding obligation.

## MATURITY PATTERN

Because of the type of refunding and exchange policy pursued since early 1946, the average maturity of outstanding marketable issues has shortened. At the beginning of 1953, 39 per cent of the marketable issues—amounting to 57 billion

<sup>4</sup> Originally only bills could be issued on a discount basis and sold through competitive bidding, but in 1934 the Treasury was authorized to sell any obligation with a maturity of one year or less on this basis, and finally under the Public Debt Act of 1942, the Treasury was given complete discretion as to the sale of marketable securities on a competitive or other basis and their issuance on an interest-bearing or discount basis, or on a combination basis, at whatever price or prices the Secretary may prescribe. There is no statutory limit on the rate that may be paid on bills, certificates, or notes, but there is a limit of 4¼ per cent on the coupon rate for Treasury bonds. A detailed analysis of the "Marketing of Treasury Bills" appeared in the October 1951 issue of this *Review*.

<sup>5</sup> For more detailed analysis, see "The Treasury and the Money Market" in the November 1952 issue of this *Review*.

dollars—were due to mature within a year or before 1954. Issues amounting to nearly 110 billion dollars, or almost 73 per cent of the outstanding marketable issues (including the one-year maturities), were to mature or were redeemable within the next five years through 1957, while over 13 billion dollars, or around 9 per cent, were redeemable in the subsequent five years through 1962 and about 27 billion dollars, or only 18 per cent, after 1962. The longest Treasury marketable issues outstanding at the beginning of the year were redeemable in fifteen years and were to mature in twenty years (that is, issues dated 1967-72).

The change in the maturity pattern of marketable issues has been marked since the Victory Loan that shortly followed the end of World War II. In contrast to the 73 per cent of the marketable issues outstanding at the beginning of this year that were callable or were to mature within the next five years ending with 1957, less than 55 per cent of the Treasury marketable issues fell into this less-than-five-year group at the peak of the Federal debt on February 28, 1946. Issues maturing or callable within from five to ten years then amounted to about 16 per cent, and those maturing or callable in over ten years represented over 30 per cent of the total marketable debt. Since 1947, all marketable Treasury issues have been redeemable in less than twenty years. At the peak of the debt, long-term issues redeemable in more than twenty years amounted to nearly 10 per cent of the total marketable issues. Over this period, the average maturity of the outstanding marketable issues declined from nine years and two months on February 28, 1946 to five years and five months at the beginning of 1953.

#### OWNERSHIP PATTERN

In a broad sense, the distribution of marketable issues of various maturities among different groups of investors reflects the characteristic needs of those investors. Commercial banks, which hold over a third of the marketable issues and are by far the largest single investor group among the types of holders, require relatively liquid assets and are restricted as to their holdings of certain of the longest issues. At the beginning of November 1952 (latest data available), they held around a third of the outstanding Treasury bills, certificates, and notes and almost two thirds of the short and intermediate-term bonds. In contrast, insurance companies and mutual savings banks, which hold about 7 and 5 per cent, respectively, of the marketable issues, maintain predominantly medium and long-term investment portfolios. Together, at the beginning of last November, they held about two fifths of the long-term bonds (redeemable after ten years), and only a very small proportion of the other types of issues. Other private investors have shown a similar tendency to concentrate their holdings of the Treasury marketable issues in segments of the maturity range particularly suitable to their needs. For example, non-financial corporations, which have been the most rapidly growing investor group in the Government security market in recent years, require mainly short-term investment outlets.

They hold the bulk of the Treasury bill issues. At the other extreme, private pension funds (also an increasingly important investor group) and large individual investors have most of their holdings in, and account for a substantial share of, the longer-term bonds.

Investments by the Federal trust funds and other Government agencies, which hold about 2 per cent of the marketable issues, are concentrated in long-term bond issues. Like private investors, Federal investors hold securities according to their needs, but their needs are much more narrowly controlled by statutory regulations. These regulations generally require that their investments yield a certain return related to their actuarial requirements.

Reflecting their role as the nation's central banking institution, the Federal Reserve Banks have concentrated their portfolios of marketable issues in short issues. At the beginning of last November (the latest date for which comparable data are available on holdings of other investors), certificates and notes comprised 80 per cent of Reserve Bank holdings and almost 90 per cent of their portfolio was callable or was to mature within five years. Their total portfolio amounted to slightly over 16 per cent of the total amount of marketable issues outstanding.

