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MONEY MARKET IN AUGUST

The money market during August tended to maintain the degree of moderate tightness that had developed by the close of the last statement week in July, although toward the end of August reserve positions eased slightly. Movements of Treasury deposit balances and changes in float and other items resulted, from time to time, in rather sizable gains or losses of reserve funds, but within most statement weeks these changes partially canceled each other. Member banks increased or decreased their borrowing from the Reserve Banks to compensate for fluctuations in the availability of reserve balances. As a result, excess reserves tended to move within a relatively limited range. For the four statement weeks ended in August, daily average excess reserves of member banks totaled 659 million dollars and daily average borrowing from the Reserve Banks was slightly greater at 672 million dollars. By contrast, during July member banks had held daily average "free reserves" (excess reserves less borrowing from the Reserve Banks) amounting to 357 million dollars. Member bank dependence upon funds borrowed from the Reserve Banks averaged higher during August than in any month since May.

As is customary when aggregate member bank reserve positions undergo an appreciable change, the moderately tighter availability of reserve funds in August was magnified in its impact on the New York money market. Money market conditions in New York had tightened by the end of July. During August that situation continued to prevail despite large net reductions in the Government security holdings of the New York banks. The City banks had frequent recourse to the discount window at the Reserve Bank in adjusting their reserve balances, and Federal funds remained in steady demand. Quoted rates on Federal funds remained close to the 2 per cent discount rate on every day until the final week of the month.

Generally, the market for Government securities was inactive during August. Rates on shorter maturities moved lower and prices of longer issues, although fluctuating over a moderate range, recorded only minor changes on balance. Intermediate bonds were generally somewhat lower in price, while the long-term bonds were unchanged or fractionally higher or lower.

Treasury subscription books were open from August 5 to 7, inclusive, on an offering of one-year $2\frac{5}{8}$ per cent certificates of indebtedness to mature August 15, 1954 in exchange for the 2.9 billion dollars of 2 per cent certificates due on August 15. The terms of the offering were well received in the market, and only 94 million dollars, or 3.3 per cent, of the maturing certificates were redeemed for cash. On Friday, August 28, the Secretary of the Treasury announced that holders of the 8.0 billion dollars of 2 per cent bonds maturing September 15 are to be offered the option of exchanging into either one-year $2\frac{5}{8}$ per cent certificates of indebtedness or three and one-half year $2\frac{7}{8}$ per cent notes. Subscription books will open September 2. The new certificates will carry an interest coupon payable with the principal at maturity, and any premium paid on the acquisition of these certificates in the market may be amortized in accordance with the Internal Revenue Code.

Total loans and investments of the weekly reporting member banks in the principal cities declined moderately during August. The beginning of the seasonal increase in commercial, industrial, and agricultural loans resulted in an expansion in net loans of these institutions. At the same time, however, Government security holdings were reduced by an even larger amount, as banks fed into the market some of the March 1954 tax anticipation certificates of indebtedness they had acquired on direct allotment from the Treasury in July, and other issues.

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On balance, therefore, total earning assets of the reporting banks fell during August.

MEMBER BANK RESERVE POSITIONS

The easy reserve position of the member banking system that had developed during July, mainly as a result of the lowering of reserve requirement percentages, had been largely eliminated by July 29, the last statement date in the month. Between the middle of July, when free reserves amounted to nearly one billion dollars, and the end of the month, available reserves were reduced by more than one billion dollars, mostly as a result of an increase of 650 million dollars in required reserves. On the whole member bank reserve positions during the month of August tended to remain quite close to the position existing on July 29. Table I contains data on the factors influencing member bank reserve balances during the month. A large net outflow from the Treasury's balances at the Reserve Banks during the statement week ended August 5 was only partially offset by net drains upon bank reserves through a rise in currency in circulation and other items. The resulting expansion amounted to some 270 million dollars in member bank reserves during that week. These funds were employed to reduce member bank indebtedness to the Reserve Banks and to meet an increase in required reserves, with the result that excess reserves changed very little.

The changes in reserve balances, member bank borrowing, and required reserves that had taken place during the first statement week of the month were reversed in the week ended August 12. A large volume of funds transferred from Treasury Tax and Loan deposits at commercial banks to the Reserve Banks exceeded Government disbursements and accounted for the largest part of the net change in the availability of reserves. Member bank borrowing increased to offset the drain on

reserves, with a large part of the increased borrowing activity concentrated in the New York City banks. During the remainder of the month, week-to-week changes in the factors affecting member bank reserves tended, on balance, to offset each other. A moderate midmonth increase in float during the week of August 19 was counterbalanced by a further transfer of Treasury funds to the Reserve Banks and by a net loss of member bank reserves through an increase in foreign official balances at the Federal Reserve Banks. In the following week, the situation was again reversed as a somewhat larger contraction of float was offset by net Treasury expenditures from its deposits at the Reserve Banks and by a reduction in foreign official balances.

Reviewing the month as a whole, the most striking feature was the rather high degree of stability in the volume of reserves available to member banks. Generally, changes in Treasury deposits at the Reserve Banks acted as offsets to the operation of the other factors influencing reserve positions. As shown in Table I, Federal Reserve security purchases, both outright and on repurchase agreement with dealers, provided a small volume of funds to the market after the middle of the month. One of the more important developments within the broadly stable money market pattern was the continued accumulation of dollar resources in foreign official holdings. The net decline in the United States gold stock during the month was relatively small, amounting to 49 million dollars for the full four weeks, while foreign-owned balances at the Federal Reserve Banks were reduced by 29 million dollars. But, simultaneously, investments of international agencies, foreign central banks, and foreign governments in United States securities rose by 196 million dollars. The over-all accumulation of foreign official dollar holdings in gold, Reserve Bank balances, and Government security investments as measured by these statistics, therefore, amounted to more than 215 million. Since December 10, 1952, when this movement began, a total of 907 million dollars in reserve balances has been lost to member banks through purchases of gold by foreign accounts and additions to foreign balances at the Reserve Banks, and an additional accumulation of foreign dollar holdings has been reflected in a growth of almost 370 million dollars in foreign official holdings of United States Government securities.

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

Factor	Statement weeks ended				Four weeks ended Aug. 26
	Aug. 5	Aug. 12	Aug. 19	Aug. 26	
<i>Operating transactions</i>					
Treasury operations*	+374	-213	-66	+77	+172
Federal Reserve float	+37	-16	+142	-162	-1
Currency in circulation	-95	-19	+13	+38	-61
Gold and foreign account	-60	+7	-59	+92	-20
Other deposits, etc.	+14	+4	-64	+36	-10
Total	+271	-236	-35	+81	+81
<i>Direct Federal Reserve credit transactions</i>					
Government securities	—	—	+25	—	+25
Direct market purchases or sales	—	—	+19	+9	+28
Held under repurchase agreements	-186	+215	+39	-291	-223
Loans, discounts, and advances	—	—	—	—	—
Total	-186	+215	+83	-282	-170
Total reserves	+85	-21	+48	-201	-89
Effect of change in required reserves	-45	+44	+75	-40	+34
Excess reserves	+40	+23	+123	-241	-55
Daily average level of discounts	618	838	743	489	672
Daily average level of excess reserves	598	742	687	609	659

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

* Includes changes in Treasury currency and cash.

TREASURY FINANCE AND THE GOVERNMENT SECURITY MARKET

The most important development in the market for United States Government securities during August was the highly successful completion of the Treasury's refunding of the 2 per cent certificates of indebtedness due August 15, 1953 with a one-year 2½ per cent certificate. In trading prior to the Treasury's preliminary announcement on August 3, the market had indicated a preference for a straight one-year rollover of the maturing certificates. The terms offered by the Treasury were in line with market expectations, and a satisfactory premium was maintained on both the rights and the when-issued securities throughout the exchange period. Over the balance

of the month, the newly issued certificates of indebtedness continued to be quoted at premium prices.

The Treasury's favorable experience in its August refunding operation was both a result of the generally firmer tone that has characterized the Government security market for the past two months, and a contributing cause of continued firmness in that market. Throughout August a modest net demand for Treasury bills originating principally with nonbank investors helped to maintain a steady tone in the short-term area, despite the growing tightness in the money market. Longer-term Treasury bills tended to be in heaviest demand over most of the month, and yields on these issues drifted gradually lower. Yields on shorter bills responded to the factors influencing the money market and edged briefly higher over the middle of the month but later turned downward. Awards on Treasury bill offerings during August were made at average rates of 2.136 per cent, 2.116 per cent, 2.101 per cent, and 2.001 per cent for the issues dated August 6, 13, 20, and 27, respectively. The over-all stability in bill yields during this period is indicated by the very narrow range of the average issue rates, and also by the fact that awards on each new issue during the month were made over a remarkably narrow price range. The clustering of accepted bids within a narrow range had the result that some dealers and other investors failed to secure allotments on tenders and had to purchase bills in the market.

Activity in Treasury certificates tended to be concentrated in the new 2½ per cent issue, which was in fairly steady demand, and in the tax anticipation certificates due March 22, 1954 which were supplied from commercial bank portfolios to meet corporate demand. In the last half of the month, the demand for certificates of indebtedness diminished somewhat pending clarification of a recent ruling by the Internal Revenue Bureau with respect to the tax status of amortization of premiums on these issues.

Trading in intermediate and long-term Treasury securities was inactive at broadly stable prices. The greater part of the trading in these issues during the month was concentrated in the intermediate area and was related to swapping for tax considerations. Some issues of short-term taxable bonds met with a sporadic nonbank demand, and there was some buying interest in the early maturities of Treasury notes. A moderate supply of the 2 per cent bonds maturing September 15 reached the market, outright and on swaps, but the market premium of roughly one eighth of a point on that issue was well maintained through the end of the month.

