# MONTHLY REVIEW

## *Of Credit and Business Conditions*

FEDERAL RESERVE BANK OF NEW YORK

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## MONEY MARKET IN DECEMBER

While seasonal demands for cash and temporary increases in Treasury deposits at the Reserve Banks placed bank reserve positions under some pressure during most of December, the pressure on the money market was not nearly so pronounced as it had been at the end of 1952 and 1951. The Federal Reserve Banks prevented undue strain from developing by making substantial purchases of securities throughout the month, both outright and under repurchase agreements with dealers. Also, in order to facilitate year-end money market adjustments and to relieve the pressure on the banks' reserves, the rate charged nonbank dealers in Government securities for repurchase agreements was reduced temporarily from 2 per cent to 1¾ per cent. Member bank borrowing from the Reserve Banks was substantial at times, but the average for the month was only a fourth of the average for December 1952.

Under seasonal influences the average rate of discount on the weekly issues of Treasury bills reached 1.704 per cent for the issue dated December 24, but receded to 1.574 per cent for the final issue of the year. The rate on Federal funds was quoted at 1¾-1$^{15}/_{16}$ per cent during most of the early part of the five-week period ended December 30 but tended to ease after Christmas. Prices of intermediate and long-term Government bonds, nevertheless, showed considerable strength throughout the month. Selling in the market was negligible, and there was a persistent, small demand for the longer securities from pension funds and other investors. The demand for intermediate securities came largely from commercial banks. Since loans at many banks have shown less-than-seasonal growth this fall and winter, or in a few cases actual declines, some banks have apparently tended to lengthen their Government security portfolios. At the close of the market on December 31, the 3¼ per cent bonds of 1978-83 were quoted at a price of 105$^{22}/_{32}$, or a yield of 2.92 per cent (bid basis); other long-term issues were back to the levels of mid-December 1952. The recently issued 2¾'s of 1961 closed at 102$^{24}/_{32}$.

Aside from the regular weekly bill issues, the Treasury did not engage in any financing operations in December. Its next refundings will occur in connection with its February maturity of 8.1 billion dollars of 2¼ per cent certificates of indebtedness and its March maturity of 4.7 billion 1⅜ per cent notes. The Treasury did announce on December 11, however, that it was inviting holders of Series F and G Savings bonds which will mature in 1954 (2.2 billion dollars) to exchange them at maturity for other issues of Savings bonds. Individuals may exchange their maturing Series F and G bonds for Series E or H bonds up to the $20,000 annual limit for each series, or along with other classes of investors, they may invest in Series J and K bonds up to the combined annual limit of $200,000.

### MEMBER BANK RESERVE POSITIONS

Shifts of Treasury funds and the usual seasonal gyrations in float accounted for most of the swings in the volume of reserves available to the banking system during December, although the Christmas currency demand constituted the most persistent source of pressure on member bank reserves until the final week of the month. As Table I indicates, the flow of funds into or out of the Treasury's deposits at the Reserve Banks had little net effect on bank reserves during the statement weeks ended December 2 and 9. But in the following week a sizable amount of funds was put into the market. Tax and Loan Account withdrawals were reduced in that week, and the Treasury's Reserve Bank balances were allowed to drop to a relatively low level since the Treasury anticipated that in the following week, the week ended December 23, these balances would rise sharply, even without any Tax and Loan Account calls. Cash receipts were expected from the payments due on December 17 for the second issue of Commodity Credit Corporation Certificates of Interest (450 million dollars) and from the concentration of quarterly corporation income tax pay-