Since the peak of Government borrowing on February 28, 1946, there have been some changes in the general pattern of ownership; the most significant of these changes has been a shift of Treasury bills from the Federal Reserve Banks to corporations, following the rise in rates on these issues to more attractive levels. Also, the System's holdings of bonds increased, especially during the early postwar years, as a result of the support given to long-term security prices by the System. Because of the passage of time, the Treasury's emphasis on short issues in its refundings, and the Treasury exchange offers of nonmarketable investment bonds for outstanding marketable bonds, however, the average maturity of the marketable portfolios of all groups of private investors at present is considerably shorter than in 1946.

#### MARKET TRANSACTIONS BY THE FEDERAL INVESTMENT ACCOUNTS

In addition to the direct issuance or retirement of marketable issues, the Treasury may influence to some extent the supply of its issues available to the market through secondary market sales or purchases by the various Federal investment accounts. Such market transactions can be undertaken within the limits set by the statutory investment requirements of the accounts. Purchases are also limited, of course, by the amount of funds available; and sales, by the amount of marketable securities in the investment portfolios of the accounts. In the first two years after the end of the Victory Loan, around 1.5 billion dollars of marketable issues were sold by these accounts. Later, substantial purchases were made, and in total volume they roughly offset the amount of earlier sales.

## THE REFUNDING PROBLEM

Each year since the end of World War II, the Treasury has faced a substantial and, at times, a formidable refunding task. Not only has the total volume been large, but the issues have been so distributed that the Treasury has found it necessary to make anywhere from six to twelve offerings a year, aside from its regular bill offerings.

At the outset on February 28, 1946 there were over 70 billion dollars of issues maturing and callable in one year, and aside from the weekly rollovers of bill issues the Treasury was in the market eleven months out of the twelve. By 1949, the issues refundable in a year had declined in volume to 49.1 billion dollars and the number of offerings other than bill issues had been reduced to nine issues. But by the beginning of 1953, these issues were at a new high of over 74 billion dollars and involved five maturing issues and five callable issues, as well as the thirteen regular weekly bill issues and two maturing issues of tax anticipation bills.

The first significant step toward lessening somewhat the increase in the annual volume of refundings was made by the offering of intermediate-term issues beginning December 1949. In all, the intermediate issues offered since that time have, in effect, postponed the refundings of five issues amounting to 22 billion dollars for periods ranging from 4¼ years to slightly over seven years. The first of these intermediate-maturity issues will mature next year. But the 1953 volume of issues actually maturing that must be handled within the year came to 57 billion dollars at the beginning of the year.

## EXPERIENCE WITH ATTRITION

Altogether, in the period 1946-52, 243 billion dollars of exchange issues aside from bill issues were offered, but private investors holding nearly 14 billion of the refundable issues preferred to redeem their holdings for cash.<sup>6</sup> The attrition thus amounted to less than 6 per cent of the exchange offerings. On some offerings the unexchanged portion was considerably higher than 6 per cent, while on others it was lower. The attrition ratio on any one issue reflected, in part, investors' reaction to the terms of the new security and, to some extent, the amount of "redemptions in advance" made possible by Federal Reserve support of the Treasury's operations. In general, when the terms of exchange issues have been in line with current market conditions, offerings have been accepted virtually in full by commercial banks and institutional investors, while other private investors have tended to redeem part of their holdings in keeping with apparent plans to use the funds for specific purposes or to purchase securities whose maturities would coincide with expected needs for funds. Since the Treasury-Federal Reserve accord of March 1951, the proportion of System purchases and of cash redemptions both declined as terms were fitted to the yields determined by a relatively free market. No support was given by the System to the Treasury refundings of the December 1, 1952 or February 15, 1953 maturities, and cash redemptions of the latter maturity amounted to only 1½ per cent of the total.

<sup>6</sup> This does not include the close to 40 billion dollars of issues which were partially or fully retired by the Treasury according to plan.

## DEPARTMENT STORE TRADE

February sales in Second District department stores have continued slightly behind year-ago levels on the basis of data thus far received, even after adjustment for one less trading day this year. The bank's seasonally adjusted index for the month is expected to be 98 per cent of the 1947-49 average.

The earlier failure of January sales to equal the year-ago level did not give rise to serious misgivings among retailers. The value of orders outstanding on January 31, 1953 rose more than seasonally from the end of December, indicating department store merchandisers' confidence in sales prospects for the spring season.