An influence on the market for intermediate and long-term Government securities during August was the uncertainty that prevailed with respect to the terms the Treasury might offer on its refunding of the September 15 bonds. Toward the middle of the month, the suggestion in a market letter that the Treasury might contemplate the inclusion of a renewed offering of the 3¼ per cent bonds in its September refunding had a temporarily depressing effect on bond prices in the long-term area, but the market quickly discounted the possibility of

such an offering and prices recovered the rather small losses shown earlier. The feeling in the market that the Treasury would, however, include in its exchange terms an additional offering of an intermediate security along with a certificate of one-year or shorter maturity tended to have a slight weakening effect on prices in the intermediate area, and was a factor in the tendency of the market generally to level off following the price increases of July and early August. For the month as a whole, prices of intermediate Treasury securities were fractionally lower while prices of the longer-term securities tended to show somewhat smaller declines. The new 3¼'s recorded an increase of about one fourth of a point, to a premium of three eighths of a point.

Another factor having a moderating influence on the Government security market was the shift in sentiment concerning the outlook for credit demand in the remainder of the year and the effects a conjuncture of a large volume of bank loans, new private and municipal capital issues, and Treasury cash requirements would have upon the money and security markets. For some months there had been a rather widely held expectation that business conditions might be somewhat less favorable in the last half of this year than they had been in the first half, and that prices of Treasury securities might be expected to firm in reaction to this development. During August, however, a more optimistic view of the economic outlook tended to replace the earlier projection, and this contributed to the above-mentioned change in expectations with respect to the volume of business demands for credit that might be expected in the remaining months of this year. The small outright purchase of Treasury bills for the System Open Market Account and the occasional purchases of short-term securities by the

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

Item	Statement weeks ended				Change from Dec. 31, 1952 to August 19, 1953
	July 29	August 5	August 12	August 19	
<i>Assets</i>					
Total loans and investments.....	-386	+264	- 56	-465	- 137
Loans, net*.....	-242	+430	+152	-229	+ 630
Commercial, industrial, and agricultural loans.....	- 28	+156	+113	+ 28	- 450
Security loans.....	- 34	+ 25	+ 10	-169	- 350
Real estate loans.....	+ 4	- 5	+ 22	+ 5	+ 253
Loans to banks.....	-209	+224	+ 11	- 70	+ 460
All other loans (largely consumer).....	+ 25	+ 30	- 2	- 23	+ 744
Total investments.....	-144	-166	-208	-236	- 767
U. S. Government securities.....	-206	-169	-203	-235	- 869
Treasury bills.....	-101	- 35	-153	-175	-1,671
Other U. S. Government securities.....	-105	-134	- 50	- 60	+ 802
Other securities.....	+ 62	+ 3	- 5	- 1	+ 102
Loans net and other securities.....	-180	+433	+147	-230	+ 738
<i>Liabilities</i>					
Demand deposits adjusted.....	+ 80	-218	+ 12	-518	-2,702
Time deposits except Government.....	+ 5	+ 4	- 9	+ 59	+ 719
U. S. Government deposits.....	-479	-197	-290	+246	+1,472
Interbank demand deposits.....					
Domestic.....	-299	+561	+163	-190	-1,582
Foreign.....	+ 23	+ 5	30	- 26	- 157

* Figures for various loan items are shown gross (i.e., before deduction of valuation reserves); they therefore may not add to the total, which is shown net.

Federal Reserve Bank of New York from dealers on repurchase agreement during the last half of August, however, tended to give greater confidence that the banking system would be provided with the reserve funds required to enable it to meet the essential credit needs of business, agriculture, and Government during the fall season.

MEMBER BANK CREDIT

The commercial, industrial, and agricultural loans of those member banks reporting such credit statistics weekly customarily reach a seasonal low during the month of July. In August a period of expansion begins that continues until the end of the year. This seasonal pattern is apparently reflected in the member bank credit developments itemized in Table II. Total loans of the reporting member banks increased by 111 million dollars in the four statement weeks ended August 19,¹ while the "business" (commercial, industrial, and agricultural) loan component of the total grew by 269 million. During the

¹ The table on assets and liabilities of the weekly reporting banks, which will appear each month in the Money Market article, will include data for the last statement week in the preceding month. Since data for the last week in each month are not available at the time the *Monthly Review* is published, this procedure is necessary to give continuity to the table.

similar four weeks in 1952, business loans at the reporting banks increased by only 179 million dollars. The loan expansion in the most recent four-week period was spread rather broadly over the major industry groupings. Largest changes were recorded for the food, liquor, and tobacco group, and the public utilities where net new borrowing of 55 million and 54 million dollars, respectively, was recorded.

Among the other changes in commercial bank lending activity recorded in Table II, it possibly is significant that for the second consecutive month "other" (mostly consumer) loans grew by substantially less than the average monthly rate of increase of more than 100 million dollars that had been maintained since May 1952. As mentioned in the last issue of the *Monthly Review*, the growth in consumer loans has in the past year and more been the most important single source of bank credit expansion. Real estate loans also have been increasing less rapidly. Government security portfolios of the reporting banks declined 813 million dollars between July 22 and August 19, more than offsetting the net additions to loans and other security holdings of these banks. Much the largest part of the reduction in security holdings was in Treasury bills (down 464 million for the four weeks) and certificates of indebtedness (down 255 million dollars).

RECENT DEVELOPMENTS IN THE CANADIAN ECONOMY

A relatively rapid but balanced expansion has continued in the Canadian economy during the past year.¹ Production, investment, consumption, income, and trade have advanced to record levels without inflationary repercussions on the levels of wholesale or retail prices. The only noteworthy internal disturbance has been in the farm sector, where a rather sharp drop in farm income resulted from a decline in the prices of many agricultural products.

Against the background of a balanced budget in the fiscal year ended March 31, 1953, the government boldly undertook substantial tax-rate reductions during the current fiscal year. This action was taken with the conviction that the economic stability achieved in Canada in 1952 would be maintained, and that, even with lower rates of taxation, a sufficient rise in income would occur both to bring total revenues to a new peak and to maintain an over-all budgetary balance in 1953-54.

On the external side, rising imports and a decline in Canadian exports during the early months of 1953 led to the emergence of a series of monthly trade deficits. Despite the fact that exports rose rapidly in the second quarter, reaching a new peak in June, Canada's current-account payments balance for the first half of 1953 has undoubtedly shown a deficit on merchandise trade as well as on invisibles account. Nevertheless, the impact of this current-account deficit upon the country's official reserves of gold and United States dollars has been cushioned by capital movements, particularly by the

equilibrating short-term capital movements that have thus far tended to be induced by Canada's flexible exchange rate mechanism.

BALANCED INTERNAL EXPANSION

Prosperity and buoyancy characterized the Canadian economy during the first half of 1953. Industrial production reached successive peaks in April and May, and over the first six months of this year averaged approximately 10 per cent above the same period in 1952. Consumption expenditures have been well above those of a year ago in most lines, and reflect not only an apparent record level of personal income (after allowance for seasonal factors), but also a continued rise in consumer credit and a reported decline in the rate of personal savings. Public and private investment expenditures in 1953, according to revised estimates, will exceed even the record-breaking rate originally forecast for this year; as compared with last year, however, they are apparently being financed to a larger extent by credit creation and an inflow of capital from abroad. Resource development is continuing to forge rapidly ahead. The latest official crop survey estimates that Canada's 1953 grain harvests (especially wheat) will again be well above the postwar average. On the basis of the trends to date it thus appears possible that the gross national product for 1953 may even exceed the estimate of 24 billion Canadian dollars (4 per cent above 1952) made by Finance Minister Abbott in his Budget Speech on February 19.

These expansionary developments have been attended by a significant increase in bank credit and have occurred despite

¹ An account of earlier developments is contained in *The Canadian Economy in 1952* in the November 1952 issue of this *Review*.

the first quarter's record of a lower volume of exports, a lower level of farm cash income, and higher-than-seasonal unemployment in some sectors of the economy. These latter factors, along with a sharp increase in imports and high inventories, undoubtedly help to explain why rising business activity in recent months has not been accompanied by any significant rise in prices and wages. Average hourly earnings in manufacturing and some other industries, after having risen relatively sharply during the fourth quarter of 1952, have since advanced only gradually, while the general index of wholesale prices and the consumer price index have remained almost stable during the past year.

FISCAL AND MONETARY DEVELOPMENTS

A number of significant financial developments have occurred in Canada thus far in 1953: in addition to the tax reductions in the 1953-54 budget, there have been two important debt-management operations, a further rise in interest rates, and a relatively large credit expansion.

Finance Minister Abbott's Budget Speech of February 19 placed government expenditures for the fiscal year beginning April 1, 1953, at 4,462 million Canadian dollars, and revenues (after taking account of proposed tax changes) at 4,473 million—125 million and 112 million, respectively, above 1952-53. Thus the new budget was intended to be essentially a balanced budget, calling for a nominal surplus of 11 million dollars; the surplus for the 1952-53 fiscal year was 24 million. Total national defense expenditures in the new budget were placed at 2,074 million dollars, approximately 100 million above 1952-53, with virtually no important changes in other expenditure components.

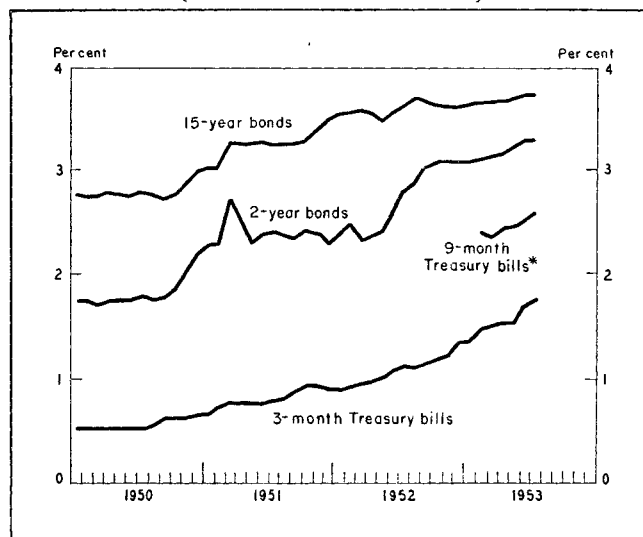
The tax reductions, which represented the most notable feature of the new budget, included: (1) an 11 per cent reduction in personal income taxes starting July 1, with higher exemptions for dependents' earnings and more liberal deduction privileges for medical outlays and dividend receipts; (2) a significant lowering of corporation income taxes, effective January 1, 1953, with relatively larger reductions for smaller corporations; (3) a sharp cut in cigarette excise taxes, and repeal of the stamp tax on checks and documents; (4) the elimination of certain sales taxes; (5) the elimination of license fees on radio sets; and (6) increased tax concessions for oil, gas, and mining companies. In the absence of these changes, Mr. Abbott indicated, total revenues for 1953-54 would have been 4,710 million dollars, or 237 million above his budget estimate; personal and corporate income tax receipts would each have been approximately 100 million dollars higher. The estimate that total budget receipts in 1953-54 would exceed those in 1952-53, even after allowing for the new tax cuts, was based upon the increased tax yields that the government expects from a rise in taxable incomes.

