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Of Credit and Business Conditions

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MONEY MARKET IN NOVEMBER

The money market tightened in November, under seasonal pressures, following some weeks of relative ease. Seasonal factors did not exert as much pressure upon bank reserves, however, as they have in some other recent years. Nevertheless, there was a convergence of demand upon the money market as the banks put to use the reserves which had been made available to them earlier in the fall. The demand for bank loans in November continued to be modest, and the banks in the aggregate were able to add a sizable volume of Government securities to their portfolios.

With the tightening of the money market, yields on Government securities of all maturities rose moderately. Treasury bill rates, which in market trading in October had fallen to as low as 0.80 per cent for the shortest-term issue outstanding and 1.25 per cent for the longest issue, climbed back to a range of 1.10-1.52 per cent by November 27 (the last day covered by this review). The rate on Federal funds, which was 1¼ per cent or less during most of October, was quoted at 1¾ per cent or above during most of November. Prices of intermediate and long-term bonds also declined and closed on November 27 several 32nds below their October 30 quotations.

Aside from the seasonal money market factors, the most important influences affecting the Government security market during November were the Treasury's financing operations. On November 9, the Treasury issued for cash 2¼ billion dollars of intermediate bonds. Considerable switching occurred within the market as subscribers made preparation for this payment. The market was also influenced over the first half of the month by various expectations concerning the Treasury's decision on refunding of the roughly 10 billion dollars of 2⅛ per cent notes maturing December 1. The announcement on November 16 of a split offering—12½-month notes or bonds of December 1958—was followed by further market adjustments. All Treasury operations were well received, and the Government security market showed underlying strength. Prices generally sagged through the first half of the month and then recovered irregularly over the last half.

MEMBER BANK RESERVE POSITIONS

Member bank reserve positions were relatively easy at the beginning of the statement week ended November 4, but they firmed progressively through the week. A substantial month-end outflow of currency was responsible for most of the banks' losses, but Treasury operations and a decline in float also absorbed reserves. Only a small part of these losses was offset by foreign account disbursements and changes in other factors affecting reserves. To help compensate for net reserve losses, the System Open Market Account purchased 50 million dollars of bills outright in the market (its first such purchases since the early part of October) and the Federal Reserve Bank of New York took 49 million dollars of bills from dealers under repurchase agreements. Member banks still found it necessary to increase their borrowings and draw on their excess reserves. For the week as a whole the daily average level of discounts rose 168 million dollars to 460 million and the daily average level of excess reserves declined 119 million to 615 million dollars.

In the following statement week, although the outflow of currency continued to be fairly heavy, reserve gains and losses were about even for the banking system in the aggregate. But the new reserves tended to flow to banks outside the money market centers, and the situation in New York continued to be relatively tight. The Reserve System purchased another 60 million dollars of bills for the System Account, and early in the week the Federal Reserve Bank of New York took a large

CONTENTS

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

Factor	Statement weeks ended				Four weeks ended Nov. 25
	Nov. 4	Nov. 11	Nov. 18	Nov. 25	
Operating transactions					
Treasury operations*	− 18	+842†	−183	− 9	+632
Federal Reserve float	− 40	+ 63	+311	−297	+ 37
Currency in circulation	−160	−112	+ 53	−204	−423
Gold and foreign account	+ 17	+ 5	+ 29	− 59	− 8
Other deposits, etc	+ 84	−165	+139	+ 63	+121
Total	−117	+633	+349	−506	+359
Direct Federal Reserve credit transactions					
Government securities					
Direct market purchases or sales	+ 50	−440†	—	+ 35	−355
Held under repurchase agreements	+ 49	+116	−165	+ 29	+ 29
Loans, discounts, and advances	+463	−458	+230	+173	+408
Total	+562	−782	+ 65	+237	+ 82
Total reserves	+445	−149	+414	−269	+441
Effect of change in required reserves	− 14	−145	− 90	+ 15	−234
Excess reserves	+431	−294	+324	−254	+207
Daily average level of discounts	460	396	398	491	436
Daily average level of excess reserves	615	830	849	753	762

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† Reflects effect of the sale by the Federal Reserve Banks to the Treasury for retirement of 500 million dollars of Treasury notes and payment therefor by deposit of gold certificates with the Federal Reserve Banks.

amount of securities under repurchase agreements. Later, however, Government security dealers were able to obtain some funds at a lower rate in other parts of the country and reacquired part of their securities from the Federal Reserve Bank. As a result, the net increase in repurchase agreements at the New York Reserve Bank was limited to 116 million dollars over the week. The volume of reserves that actually flowed through the market during the week ended November 11 is obscured because, as noted in the footnote to Table I, the Treasury used 500 million dollars of its free gold to purchase Treasury notes from the Reserve Banks. This transaction, though necessarily included in the totals for Treasury operations and System sales of securities, had no direct money market effect. Actually the market gained about 340 million dollars during the week as the result of other Treasury operations; the increases in currency and in required reserves (reflecting the increase in Government deposits on November 9 in payment for the new 2¾ per cent bonds) were the major offsets. Member banks used the reserves gained from the Reserve Banks' net purchases of securities from the market, plus a part of their excess reserves, to repay almost all the money borrowed from the Reserve Banks in the preceding week.

The banking system as a whole gained reserves on balance during the week ended November 18, primarily as a result of the usual midmonth rise in float. A return flow of currency and further foreign account disbursements also provided some reserves, but these funds were more than absorbed by Treasury operations. The distribution of the reserve gains among banks in the various sections of the country, however, was again uneven. Government security dealers were able to exert an offsetting influence, at times, through borrowing outside New York or security sales that, in effect, returned funds to New York. As a consequence, by the end of the week they had repurchased all of the bills which they had previously placed with the Federal Reserve Bank of New York under repurchase agreements. Some banks, on the other hand, had to increase their borrowings at the end of the week. For member banks in the aggregate, there was virtually no change in the average amount of borrowings or excess reserves outstanding. The System Open Market Account did not enter the market.

In the final statement week of the month (the one ended November 25), the banking system was generally under some pressure. The volume of Federal Reserve float outstanding declined sharply and currency in circulation again increased in response to the normal rise in demand which comes over the Thanksgiving holiday and with the approach of the Christmas shopping season. In addition, the gold stock declined 49 million dollars. As a partial offset, reserves were provided through System Account purchases of 35 million dollars of bills, and through (net) repurchase agreements of 29 million by the Federal Reserve Bank of New York. Member bank borrowings rose, both on a Wednesday-to-Wednesday and a daily-average basis.

Treasury Financing and the Market for Government Securities

The most important influences on the Government security markets during November were the Treasury's financing operations and the usual seasonal developments in the money market. Prices of both long and short-term issues fluctuated over a fairly wide range during the month, but by November 27, prices of most issues except the longer notes closed at levels below the quotations current at the beginning of the month.

At the end of October the Treasury had announced a cash offering of 2¾ per cent, seven-year and ten-month bonds. The market response was clearly favorable and the issue was greatly oversubscribed. On November 2 the Treasury announced that subscriptions for $10,000 and less would be allotted in full, and that the larger subscriptions would be allotted on a percentage basis: 24 per cent for mutual savings banks, insurance companies, pension funds, and State and local governments, and 16 per cent for all other investor groups, including commercial banks. The total amount allotted was 2,238 million dollars. In order to stay within the statutory debt limit, as already noted, the Treasury on November 9 (the issue date for the new bonds) purchased from the Federal Reserve Banks 500 million dollars of 2⅛ per cent notes of December 1, 1953. It paid for the notes by crediting the Reserve Banks with 500 million dollars of gold certificates and reducing its "free" gold by a like amount. This gold represented part of the "profit" which the Treasury acquired when the dollar was devalued in 1934; no gold certificates had previously been issued against this gold. The transaction had no effect on the supply of bank reserves.

On November 16, the Treasury announced that it would offer holders of the maturing December 1, 2⅛ per cent notes a choice of 1⅞ per cent, 12½-month notes, or 2½ per cent bonds maturing in December 1958 (the latter represented a reopening of a bond issue sold in February 1953). This offer was also very favorably received in the market. The "rights" maintained a quotation of 100$^{8}/_{32}$nds or better until the exchange was completed. Approximately 10.0 billion dollars of the notes were outstanding (nearly 7 billion of them held by the Reserve Banks). Only 122 million were turned in for cash; 8,170 million (including all of the Reserve System holdings) were tendered in exchange for the new 1⅞ per cent notes and 1,750 million for the 2½ per cent bonds.

In the first half of November prices of intermediate and long-term securities eased under some selling pressure. Although the volume of this selling was not large, it was sufficient in the thin market prevailing to push prices down, in some cases almost a full point. This selling was reported to have originated with savings banks, small insurance companies, and some other groups of investors who were seeking to do one of two things—shift part of their assets into higher-yielding mortgages or corporate bonds, or make room in their portfolios for their allotments of the new 2¾ per cent bonds of 1961, which were issued on November 9. Another influence was the announcement by General Motors Corporation that it was planning to offer for sale in the early part of December a very large issue of long-term debentures. This announcement, following closely upon several other sizable security offerings, tended to depress the market.