CONTENTS

**Table I**

**Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, December 1953**

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

| Factor | Statement weeks ended | | | | | Five weeks ended Dec. 29 |
|---|---|---|---|---|---|---|
| | Dec. 2 | Dec. 9 | Dec. 16 | Dec. 23 | Dec. 29* | |
| *Operating transactions* | | | | | | |
| Treasury operations† | + 2 | + 35 | +274 | −567 | +295 | + 39 |
| Federal Reserve float | +156 | −186 | +587 | +176 | −377 | +356 |
| Currency in circulation | −100 | −113 | − 49 | −203 | +147 | −318 |
| Gold and foreign account | − 1 | − 60 | + 27 | + 4 | + 9 | − 21 |
| Other deposits, etc. | − 77 | + 6 | + 16 | −169 | + 62 | −162 |
| Total | − 19 | −319 | +856 | −760 | +135 | −107 |
| *Direct Federal Reserve credit transactions* | | | | | | |
| Government securities | | | | | | |
| Direct market purchases or sales | + 50 | +100 | +100 | + 75 | − | +325 |
| Held under repurchase agreements | + 9 | +164 | + 12 | +354 | +103 | +642 |
| Loans, discounts, and advances | −341 | +301 | −459 | +166 | −303 | −636 |
| Total | −282 | +565 | −347 | +595 | −200 | +331 |
| *Total reserves* | −301 | +246 | +509 | −165 | − 65 | +224 |
| *Effect of change in required reserves* | − 86 | +119 | −277 | + 26 | − 54 | −272 |
| *Excess reserves* | −387 | +365 | +232 | −139 | −119 | − 48 |
| Daily average level of member bank: | | | | | | |
| Borrowings from Reserve Banks | 605 | 671 | 430 | 503 | 232 | 488 |
| Excess reserves | 597 | 665 | 770 | 797 | 852 | 736 |

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

* Six days ended December 29; figures for December 30 not available as this *Review* went to press.

† Includes changes in Treasury currency and cash.

ments in that week. No tax checks were credited to X accounts[1] during December since the tax liability for the month was relatively small and the Treasury's need for the funds was almost immediate.

The volume of Federal Reserve float outstanding is always subject to sharp fluctuations in December partly because of the increased volume of checks connected with Christmas and fourth-quarter dividend and tax payments, and partly because of the much heavier volume of mail of all kinds which tends to slow down the intercity collection of checks. Float outstanding rose from 636 million dollars on November 25 to a peak of 1,462 million on December 22, adding 826 million dollars to member bank reserves, and then declined to 992 million by December 29.[2] The rise in float helped to offset the drain on bank reserves caused by currency withdrawals and the net increase in Treasury balances at the Federal Reserve Banks during the four weeks before Christmas, and the contraction in float in the last week of December was a partial offset to the beginning of the currency return flow and net Treasury disbursements.

The demand for currency persisted, as is usual, right up to Christmas. In the four statement weeks ended December 23, the total amount in circulation increased 465 million dollars. In the final statement week of the month (through the 29th) 147 million was returned to the banking system. Foreign accounts absorbed a minor amount of funds during the month. Required reserves fluctuated erratically within the month, reflecting such factors as the swings in Treasury deposits and float, but on balance they increased, thus absorbing reserves.

To help offset the market's losses of funds resulting from seasonal and other factors, the System Open Market Account entered the market during each of the four statement weeks ended December 23 and purchased outright a net total of 325 million dollars of securities. There were no transactions for the System Open Market Account for the final statement week. In addition, during the five weeks under review, the Federal Reserve Bank of New York purchased, net, 642 million dollars of short-term securities under repurchase agreements with dealers. The provision of Federal Reserve credit by these means was not large enough to offset all of the banks' reserve losses at all times, and it was necessary at certain times during the month for individual banks to obtain additional funds by borrowing rather substantial amounts from their Reserve Banks. The amount of such borrowings averaged less than 500 million dollars, however, whereas in December 1952 the daily average had been close to 1.6 billion.

As a net result of the changes in each of the various factors affecting their reserve positions, member bank excess reserves and borrowings in the early part of the month just about balanced. On the 15th and 16th, as float rose and Treasury balances in the Reserve Banks were reduced, some temporary ease developed in the money market allowing banks to reduce their borrowings. This ease was short-lived, however, partly because many banks had anticipated it and needed the funds that became available to cover their accumulated deficiencies, and partly because payment for the allotments of the CCC certificates had to be made on December 17. The decline in float and the build-up of the Treasury's balances in the next few days put some pressure on the market briefly, and borrowings rose above the level of excess reserves. In the closing ten days of the month, the money market eased again and member bank borrowings were reduced substantially, to a total well below the volume of excess reserves.