## DEPARTMENT STORE CREDIT

In the year 1952, there was a greater use of credit by consumers in Second District department stores, both in dollar amounts and in percentage of total sales, than in the preceding eleven years for which comparable data are available. As the table shows, the cash segment of department store buying in 1952 was at its lowest point (59 per cent) since these figures were first gathered in 1941. As a share of goods sold, cash

sales increased markedly during World War II, rising from 60 per cent of total sales in 1941 to 72 per cent in 1945. This was largely the result of such factors as the unprecedentedly large amounts of cash held by consumers, the shortages of types of merchandise normally bought on the instalment plan, and the regulation of credit terms by the Federal Reserve System. As more consumer durable goods became available after the end of the war, instalment sales (which have been closely linked to such merchandise) rose each year despite the

Department Store Sales by Type of Transaction  
Second Federal Reserve District, 1941-52  
(Percentage of total sales)

Year	Cash sales	Charge account sales	Instalment sales
1941.....	60	31	9
1942.....	66	27	7
1943.....	70	24	6
1944.....	72	23	5
1945.....	72	23	5
1946.....	70	25	5
1947.....	67	26	7
1948.....	65	27	8
1949.....	63	28	9
1950.....	61	28	11
1951.....	61	28	11
1952.....	59	29	12

fact that Regulation W was in effect during much of this time, and by 1949 had regained their prewar share of total sales.

Deferred payment contracts have continued to increase since 1949. The Korean conflict and the ensuing rush to buy hard goods after the middle of 1950 boosted instalment sales to 11 per cent of total sales for that year. In 1951, although interest in durable goods fell off after the first of the year, instalment sales remained at 11 per cent of total sales for the year as a whole. In 1952, the relationship between durable goods sales and instalment sales became somewhat less clear-cut, as instalment sales rose by 2 per cent for the year, despite an over-all decline in demand for durable goods at department stores. Instalment sales represented a larger share of total sales in Second District department stores in 1952 than they had in 1950 or 1951—12 per cent against 11 per cent in the two preceding years—although sales of major homefurnishings constituted only 14 per cent of total sales, compared with 16 per cent in both 1950 and 1951. This change may indicate increased use (and increased promotion by the stores) of deferred payment arrangements, such as revolving credit and budget plans, for soft goods purchasing. Whatever the explanation for this development it is significant that, while sales of the four major homefurnishings departments were well below 1951 levels in each month of 1952, by amounts ranging from 7 to 28 per cent, instalment sales went ahead of year-earlier figures in five months out of the eight that followed the lapse of Regulation W at the beginning of May.

The volume of business in District department stores transacted on a charge basis is currently more than twice as large as that done on an instalment basis. Because of the considerably shorter length of time which charge accounts remain on retailers' books, the movements of this type of buying arouse much less general interest than does longer-term indebtedness, with its possible burdensome effect on future purchasing power. The total dollar amount of charge account sales in 1952, although well below the 1951 figure, was only fractionally below that of 1950 and represented a larger proportion of total sales than in either of the other years. This climb in the share of charge account sales was particularly pronounced in the latter months of the year when charge sales were considerably higher in relation to the total than they had been in any year since the

war. (As the table shows, however, charge account sales for the year still had not resumed their prewar importance relative to total buying.) The increase in charge sales relative to 1950 and 1951 may have been due to renewed consumer interest in soft goods which had been slighted in these preceding years in favor of durable purchases.

Collections on instalment accounts decreased on the average by 1 per cent from April through December, measured against the same nine months in 1951. The drop in the average ratio of collections to accounts receivable for this period implied an increase in the average period of time outstanding on instalment accounts from 10.7 to 11.2 months. At the same time, the average payment period on charge accounts rose from 68 days in 1951 to 70 days in 1952. As a result of lengthened pay periods and increased instalment sales, total indebtedness of customers in District department stores was 6 per cent higher on January 1, 1953 than at the beginning of 1952, representing a 10 per cent increase in instalment accounts receivable and a 2 per cent increase in charge accounts receivable.