As a result of these various forces, long-term bonds declined as much as $^{30}/_{32}$nds between October 30 and November 13, dropping back to the levels of late September or early October. The intermediate issues declined by smaller amounts. Even the new 2¾'s of September 1961 declined from a peak quotation on November 2 of 100$^{31}/_{32}$nds (bid basis) to 100$^{19}/_{32}$nds on November 13.

After the middle of the month, and particularly after the terms of the December 1 refunding had been announced, market sentiment began to improve and bond prices quickly recovered much of the two previous weeks' losses. A growing belief that the Treasury would not offer a marketable obligation in exchange for the maturing F and G Savings bonds also tended to buoy prices. But in the last week of the month some moderate selling reappeared, and prices of intermediate and long-term issues again eased, only to make a partial recovery again on November 25 and 27. At the close of the market on November 27, prices of the long-terms were as much as $^{28}/_{32}$nds below the closing quotations on October 30. The 3¼'s of 1978-83 were quoted at 103$^{26}/_{32}$nds (bid), or a 3.03 per cent yield, compared with 103$^{30}/_{32}$nds (bid) or a 3.02 per cent on October 30. The 2½'s of December 1967-72 were priced at 94$^{20}/_{32}$nds (2.87 per cent yield), compared with 95$^{12}/_{32}$nds or 2.81 per cent at the end of the previous month. The new 2¾'s of 1961 closed at 100$^{26}/_{32}$nds.

Movements of prices of short-term securities during November tended to parallel the fluctuations of the longer issues, although for somewhat different reasons. In the early part of November, the firming of the money market in response to the seasonal pressures pushed the prices of bills down and yields correspondingly moved upward. Dealers were unable to move, as rapidly as they had anticipated, the relatively large inventories of bills which they had acquired in October. By the middle of the month, average rates of discount on the regular weekly offerings of new bills, which had reached a low of 1.220 per cent on October 29, climbed to 1.306 on November 5 and to 1.482 per cent on November 12. Yields of short-term bonds and notes and of certificates followed much the same pattern as bills.

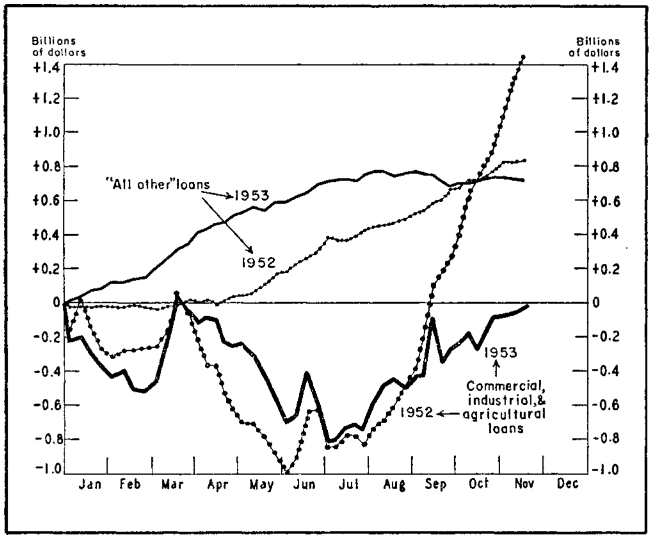
Soon after the middle of the month prices of Treasury bills and other short securities again reversed direction. The customary midmonth rise in float and the resulting ease in the money market were partly responsible. In addition, since a number of corporate holders of the maturing 2⅛ per cent notes were interested only in securities with less than twelve months to maturity, they had disposed of their "rights" and were seeking new short-term investments. There was also a corporate demand for short securities for the purpose of investing the proceeds of new security financing. The resulting increase in demand was sufficient to push yields on the shortest bills back to the 1.00 per cent mark for two days, and rates on the longest maturity eased to 1.40 per cent. But once the switching occasioned by the refunding had been completed and the money market began to firm again with the approach of the month end, rates rose. The possibility that the Commodity Credit Corporation would soon offer another large amount of Certificates of Interest also tended to depress the bill market. Average yields on the third and fourth issues of Treasury bills during the month, the issues dated November 19 and 27, were 1.433 per cent and 1.488 per cent, respectively. By the close of the market on November 27 bill rates ranged from 1.10 for the shortest issue to 1.52 per cent for the longest one.

Member Bank Credit

The leveling-out of the demand for loans, which had been evident earlier in the fall, continued in November, and for the first time in several years investment portfolios have grown faster during the fall season of the year than loans. Total loans and investments of the weekly reporting member banks increased 1,468 million dollars during the four weeks ended November 18; loans rose 582 million, and investments 886 million reflecting primarily purchases of the new 2¾ per cent bonds. In the corresponding four weeks last year, loans increased 900 million dollars (net) while Government security holdings declined 572 million and portfolios of other types of securities were off 156 million. There were no comparable purchases of new Government securities last year.

The change in the demand for loans is quite evident in the accompanying chart. The lines plotted are the cumulative

Cumulated Weekly Changes in the Commercial, Industrial, and Agricultural Loans and "All Other" Loans of the Weekly Reporting Member Banks, 1952 and 1953*



* Cumulated from the beginning of the year through the third week in November; the last figures plotted are for the weeks ended November 19, 1952 and November 18, 1953.

weekly changes, for this year and last, in the two most important types of commercial bank loans—business loans and "all other" loans (the largest part of which are consumer loans). In the first eight months of both years changes in the commerical, industrial, and agricultural loans of the weekly reporting banks followed somewhat similar patterns, although the contraction in the first quarter was somewhat greater in 1953 than in 1952 and the contraction in the second quarter of 1953 somewhat less. But at the beginning of September the two lines diverge sharply. In the following two and one-half months in 1952 the amount of loans outstanding rose abruptly, but this year the amount outstanding declined and then rose only moderately. The only marked increase this fall since September was in the week ended October 28 when the weekly reporting banks added to their portfolios nearly half of the 360 million dollars of Certificates of Interest sold by the Commodity Credit Corporation. From the beginning of the year through the 18th of November, commercial, industrial, and agricultural loans of the weekly reporting member banks showed a net reduction of 13 million dollars this year, compared with an increase of 1,455 million in the corresponding period last year.

Some possible explanations for the leveling-out in the demand for loans were discussed in the preceding issue of this *Review,* and no new factors entered the situation in the four weeks ended November 18. The sharp drop in demand this fall as compared with last fall continues to reflect for the most part the net repayments of bank loans by firms in the metals and metal products industries and by sales finance companies, and also a marked decline in the net new loan demands of commodity dealers. Retail and wholesale trade establishments, the food, liquor, and tobacco group, and most other industries have borrowed approximately the same amount this fall as they did last year.

The rise in consumer loans, as the chart for "all other" loans indicates, was considerably greater in the early part of 1953 than it was in 1952, but when summer arrived, the volume of these loans outstanding tended to stabilize and has since remained on a plateau. Last year there was a fairly steady growth in the amount outstanding throughout the period charted. The net increase in the two years for the 10½-month period was not greatly different, 712 million this year against 833 million dollars last year, but by the end of this year, if the present trends continue, the spread will have widened significantly.

In order to support the expansion in their loan portfolios in the fall of 1952, the weekly reporting banks disposed of a fairly sizable volume of short-term securities. Their holdings of Treasury bills and notes declined 324 million and 210 million dollars, respectively, in the four weeks ended November 19, 1952. This year, in contrast, there was no net liquidation of short-term securities, and this group of banks added to their portfolios a substantial amount of the new 2¾ per cent bonds of 1961, which the Treasury issued on November 9. During the week ended November 11, total bond holdings of the weekly reporting member banks increased 898 million dollars. According to the figures released by the Treasury Department, 1,299 million dollars of the issue was sold directly to commercial banks.

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 Nov. 18, 1953
	Oct. 28	Nov. 4	Nov. 11	Nov. 18	
Assets					
Total loans and investments....	+466	−125	+1,081	+ 46	+1,054
Loans, net*................	+365	− 70	+ 426	−139	+1,407
Commercial, industrial, and agricultural loans.......	+189	+ 14	+ 25	+ 37	− 13
Security loans............	+199	+180	+ 209	−160	− 193
Real estate loans..........	+ 13	− 11	+ 18	+ 12	+ 362
Loans to banks...........	− 44	−251	+ 180	− 17	+ 567
All other loans (largely consumer).............	+ 8	− 1	− 7	− 10	+ 712
Total investments...........	+101	− 55	+ 655	+185	− 353
U. S. Government securities	+207	−143	+ 796	+157	− 362
Treasury bills..........	+166	−152	− 84	+156	−1,855
Other U. S. Government securities............	+ 41	+ 9	+ 880	+ 1	+1,493
Other securities...........	−106	+ 88	− 141	+ 28	+ 9
Loans net and other securities....	+259	+ 18	+ 285	−111	+1,416
Liabilities					
Demand deposits adjusted...	+724	−687	− 330	+ 22	−1,676
Time deposits except Government.............	+ 48	+ 51	+ 39	−102	+1,186
U. S. Government deposits...	−203	+ 23	+1,492	+307	+ 588
Interbank demand deposits ..					
Domestic...............	−215	+291	+ 95	+145	− 540
Foreign.................	+ 9	+ 6	− 25	+ 23	− 133

* 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.