Reflecting not only a rise in income but also the lagged impact of certain tax reductions, total revenues during the first quarter of the current fiscal year (April-June) were 54 million

dollars above those in the same period last year; this increase represented almost one half of the total increase budgeted for the entire current fiscal year. On the other hand, expenditures in this quarter were 132 million above a year ago, largely owing to changes in the timing of certain disbursements that will, as compared with the preceding fiscal year, lead to a relatively greater concentration of total expenditures in this quarter. The latter were accordingly primarily responsible for the fact that the budgetary surplus that is normally recorded during this quarter in Canada was only 185 million dollars this year, 77 million less than the surplus in the corresponding quarter last year.

The Department of Finance undertook two significant debt-management operations early in 1953. First, in mid-January an offering of 100 million Canadian dollars of 25-year $3\frac{3}{4}$ per cent government bonds was made, the first such long-term offering since the outbreak of hostilities in Korea. Moreover, instead of using the "conventional" technique of issuing these securities to underwriters for market distribution, the authorities decided to offer the bonds indirectly to the market via the Bank of Canada. The evident purpose of the issue was to inject a truly long-term issue into the trading market for government securities; the longest actively traded issue previously available had a term of only fifteen years to maturity. The Canadian Government presumably had in mind that this new "yardstick" in the market would prove useful in planning the refunding of several large blocks of maturing intermediate and long-term obligations starting in 1954. Unlike the conventional method used in Canada, the issuing technique did not provide a guaranteed "spread" to intermediate distributors and was apparently designed to avoid the risk of overloading these distributors with large inventories of the new bonds which might, among other things, make more difficult the

Chart I
Canadian Government Security Yields
(On or about 15th of month)



Note: Latest data are for July.

* First issued on January 29, 1953.

Source: Bank of Canada, *Statistical Summary*.

execution of a flexible monetary policy involving changes in the prices and yields of government obligations. The new bonds were initially sold at a discount of about two points to make their yield to maturity approximately $3\frac{7}{8}$ per cent. Although early market reports indicated a favorable reception for the bonds, interest in the market waned quickly and active trading has apparently not yet developed in the issue.

Secondly, at the end of January the government revised its technique for issuing Treasury bills. Previously, the government had been issuing and retiring 75 million dollars of three-month Treasury bills six times per quarter; the total outstanding accordingly remained constant at 450 million dollars. Under the new system, the government began to issue Treasury bills on a weekly basis, with initial flotations of 40 million dollars of three-month maturities and 5 million each of six-month and nine-month maturities. In the first thirteen weeks, the total outstanding accordingly rose to 650 million dollars. After this period, the weekly issue was reduced to 35 million three-month bills and 5 million nine-month bills; the total outstanding has consequently been maintained at 650 million. The funds derived from the 200 million dollar increase in bill issues were subsequently applied to the retirement of a corresponding amount of bank-held Deposit Certificates.² According to an official announcement, the provision of a much larger number of bill-maturity dates was intended to broaden and deepen bank and nonbank interest in Treasury bill investments. In particular, it was apparently hoped that corporations would use them to an increasing extent as an outlet for short-term funds accumulated to meet their tax liabilities.

The discount rates on the new Treasury bills have risen more or less steadily since January, with a more rapid increase in the rate on three-month bills (see Chart I); long-term government security yields also have risen during this period, and by midyear had reached the highest level since the early thirties. These general movements reflect the relatively tight monetary conditions that have prevailed thus far during 1953. This tightness, in turn, is a reflection mainly of the continued heavy demands for both short-term credit and long-term investment funds in Canada, although substantial sales of Government of Canada securities by United States holders also seem to have contributed significantly, especially in June, to the rise in yields.

The Bank of Canada has continued to engage in open market operations in both short-term and long-term government securities as a means of adjusting the country's credit base to seasonal and growth requirements for currency and credit, and also as a means of preserving orderly conditions in the Canadian Government security market. During the first seven months of this year, total Bank of Canada holdings of government securities increased by 63 million dollars. Over the same period, chartered bank loans in Canada increased by approximately 300 million dollars, or by roughly 9 per cent. To an important extent, this increase in bank credit reflects (either

² These six-month obligations, first introduced during World War II, are issued directly to the chartered banks.

Table I
Canadian Foreign Trade
(Monthly rates in millions of Canadian dollars)

Trade with	1950		1951		1952		1953
	First half	Second half	First half	Second half	First half	Second half	First half ^p
All areas:							
Exports.....	241.4	284.8	293.8	366.8	353.6	372.4	336.7
Imports.....	242.2	286.9	350.4	330.4	325.1	346.7	370.0
Balance.....	- 0.8	- 2.0	- 56.6	+ 36.4	+ 28.6	+ 25.7	- 33.3
United Kingdom:							
Exports.....	39.5	39.2	42.4	63.6	67.2	58.0	52.5
Imports.....	31.2	36.2	37.4	32.7	26.9	33.1	36.7
Balance.....	+ 8.3	+ 3.1	+ 4.9	+ 30.9	+ 40.3	+ 24.9	+ 15.8
United States:							
Exports.....	152.8	188.9	187.8	201.2	188.7	202.8	201.5
Imports.....	167.4	187.7	245.2	223.7	243.0	253.2	279.5
Balance.....	- 14.6	+ 1.3	- 57.4	- 22.5	- 54.3	- 50.4	- 78.0
Other:							
Exports.....	49.0	56.7	63.6	102.1	97.7	111.6	82.7
Imports.....	43.6	63.0	67.8	74.0	55.2	60.4	53.8
Balance.....	+ 5.4	- 6.4	- 4.2	+ 28.0	+ 42.6	+ 51.1	+ 28.8

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

^p Preliminary.

Source: Dominion Bureau of Statistics.

directly or indirectly) a continuing expansion in consumer credit, although the rate of increase in the latter appears to have slackened somewhat as compared with the sharp upsurge in such credit after the abandonment of consumer credit controls in May 1952. In addition, however, the stepped-up pace of industrial output and higher levels of inventories in many lines of manufacturing and distribution have also led to demands for additional working capital loans by business enterprises.

SHARP CHANGES IN CANADIAN TRADE

From mid-1951 to the end of 1952 Canada recorded almost uninterrupted monthly surpluses in its trade balance (see Table I). As indicated above, however, there has been a sharp reversal in this picture in 1953, with a total trade deficit aggregating 200 million Canadian dollars (preliminary) during the first half of the year. Exceptionally high levels of imports, including a record 421 million in May, appear to have been primarily responsible for this development, although exports during the first four months were considerably below the corresponding period of 1952. But in May exports increased sharply; and in June, when a new record of 416 million was established, a small trade surplus was achieved. Over the first half of 1953, average monthly imports were 45 million dollars above, and average monthly exports 17 million below, the corresponding period in 1952. However, since import and export prices averaged, respectively, about 5.0 per cent and 3.5 per cent below those of a year earlier, volume figures show an even larger rise in imports and a smaller decline in exports.

These recent trade developments have involved important changes, tending in the same direction, in Canada's trade balances with its two principal trading partners: a sharp rise in Canada's trade deficit with the United States, and an even sharper decline in Canada's trade surplus with the United Kingdom. Canadian exports to the United States were well above those in the corresponding period of 1952, reaching a

record level of almost 224 million Canadian dollars in May. Yet imports from the United States rose even more than exports. As a consequence, the average monthly deficit rose from 54 million Canadian dollars in the first half of 1952 to 78 million in the same period in 1953.

At the same time, Canadian imports from the United Kingdom were well above the previous year's levels in each month from January through June, but exports to the United Kingdom—partly owing to the delayed impact of British import restrictions and to the achievement of a higher degree of internal stability in Britain—ran consistently below year-ago levels after January. Consequently, Canada's average monthly trade surplus with the United Kingdom, which was over 40 million dollars in the first half of 1952, fell to only 16 million dollars in the same period in 1953.

Canadian exports of newsprint, wheat and other grains, most nonferrous metals, and electrical goods were above the levels prevailing during the first half of 1952; exports of timber and wood pulp were lower. On the import side, there were significant increases in various types of machinery, consumer durable goods (especially automobiles and automobile parts), and certain kinds of textiles and chemicals.