Credit developments in furniture stores were similar in trend to those in department stores but were much more pronounced. In the last three quarters of 1952, credit sales in Second District furniture stores averaged 14 per cent above the same period in 1951. In the absence of credit regulations, furniture stores apparently relaxed their credit terms enough to bring in a substantial amount of new business. (Durable goods purchasing in department stores, whose terms are traditionally

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand Jan. 31, 1953
	Jan. 1953	Jan. through Dec. 1952	
Department stores, Second District....	- 2	- 5	0
New York-Northeastern New Jersey			
Metropolitan Area.....	- 5	n.a.	0
New York City*.....	- 6 (-3)	- 8 (-6)	- 1 (+2)
Nassau County.....	n.a.	n.a.	n.a.
Westchester County.....	- 1	+ 2	+ 7
Northern New Jersey.....	+ 1	- 3	+ 3
Newark.....	- 2	- 4	+ 2
Fairfield County.....	- 5	+ 2	+ 6
Bridgeport.....	n.a.	+ 1	-
Lower Hudson River Valley.....	+ 5	+ 3	0
Poughkeepsie.....	+ 4	+ 4	- 1
Upper Hudson River Valley.....	- 2	+ 0	+ 5
Albany.....	- 4	- 1	+ 7
Schenectady.....	0	+ 1	+ 5
Central New York State.....	+12	- 1	+ 1
Mohawk River Valley.....	+ 8	0	+ 1
Utica.....	+ 5	+ 1	- 3
Syracuse Metropolitan Area.....	+14	- 2	+ 1
Northern New York State.....	+17	+ 4	0
Southern New York State.....	+ 3	+ 2	- 3
Binghamton Metropolitan Area.....	+ 1	+ 2	- 6
Elmira.....	+ 7	+ 2	+ 1
Western New York State.....	+ 6	+ 1	+ 1
Buffalo Metropolitan Area.....	+ 4	n.a.	0
Buffalo.....	+ 3	+ 2	0
Niagara Falls.....	+ 8	+ 5	+ 5
Rochester Metropolitan Area.....	+ 9	- 2	+ 2
Apparel stores (chiefly New York City).....	- 1	0	- 3

n.a. Not available.

\* The year-to-year comparisons given in parentheses exclude the data of a Brooklyn department store that closed early in 1952.

Indexes of Department Store Sales and Stocks  
Second Federal Reserve District  
(1947-49 average=100 per cent)

Item	1953	1952		
	Jan.	Dec.	Nov.	Jan.
Sales (average daily), unadjusted.....	78	175	123	79r
Sales (average daily), seasonally adjusted..	97	101	98	99r
Stocks, unadjusted.....	101	102	128	100r
Stocks, seasonally adjusted.....	114	111	111	113r

r Revised.



more conservative, received notably less stimulus from the lifting of Regulation W.) Accounts receivable in furniture stores were 19 per cent higher at the end of 1952 than they had been a year earlier. This build-up of accounts receivable is a result not only of increased sales but of lengthened repayment periods. The average duration of outstanding credit contracts during the last nine months of 1952 was 18.7 months against

17.1 months the year before, thus reflecting easier credit terms.

In the first month of 1953, instalment and charge sales in the District's department stores continued to account for a larger portion of total sales than they had a year earlier. Instalment sales decreased 2 per cent over January 1952, while charge sales were 3 per cent lower and cash sales had declined by 7 per cent.