RECENT TRENDS IN WEST GERMANY'S BALANCE OF PAYMENTS

In the five and a half years since the German currency reform of June 1948 the Deutsche mark has become one of the strongest currencies in Europe.[1] The reform restored overnight the normal functions of a currency and re-established incentives to work and save; in short, it laid the foundation of what has become known as the "miracle of the Deutsche mark". The reform was accompanied by a restoration of freedom to the price system and by strong economic and financial policy measures designed to stimulate investment and restrain consumption.

The success of these policies is reflected in Germany's remarkable economic and financial recovery. Her industrial production has increased by more than 140 per cent since 1948; the number of employed has risen to 16 million from 13.5 million in 1949, while the unemployed have decreased from 1.2 million to 940,000,[2] or to less than 6 per cent of the potential labor force. The cost of living has remained virtually unchanged since 1949, while real industrial wages have risen substantially. At the same time, Germany's balance-of-payments position has steadily strengthened. In line with this progress, German economic and financial policy is now officially oriented toward restoring a large measure of convertibility to the Deutsche mark.

To a considerable extent, the success of the currency reform and the subsequent rapid recovery of the German economy may be attributed to the provision of dollar aid in amounts far in excess of what Germany has had to contribute to the cost of the occupation. Germany has also benefited over the last few years by a variety of favorable circumstances. Unlike her neighbors, she has not had to devote any of her resources to the support of an army of her own and has been free of economic and defense commitments toward overseas areas, which have proved a considerable drain on the economies of several other European nations. Similarly, Germany's central government has not had to honor the large domestic debt that had been incurred prior to the currency reform; nor has the country had until recently to service its foreign debt, public or private. Finally, the partial shift to war production in most other industrial countries after the outbreak of hostilities in Korea has given German industry a decided advantage in the world markets for machinery and other manufactured goods.

Achievement of a Balance-of-Payments Surplus

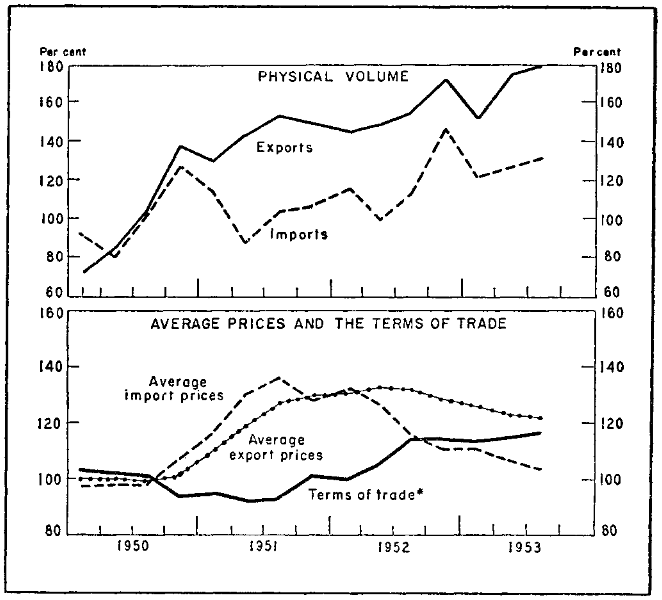
From a balance-of-payments deficit on current account of more than 1 billion dollars' equivalent in 1949, Germany worked up to a 560 million surplus in 1952. For 1953 the surplus may prove to be somewhat smaller; even so, if the present surplus is compared with the deficit in 1949, the over-all improvement in Germany's current-account position appears to be in the order of magnitude of 1.5 billion dollars. While merchandise imports have more than doubled in value since 1949, exports have quadrupled; in terms of physical volume, imports increased by 30 per cent and exports by 80 per cent between 1950 and the third quarter of 1953 (see Chart I).

An important factor in this striking development has been the improvement in Germany's terms of trade—the relation between prices obtained for exports and those paid for imports. The terms-of-trade index had risen by the third quarter of 1953 to approximately 14 per cent above the 1950 level. Moreover, exports have been encouraged by tax incentives, the provision of long-term export credits, a dollar-exchange-retention scheme (which, however, was discontinued last June), export credit insurance, and export promotion on the part of private industry. The "export-mindedness" of German industry also may have played an important part in Germany's comeback in international markets.

The Dollar Balance

As regards the dollar area, Germany's balance-of-payments position has improved markedly in the last few years. Her current-account deficit with the area, which in 1949 amounted to 926 million dollars, was reduced to 39 million in 1952; and in the current year she may even show, for the first time since the war, a small surplus. In the early years after the currency reform, her large deficits with the dollar area were financed chiefly by United States aid, but such aid declined from 923 million dollars in 1949 to 115 million in 1952, and in the

Chart I
German Foreign Trade Volume and Terms of Trade
(Average for 1950=100)



* Terms of trade=ratio of export prices to import prices.
Source: Statistisches Bundesamt, *Der Aussenhandel der Bundesrepublik Deutschland,* Part I.

[1] For a fuller account of Germany's currency reform and subsequent developments, see the articles published in this *Review* in September 1948, May 1950, April 1951, and January 1953.

[2] The difference between this reduction in unemployment and the 2.5 million increase in employment reflects mainly the absorption of workers from East Germany.

current year is running at about 35 million. This decrease, however, is being partly offset by the expenditures by United States troops, which are running at present at an annual rate of 200 million dollars, as against 43 million in 1949. If it were not for these outlays, Germany would still show a considerable deficit on current account with the dollar area.

Yet the progress that Germany has made through her own efforts is remarkable. In 1952 merchandise exports to the dollar area were almost four times their 1949 value, while imports declined by nearly one fourth. Germany was thus able to reduce her merchandise deficit with the dollar area from 861 million dollars in 1949 to 219 million in 1952 and presumably to an even lower level in the current year. On the import side, the improvement has been largely brought about by increased domestic output of coal and wheat, which had been imported extensively, as well as by a shift of raw material purchases from the dollar area to other sources of supply. On the export side, the continued high level of business in the United States has helped German exporters to recover markets here and elsewhere in the dollar area. As already noted, exports to the dollar area were also encouraged by a dollar-exchange-retention scheme established in July 1950, which, in varying forms and with a temporary interruption, was maintained until last June, when it was formally abandoned.

The EPU Position

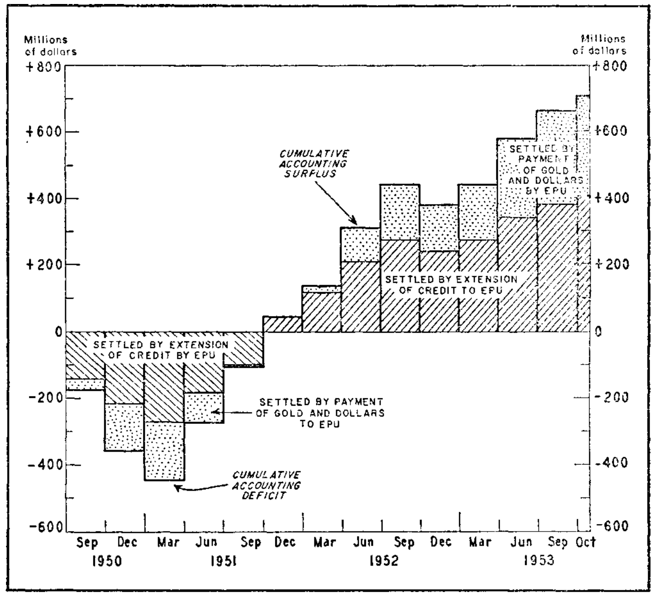
Germany's greatest strides have been made in trade with the EPU countries—Germany's largest trading area—which together account for over two thirds of both her exports and her imports of goods and services. In 1952, the value of such exports was 3.3 times as large as in 1949, while such imports were 2.7 times as large. The rise in imports reflected in part the shift in German imports from the dollar area to the EPU countries, especially the sterling area. While the dollar and EPU areas provided in 1949 about 47 per cent each of Germany's total imports, the share of the dollar area declined to about 17 per cent in 1952 whereas that of the EPU area rose to 69 per cent. In 1952 Germany's current-account surplus with the EPU area amounted to 458 million dollars—the outcome of a surplus of 580 million dollars with the Continental EPU nations and a deficit of 122 million with the sterling area. In the current year Germany's over-all surplus with the EPU area is expected to be even larger.

It may be recalled that in the early stages of the European Payments Union, following its establishment in July 1950, Germany had large deficits with the organization (see Chart II). From July 1950 through February 1951 she incurred a cumulative deficit of 457 million dollars, which cost her a large amount of dollars, made her the EPU's largest debtor, and threatened the very existence of that organization. The deficit was attributable chiefly to heavy German imports of raw materials before the post-Korea rise in commodity prices had reached its peak. However, swift action on the part of Germany's central bank in suspending the issue of import

Chart II

Germany's Cumulative Accounting Position with the EPU

(As of end of period)



Source: Organization for European Economic Cooperation.

licenses, coupled with a raising of the discount rate and of commercial bank reserve requirements as well as a drastic reduction in the volume of commercial bank credits, quickly redressed the situation. Since March 1951 the monthly EPU accounting has shown almost continuous surpluses. By the end of last April, Germany, with a credit balance of 292 million dollars, had become the largest creditor in the EPU—a position that she has since retained. By the end of October 1953 her cumulative credit position amounted to 705 million. The net improvement from March 1951 through October 1953 totaled 1,162 million dollars: over this period Germany recovered 174 million dollars that she had previously paid the EPU, acquired net dollars from the EPU to the amount of 300 million, paid off 283 million of debts to the EPU, and became a net creditor of the EPU to the amount of 405 million. Germany's rather persistent surpluses since March 1951 have reflected direct surpluses with all EPU member countries except the sterling area, the Netherlands, and Portugal; of the continuing deficits with these three, only those with the sterling area have loomed particularly large.