BALANCE OF PAYMENTS AND THE EXCHANGE RATE

Remarkably wide swings have occurred in some of the major components of Canada's balance of payments (especially merchandise trade) during the past few years (see Table II). In 1951, there was a current-account deficit of 517 million Canadian dollars, a capital-account surplus (net capital inflow) of 556 million, and a consequent over-all payments surplus of 39 million, which was reflected in an equivalent rise in

Table II
Canadian Balance of International Payments
(In millions of Canadian dollars)

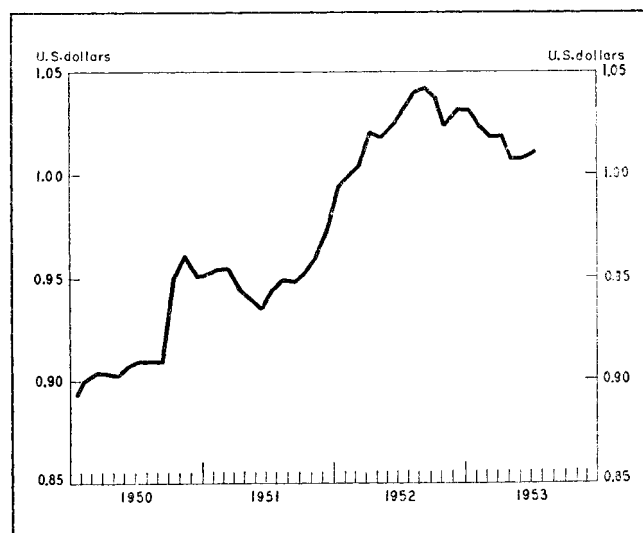
Major components	1950	1951	1952 ^p
Current Account:			
Merchandise account:			
Exports.....	3,139	3,950	4,336
Imports.....	3,129	4,097	3,846
Balance.....	+ 10	- 147	+ 490
Nonmerchandise account:			
Gold available for export.....	+ 163	+ 150	+ 150
Interest and dividends.....	- 384	- 335	- 267
Travel expenditures.....	+ 49	- 6	- 60
Freight and shipping.....	- 17	- 3	+ 2
Other nonmerchandise transactions.....	- 155	- 176	- 164
Balance.....	- 344	- 370	- 339
Total current-account balance.....	- 334	- 517	+ 151
Capital account:			
Direct investment in Canada.....	+ 222	+ 309	+ 332
Net new issue of Canadian securities.....	- 74	+ 227	+ 230
Trade in outstanding securities.....	+ 397	+ 53	- 85
Other long-term capital movements.....		+ 74	- 12
Short-term capital movements (excluding changes in official holdings of gold and United States dollars).....	+ 483	- 107	- 536
Balance.....	+1,028	+ 556	- 71
Change in official holdings of gold and United States dollars (equivalent to balance on current and all above capital transactions).....	+ 694	+ 39	+ 80

^p Preliminary.

Source: Adapted from data published by the Dominion Bureau of Statistics.

Chart II

Value of the Canadian Dollar in United States Dollars
(Monthly averages of New York daily closing rates for cable transfers)



Note: Latest data are for July.

Source: Federal Reserve Bank of New York.

Canada's official reserves of gold and United States dollars.³ This contrasts sharply with the 1952 picture, which shows a current-account surplus of 151 million and a capital-account deficit (net capital outflow) of 71 million, with an over-all surplus of 80 million (equal to the rise in the country's official reserves). Available trade and payments data for the first half of 1953 indicate that further changes in the balance of payments have occurred. The current-account payments position has swung back into deficit, and the capital-account position into surplus, with an over-all payments deficit of 110 million dollars, met by a corresponding decline in the official reserves.

The current-account shift between 1951 and 1952 was almost entirely attributable to an improvement in the merchandise trade balance, and this shift in turn was mainly the result of a 13 per cent improvement in Canada's terms of trade (the ratio of export to import prices). The even sharper change on capital account occurred despite a slightly larger balance on net new issues of Canadian securities abroad and despite a larger inflow of direct investment funds—the latter climbed to a new peak for the third successive year—and was chiefly the result of a very large increase in the outflow of short-term capital.

The swing back to a current-account deficit in the first half of 1953 is primarily related to the abrupt reversal in Canada's commodity trade balance and, as already indicated above, largely reflects changes in the volume rather than the prices of traded commodities. On capital account, the outflow of

³ This represents a somewhat different view of Canada's balance of payments than that given in the official Canadian accounts (see *The Canadian Balance of International Payments, 1952*, Dominion Bureau of Statistics, Ottawa, 1953). In the latter, changes in the gold and dollar reserves are considered as a capital flow, so that the capital-account balance is always equal (but of opposite sign) to the current-account balance.

1952 appears to have been replaced by a significant inflow during the first half of 1953. A new record rate of direct foreign investment in Canada, including a notable rise in British investment, has apparently been established; and there is evidence indicating large shifts in some short-term capital movements, including a substantial repatriation of bank balances and other short-term funds from the United States. However, international security transactions, which had led to a large capital inflow in 1952 (all in the first half), produced only a small inflow in the first half of 1953.

The sharp rise in the foreign demand for Canadian dollars in 1952 carried the exchange rate to a peak (the highest since 1933) of US\$1.04 $\frac{1}{2}$ in August of that year (see Chart II). Some weakening in the rate developed during the fourth quarter with a further decline during the first quarter of 1953. In the second quarter, the Canadian dollar hovered slightly above par with the United States dollar, and during July and August somewhat firmer undertones emerged.

To some observers, it has been rather surprising that the Canadian exchange rate has undergone only a relatively small decline in 1953, especially in the light of the shift in Canada's trade balance to a large deficit. The explanation seems to lie primarily in the short-term capital movements noted above. Of course, technical and seasonal factors, along with the generally tight domestic monetary conditions and the continuing confidence abroad in the stability and growth of the Canadian economy, also appear to have exerted moderating influences.

Official statements indicate that the Canadian authorities have been satisfied thus far with the operation of the free exchange rate mechanism introduced in October 1950. Since then the large and sudden changes that have occurred in Canada's trade balance (and in some long-term capital movements) have induced fluctuations in the exchange rate, but the latter have been neither violent nor erratic. The principal factor preventing large variations in the rate has been the emergence of very substantial swings of "equilibrating" short-term capital movements. The apparent sensitivity of these equilibrating movements (primarily between the United States and Canada) to relatively small variations in the exchange rate has lessened the need for official intervention in the exchange markets in support of the announced policy of maintaining orderly market conditions, and seems to have permitted the Canadian authorities to rely mainly on the floating rate mechanism rather than on variations in the official reserves of gold and United States dollars to balance Canada's international accounts.

THE ECONOMIC OUTLOOK

Recent and prospective trends in the Canadian economy suggest that, barring the emergence of sudden adverse developments, economic expansion is likely to continue against a background of internal stability. The only real shadow on this outlook, according to most observers, is Canada's vulnerability to economic disturbances arising in other economies. In other words, since the Canadian economy is heavily dependent on foreign trade,⁴ there is a danger that an economic disturbance originating abroad might affect the Canadian economy through decreased demands for, or increased restrictions against, Canadian exports. At the moment, there seems to be particular concern in Canada over the implications of possible additional United States restrictions against Canadian products, and over the adverse effects that would stem from any attempt by the United States to dispose of its large agricultural surpluses in overseas areas. Apart from these potential threats to the farm sector, however, informed opinion in Canada seems to be soberly optimistic concerning the ability of the economy to take in its stride not only internal post-Korea adjustments but also some types of external economic adversities.

Canada's heavy reliance on trade will undoubtedly continue to leave the country much more vulnerable to external shocks than the United States. However, there are reasons for believing that Canada not only is at present less susceptible to such shocks than many other "high-trade" nations, but in addition is itself gradually becoming somewhat less sensitive to such disturbances. Some of the principal factors that point to the latter conclusion are: the rapid growth in population and in the domestic market; the increased flexibility stemming from the swift pace of industrial growth and diversification; changes in the composition of both imports and exports that suggest a decreased danger of critical trade imbalances in the event of economic dislocations abroad; the possible cushioning effects of exchange rate fluctuations; the introduction of certain measures (such as unemployment insurance) since the early thirties that are likely to be of an inherently stabilizing nature; and the evident willingness of the government to take quick and vigorous measures to counter ominous developments. Nevertheless, a high and growing volume of trade is essential for Canada if its growth potentialities are to be fully realized. For this reason, responsible Canadian authorities have been particularly eager to see both the removal of all trade and exchange restrictions that tend to hamper and compartmentalize world trade, and the maintenance of prosperous and stable economic conditions throughout the world.

⁴ In 1952, the ratios of Canada's total exports and imports of goods and services to the gross national product were approximately 25 per cent and 24 per cent, respectively; the comparable ratios for the United States were only about 6 per cent and 5 per cent.

EARNINGS AND EXPENSES OF THE SECOND DISTRICT MEMBER BANKS DURING THE FIRST SIX MONTHS OF 1953

Changes in net profits of member banks in the Second Federal Reserve District in the first half of 1953, compared with the corresponding period in 1952, diverged noticeably between groups of banks. Net profits of the central reserve New York City banks declined 2 per cent to 78.1 million dollars, owing to a rather substantial increase in losses and charge-offs on securities which was only partly offset by an expansion in net current operating earnings.¹ In the District's reserve city and "country" banks, however, net profits increased 10½ per cent to 29.4 million dollars, according to a preliminary tabulation of the principal items reported by the member banks. Losses sustained on security sales by these banks were also substantial, but were outweighed by a greater relative gain in net current operating earnings. As the accompanying table of representative banks shows,² profits of all size-groups of

¹ Net current operating earnings represent net earnings before income taxes and nonrecurring items such as security profits or losses, recoveries, and charge-offs.

² Sample groups of Second District member banks outside New York City have customarily served as the basis for articles on bank earnings and expenses appearing in this *Review* in order to permit early publication of the principal results of recent member bank operations, in advance of the complete checking and tabulating of all income and expense accounts on all reports submitted to the Federal Reserve Bank of New York. Identical samples of banks have been used since 1945. These samples include roughly half of the banks with deposits in excess of 20 million dollars and 10 per cent of the number in each of the groups of smaller banks.

reserve city and "country" banks increased. Gains ranged from 2 per cent in the smallest banks with deposits of less than 2 million dollars to 13 per cent in the group with deposits of 5 to 20 million.

Profits of the New York City banks as a group, although down from the first six months of 1952, were only 14 per cent below the peak established in the first half of 1945. On the other hand, the profits of the other Second District member banks, even after the 1953 gains, still averaged 37 per cent below the all-time high which, in their case, was recorded in 1946.