## Market for Government Securities

The somewhat tighter money conditions prevailing during December and the usual year-end portfolio adjustments of banks and nonbank corporations exerted moderate upward pressure on yields in the short-term area of the Government security market early in December. However, the decidedly easier availability of bank reserves over this year-end period, in contrast to that of the two preceding years, and the smaller cash requirements for corporate tax payments this year, helped to reduce the impact of seasonal pressures on the market and yield adjustments were less marked than in either 1951 or 1952. At the beginning of December, the various maturities of Treasury bills were quoted at discounts ranging from 1.50

[1] X accounts are the special Tax and Loan Accounts at depositary banks to which the Treasury has often permitted the crediting of large tax checks, $10,000 and over, during quarterly tax periods instead of having these checks deposited directly in its balances at the Federal Reserve Banks.

[2] The figures for the final statement week of the month, ended December 30, were not complete when this *Review* went to press. Data through the 29th have been used instead.

through 1.60 per cent. Subsequently, as nonbank corporations sold bills or allowed them to run off at maturity to secure funds for tax payment or other purposes, and, as some commercial banks became net sellers of bills, the rate of discount on the longest maturity of Treasury bills rose to levels in the neighborhood of 1.70 per cent over the middle of the month. Around Christmas time, however, rates of discount began to decline, and market rates on three-month bills had dropped to about 1.40 per cent by the month end. Average rates of discount on new bills awarded during December fluctuated from 1.589 per cent and 1.603 per cent on the issues dated December 3 and December 10, respectively, to 1.682 per cent and 1.704 per cent on the issues dated December 17 and December 24 and then fell to a rate of 1.574 per cent on the issue dated December 31. During the month of December commercial banks were alternately sellers and purchasers of bills as they adjusted their reserve positions or served as residual purchasers of bills offered in the market by nonbank corporations and not absorbed by dealers or the Federal Reserve Banks. On balance, however, despite any year-end window dressing that may have occurred, commercial banks in the aggregate were apparently moderate net purchasers of bills.

Dealers in United States Government securities also took into position a sizable quantity of Treasury bills from time to time during the month, both through market purchases and through direct allotment on new issues. The Federal Reserve System was a large net purchaser of short-term bills for System Account both outright and on swaps. The swaps were effected during the statement weeks of December 2 and 9 and involved the sale of a limited amount of short-term securities for which demand was particularly strong, in order to acquire January bills. In addition, the Federal Reserve Bank of New York aided dealers in carrying their large positions in short-term Government securities by the ready extension of repurchase agreements throughout the month. Repurchase agreements were outstanding during every week in December, as shown in Table I, and during the last week in the month the volume of securities held under repurchase agreements at the Federal Reserve Bank of New York reached a larger total than at any time since December 1952. In order to avoid undue temporary stringency in the market by encouraging dealers to carry the net supply of bills and other short-term issues reaching the market during December, the rate on repurchase agreements was lowered temporarily from 2 per cent to 1¾ per cent. Yields on short-term Treasury issues other than bills remained substantially unchanged throughout the month of December. Trading was generally quite active, including a sizable volume of investment in certificates and short-term notes and bonds by nonbank corporations investing the proceeds of recent market financing. Reflecting in part the "rights" values attached to these issues, and in part the need for maturities not available in the bill market, the short-term certificates, bonds, and notes maturing in 1954 were quoted during the month at yields generally below 1.60 per cent, somewhat lower than the average rate on three-month Treasury bills.