Under these conditions the arrangements for settling Germany's EPU surpluses have had to be gradually extended. Her EPU quota, originally set at 320 million dollars, was raised in July 1951 to 500 million. However, the upswing in Germany's EPU position has been so large that since the fall of 1952 several so-called "rallonges", totaling 200 million dollars, have had to be added to Germany's quota—the latest one of 50 million having been agreed upon with the Organization for European Economic Cooperation last October. Germany's EPU facilities have thus been raised to a total of 700 million, with recent surpluses having to be settled 50 per cent in gold or dollars and 50 per cent in Germany's credits to the EPU. The settlement for October 1953 resulted in a cumulative surplus of 705 million, thus leaving 5 million uncovered by the current settlement arrangements.[3]

Germany's EPU surpluses averaged about 21 million dollars monthly in the first quarter of 1953 and about 45 million in the second quarter. The July surplus of 44 million was still at the second-quarter level, but in August and September it declined to 12.6 million and 26.9 million, respectively. The decline appears to have been due at least partly to the first payments under the London debt agreement and to the setting-aside of claims in EPU currencies for future use in making payments under that agreement; if these claims had been entered into the monthly settlements, they would have resulted in larger surpluses. In October the surplus was again 44.4 million—about the same as during the April-July period.

The Surpluses with "Bilateral" Countries

With a number of countries that belong to neither the dollar nor the EPU area, German trade and other payments are settled by bilateral clearings. Under the bilateral agreements in force, debit balances may be incurred by either partner up to the so-called "swing limit", with the proviso that debit balances exceeding this limit are to be settled in dollars. Trade with this rather heterogeneous group of nations, which includes such countries as Argentina, Brazil, Finland, and Yugoslavia, has greatly expanded. However, while exports of goods and services to this group in 1952 were 8.4 times as large in value as in 1949, imports from the group were only 3.3 times as large.

The imbalance in trade resulted in a 1952 current-account surplus with this group equivalent to 142 million dollars, and in the piling-up of net clearing claims on the part of Germany totaling 185 million by the year end and 217 million by October 1953. Of the latter, some 80 million dollars' equivalent, or more than one third, arose from trade with Brazil, which exceeded its "swing limit" of 13.5 million dollars' equivalent by some 65 million but without settling the difference in dollars. The rise in Germany's claims on this group of countries primarily reflects the strong demand for German capital goods, the export of which was made possible by credits and the other promotion schemes noted above. It also reflects the inability of these countries to provide raw materials and foodstuffs at competitive prices.

Trade between West and East Germany is based on short-term payments arrangements and generally takes the form of global compensation deals. It had fallen to a very low level in 1951-52, but has subsequently increased somewhat; in 1952 it represented less than 1 per cent of West Germany's total foreign trade. Trade with Eastern Europe and the USSR also has been small.

[3] Further OEEC decisions in October stipulated that any amounts by which Germany's cumulative surplus at the end of October may exceed 700 million would be settled by additional German credits to the EPU, with the proviso that at the time of the November settlement (in mid-December) the question of the settlement of EPU surpluses in excess of 700 million would be reviewed.

Gold and Foreign Exchange Holdings of the Bank deutscher Laender
(In millions of dollars)

End of	Gold	Dollars	Gold and dollars	Other foreign exchange	Total gold and foreign exchange holdings
1950—December	—	148.4	148.4	n.a.	n.a.
1951—December	27.6	337.7	365.3	n.a.	n.a.
1952—June	92.3	354.8	447.1	354.5	801.6
December	139.8	496.9	636.7	n.a.	n.a.
1953—March	184.5	534.4	718.9	527.0	1,245.9
June	209.4	619.8	829.2	626.8	1,456.0
September	285.6	746.0	1,004.6	680.5	1,685.1

n.a. Not available.
Source: *Monatsberichte* of the Bank deutscher Laender.

The Reconstitution of Gold and Foreign Exchange Reserves

Germany's balance-of-payments surpluses since 1951 have resulted in large additions to her gold and foreign exchange reserves (see table). It is true that her gold and dollar reserves had increased as early as 1950, but this had been due exclusively to the fact that United States aid in that year exceeded by a sizable amount Germany's current-account deficit with the dollar area. This was also the case in 1951 and 1952, but at a progressively declining rate; at the same time, as already noted, Germany's EPU surpluses became her largest source of gold and dollars. By the end of September 1953, Germany, which at the time of the currency reform had virtually started from scratch, had built up a total gold and foreign exchange reserve equivalent to 1,685 million dollars; of this, more than 1 billion, or slightly less than 60 per cent, was in gold and dollars. The total is equivalent to more than four and a half months of Germany's current imports of goods and services, the gold and dollar portion alone being equivalent to almost three months of such imports.

Germany's gold and foreign exchange acquisitions, of course, are to a large extent the counterpart of reserve losses incurred by her European trading partners. To an even larger extent they also reflect the rising indebtedness to Germany of the EPU nations as a group as well as of her bilateral-clearing partners in other parts of the world. In fact, these nations as a whole are experiencing Deutsche mark deficits, which in 1952 reached the equivalent of 540 million dollars and during 1953 have been running at the somewhat lower annual rate of roughly 430 million. Under these circumstances some of Germany's trade partners have begun restricting their imports from her; this in turn may adversely affect certain German export industries and thus impair the further expansion of the German economy as a whole. Since Germany is apparently unable to increase her imports, she is faced in many cases with the choice of either extending further credits or accepting a reduction in exports and the loss of a market where she only recently has regained a foothold.

Trade Liberalization and Export Credits

Germany appears to be well aware that she has a major interest in increasing, so far as she can, her trading partners' capabilities to import from her. With this in view, she has liberalized her European trade to a high degree and has promoted capital exports in various ways, especially to the bilateral-clearing countries.

After having found it necessary to suspend all previous liberalization measures vis-a-vis the EPU nations at the end of February 1951 when her payments difficulties were acute, Germany resumed the liberalizing of her imports in January 1952. Since then she has gradually freed from quantitative restrictions up to about 90 per cent of her private imports from the EPU countries. A considerable margin for further liberalization seems to exist only as regards imports of food and feedstuffs, which have been freed from quota restrictions only to the extent of 70 per cent, as against 98 per cent for industrial raw materials and 94 per cent for manufactured products.

Furthermore, with a view to relieving the Deutsche mark deficit, especially as regards the less developed nations, and in order to facilitate further export expansion, export credits up to five years are being extended by the Export Credit Corporation. This organization has access to rediscount facilities at Germany's central bank; its credits amounted at the end of March 1953 to the equivalent of some 170 million dollars. In addition, private direct investment, even if on a moderate scale only, appears to be getting under way in countries like Brazil and India. Finally, the International Bank for Reconstruction and Development has extended some of its credits in Deutsche marks, the marks actually disbursed under such credits amounting at the end of September 1953 to the equivalent of 8.6 million dollars.

The Foreign Debt Settlements

The ability of a number of countries to increase their imports from Germany will also be affected by her resumption of service on a substantial portion of her large foreign indebtedness. Under the international agreement signed in London on February 27, 1953 and made effective on September 16, the bulk of Germany's prewar debts as well as all of her public postwar debts (most of which were incurred to secure food and raw materials from the United States) were subjected to a comprehensive settlement. The initiative for this settlement was taken largely by the creditor nations, but it met with Germany's cooperation, since she wished to restore her international credit standing. Since 1931 Germany had made only scant transfers on her large privately held foreign debt. Under the London agreement, interest payments are to be resumed this year, while amortization has been postponed until 1958, with the last interest and amortization payments to take place as late as 1994.

Moreover, by a special agreement with Switzerland concluded on August 26, 1952, Germany settled the wartime clearing debt to that country. Part of the Swiss claims were funded into two twenty-year loans, while the remainder is to be amortized over some thirty years. Of a still different nature is the reparations agreement concluded with Israel on September 10, 1953 under which Germany has committed herself to deliver goods to Israel over twelve to fourteen years up to the equivalent of 821 million dollars; since the bulk of these goods will be produced in Germany and are not normally export goods, Germany will forego, as a result of the agreement, only small amounts of foreign exchange.

Finally, Germany on August 28, 1953 authorized the transfer into foreign currencies of current earnings accruing after January 1, 1953 on the foreign investments blocked in Germany since July 15, 1931 when she introduced foreign exchange controls, provided that such investments have not changed their owner except through legal succession. The new regulations will particularly benefit foreign direct investments made in Germany between the stabilization of the mark in 1924, and 1931 when exchange controls were introduced.