OPERATING INCOME

Total current operating earnings continued to rise to new peaks in all groups of Second District banks, but the expansion in each of the reserve city and "country" groups outstripped the growth in the New York City institutions largely because of the contrasting movement in income from United States Government securities. Interest and dividends received from Government securities declined 5.3 per cent in the New York City banks, owing to a reduction of approximately one sixth in average holdings. Pressures on these banks from the more restrictive credit policy prevailing during much of the first half of 1953 were relatively great, and New York City banks sold or allowed to run off a portion of all types of

Earnings and Expenses of Selected Second District Member Banks for the First Six Months of 1953
(Dollar amounts in thousands)

Item	New York City banks		Sample banks located outside New York City Deposit size							
	Central reserve (22 banks)		Over \$20,000,000 (35 banks)		\$5,000,000 to \$20,000,000 (25 banks)		\$2,000,000 to \$5,000,000 (25 banks)		Under \$2,000,000 (15 banks)	
	Dollar volume 1st half 1953	Per cent change 1952 to 1953	Dollar volume 1st half 1953	Per cent change 1952 to 1953	Dollar volume 1st half 1953	Per cent change 1952 to 1953	Dollar volume 1st half 1953	Per cent change 1952 to 1953	Dollar volume 1st half 1953	Per cent change 1952 to 1953
Interest on United States Government obligations.	61,552	- 5.3	8,223	+ 8.6	1,297	+ 10.6	507	+ 25.8	122	+ 11.9
Interest and dividends on other securities.	21,254	+ 1.3	2,251	+ 9.9	310	+ 4.4	112	+ 4.7	22	+ 10.0
Interest and discount on loans.	209,748	+ 15.8	21,367	+ 21.4	2,998	+ 21.6	1,042	+ 14.4	289	+ 9.9
Service charges on deposit accounts.	9,680	+ 7.1	2,022	+ 14.2	367	+ 7.9	133	+ 9.9	33	+ 10.0
Trust department income.	34,104	+ 4.3	1,481	+ 7.9	63	- 12.5	7	- 56.3	0	0
Other current income.	27,978	+ 1.5	2,334	+ 0.5	200	+ 6.4	69	- 2.8	13	0
Total current operating earnings.	364,316	+ 8.3	37,678	+ 15.3	5,235	+ 15.4	1,870	+ 14.8	479	+ 10.1
Salaries and wages—officers and employees.	107,627	+ 5.7	12,161	+ 12.3	1,489	+ 14.0	564	+ 12.4	137	+ 11.4
Interest on time and savings deposits.	11,679	+ 43.5	4,667	+ 14.7	908	+ 14.4	272	+ 16.7	65	+ 22.6
Interest paid on borrowed money.	3,266	+ 88.9	123	+ 137.0	6	+ 100.0	7	+ 133.3	2	+ 100.0
All other current expenses.	72,032	+ 11.5	9,423	+ 11.4	1,126	+ 11.4	431	+ 7.5	108	- 1.8
Total current operating expenses.	194,604	+ 10.4	26,379	+ 12.7	3,529	+ 13.3	1,274	+ 11.9	312	+ 8.7
Net current operating earnings, before income taxes.	169,712	+ 6.0	11,299	+ 21.8	1,706	+ 20.0	596	+ 21.6	167	+ 12.8
Security profits and recoveries (+) or losses and charge-offs (-).	- 12,671	*	- 970	*	- 37	+ 184.6	- 22	+ 633.3	- 4	*
Net additions to (-) or deductions from (+) reserves for losses on securities.	+ 1,010	- 67.8	+ 172	*	+ 5	*	- 2	- 81.8	0	0
Net recoveries (+) or charge-offs (-) on loans.	- 174	- 80.2	- 290	+ 360.3	+ 20	*	- 1	- 87.5	- 7	- 41.7
Net additions to (-) or deductions from (+) loan valuation reserves†.	+ 133	*	- 372	- 67.5	- 108	+ 71.4	- 20	+ 81.8	+ 1	- 85.7
All other net recoveries (+) or charge-offs (-).	- 2,027	*	- 540	+ 227.3	- 20	- 46.0	- 20	+ 566.7	0	0
Taxes on net income.	77,888	- 3.2	4,262	+ 26.1	563	+ 40.4	204	+ 24.4	61	+ 27.1
Net profits.	78,095	- 2.0	5,037	+ 10.3	1,003	+ 13.0	327	+ 12.8	96	+ 2.1
Dividends paid.	48,425	+ 9.3	2,429	+ 7.0	318	+ 4.3	94	+ 3.3	22	+ 4.8
Retained earnings.	29,670	- 16.2	2,608	+ 13.6	685	+ 17.5	233	+ 17.1	74	+ 1.4

Note: The plus or minus signs affixed to dollar amounts represent the effect of those amounts as net additions to (+) or deductions from (-) net current operating earnings. The plus or minus signs attached to the yearly percentage changes indicate whether the 1953 item is a larger amount than (+) or a smaller amount than (-) the 1952 item.

* Percentage changes have not been shown either because the dollar change occurred from a negligible base amount, or because the dollar amount shifted from a negative to a positive amount.

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

Government securities except long-term bonds (those with a maturity of over five years) in order to meet losses of deposits and to provide for the expansion of loans. Actually, the City banks' need for reserves was met only partly by security sales, and much greater dependence had to be placed in the first half of 1953 upon funds acquired by borrowing at the Reserve Bank than was the case in the first half of 1952.

Banks elsewhere in the District appear to have been less strongly affected by the restrictive credit policy. Consequently, the pressure on their reserve positions was less stringent than in New York City and, in the aggregate, they continued to hold a small amount of "free reserves" (excess reserves less Reserve Bank borrowing). While their average holdings of Government securities also were reduced to provide for loan expansion, the over-all reduction was very small, and interest income in the different size-groups was 9 to 26 per cent higher than a year previous as a result of the higher rates obtainable on refunded issues.

Interest received on non-Federal Government securities, principally the obligations of States and municipalities, also reflected the higher level of interest rates prevailing in 1953 and increased in all groups of banks; the increase was smallest, however, in the New York City banks, whose average holdings declined slightly between the first halves of 1952 and 1953. Interest and discount on loans, the largest component of operating earnings, increased 16 per cent in the City banks and from 10 to 22 per cent elsewhere in the District.

The growth in loan income in the City banks outstripped the gain in loan volume by a considerable margin, reflecting the higher rates charged for virtually all types of loans. In the other Second District banks, loan income also expanded more rapidly than volume, but the difference in the rate of growth was much more moderate, and partly reflected a modest change in the composition of their portfolios; the expansion in the higher-rate real estate and consumer loans, particularly the latter, was much greater than in business and agricultural loans. Income from service charges on deposit accounts moved moderately higher throughout the District, continuing the trend that has been in effect more or less constantly since the thirties. Gross trust department income increased in the New York City banks and in the largest size-group of banks outside New York City, but in the remaining groups it showed no significant change.

OPERATING EXPENSE

Total current operating expense followed the trend in operating income and also reached peak levels throughout the Second District. Salary and wage payments, the largest component of operating expense, increased 6 per cent in the City banks and ranged from 11 to 14 per cent higher in the remaining groups of banks. Except in the smallest banks, where the volume of employment apparently remained stable, the increased wage bill reflected the combined effect of higher rates of pay and a rise in employment. Interest payments on time and savings deposits moved sharply higher as a result of the

larger average volume and the higher rates of interest. Converted to an annual basis, the first half-year interest payments on deposits were the largest in nearly two decades. The sharpest proportionate rise, 44 per cent, occurred in the New York City banks, and reflected increases by almost all the individual institutions. Outside the City, the aggregate increase was much the same in the three largest size-groups of banks—14 to 17 per cent—but in the smallest banks it amounted to 23 per cent. An analysis of the individual returns outside the City showed that interest payments on deposits were above a year ago in 65 per cent of the banks. Although small in absolute dollar amounts, interest payments on borrowed money exhibited the most spectacular increase of any expense item, the rise varying from 89 per cent in the City banks to 137 per cent in the largest size-group of banks outside New York; this reflected the much greater reliance of the member banks upon the Reserve Bank discount facilities, and the rise of the rate which went from $1\frac{3}{4}$ to 2 per cent on January 16, 1953. In the aggregate, total current operating expenses rose from 9 to 13 per cent in the different groups of banks but, except for the New York City group, showed a smaller rise than gross operating earnings. In consequence, net current operating earnings advanced 20 to 22 per cent in the three groups of largest sized out-of-town banks, 13 per cent in the smallest banks, and only 6 per cent in the New York City institutions.

NONRECURRING ITEMS

In the first half of 1953, net losses and charge-offs on securities either replaced small net profits and recoveries accruing in the first half of 1952, or rose substantially. This increase in security losses was a reflection of the continued downward movement in Government security prices which "bottomed out" early in June 1953. Member bank sales of securities undoubtedly were partly involuntary in nature and undertaken primarily in response to the pressure on reserve positions. To some extent, however, they were undertaken voluntarily to establish losses for tax purposes. To do so, the banks engaged in switching operations, that is, selling Government obligations quoted below their acquisition prices and buying other Government obligations of a suitable type and maturity.

Reserves for possible losses on securities were drawn down in the larger size-groups of banks and partially cushioned the impact of the security losses. These reserves are set up by the banks of their own volition in the interest of conservative accounting practices, and additions are not deductible from taxable income as are additions to the reserves set up under a Treasury formula for bad debt losses on loans. Their use is most prevalent in the larger banks of the District. Currently, three fifths of the City banks have them on their books while elsewhere in the District such reserves have been set up by 46 per cent of the largest banks, 28 per cent of the banks with deposits of 5 to 20 million dollars, 24 per cent of the 2 to 5 million size-group, and 13 per cent of the smallest banks.

Net losses and charge-offs on loans were smaller than a year ago, or were converted to net recoveries, except in the

largest size-group of out-of-town banks where they increased moderately. Valuation reserves for bad debt and other loan losses increased moderately in the two medium size-groups of banks with deposits in the 2 to 20 million dollar range, but elsewhere in the District small net current additions or deductions were the rule. Evidently, most banks have accumulated the maximum reserve allowable under the Treasury formula (three times the average annual loss experience of the past twenty years) and unless the reserves are drawn down because losses on loans increase markedly, fluctuations in net profits as a result of reserve charges are likely in most cases to be small hereafter.