Prices of the intermediate and longer-term Treasury issues were higher for the month as a whole. Price increases ranging from 1 to about 2¼ points were registered on the issues first callable after 1958. The improvement in the prices of these issues during December reflected primarily the continued tone of confidence in the market and an expectation that the outlook for the immediate near-term future was for still lower rates of interest. This expectation was strengthened early in the month by the contraseasonal decline in commercial bank loans and by the release of official statistics indicating declines in certain indicators of economic activity. Other influences on the market were the absence of any pronounced degree of money market tightness during the customarily tight month of December, and the Treasury's announcement on December 11 that holders of the Series F and G bonds maturing in 1954 would not be offered a marketable issue in exchange for their holdings. As a result of these influences, prices for the intermediate and long-term securities moved sharply higher through the first ten days of December. The rapid advance in the early part of the month was followed by a modest downward adjustment, largely as a result of professional profit taking. In the latter part of the month prices resumed their upward movement, and by December 29 the prices of intermediate and long-term Treasury issues were generally at the highest levels attained at any time during 1953. Trading in December was not noticeably more active than in other recent months, despite a somewhat broader interest in portfolio extension on the part of a number of commercial banks and a steady demand from public and private pension funds, but the limited volume of trading during the month resulted more from an absence of offers in the market than from a dearth of demand at current prices.

## BANK RESERVES—SOME MAJOR FACTORS AFFECTING THEM

A second edition of *Bank Reserves—Some Major Factors Affecting Them* (originally published in March 1951) is now available free of charge to anyone interested in receiving a copy. This edition contains two new articles, both of them dealing with broad aspects of the analysis of bank reserves—their sources and uses, and the functions of reserve requirements. (One article, "U. S. Treasury Tax and Loan Accounts at Banks", has been deleted but will be included in a later booklet of the series.) The other articles are devoted to a brief consideration of specific topics which normally are given relatively little attention in general texts on money and banking. All of the articles first appeared in the *Monthly Review* and have been revised to bring them up to date. Requests for copies should be addressed to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y.

**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 Dec. 23, 1953p |
|---|---|---|---|---|---|---|
| | Nov. 25 | Dec. 2 | Dec. 9 | Dec. 16 | Dec. 23p | |
| *Assets* | | | | | | |
| Total loans and investments.... | −169 | +151 | − 136 | +672 | −184 | +1,388 |
| Loans, net*................ | −301 | + 58 | + 43 | +249 | +129 | +1,585 |
| Commercial, industrial, and agricultural loans....... | −172 | − 71 | − 53 | + 49 | +234 | − 26 |
| Security loans............ | + 15 | − 6 | + 75 | +192 | − 50 | + 33 |
| Real estate loans.......... | + 5 | − 13 | + 9 | + 15 | − 13 | + 365 |
| Loans to banks........... | −157 | +142 | + 21 | − 10 | − 68 | + 495 |
| All other loans (largely consumer).............. | + 6 | + 7 | − 8 | + 3 | + 27 | + 747 |
| Total investments........... | +132 | + 93 | − 179 | +423 | −313 | − 197 |
| U.S. Government securities. | +140 | + 47 | − 124 | +368 | −348 | − 279 |
| Treasury bills.......... | + 91 | − 5 | − 44 | +395 | −256 | −1,674 |
| Other U. S. Government securities........... | + 49 | + 52 | − 80 | − 27 | − 92 | +1,395 |
| Other securities........... | − 8 | + 46 | − 55 | + 55 | + 35 | + 82 |
| *Loans net and other securities...* | −309 | +104 | − 12 | +304 | +164 | +1,667 |
| *Liabilities* | | | | | | |
| Demand deposits adjusted... | +605 | + 74 | + 783 | +926 | −441 | + 271 |
| Time deposits except Government.............. | + 20 | + 28 | + 112 | + 80 | + 57 | +1,483 |
| U. S. Government deposits... | −398 | −357 | −1,006 | + 7 | +177 | − 989 |
| Interbank demand deposits | | | | | | |
| Domestic................ | −732 | +371 | − 112 | +795 | −350 | − 568 |
| Foreign.................. | + 13 | + 20 | − 10 | − 14 | − 23 | − 147 |

*p* Preliminary.

* 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.