Excluding the deliveries to Israel, these arrangements affect, according to a German official estimate, foreign loans and investments totaling the equivalent of some 4.9 billion dollars. Interest and amortization payments in foreign exchange consequently will be resumed on about two thirds of Germany's total present foreign debt, which is officially estimated at the equivalent of 7.2 billion dollars. The transfers on the two thirds of Germany's foreign indebtedness that are to be made in the years 1953 through 1957 have been officially put at the equivalent of 200 million dollars annually, of which 119 million is to be in EPU currencies and 77 million in dollars. The annual transfers will rise by considerable amounts beginning 1958, when Germany starts amortizing the debts covered by the London agreement. At that time the transfers will rise to the equivalent of 247 million dollars, of which 131 million is to be in what are now EPU currencies and 111 million in dollars.

No definite arrangements have thus far been made regarding the transfer of earnings or amortization on the remaining one third of the country's present foreign indebtedness. This portion of Germany's foreign debt, which amounts to the equivalent of 2,345 million dollars, includes: (1) the restitution and compensation claims that are to be accorded, under German legislation now in preparation, to individuals victimized by Nazi persecution who had taken up residence abroad (1,285 million dollars' equivalent); (2) blocked mark balances, and investments made from such balances either by their original holders or by foreign residents who have acquired them for investment purposes (465 million); and (3) miscellaneous direct investments and claims, the bulk of which are certain mark claims not covered by the London agreement that originated prior to 1931 (595 million). Transfers on these claims and investments will have to wait for further German decisions, but the German Government has already announced its intention to issue "as soon as possible" regulations on the transfer of earnings on investments owned by emigrants who took up residence abroad after 1931.

Indications of Strength of the German Mark

The remarkable recovery of Germany's economy and her comparatively strong balance-of-payments position, as well as the progress she has made toward resuming the service on her foreign indebtedness, have been reflected in the rising confidence in the German mark both at home and abroad. In Germany herself, signs of confidence have appeared in the growth of savings deposits, which have been increasing during the current year at an annual rate of 643 million dollars' equivalent, compared with 540 million in 1952 and 207 million in each of the two preceding years. There have also been reports that sizable amounts of German capital held abroad are being repatriated.

Internationally, the German mark has shown signs of strength in several ways. In the multilateral exchange trading among eight European currencies inaugurated under the auspices of the OEEC last May, the mark has proved to be consistently strong. Moreover, the premium on the so-called "dollar import rights" under the dollar-retention scheme, which amounted to about 20 per cent in April 1952 when such "rights" were made negotiable, had declined to a fraction of 1 per cent prior to June 1953 when the scheme was abandoned. The mark is currently at a premium vis-a-vis the currencies of some of the countries with which trade is being settled on a bilateral basis. In addition, the rate for the so-called blocked marks, which are freely traded abroad, has strengthened markedly; when acquired, such marks can be used only for investments in Germany, which in turn are blocked. Despite their limited use, the discount on blocked marks declined from about 46 per cent in March 1951, when the transfer of blocked funds between residents abroad was authorized by Germany, to about 30 per cent in November 1953; this fall apparently reflected, for the most part, increased demand for foreign investment in Germany. Finally, the rate for Deutsche mark notes in Zurich has strengthened, the discount on such notes declining from 28 per cent at the end of 1949 to about 7 per cent in October.

Conclusion

The increasing strength of the West German economy has been an outstanding feature of recent economic developments in Europe. This recovery has been characterized, domestically, by a remarkable expansion in output and the absorption of several millions of workers into the productive process and, internationally, by the emergence of a balance-of-payments surplus and the reconstitution of gold and foreign exchange reserves. However, with full employment nearly reached and with industrial capacity in many branches of industry approaching full utilization, the recent rate of expansion of output and exports may very well slow down. In addition, Germany's export potential may well be reduced somewhat if, upon the termination of the occupation regime, she has to set aside part of her economic resources for defense purposes. It is also possible that payments difficulties on the part of the less developed countries or the limitations on Germany's own capital formation may obstruct a further increase in capital goods exports. Furthermore, Germany's relatively favorable terms of trade may not be susceptible to further improvement, particularly in view of possible increased export competition in world markets. Finally, Germany's balance-of-payments position faces the added burden of interest and amortization payments as a result of her recent commitments to resume the service on about two thirds of her large foreign debt.

The outlook, nevertheless, is not unfavorable. Germany has some prospect of increasing further her exports to the sterling area, and thus of reducing her sterling deficit, in consequence of the announcement that Britain would free from quota restrictions a larger part of her European imports. As regards the dollar area, Germany would benefit from any increase in United States offshore purchases in Germany, which so far have been rather small. Upon the termination of the occupation regime and with the consequent gradual termination of German expenditures for occupation costs, the country can expect substantial dollar outlays for installations and other goods and services for the United States armed forces. Finally, Germany's vigorous efforts to restore her international credit offer some hope of increased access to the international money and capital markets. Accordingly, although some slackening in the current rate of improvement in Germany's balance of payments is doubtless to be expected, her international financial position appears likely to remain generally strong.

PRIVATE PENSION PLANS

Since the prewar years there has been a marked growth in the number of pension plans adopted by business enterprises. The growth of these private pension funds has in turn created a large, distinct source of savings which have been generally invested in quality securities of the larger, well-established corporations. These investment practices reflect the institutional investor's usual preference for debt issues and have tended to strengthen the market for the securities of older corporations as compared with those of newer concerns, although there has been an increasing investment in equities during the past few years. This article undertakes to trace the growth of the private pension movement and to analyze the significance of this development for the capital markets.

Growth of Pension Plans

Although private pension plans are not of recent origin, the first pension program having been adopted by the American Express Company in 1875, it was not until the 1935 passage of the Social Security Act that the pension fund movement gained momentum. In 1937, when contributions under the Act first began, the Federal program covered about 25 million employees of business and industry. This legislation greatly increased employer and employee interest in, and consciousness of, the desirability of providing through advance financing for the economic hazards of old age. But possibly the most important stimulus to private pension plans was the sharp increase during World War II in Federal corporate income tax rates which encouraged corporations to make tax-free contributions to pension funds with relatively little effect on after-tax earnings. During and after the war, the efforts of business enterprises to attract and retain employees, particularly salaried employees, under restraints imposed by the Federal wage and salary stabilization policy increasingly took the form of favorable pension arrangements. A new spurt in the growth of private pension plans after 1949 reflects to a considerable extent a National Labor Relations Board decision making pensions an appropriate subject for collective bargaining. Finally, an increased sense of responsibility among corporations and other business enterprises for the future security of their employees has been an important contributory influence.[1]

Although data collected on private pension programs are spotty and inadequate, some indication of the growth of pension plans and the number of persons covered may be seen from the accompanying table. In 1930, according to estimates prepared by the Social Security Administration, there were in existence only 720 plans, covering 2.4 million persons. A decade later, almost 2,000 plans were in force with nearly 4 million persons included. The swift wartime growth of the private pension movement increased the total number of plans to more than 7,400, involving more than 5.5 million persons. In the following six years through 1951, the number of plans almost doubled to reach an estimated 14,000, covering over 9.5 million persons.[2] Since 1951, it is estimated that at least 1,500 new plans have been adopted, raising the total coverage of the private retirement programs to roughly 10-11 million persons. This still falls far short of the Government's old-age and survivors insurance (OASI) program which now covers more than 66 million persons, while another 7.5 million or more are covered under State, local government, and other public programs.

Effect on Other Savings and Spending

The marked growth in the number of private pension plans and in the number of employees covered has had its financial counterpart in a large and growing volume of funds accruing to the credit of employees as future pension benefits. Whether these funds constitute new savings or merely represent a diversion of savings from one form to another is a question that cannot be answered with any assurance. To the extent that employees would otherwise fail to make adequate provision for old age, it can be contended that employee contributions to pension funds represent money that would be spent. For the most part, these savings may be added to other savings, for it is doubtful that saving for other purposes—for emergencies and for the purchase of a home (including retirement of home mortgage debt)—will be reduced because of the assurance of pensions. On the other hand, to the extent that the assurance of a pension makes individuals less concerned with the problem of retirement income and thus results in reduced personal saving, employee contributions would represent a diversion of savings. However, it is probable that without the aid of a pension most persons individually would fail to make adequate financial preparation for old age. Employee contributions may consequently be regarded as new savings.

It is even more difficult, if not impossible, to trace the incidence on spending and consumption of the much larger employer contributions to pension plans. To the extent that, as an expense of business, the costs of such contributions are passed on to consumers in the form of higher prices, it might be argued that such employer contributions represent forced savings drawn from the consuming public. On the other hand, pension contributions by corporations might also be regarded as a reduction of retained earnings, dividends, and income taxes. A reduction in corporate undistributed profits would presumably result in a shift from corporate savings to savings in the form of pension fund contributions, with the accompanying effect of increasing the importance of external financing through the capital markets as a source of corporate funds. Perhaps the only conclusion that can be reached is that corporate contributions to pension funds represent in part a source of new savings and in part a shift in the form of savings.