TAXES, DIVIDENDS, AND RETAINED EARNINGS

Taxes on net income moved in line with the fluctuations in taxable income, decreasing 3 per cent in the New York City banks and increasing 24 to 40 per cent in the other Second

District groups of banks. Dividend payments remained conservative but continued their postwar growth. Among the 22 central reserve New York City institutions, eight disbursed a larger amount in dividend payments than a year ago, one bank reduced its payment, and thirteen banks disbursed the same amount as in the first half of 1952. Among the 100 representative banks in the Upstate and other Second District areas, twenty banks increased payments, and seven showed reductions. The combination of slightly lower profits and larger dividends by the City banks caused a 16 per cent reduction in the aggregate volume of earnings retained and added to their capital funds. Outside the City the increase in profits was greater than the growth in dividend payments in all but the smallest banks. As a result, the volume of retained earnings increased 14 to 18 per cent in the larger banks but was barely above a year ago in the smallest institutions.

RETAIL SALES

The final stage in the productive and distributive process is reached when the products of factories, farms, and mines are sold to the ultimate consumer. The aggregate dollar volume of such sales at retail stores is estimated each month by the U. S. Department of Commerce, together with sales, stocks, and related data for other major forms of business.¹ Retail sales, as measured by the Commerce series, include approximately two thirds of total consumer expenditures (rent and other services account for the remainder). Since the series on retail sales is a significant barometer of consumer demand, it is included regularly in the table of Selected Economic Indicators.

Retail sales data are not a precise measure of consumer spending, but they are the best available on a monthly basis. Some sales at retail are made to other businesses (and to governments), and include such items as passenger cars and trucks, farm machinery, fuel, and building materials. Although such sales are substantial (possibly as much as one sixth of the total), it would not be feasible for retailers to report sales to consumers and businessmen separately. However, quarterly estimates of personal consumption expenditures for goods are also published by the Department of Commerce. These estimates parallel and are, in fact, largely derived from the statistics on monthly sales of retail stores, but are adjusted to cover only sales to consumers. On the other hand, consumers make a limited amount of purchases directly from manufacturers or wholesalers. These purchases would not be reported in the retail sales series, but presumably are taken into account in the quarterly estimates of personal consumption expenditures on goods. The quarterly Commerce Department series on total consumption expenditures also includes all consumer outlays for services, as mentioned above.

NATURE OF THE SERIES

Monthly sales statistics have been collected by the Department of Commerce since 1935 from a large number of diversified retail stores, including independent, chain, and mail-order establishments. To qualify as a reporting store, at least half of the sales of an establishment must be made at retail, that is, to ultimate consumers rather than for resale. Sales information submitted by these firms consists of total receipts after deductions for refunds or allowances for merchandise returned by customers and includes a relatively insignificant volume of receipts for services obtained at retail stores.

Sales estimates for separate kinds of business are obtained by combining sales of establishments primarily selling a particular type of merchandise. Data for furniture stores, for example, include sales of all stores which handle furniture as their principal line of merchandise. Aggregates are similarly compiled for major groups of stores, such as those in the food,

A DAY'S WORK AT THE FEDERAL RESERVE BANK OF NEW YORK

A revised edition of the forty-page, illustrated booklet, *A Day's Work at the Federal Reserve Bank of New York*, is now available free of charge to anyone interested in receiving a copy. Like the edition first published in May 1951, the revised version describes the wide range of activities that are carried on by this bank and the important functions that the Federal Reserve System performs in our present-day "money economy". A new summary section and several new charts have been added to the revised edition, and obsolete material has been removed. Requests for copies should be sent to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y.

¹ Articles describing manufacturers' sales and inventories data and manufacturers' new orders data appeared in the June 1951 and December 1951 issues of this *Review*, pp. 85-86 and 176-79, respectively.

automotive, and general merchandise groups, and for durable and nondurable goods stores, as well as for all retail stores. Estimates of sales of durable goods and nondurable goods stores are therefore not precise indicators of the actual sales of these two groups of commodities since some durable goods are also sold at stores chiefly selling nondurables, such as department stores; sales of nondurable commodities are likewise made at stores in the durable goods category.

Estimates are currently derived by the use of sampling techniques. The complete sample of stores from which data are collected each month consists of approximately 40,000 firms operating about 100,000 establishments. Firms operating chains of 26 or more stores, which account for slightly more than 15 per cent of total retail sales, are fully covered. All other stores engaged in retail trade are represented by establishments located in 68 selected areas, most of which combine two or three counties. Coverage of firms operating 11 to 25 stores with central offices in these areas is complete. Treatment of firms with fewer than 11 stores is determined according to size of store. All organizations with 1 to 10 large-sized stores located in these areas are covered. Small stores, which comprise more than four fifths of the retail store population and which handle two fifths of total retail sales, are much less fully covered by the sampling procedures. (Only about 3,200 of the stores in the sample fall into this category, but their sales are weighted to represent the entire group.)

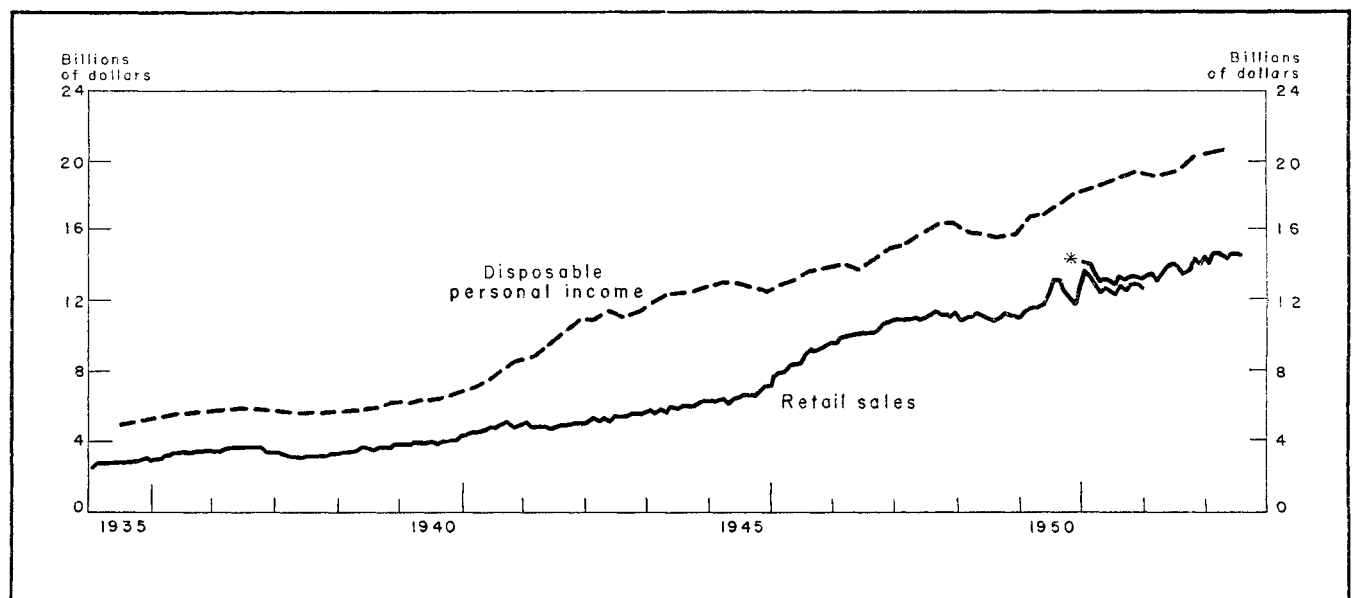
In contrast to the larger stores which report by mail, sales data of small stores are gathered each month through a personal canvass of some 2,200 different small "land segments" within the selected areas. This method of collecting data permits coverage of newly opened stores of any size in these localities which had not previously been included in the sample. (Sales of stores going out of business are reflected as long as

the store is in operation at the time of the enumeration.) Sales data, estimated on this basis, are available only for the period since January 1951.

For years prior to 1951, estimates are largely based on the sales of a constant sample of reporting stores, and over-all totals have been estimated by adjusting to the levels indicated by the Censuses of Business conducted for the years 1935, 1939, and 1948. The basis of estimation was revised periodically to eliminate the biases which developed from use of a sample of this type. Quarterly sales tax collection information from States which have sales taxes and annual Bureau of Internal Revenue income tax data were utilized to improve the reliability of these estimates. Revised figures on this basis provide continuous series for the period 1935-51. Annual data are also available for the two years 1929 and 1933. During the year 1951, when these data and the current series overlap, the level of sales of all retail stores on the current basis is approximately 3 per cent higher, primarily because the current series measures somewhat more accurately the sales of all stores engaged in retail trade.

Sales estimates in millions of dollars for all retail stores and for firms with 11 or more stores, together with detailed sales figures by kind of business, are published regularly in both the *Survey of Current Business* and the *Monthly Retail Trade Report*. Relative changes in sales of large stores by kind of business, and for selected cities and areas, are also included in the latter release. Only total retail sales after adjustment for seasonal variations and trading day differences appear in this bank's *Monthly Review*, but unadjusted data are also available. Special tabulations of the monthly series beginning with January 1935 may be obtained on request from the Office of Business Economics, U. S. Department of Commerce, Washington 25, D. C.

Retail Sales and Disposable Personal Income
(Seasonally adjusted; in billions of dollars)



Note: Figures for retail sales are seasonally adjusted monthly totals, while disposable personal income (converted to a monthly basis) is shown annually from 1935-38 and quarterly (on a seasonally adjusted basis) from 1939 to date.

* Revised series.

Source: U. S. Department of Commerce.

HISTORICAL PATTERN OF RETAIL SALES AND DISPOSABLE INCOME

Since consumer spending is largely influenced by expansion and contraction in the level of income at the disposal of consumers after payment of taxes, the movements in retail sales and disposable personal income have been markedly similar, as is illustrated in the accompanying chart for the years since 1935. As disposable income expanded during the years following the depression, sales at retail stores, on a seasonally adjusted basis, rose steadily to a peak in September 1937. Both declined briefly during the business recession which ensued and then resumed their swing upward under the impetus of defense spending. After our entry into the war, retail sales continued to climb but at a much slower pace than disposable income, mainly because of the unavailability of consumer durable goods. Wartime shortages, rationing, and consumer credit regulations further hampered the expansion in sales, with the result that retail sales, which accounted for approximately 60 per cent of disposable income in the prewar period, dropped to a low of 45 per cent in the last quarter of 1942.