**SELECTED ECONOMIC INDICATORS**  
**United States and Second Federal Reserve District**

Item	Unit	1953	1952			Percentage change		
			January	December	November	January	Latest month from previous month	Latest month from year earlier
UNITED STATES								
<i>Production and trade</i>								
Industrial production*	1935-39 = 100	237 <sub>p</sub>	235	234	221	+ 1	+ 7	
Electric power output*†	1947-49 = 100	—	149	148	139	+ 1	+ 8	
Ton-miles of railway freight*	1947-49 = 100	—	98 <sub>p</sub>	110	107	-10	- 8	
Manufacturers' sales*	billions of \$	—	24.2 <sub>p</sub>	23.5	22.6	+ 3	+15	
Manufacturers' inventories*	billions of \$	—	43.6 <sub>p</sub>	43.6	43.1	#	+ 1	
Manufacturers' new orders, total*	billions of \$	—	23.8 <sub>p</sub>	22.8	22.7	+ 5	+ 8	
Manufacturers' new orders, durable goods*	billions of \$	—	11.6 <sub>p</sub>	11.1	11.1	+ 4	+ 6	
Retail sales*	billions of \$	14.1 <sub>p</sub>	14.3	14.0	13.2	- 1	+ 7	
Residential construction contracts*	1947-49 = 100	184 <sub>p</sub>	183	178	142	+ 1	+30	
Nonresidential construction contracts*	1947-49 = 100	198 <sub>p</sub>	219	207	173	-10	+14	
<i>Prices, wages, and employment</i>								
Basic commodity prices†**	1947-49 = 100	89.7	90.4	91.4	107.8	- 1	-17	
Wholesale prices†	1947-49 = 100	109.9 <sub>p</sub>	109.6	110.7	113.0	#	- 3	
Consumers' prices†**	1947-49 = 100	113.9	114.1	114.3	113.1	#	+ 1	
Personal income (annual rate)*	billions of \$	—	279.2 <sub>p</sub>	275.8	263.4	+ 1	+ 6	
Composite index of wages and salaries*	1939 = 100	—	243 <sub>p</sub>	242	232 <sub>r</sub>	+ 1	+ 5	
Nonagricultural employment*	thousands	47,801 <sub>p</sub>	47,810	47,650 <sub>r</sub>	46,471 <sub>r</sub>	#	+ 3	
Manufacturing employment*	thousands	16,665 <sub>p</sub>	16,607	16,492 <sub>r</sub>	15,830 <sub>r</sub>	#	+ 5	
Average hours worked per week, manufacturing†	hours	41.1 <sub>p</sub>	41.8	41.2	40.8 <sub>r</sub>	- 2	+ 1	
Unemployment	thousands	1,892	1,412 <sub>r</sub>	1,413	2,054	+34	- 8	
<i>Banking and finance</i>								
Total investments of all commercial banks	millions of \$	76,790 <sub>p</sub>	77,310 <sub>p</sub>	78,190 <sub>p</sub>	75,260	- 1	+ 2	
Total loans of all commercial banks	millions of \$	63,970 <sub>p</sub>	64,290 <sub>p</sub>	63,470 <sub>p</sub>	57,510	- 1	+11	
Total demand deposits adjusted	millions of \$	100,510 <sub>p</sub>	101,200 <sub>p</sub>	99,410 <sub>p</sub>	97,850	- 1	+ 3	
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	29,831 <sub>p</sub>	29,896	29,667	28,551	#	+ 4	
Bank debits (U. S. outside New York City)*	millions of \$	93,672	93,046	86,392	88,037	+ 1	+ 6	
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	118.3	116.1	118.8	110.8	+ 2	+ 7	
Consumer instalment credit outstanding†	millions of \$	16,555 <sub>p</sub>	16,513	15,885 <sub>r</sub>	13,314	+ 2	+24	
<i>United States Government finance (other than borrowing)</i>								
Cash income	millions of \$	5,251 <sub>p</sub>	6,341	4,997	5,183	-17	+ 1	
Cash outgo	millions of \$	5,459 <sub>p</sub>	7,389	5,558	5,473	-26	#	
National defense expenditures	millions of \$	4,082 <sub>p</sub>	4,538	3,760	3,843	-10	+ 6	
SECOND FEDERAL RESERVE DISTRICT								
Electric power output (New York and New Jersey)*†	1947-49 = 100	—	135	135	126	#	+ 7	
Residential construction contracts*	1947-49 = 100	—	143 <sub>p</sub>	157	113	- 8	+59	
Nonresidential construction contracts*	1947-49 = 100	—	184 <sub>p</sub>	186	146	- 1	+62	
Consumers' prices (New York City)†**	1947-49 = 100	111.7	112.0	112.9	111.3	#	#	
Nonagricultural employment*††	thousands	—	7,623.0 <sub>p</sub>	7,577.8	7,410.2	+ 1	+ 3	
Manufacturing employment*††	thousands	2,760.5 <sub>p</sub>	2,765.4	2,737.2 <sub>r</sub>	2,705.1	#	+ 2	
Bank debits (New York City)*	millions of \$	50,772	54,291	48,114	46,256	- 6	+10	
Bank debits (Second District excluding N. Y. C. and Albany)*	millions of \$	4,136	4,054	3,886	3,906	+ 2	+ 6	
Velocity of demand deposits (New York City)*	1947-49 = 100	134.0	135.1	138.5	111.3	- 1	+20	

Note: Latest data available as of noon, March 3.

*p* Preliminary.

*r* Revised.

\* Adjusted for seasonal variation.