The stability of savings through pension plans is also somewhat uncertain. In providing retirement income for their employees, employers have made relatively fixed, long-term commitments. Actual contributions, however, depend largely on the stability of employment of persons covered by pension plans, fluctuations in the rate of funding past service liabilities, the variability of benefit payments in the aggregate, and the financial ability of employers to meet their pension obligations during slack times. The most important of these influences are, of course, the volume and stability of employment. Inasmuch as most industrial pension plans are integrated with the OASI program, a sizable part of the retirement income provided by private plans goes to, or will go to, those in the higher wage and salary brackets (above the first $3,600 yearly covered by OASI) whose employment is generally steadier than those in the lower brackets. Nevertheless, the widespread coverage of factory and other workers by plans adopted during the war and particularly since the negotiation of a large number of collective bargaining plans beginning in 1949 may have made contribu-

1 Among other influences tending to promote the adoption of private pension plans, the provision of retirement income for officers, supervisory employees, and other higher-paid employees, whose after-tax income has suffered most from increased Federal income tax rates and from inflation, represents a factor of unknown or unmeasurable significance. Inasmuch as Section 165 (a) of the Internal Revenue Code requires that in order for pension contributions to be tax exempt the contributions or benefits may not discriminate in favor of any individual or small group of employees, all employees within a broad class come under private pension plans.

2 The number of plans is not identical with the number of enterprises having such plans, since a single company may have more than one plan. Because the figures in the table include only those employees meeting minimum eligibility requirements (as to age, duration of service, etc.,) in those plans which have such requirements, the number of persons covered is bound to grow merely with the passing of time, other things remaining equal.

tions to pension funds more susceptible to cyclical changes in employment than formerly. The stability of pension fund accumulations is also affected by variations in the rate of funding past service liabilities (the rate at which employers set aside funds to provide for pensions for those employees at or near retirement age who have sufficient past service to meet eligibility requirements at the time a plan is adopted).

Fluctuations in aggregate benefit payments are likely to add some further variability to the (net) accumulation of pension funds. During slack times, employees at or beyond the retirement age who might otherwise have remained in the labor force may be expected to retire, and others who might otherwise have become unemployed may take advantage of the early retirement provisions of many plans. Benefit payments may then take a spurt just when the volume of contributions may be falling off or increasing only slowly.

On the other hand, to the extent that private pension fund liabilities are concentrated among the very large corporations of greater financial strength, the risk of employer inability to fulfill pension fund payment obligations during periods of declining economic activity is lessened. In this connection, it is noteworthy that employer contributions to pension funds currently constitute less than one half of one per cent of aggregate corporate sales (but a larger percentage, of course, of the sales of corporations with pension plans and especially those with plans covering all their employees).

To the extent, then, that the bulk of private pension contributions are made by large, well-established corporations, that efforts to stabilize employment are successful, and to the extent that private pensions cover the relatively stable white collar and executive occupations, it appears that pension contributions are likely to be a relatively stable form of savings, possibly more so than the availability of private investment opportunities.

Rate and Amount of Growth

In the absence of adequate machinery to collect data on the accumulation of funds in private pension plans, only approximations, which admittedly may be wide of the mark, are available. Pension fund managers estimate that more than 17 billion dollars are currently lodged in pension funds and that about 2 to 2¼ billion dollars flow into such funds each year (representing net growth in pension funds, including contributions and investment income less benefit payments). At this rate, the annual accrual of pension funds is roughly a fifth of the net annual growth of savings through other major financial institutions—the net increase in time and savings deposits of commercial and mutual savings banks, share capital (deposits) of savings and loan associations, and policyholders' reserves of life insurance companies other than pension fund annuity reserves.

The annual rate of accumulation has been particularly rapid in recent years. One estimate places the annual increase in net pension contributions at 300-350 million dollars since 1949.

Estimated Number of Private Pension Plans and Number of Persons Covered*

Year	Plans			Number of persons covered (In millions)		
	All	Insured†	Uninsured‡	All plans	Insured plans†	Uninsured plans‡
1930.....	720	—	—	2.4	—	—
1935.....	1,090	—	—	2.6	—	—
1940.....	1,965	1,530	435	3.7	0.7	3.0
1945.....	7,425	6,700	725	5.6	1.5	4.1
1950.....	12,330	11,230	1,100	8.6	2.9	5.7
1951.....	14,000	12,260	1,740	9.6	3.3	6.3
1952.....	—	13,500*p*	—	—	3.5*p*	—

* Figures include only employees who have met minimum eligibility conditions in those plans which have such requirements for participation. Insured plans include a small number of public plans causing an understatement of the data for uninsured plans which are derived as a residual.
† Plans administered by life insurance companies.
‡ Plans administered principally by corporate fiduciaries and investment committees of corporations.
p Preliminary.
Source: All plans and coverage, Social Security Administration as published in *Pension Funds in the United States*, a study prepared for the Joint Committee on the Economic Report by the National Planning Association, 1952, page 11; insured plans and coverage, Institute of Life Insurance.

Aside from inflationary wage trends, two related factors are largely responsible: the marked growth in the number of new pension plans adopted in recent years, particularly by large industrial corporations, and the characteristic pattern of accelerated growth in the early years of each new pension fund.

Especially rapid has been the growth of "uninsured" pension plans, those administered principally by corporate fiduciaries or investment committees, representing predominantly the plans of large corporations, providing retirement income for large numbers of employees. From the table it can be seen that the increase in uninsured plans between 1940 and 1951 accounted for about 10 per cent of the growth of all private plans (by number) and for well over half the increase in the number of employees covered. Similarly, although this is not shown in the table, the larger, group-annuity type of insured plans of larger business enterprises accounted for the bulk of the growth of employee coverage under programs handled by life insurance companies.

The pattern of growth of the individual pension fund has also been an important influence tending to increase pension fund accumulations in recent years. This result follows from the nature of a pension fund. The accumulations of periodic contributions to the credit of employees are invested, and the principal and interest are used to pay retirement incomes at some future date—usually at the retirement age of 65.[3] Because benefit payments are small in the first years following the adoption of a plan, pension funds build up most rapidly in the early stages, and then level off at some theoretical point where income from investments and current contributions equal outgo in the form of pension benefits. The build-up in the early stages is usually made even more rapid by the funding of past service liabilities. It is the usual practice for the employer to

[3] Theoretically pensions can be financed on a pay-as-you-go basis with employers making benefit payments directly to retired employees. However, such a method of financing is not considered satisfactory from the employees' standpoint, since the hazards of economic life may be such that employing concerns may become defunct or otherwise financially unable to continue with benefit payments. For this and other reasons the pay-as-you-go method is little used in practice.

make all or most of the contributions for past service, and this tends to swell the early growth of the fund.[4]

Investment Requirements

Aside from questions of size, stability, and growth, the expansion of pension funds has raised immediate and practical questions for the capital markets as to the investment requirements of such funds and the investment practices of those managing them. In general, as already indicated, pension funds are handled principally by life insurance companies and corporate fiduciaries and have been placed largely in private debt instruments, with a large concentration in obligations of seasoned, well-established corporations. The investment policies of life insurance companies as compared with those of banks and trust companies as pension trustees have been similar with two exceptions: the latter have by and large almost ignored the real estate field as a source of investing pension funds, but they have been much more active in the purchase of common stocks.

Of the two major classes of administrators or managers of such funds, the life insurance companies handle between 40-45 per cent of the funds going into pension plans (as the table shows, insured plans account for a much smaller proportion of persons covered by private pension arrangements). In 1951, the net increase in reserves against insured pension plans amounted to almost 1 billion dollars, according to the Institute of Life Insurance. Such funds, of course, are merged with other life insurance funds and are invested in all the various forms of instruments in which life insurance companies regularly place their funds—mainly the debt securities of business and industry, and mortgages on residential and commercial real estate, and almost solely in such obligations since 1945.

The remaining 55-60 per cent of currently accruing pension funds, administered principally by trust departments of banks and by trust companies and to a lesser extent by investment committees appointed by corporate contributors, have been made almost entirely available to business and industry in recent years.

Unlike the insurance companies, trustees of self-insured pension plans have placed a sizable portion of their funds in better-grade common stocks. The proportion of pension trust investments in equities varies widely for individual trusts. A typical ratio appears to be in the neighborhood of 25 per cent, with perhaps 5 per cent or more in preferred stocks. Government securities comprise another 15 per cent or less, mainly accounted for by pension plans adopted before the end of the war. Corporate debt securities of the better grades account for the remaining 55 per cent. These percentages are admittedly only approximate, and for the newer trusts should be raised for corporate stocks and lowered for corporate bonds and Government issues. For the most part, pension trustees have ignored mortgages because of the greater costs of administering investments in that field including the larger staffs required. However, a few trustees are reported to have displayed some interest in large mortgage loans on income-producing real estate, sale-and-lease-back agreements in connection with large commercial buildings, and oil payment contracts. Many trustees, furthermore, have acquired corporate debt securities through direct purchases from the debtor, since such private placements usually earn a somewhat higher investment return than has been obtainable on comparable securities offered publicly in the new issue market.