Immediately after the war ended, however, retail sales surged sharply upward, reflecting the greater availability of consumer goods and the strong pressure of demand for major durables. Further increases in the dollar volume of sales followed the removal of price controls in mid-1946. By the end of 1948, the pressure of war-accumulated demands had eased; but,

despite moderate declines in both disposable income and prices in 1949, retail sales remained remarkably stable during the 1949 "readjustment". The outbreak of war in Korea ushered in a wave of "scare" buying, as consumers anticipated shortages of major durables, and a period of substantial sales gains (and price increases) followed. Another buying spree occurred in the early months of 1951; however, when shortages failed to develop, sales lagged somewhat during the remainder of the year. Since then, retail sales and disposable income have risen further, and in the early part of this year both reached new all-time record levels. Most of the rise in the dollar volume of retail sales over the past year has stemmed from an increase in physical volume, since retail prices have advanced only slightly.

Throughout the post-World War II period, retail sales have consistently accounted for a larger proportion of disposable income than in prewar years. Since early 1947, retail sales have represented close to 70 per cent of disposable income, compared with an average of 60 per cent prior to the war. (The greater use of consumer instalment credit to finance purchases of automobiles and other major durable goods has contributed substantially to the expansion in sales since the war.) Whether or not the new higher ratio can be considered permanent is a question which will engage the attention of analysts for some time to come.

SELECTED ECONOMIC INDICATORS United States and Second Federal Reserve District

Item	Unit	1953			1952	Percentage change	
		July	June	May	July	Latest month from previous month	Latest month from year earlier
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1935-39 = 100	234p	240	240	193	- 3	+21
Electric power output*	1947-49 = 100	165	164	161	142r	+ 1	+16
Ton-miles of railway freight*	1947-49 = 100	—	102p	106	84	- 4	+12
Manufacturers' sales*	billions of \$	26.7p	26.2	26.2	21.9	+ 2	+27
Manufacturers' inventories*	billions of \$	45.7p	45.5	45.0	42.7	- 2	+ 7
Manufacturers' new orders, total*	billions of \$	25.2p	25.6	25.3r	23.4	- 2	+ 8
Manufacturers' new orders, durable goods*	billions of \$	11.9p	12.5	12.4r	11.1	- 5	+ 6
Retail sales*	billions of \$	14.4p	14.5	14.4r	13.7r	- 1	+ 5
Residential construction contracts*	1947-49 = 100	180p	174	164	196	+ 3	- 8
Nonresidential construction contracts*	1947-49 = 100	172p	166	159	165	+ 4	+ 4
<i>Prices, wages, and employment</i>							
Basic commodity prices†	1947-49 = 100	87.9	87.2	88.1	96.5	+ 1	- 9
Wholesale prices†	1947-49 = 100	110.9p	109.5	109.8	111.8	+ 1	- 1
Consumer prices†	1947-49 = 100	114.7	114.5	114.0	114.1	- #	+ 1
Personal income (annual rate)*†	billions of \$	—	285.9p	284.7	266.3	- #	+ 7
Composite index of wages and salaries*	1939 = 100	—	248p	248	235	- #	+ 6
Nonagricultural employment*	thousands	49,673p	49,443	49,282r	47,336	- #	+ 5
Manufacturing employment*	thousands	17,362p	17,312	17,290r	15,609	- #	+11
Average hours worked per week, manufacturing†	hours	40.4p	40.7	40.7	39.9	- 1	+ 1
Unemployment	thousands	1,548	1,562	1,306	1,942	- 1	-20
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	77,360p	72,560p	72,550p	76,990r	+ 7	- #
Total loans of all commercial banks	millions of \$	65,680p	65,520p	65,490p	59,620r	- #	+10
Total demand deposits adjusted	millions of \$	97,330p	97,200p	97,500p	96,100r	- #	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	30,225p	30,163p	30,110	29,086	- #	+ 4
Bank debits (U. S. outside New York City)*	millions of \$	98,202	96,613	95,055	88,544	+ 2	+11
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	n.a.	n.a.	n.a.	n.a.	-	-
Consumer instalment credit outstanding†	millions of \$	20,854	20,489	20,078	16,465	+ 2	+27
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	3,625p	10,185	5,294	3,593	-64	+ 1
Cash outgo	millions of \$	6,038p	7,932	6,662r	6,233	-24	- 3
National defense expenditures	millions of \$	4,509p	4,587	4,220	4,350r	- 2	+ 4
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	142	141	141	125r	- #	+13
Residential construction contracts*	1947-49 = 100	—	174p	172	164	+ 1	- #
Nonresidential construction contracts*	1947-49 = 100	—	207p	196	151	+ 5	+52
Consumer prices (New York City)†	1947-49 = 100	112.1	112.0	111.4	112.3	- #	- #
Nonagricultural employment*	thousands	—	7,683.1p	7,641.9	7,484.0	+ 1	+ 3
Manufacturing employment*	thousands	2,834.6p	2,845.0	2,811.8	2,685.7	- #	+ 6
Bank debits (New York City)*	millions of \$	52,856	52,429	51,281	51,502	+ 1	+ 3
Bank debits (Second District excluding New York City)*	millions of \$	4,714	4,289	4,164	3,937	+10	+20
Velocity of demand deposits (New York City)*	1947-49 = 100	n.a.	n.a.	n.a.	n.a.	-	-

Note: Latest data available as of noon, August 31.

p Preliminary.

r Revised.

n.a. Not available. Series in process of revision.

* Adjusted for seasonal variation.

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

Change of less than 0.5 per cent.

‡ Revised series.

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

DEPARTMENT STORE TRADE

Retail activity in Second District department stores at the end of the first three weeks in August declined slightly below the comparable period last year. However, unseasonably high temperatures in the latter part of the month affected sales adversely. As a result, the dollar volume of sales is estimated to be about 4 per cent below August 1952.

In July, for the third consecutive month, consumer demand for apparel was an important factor in pushing total department store sales ahead of last year's figures. Incomplete data indicate that customers in Second District department stores purchased 6 per cent more goods in women's and misses' apparel and accessory departments in the main store during July than they did in the comparable month last year. Sales in these departments as a share of total store sales also increased above July 1952; thus the rise, evident in the last two years, in the proportion of the department store dollar spent on this type of merchandise in the month of July was continued this year. Sales of women's and misses' coats and suits rose 4 per cent above July a year ago, the first gain over year-earlier figures since March. Women's and misses' dresses and sportswear showed gains of 6 and 8 per cent, respectively.

In an apparent reversal of trend, main store sales of home-furnishings in Second District department stores again rose above year-earlier figures during July; this marks the first time since April 1951 that sales of such merchandise have exceeded year-ago levels for two consecutive months. According to preliminary information, the rise in aggregate home-furnishing sales was 6 per cent above July 1952. The three departments primarily responsible for the increase were domestic floor coverings, furniture and bedding, and household appliances, which achieved gains of 15, 10, and 9 per cent, respectively, over July a year ago. With the exception of June, sales in radio and television departments have been below year-earlier figures in every month this year; the decline in July, however, was the smallest experienced thus far.

Judging from the volume of total orders outstanding, Second District department store merchants apparently expect that business this fall will be moderately better than that of

last year. In spite of a 5 per cent decline in the value of new orders written by department store buyers in July, the dollar volume of total orders for additional merchandise outstanding at the end of the month was 6 per cent above that of the like period last year. This was the first time in four months that the dollar volume of new orders fell below year-earlier levels and the largest June-to-July decrease since 1946, with the exception of 1951. This drop in new orders may reflect a feeling that current orders outstanding are sufficient to cover immediate fall needs, as well as a possible desire to "wait-and-see" if the Korean truce has any effect on consumer demand or if the fashion developments in Paris have an adverse influence on apparel sales.

Coincident with the rise in the value of outstanding orders, the dollar volume of stocks at Second District department stores rose 5 per cent above the July 31, 1952 level. This rise, however, does not necessarily represent an early build-up of inventories for fall selling, as the stock-sales ratio (stock at the end of July divided by sales during July) remained unchanged from the year-earlier figure of 3.6. Rather, it suggests that department store merchants were satisfied with, and are endeavoring to maintain, the same balance between sales and stocks achieved during 1952 and, consequently, have moderately increased the dollar amount of stock on hand to meet the higher level of sales.

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

Locality	Net sales			Stocks on hand July 31, 1953
	July 1953	Jan. through July 1953	Feb. through July 1953	
Department stores, Second District.....	+ 6	+1	+2	+ 5
New York—Northeastern New Jersey				
Metropolitan Area.....	+ 5	0	0	+ 4
New York City*.....	+ 5	-2 (-1)	-1 (0)	+ 3
Nassau County.....	n.a.	—	—	n.a.
Westchester County.....	+ 6	+4	+5	+ 4
Northern New Jersey.....	+ 8	+4	+5	+ 6
Newark.....	+ 7	+2	+3	+ 5
Fairfield County.....	+ 5	+4	+5	+ 3
Bridgeport.....	n.a.	n.a.	n.a.	—
Lower Hudson River Valley.....	+ 3	+5	+6	+12
Poughkeepsie.....	+ 3	+6	+6	+12
Upper Hudson River Valley.....	+ 1	+1	+1	+ 8
Albany.....	- 3	0	0	+13
Schenectady.....	+ 6	+2	+3	+ 3
Central New York State.....	+12	+7	+7	+11
Mohawk River Valley.....	+ 3	+5	+4	+14
Utica.....	+ 4	+5	+5	+17
Syracuse Metropolitan Area.....	+15	+8	+8	+ 9
Northern New York State.....	+ 2	+8	+7	+19
Southern New York State.....	+ 2	+2	+2	+ 6
Binghamton Metropolitan Area.....	+ 2	+2	+2	+ 5
Elmira.....	+ 2	+4	+4	+ 9
Western New York State.....	+11	+6	+6	+ 8
Buffalo Metropolitan Area.....	+11	+5	+5	+ 5
Buffalo.....	+11	+5	+5	+ 6
Niagara Falls.....	+10	+6	+6	—
Rochester Metropolitan Area.....	+11	+7	+7	+12
Apparel stores (chiefly New York City).....	+ 3	+1	+2	+ 5

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

Item	1953			1952
	July	June	May	July
Sales (average daily), unadjusted.....	75	98	101	70
Sales (average daily), seasonally adjusted..	103	101	104	98
Stocks, unadjusted.....	107	111	121	102
Stocks, seasonally adjusted.....	120	118	118	115

* Sales and stock indexes have been revised to improve coverage by including several additional stores. Revised tabulations of the sales index from 1948 and the stock index from 1946 to date and the revised seasonal factors are available upon request from the Domestic Research Division of this bank.