# Change of less than 0.5 per cent.

† Seasonal variations believed to be minor; no adjustment made.

‡ The seasonal adjustment factors for this series have been revised.

\*\* Revised series. Back data available from the U. S. Bureau of Labor Statistics.

†† Series revised 1947 to date.

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

# NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, February 27, 1953)

Industrial production continued to rise in January and February, and construction activity was maintained at advanced levels. Retail sales were down somewhat more than seasonally from the record year-end level. Wholesale prices continued to show little change, while consumer prices declined slightly further.

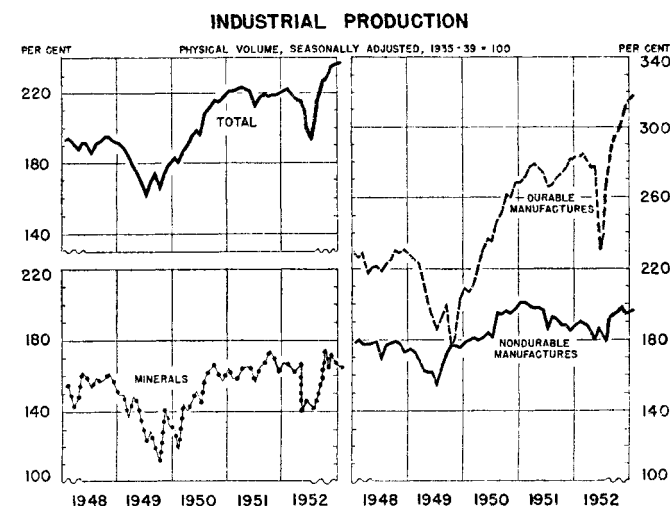
## INDUSTRIAL PRODUCTION

The Board's index of industrial production rose two points in January to 237 per cent of the 1935-39 average. A small further rise is indicated in February, reflecting mainly continued gains in output of consumer durable goods.

Production of passenger autos has increased sharply since December and in February reached an estimated annual rate of 6.2 million units. Seasonally adjusted output of major household goods, notably television sets, also expanded further in January and apparently continued at advanced levels in February. Activity in producers' and military equipment industries has been generally maintained. Among materials, lumber showed a large further gain in January after seasonal adjustment. Output of aluminum, up markedly in January, exceeded the year-ago level by almost one sixth, owing mainly to additions to capacity. Other nonferrous metals generally changed little in January. Steel ingot production in February held close to the record January rate.

In January, output of nondurable goods largely recovered from the temporary December decline. Activity at cotton and rayon textile and paperboard mills continued somewhat below October-November rates, but there were increases at plants making leather and rubber products. Output of chemicals and refined petroleum products continued at advanced levels.

A slight further decline in minerals output in January resulted from curtailment of coal and crude petroleum production. Bituminous coal mining decreased somewhat further in the first half of February.



Federal Reserve indexes. Monthly figures, latest shown are for January.

## CONSTRUCTION

Value of construction contract awards declined by more than one fourth in January, reflecting largely a substantial drop in awards for nonresidential building. The total, however, remained almost one-fifth above a year ago. The number of housing units started totaled 71,000 as compared with 76,000 in December and 65,000 in January 1952. Value of new work put in place in January, after allowance for seasonal influences, continued at the very high level of other recent months.

## EMPLOYMENT

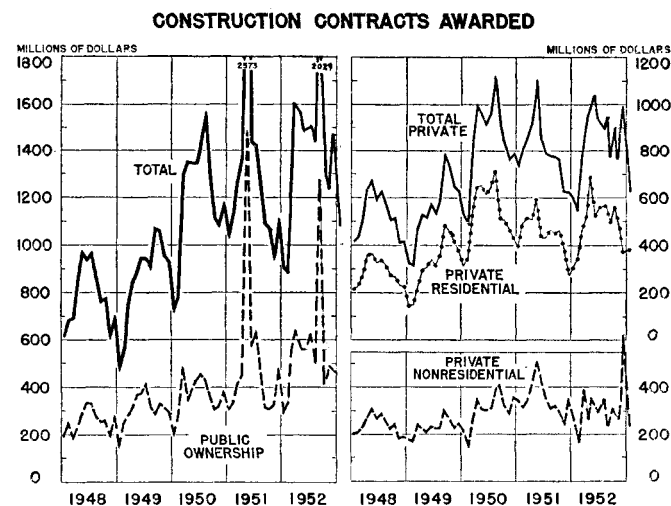
Seasonally adjusted employment in nonfarm establishments continued in January at the peak of 47.8 million, 1.3 million above a year ago. The work week in factories declined seasonally but, at 41.1 hours, was at a postwar high for the month; average hourly earnings remained at \$1.73 and average weekly earnings declined about 2 per cent to \$71.27. Unemployment increased to 1.9 million in January, owing mainly to the usual seasonal reduction in outdoor construction activity, but remained below the level of a year ago.