The composition of pension trust portfolios consisting principally of long-term and equity investments reflects their investment requirements: the absence of need for liquid investments (since liquidity is assured by the constant inflow of new money to be invested), the emphasis on quality, and the tendency to regard fluctuations in market prices of investments as a secondary consideration. Although the investment requirements of self-insured pension trusts are similar to those of life insurance companies, trustees as a rule are less circumscribed by legal restrictions. It is then possible for them, within the limitations (if any) of the pension trust instrument, to acquire common stocks and generally to pursue a more flexible investment policy.[5]

Prospects for Future Growth

The most dynamic phase of the growth of pension funds has probably been reached or will be reached in the next few years. In view of the very substantial number of pension plans adopted over the last dozen years by very large corporations, it is not likely that further impetus to the pension fund movement from this source will be as strong as in the past. It is probable, too, that many enterprises are too small ever to adopt pension plans. Furthermore, the marked growth in the number of private pension systems adopted since the beginning of the war, particularly by the larger corporations, has brought an even more rapid growth of pension contributions because of heavier payments into funds for past service retirement credits and because the number of pension beneficiaries is usually small in the early years of pension plans, as already indicated. Moreover, as plans mature and pension rolls build up, benefit payments tend to increase, and contributions for past service credits tend to fall off since such costs are amortized. The rate of amortization has been especially rapid in recent years of high corporate tax rates and prosperous business conditions. While there are a number of factors that may tend to bring about an increase in the volume of funds going into pension plans, they are likely to be increasingly offset by the gradual maturing of most pension plans and the accompanying growth in pension payments. It is clear, however, that pension funds are likely to grow, even though at a more gradual rate, as long as the economy and the labor force continue to expand, so that, just as in the case of life insurance, the accumulation of pension funds may continue indefinitely.

[4] Federal tax laws allow as deductions from income employer contributions on account of past service up to 10 per cent of the liability in any one year, and so place a limit on the funding of past service liabilities in any year.

[5] To some extent, this flexibility is inhibited by the tax laws which discourage the setting-up of an investment loss reserve. Thus, realized capital losses may require additional contributions to the pension fund and capital gains may reduce the corporate contribution. As a result, switching of investments may be hampered somewhat, except as gains offset losses.

DEPARTMENT STORE TRADE

Higher temperatures continued to exert a restraining influence on Second District department store sales in November. Election Day sales, in particular, were affected adversely; dollar volume for the week declined 3 per cent below the year-earlier level. However, even though the hoped-for stimulus of more seasonable weather failed to materialize, sales in the second and third full weeks exceeded that of the like period last year. Aggregate dollar volume for the month is estimated to have been about equal to November 1952.

Furniture Store Sales

Although aggregate sales at Second District furniture stores during the first ten months of this year have been slightly above the dollar volume of the corresponding months in 1952, year-to-year declines in sales during recent months may reflect a certain slackening of consumer demand for homefurnishings. Unless November and December sales reverse this slackening, it seems possible, therefore, that sales for 1953 as a whole may not equal the record volume of 1952.

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

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

* 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.

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

Item	1953			1952
	Oct.	Sept.	Aug.	Oct.
Sales (average daily), unadjusted	110	102	75	113
Sales (average daily), seasonally adjusted	104	98	99	108r
Stocks, unadjusted	130	123	118	127r
Stocks, seasonally adjusted	116	117	122	113

r Revised.

After eight successive months of year-to-year gains, Second District furniture store sales in May declined 3 per cent below the year-earlier figure. This, as shown in the table, was the first sign in the Second District of the recent slackening of consumer interest in furniture store merchandise. In the following month dollar volume fell to the lowest level of any June since 1949. Although an upswing occurred in July when aggregate consumer purchases of homefurnishings rose to a four-year peak for that month, the renewal of consumer interest was not sustained and sales in August declined contraseasonally below the July level to a new four-year low for the month. The downtrend continued in September when sales were 8 per cent below the corresponding month in 1952, and October sales were 1 per cent lower.

It is difficult to evaluate the significance of the year-to-year declines in sales experienced by Second District furniture stores in five out of the last six months. The comparatively higher level of sales during the same six months a year ago may reflect to some extent the temporary stimulus to consumer demand brought about by the expiration of Regulation W on May 7, 1952. The subsequent easing of credit terms by furniture stores undoubtedly enabled them to attract many customers who would otherwise have been unable immediately to satisfy their demands. On the other hand, such random factors as unusual weather conditions or the signing of the Korean truce may have influenced sales adversely this year. In addition, it is possible that more fundamental readjustments such as the recent tapering-off of home-building have contributed to the reduction of homefurnishings demand.

The year-to-year declines in sales experienced by Second District furniture stores over the past several months coincided with a lessened use of instalment credit. Beginning in May 1953 and in each succeeding month through October, instalment sales declined below year-earlier levels both in actual dollar volume and as a proportion of total sales. It is difficult to determine whether the reduction in the use of credit in Second District furniture stores since May, in comparison with the previous year, merely represents a leveling off after the excep-

Sales and Stocks of Second District Furniture Stores*

Month	Percentage change 1953 from 1952			Instalment sales as a per cent of total sales		Stocks-sales ratio	
	Total sales	Instalment sales	End-of-month stocks	1953	1952	1953	1952
January	+ 7	+13	− 3	78	75	4.5	6.0
February	+ 9	+10	− 1	79	75	5.1	5.6
March	+ 4	+ 8	+ 1	80	77	5.1	5.1
April	+11	+16	+ 4	81	79	4.9	5.3
May	− 3	− 4	− 3	79	80	4.4	4.4
June	− 3	− 7	− 2	80	81	4.5	4.5
July	+ 4	− 2	− 9	80	81	4.9	5.6
August	− 4	− 9	−11	78	82	4.9	5.3
September	− 8	−10	−12	80	81	4.4	4.6
October	− 1	− 1	−17	81	82	3.2	3.8

* Derived from data reported by a constant sample of stores. Total sales comparisons are based on a larger number of stores than those for instalment sales, stocks, and stocks-sales ratios.

tional rise immediately following the expiration of Regulation W, or whether it reflects a substantial tightening both of furniture store credit policies and of the consumer's desire or ability to mortgage his future purchasing power.

The relaxation of consumer demand in recent months may explain, in part, the accelerating reduction of inventories held by Second District furniture stores. During the first six months of this year only modest changes in the dollar value of stocks produced stocks-sales ratios that were smaller, in general, than those of last year. With the weakening of sales, however, the declines in stocks in the four months following June ranged from 9 to 17 per cent below the year-earlier levels (inventories in both August and September dropped to the lowest levels for these months in four years). These substantial declines resulted in moderately smaller stocks-sales ratios than those of the previous year.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1953			1952	Percentage change	
		October	September	August	October	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	231*p*	232	235	230	#	#
Electric power output*	1947-49 = 100	160	161	169	147	− 1	+ 9
Ton-miles of railway freight*	1947-49 = 100	—	99*p*	104	100	− 5	− 7
Manufacturers' sales*	billions of $	24.8*p*	24.9	25.4	24.8*r*	#	#
Manufacturers' inventories*	billions of $	46.3*p*	46.5	46.2	43.4	#	+ 7
Manufacturers' new orders, total*	billions of $	22.4*p*	22.4	22.4	24.2*r*	#	− 7
Manufacturers' new orders, durable goods*	billions of $	9.9*p*	9.9	9.5	11.5*r*	#	−14
Retail sales*	billions of $	14.1*p*	14.0	14.1*r*	14.2	#	− 1
Residential construction contracts*	1947-49 = 100	—	180*p*	184	185	− 2	− 6
Nonresidential construction contracts*	1947-49 = 100	—	243*p*	220	227	+10	+11
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	86.4	88.9	88.8	92.5	− 3	− 7
Wholesale prices†	1947-49 = 100	110.2*p*	111.0	110.6	111.1	− 1	− 1
Consumer prices†	1947-49 = 100	115.4	115.2	115.0	114.2	#	+ 1
Personal income (annual rate)*	billions of $	—	285.8*p*	287.0	277.3	#	+ 3
Composite index of wages and salaries*	1939 = 100	—	251*p*	250	241	#	+ 5
Nonagricultural employment*	thousands	49,147*p*	49,164	49,308*r*	48,664	#	+ 1
Manufacturing employment*	thousands	16,781*p*	16,961	17,137*r*	16,546	− 1	+ 1
Average hours worked per week, manufacturing†	hours	40.3*p*	39.9	40.4*r*	41.4	+ 1	− 3
Unemployment	thousands	1,162	1,246	1,240	1,284	− 7	−10
Banking and finance							
Total investments of all commercial banks	millions of $	76,790*p*	76,730*p*	77,090*p*	77,030	#	#
Total loans of all commercial banks	millions of $	67,120*p*	66,310*p*	66,040*p*	62,410	+ 1	+ 8
Total demand deposits adjusted	millions of $	100,270*p*	97,660*p*	97,480*p*	98,630	+ 3	+ 2
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,245*p*	30,267	30,227	29,437	#	+ 3
Bank debits (U. S. outside New York City)*	millions of $	92,291	94,305	91,639	92,256*r*	− 2	#
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 $	21,486	21,347*r*	21,218*r*	17,611*r*	+ 1	+22
United States Government finance (other than borrowing)							
Cash income	millions of $	2,956*p*	6,373	5,526	3,418	−54	−14
Cash outgo	millions of $	5,752*p*	6,294	6,720	6,514	− 9	−12
National defense expenditures	millions of $	4,113*p*	4,222	3,926	4,248	− 3	− 3
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	135	136	142	134	#	+ 1
Residential construction contracts*	1947-49 = 100	—	134*p*	155	167	−14	−22
Nonresidential construction contracts*	1947-49 = 100	—	248*p*	225	161	+11	+61
Consumer prices (New York City)†	1947-49 = 100	113.3	113.2	112.7	112.4	#	+ 1
Nonagricultural employment*	thousands	—	7,600.3*p*	7,623.0	7,564.3*r*	#	+ 1
Manufacturing employment*	thousands	2,734.4*p*	2,737.7	2,795.0	2,736.1*r*	#	#
Bank debits (New York City)*	millions of $	54,152	58,391	51,142	54,893	− 7	− 1
Bank debits (Second District excluding New York City)*	millions of $	4,321	4,351	4,131	4,120	− 1	+ 5
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, December 1, 1953.
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.