### Member Bank Credit

New loans extended by the weekly reporting member banks in the five weeks ended December 23 were not large enough to offset repayments of previously outstanding loans. In the comparable period last year, the net rise in the loans of these banks was 987 million dollars. Total loans, as Table II indicates, did show a net increase for the five-week period of approximately 178 million dollars, but the entire increase was not so large as the bank purchases of the new Certificates of Interest sold by the Commodity Credit Corporation on December 17 which are included in the loan figures. Preliminary figures indicate that the weekly reporting member banks purchased over 200 million dollars of these certificates. Other types of commercial, industrial, and agricultural loans declined relatively sharply during these five weeks, and loans to banks were down moderately on balance. Changes in real estate and "all other loans", principally consumer loans, were negligible, thus tending to confirm reports from other sources that the volume of new loans being made to consumers by most financial institutions currently exceeds repayments by only a narrow margin. Security loans, principally those made by New York City institutions to brokers and dealers and others for carrying temporarily portions of some recent corporate flotations, helped to bolster bank loan totals, rising about 226 million dollars net in the five weeks under review.

Total investments increased by a much smaller amount in these five weeks this year than they did last year. In the comparable period of 1952 they were up 735 million dollars, whereas this year they rose only 156 million. The larger part of this year's Government security purchases were Treasury bills, but, as noted earlier, considerable amounts of intermediate-term bonds were also acquired, both by outright purchases and by the exchange of holdings of matured 2⅛ per cent December 1 notes for 2½ per cent bonds of December 1958. Holdings of notes and certificates were down.

The second issue of CCC certificates, which was sold on December 17 in the amount of 450 million dollars, was 90 million larger than the October issue. The rate of interest, 2¼ per cent, was ¼ per cent lower than on the previous certificate. The recent issue was offered on December 10 and quickly oversubscribed. Allotments were made on a 34½ per cent basis except for subscriptions of $50,000 or less which were allotted in full.

## RECENT CHANGES IN GREAT BRITAIN'S TRADE AND PAYMENTS CONTROLS

Over the past year or two, hardly a month has gone by in which Great Britain has not taken some new step to relax its official controls over international payments and the movement of goods in international trade. The London foreign exchange market has been reopened, various exchange controls have been relaxed, private trading has been resumed on a number of commodity markets, and quotas have been enlarged or removed on a variety of imports from nondollar countries. Although much difficult ground undoubtedly remains to be covered, there has been encouraging progress on a broad front toward a freer system of trade and payments.

Some of these measures in the field of trade and payments have been essentially of a technical nature, but others, more particularly the return of various commodities to private trading, have directly furthered progress toward a freer system. The relaxations in trade and payments controls have, of course, been closely interwoven in their effects and have tended to fortify each other. The freer flow of trade has been enhanced by wider dealings in foreign exchange as well as by the removal of more direct trade restrictions. Similarly, the easing of trade barriers has tended to broaden the base of foreign exchange market operations, and to add to their economic significance and practical advantages. These steps have proceeded against a background of a substantial improvement in Britain's balance of payments and a noticeable strengthening of sterling in the principal exchange markets.

### The Reopening of the London Exchange Market

The restoration of a foreign exchange market in Britain has been accomplished in a number of stages. The first important move was made in December 1951, when authorized banks were given wider freedom to deal in United States and Canadian dollars and certain Western European currencies. There had been limited dealings in Canadian dollars at market rates since October 1950, when Canada unpegged its dollar, but as regards the other currencies the banks had been merely intermediaries between their customers and the Bank of England (the latter acting on behalf of the Exchange Equalization Account). The commercial banks had been required to surrender to the Bank of England, at officially fixed rates, specified currencies obtained from their clients, and the banks could obtain these currencies for the needs of their customers only from the Bank of England at its fixed selling rates.

Under the new arrangements of December 1951, authorized banks in the sterling area were allowed to deal in these currencies with each other. The authorities ceased to quote forward rates entirely, and the spread of rates on spot transactions was opened up somewhat, the prescribed range for the pound in terms of United States dollars, for example, becoming $2.78-$2.82. Moreover, in the case of United States and Canadian dollars the authorized banks were allowed to deal, both spot and forward, with banks in the United States and Canadian-dollar areas against American Account sterling. The permission given at this time to deal in certain European currencies was more restricted, however; it applied to transactions with other authorized sterling-area banks only—not with foreign banks—and was further limited in some cases to spot transactions.