* The year-to-year comparisons given in parentheses exclude the data of a Brooklyn department store that closed early in 1952.
n.a. Not available.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, August 31, 1953)

Industrial production in July and August showed about the usual seasonal changes from the advanced June level. Crop prospects have improved and as of August 1, output was forecast as equal to last year's large volume. Total retail sales in July continued substantially above a year ago; sales at department stores in July and August have been moderately below earlier high levels. Consumer prices rose further in July; wholesale prices also rose in July but have changed little in August.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production in July was 233 per cent of the 1935-39 average as compared with 240 in June. The dip in July was due to plant-wide vacations in important manufacturing industries and in coal mining which are not adequately reflected in the present seasonal adjustments for the production index. In August the index is expected to recover to 238.

While activity in most consumer and producer durable goods industries declined seasonally in July, passenger auto assembly was maintained at the high second-quarter rate and truck output recovered sharply. In August auto output has declined moderately but has remained at a very high level for this period of the year. Production of household goods, after allowance for seasonal changes, has continued near the reduced May level. Farm machinery output has apparently been reduced further. Steel output has been about 95 per cent of January 1 rated capacity in August, as compared with 93 in July and 97 in June.

Output in nondurable goods industries generally recovered in late July and early August, following sharp seasonal curtailments in the first half of July. Paperboard production in early August was at a new peak rate.

Minerals production apparently recovered in August to

about the high June level, as coal output recovered sharply after the vacation shut-down in early July and crude petroleum output rose further to new record levels.

CONSTRUCTION

Value of construction contracts awarded in July increased sharply from the reduced June total, reflecting in part many large awards for business properties. New housing starts declined slightly further in July to 96,000 units, compared with about 103,000 in the preceding month and also in July 1952. Value of construction work put in place increased less than seasonally in July but continued appreciably larger than a year earlier.

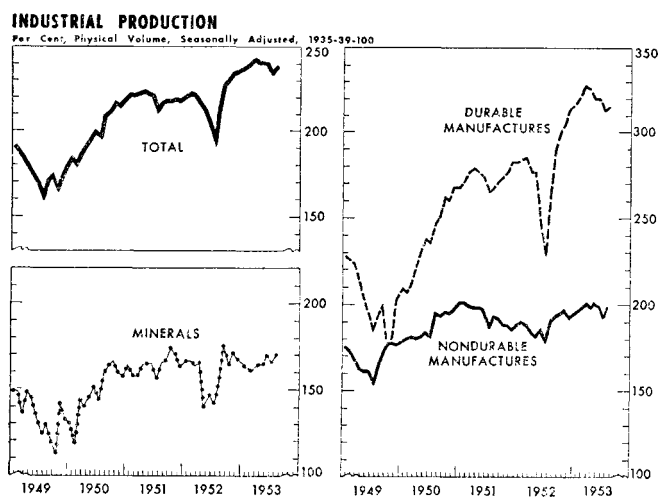
AGRICULTURE

Crop prospects improved during July, especially for cotton, and as of August 1 total crop production this year was officially forecast as equal to last year's large volume. Quotas limiting wheat plantings this autumn and next spring were approved by farmer vote on August 14.

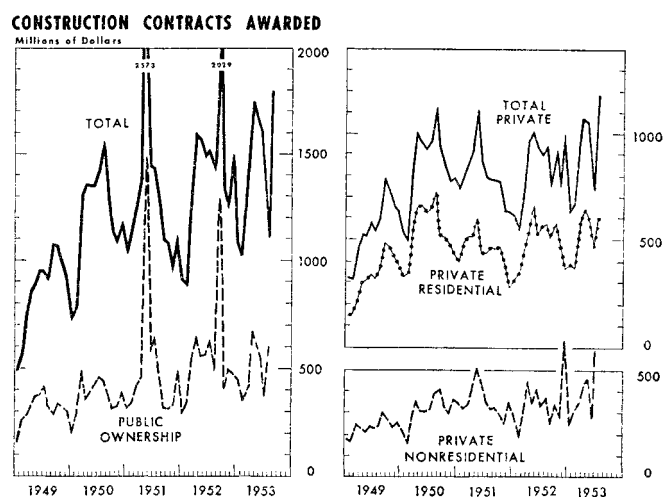
Total meat production in the first part of August, seasonally adjusted, increased from the May-June level, with a gain in pork more than offsetting a small decline in beef. Total meat output in the first three weeks of August was 15 per cent above the year-ago level. Egg production in July showed a smaller decline than usual and exceeded the year-ago level by 5 per cent.

EMPLOYMENT

Seasonally adjusted employment in nonagricultural establishments rose further to a new peak of 49.7 million in July, reflecting moderate gains in most lines. Average hourly earnings in manufacturing industries advanced one cent further in July to \$1.77, while average weekly earnings declined slightly reflecting a small reduction in the workweek. Unem-



Federal Reserve indexes. Monthly figures, latest shown are estimates for August.



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

ployment at 1.5 million in early July was little changed from June and 400,000 below the level of a year ago.

DISTRIBUTION

Seasonally adjusted department store sales in the first three weeks of August remained near the moderately reduced July level. In July sales of automotive dealers and most other retail outlets showed little change, and total retail sales continued close to the advanced June level and substantially above a year ago. Stocks at department stores are estimated to have increased slightly further in July after seasonal adjustment.

COMMODITY PRICES

Following an advance of 1.3 per cent in July to the highest level since October 1952, the average level of wholesale prices has changed little. After mid-July steer prices declined slightly, while prices of most other grades of livestock lost all the earlier sharp advance. Wheat prices declined temporarily in early August reflecting uncertainty over prospects for restrictions on next year's plantings. Following a rise in July, average prices of industrial materials have been maintained. Prices of copper, tin, and paperboard have strengthened recently and lead prices have continued firm. Markets for scrap metals have weakened somewhat.

Consumer prices rose somewhat further in July, reflecting

mainly continued gains in rents and services. Retail food prices changed little.

BANK CREDIT AND RESERVES

Total loans and investments at banks in leading cities declined moderately in late July and the first three weeks of August, reflecting primarily a reduction in holdings of United States Government securities. Bank loans to businesses increased as the seasonal credit expansion, particularly to food processors, began; loans to public utility concerns also rose. Real estate loans increased further, and banks added to their holdings of corporate and municipal securities. The rise in "other" loans, largely consumer, slackened appreciably.

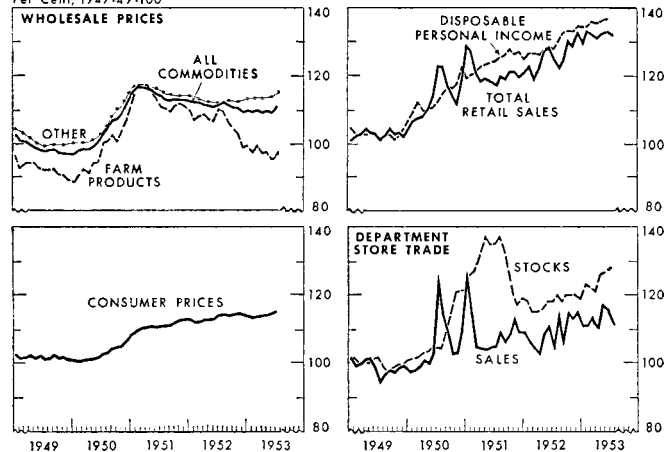
Member bank reserve positions were somewhat tighter throughout most of August. Gold and currency outflows drained reserve funds, and Treasury deposits at the Federal Reserve Banks were maintained at generally high levels. The Federal Reserve purchased a small volume of Treasury bills, in part under repurchase contracts with dealers.

THE SECURITY MARKETS

Yields on high-grade securities were generally stable during the first three weeks of August. The Treasury offered a one-year $2\frac{5}{8}$ per cent certificate in exchange for 2.9 billion dollars of certificates maturing August 15.

PRICES AND TRADE

Per Cent, 1947-49=100

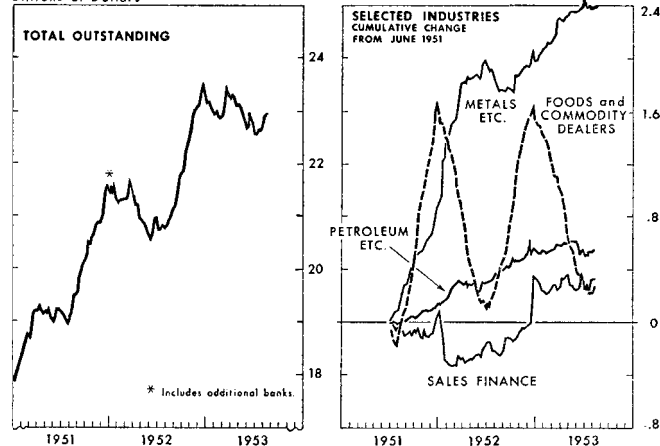


Seasonally adjusted series except for prices. Price indexes compiled by Bureau of Labor Statistics. Total retail sales and disposable personal income, Federal Reserve indexes based on Department of Commerce data. Department store trade, Federal Reserve indexes. Monthly figures, latest shown are for July except income (June) and department store stocks (June 30).

COMMERCIAL LOANS

MEMBER BANKS IN LEADING CITIES

Billions of Dollars



Data for selected industries reported by over 200 of the largest member banks. Metals, etc., includes machinery and transportation equipment. Foods and commodity dealers include liquor and tobacco. Petroleum, etc., includes coal, chemical, and rubber products. Wednesday figures, latest shown are for August 19.