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, December 1, 1953)

Industrial production, construction activity, and retail sales in October and November continued moderately below the highs reached earlier this year. Wholesale prices remained at about the level prevailing since late 1952. Consumer prices rose slightly further in October. Bank loans and investments increased sharply in the first three weeks of November, reflecting primarily purchases of new Treasury securities as bank loans showed little change. Yields on Government and corporate securities rose slightly.

Industrial Production

The Board's preliminary index of industrial production in October was 231 per cent of the 1935-39 average as compared with 232 in September and 230 in October a year ago. A decline of about 3 index points—or 1 per cent—is now indicated for November, reflecting mainly further curtailment in durable goods output from the very advanced rate reached earlier this year to somewhat below year-ago levels.

Auto output, after rising somewhat in October from the moderately reduced rates of September, was reduced about 30 per cent in November, primarily because of model changeovers. Steel mills operated at about 90 per cent of rated capacity in November after rising moderately to 95 per cent in October. Activity in producers' equipment industries generally held steady in October, and there was little change in farm machinery following several months of sharp declines. Television production declined moderately from very high levels in the latter part of October.

Output of nondurable goods in October showed a small further decrease to a level about 3 per cent below the peak rates of spring. There were moderate further curtailments in textile and fuel industries. Moreover, production of industrial chemicals declined, reflecting lower output rates in various consuming lines. Paper and paperboard output, however, reached a record level in October and early November, and meat production continued sharply above a year ago.

Construction

Expenditures for new construction in October, seasonally adjusted, continued at the third-quarter level, 6 per cent below the spring peak but 4 per cent higher than in October 1952. Value of contracts awarded in October reached a peak for the year as appreciable gains in awards for most categories of private construction offset declines in public awards. The 88,000 housing units started in October were nearly all privately financed, compared with 89,000 private starts in September and 99,000 in October 1952.

Employment

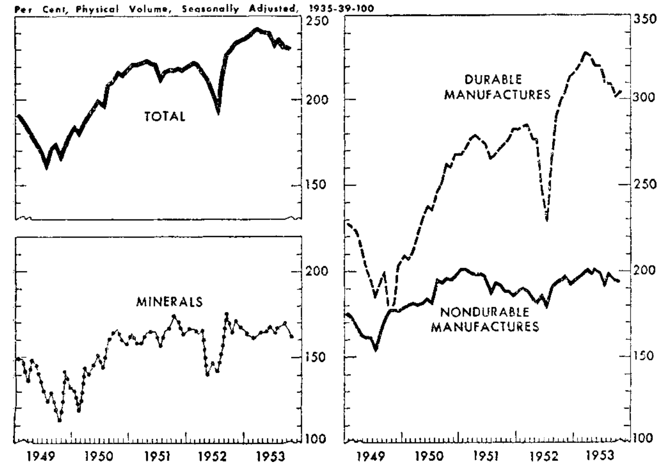
Employment in nonagricultural establishments, seasonally adjusted, was little changed in October at 49.1 million, following slight reductions in the preceding two months, but was moderately larger than a year ago. Some further reduction in manufacturing employment in October was offset by increases in other lines of activity. The average factory work week increased to 40.3 hours in October but was one hour less than a year ago. Average hourly earnings continued at $1.78, 5 per cent above the October 1952 level, and weekly earnings at $71.73 were about 2 per cent above a year ago. Unemployment in early October remained exceptionally low at 1.2 million. New claims for unemployment compensation have increased further since then and in early November were substantially above a year ago.

Distribution

Seasonally adjusted sales at department stores rose slightly further in the first three weeks of November, following some recovery in October from the reduced September level. Total retail sales changed little in October and were near their high year-ago level, reflecting mainly continued high sales of new and used cars by automotive dealers. Seasonally adjusted stocks at department stores which had declined in September are estimated to have shown little change in October.

INDUSTRIAL PRODUCTION

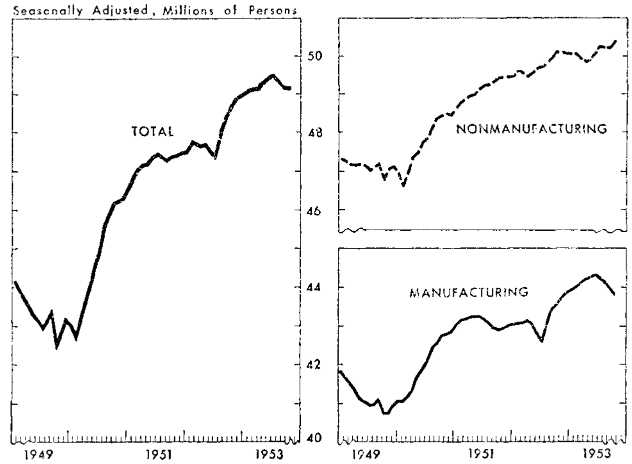
Per Cent, Physical Volume, Seasonally Adjusted, 1935-39=100



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

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS

Seasonally Adjusted, Millions of Persons



Bureau of Labor Statistics data adjusted for seasonal variation by Federal Reserve. Proprietors, self-employed persons, and domestic servants are not included. Midmonth figures, latest shown are for October.

Commodity Prices

The average level of wholesale prices changed little from mid-October through November. Livestock showed further decreases, largely seasonal, through early November, but subsequently advanced sharply. Prices of pork and some other foods declined, but grains advanced, reflecting in part the influence of Federal support programs. Average prices of industrial commodities continued to change little. There were reductions in cotton textiles, alcohol, petroleum products, carpets, and list prices for some makes of television sets. Acetate yarn was raised, however, and metal scrap increased slightly further.

Consumer prices again advanced in October, reflecting further increases in most groups of goods and services other than foods.

Bank Credit and Reserves

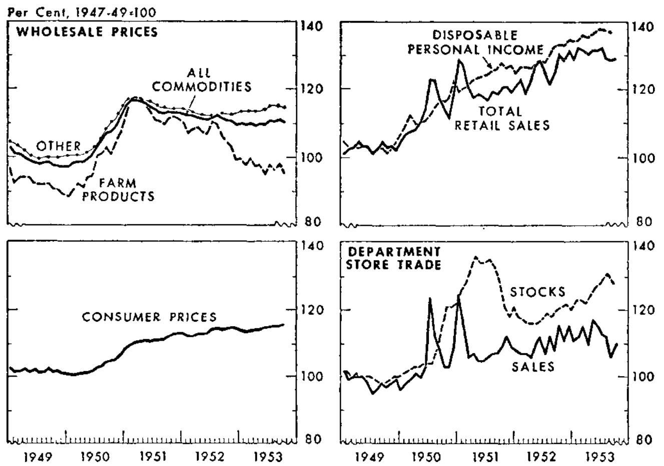
Total loans and investments at banks in leading cities increased substantially during the first three weeks of November, reflecting largely bank purchases of the new Treasury bonds issued on November 9. An increase in bank loans reflected mainly expansion in loans for purchasing and carrying securities. Real estate and consumer loans showed little further change. Business loans increased only slightly, compared with a substantial rise in the same period last year.

Bank reserve positions continued generally easy during most of November, although at times banks in major cities were under some reserve pressure. During the four weeks ended November 25, excess reserves of member banks, on the average, exceeded borrowings at the Federal Reserve by about 300 million dollars. System Open Market purchases of U. S. Government securities, and an increase in float supplied additional reserves but these were absorbed through currency outflows and increases in required reserves. Early in November the Treasury used part of its free gold to retire securities held by the Federal Reserve Banks, a transaction which had no effect on member bank reserves.

Security Markets

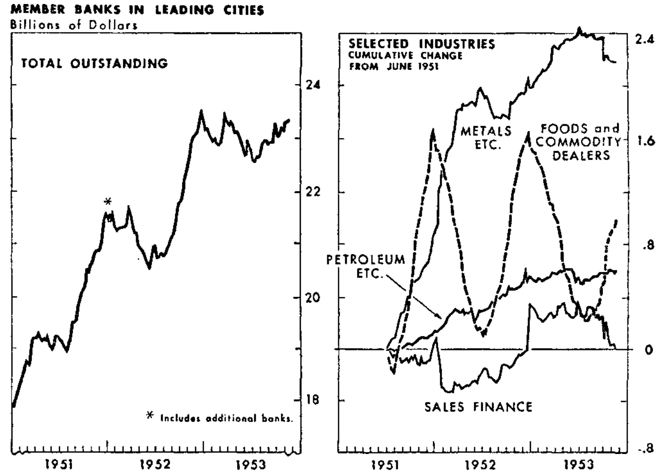
Yields on U. S. Government and corporate securities rose slightly over the first three weeks of November, following substantial declines in October. The Treasury offered 2½ per cent bonds of December 1958 or 1⅞ per cent notes of December 15, 1954 in exchange for the 2⅛ per cent notes maturing December 1, 1953.

PRICES AND TRADE



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 October, except income (September) and department store stocks (September 30).

COMMERCIAL LOANS



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 November 11.