## DISTRIBUTION

Department store sales in January and the first two weeks of February were close to year-ago levels, reflecting a more-than-seasonal decline from the high levels of late 1952. Seasonally adjusted sales at most other nondurable goods stores also declined in January, while sales of most durable goods outlets—particularly automobile dealers—expanded somewhat. Department store stocks at the end of January, after seasonal adjustment, are estimated to have been at the year-ago level or little changed from other recent months.

## COMMODITY PRICES

The average level of wholesale prices continued to change little from mid-January through February. Beef prices declined substantially further as marketings continued in large volume,



F. W. Dodge Corporation data for 37 Eastern States. Monthly figures, latest shown are for January.

but pork advanced in large part seasonally. Grains decreased markedly early in February but subsequently recovered. Prices of some industrial materials such as zinc, rubber, and fats and oils declined, while certain other materials, some of which were decontrolled in February, advanced.

Consumer prices declined slightly further in January and February, reflecting chiefly decreases in prices of meats and some other foods.

#### BANK CREDIT

Loans and investments at banks in leading cities continued to decline between mid-January and mid-February. Reduction in bank holdings of Government securities, largely Treasury bills, accounted for most of the contraction. Loans to food processors, commodity dealers, and sales finance companies declined seasonally, while loans to metal manufacturers increased further. Consumer and real estate loans continued to rise.

Member bank reserve positions remained under pressure during late January and February despite a substantial decline in required reserves. Losses of reserves resulted largely from a gold outflow and from further reductions in System holdings of Government securities. Member bank discounts with the Federal Reserve averaged over  $1\frac{1}{4}$  billion dollars.

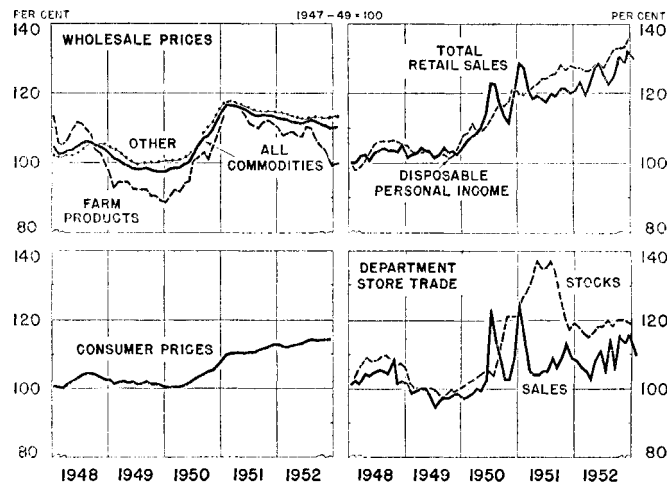
#### SECURITY MARKETS

Yields on United States Government securities fluctuated within a narrow range during the first half of February, but moved higher in the following week. On January 30, the Secretary of the Treasury announced the terms of two new

issues offered in exchange for 8.9 billion dollars of  $1\frac{7}{8}$  per cent certificates of indebtedness maturing on February 15—a  $2\frac{1}{4}$  per cent one-year certificate and a  $2\frac{1}{2}$  per cent five-year ten-month bond. The offering was exceptionally well received, with cash redemptions only 1.5 per cent of the maturing issue.

Yields on high-grade corporate bonds continued to rise, reaching a postwar high in the third week of February. Common stock prices declined in the first week of February but showed little change in the following two weeks. Margin requirements on credit for purchasing or carrying securities were reduced from 75 to 50 per cent, effective February 20.

#### PRICES AND TRADE



Seasonally adjusted series except for prices. Wholesale prices and consumer prices, Bureau of Labor Statistics indexes. Total sales and disposable personal income, Federal Reserve indexes based on Department of Commerce data. Department store trade, Federal Reserve indexes.