Since 1951, these arrangements have been gradually extended to cover a larger number of currencies (now including most Western European currencies, as well as United States and Canadian dollars) and to provide a wider scope for operations in each currency. The permission to undertake currency transactions with foreign banks was first granted only on a bilateral basis; when dealing in Paris, for example, the British banks could do so only in French francs against sterling, and in Zurich only in Swiss francs against sterling. Last May, however, the United Kingdom and seven other members of the European Payments Union agreed to permit multilateral exchange dealings in their respective markets for the eight currencies concerned. Initially, the new arrangement applied automatically only to spot transactions, but since October forward transactions up to three months have been permitted as well. In December another country, Norway, joined this group but thus far only as regards spot transactions. For some of the Continental countries, the establishment of multilateral exchange arrangements was less of an innovation than for Britain, as in several of them foreign exchange markets had been in operation, under varying degrees of freedom, for some time.

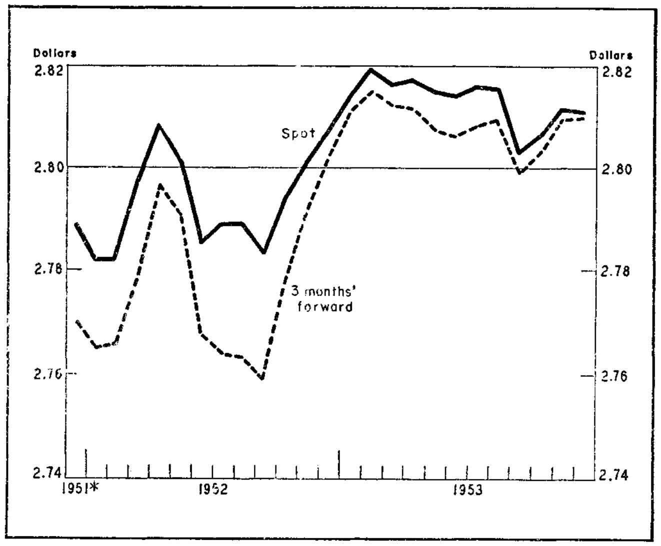
In general, the London foreign exchange market appears to have reconstituted itself quite rapidly, as institutional arrangements and skills long dormant have been brought quickly into action again. The facilities now available are, of course, less extensive than in the prewar period when there were no exchange controls, but they do provide some opportunity for the banks to operate as more than intermediaries between their customers and the exchange authorities. In many cases foreign currency dealings may be conducted directly with other financial centers throughout the world, and to some extent a position may be taken in the market without daily resort to the Bank of England for cover.

The fundamental limitation remains, however, that foreign exchange dealings must be for purposes of legitimate trade and other approved transactions. Moreover, earnings of specified foreign currencies must still be turned over to authorized banks, and the latter in turn may hold only limited balances abroad. Nevertheless, the reopening of the exchange market has revitalized essential institutional arrangements and technical skills that will prove indispensable to the smooth functioning of a substantially freer trade and payments system—an objective that is being brought closer by the marked strengthening in the general position of sterling.

## Foreign Exchange Developments

The improved strength of sterling is well evidenced by the gain of some 800 million dollars in the sterling area's gold and dollar reserves over the past fifteen months. Accompanying this reserve growth, which reflected the decidedly more favorable turn in the area's dollar accounts, there was a notable upward movement in the dollar rate for the pound. As may be seen from the chart, both spot and forward rates for sterling were weak in the first months after the reopening of the exchange market in December 1951, except for a brief spurt in the spring of 1952; but beginning in September 1952 the rates moved strongly upward. Early in 1953 spot sterling rose very close to the $2.82 upper limit; even though it weakened later in the year, it fell only rarely below the $2.80 midpoint, generally remaining above $2.81. The market, despite its limitations, appeared to show some flexibility and response to day-to-day changes, without the rate becom-

**Dollar Rates for Sterling**
(Monthly averages of daily closing cable rates in New York)




* December 18-31, 1951.
Source: Federal Reserve Bank of New York.

ing lodged for a long period at one or the other end of its narrow range. Sterling rates in terms of most other currencies showed similar signs of flexibility and strength. There was, moreover, a marked increase in the free-market prices of various types of nonresident sterling. The discount from the official rate on so-called "transferable sterling" in New York, for example, is now less than 3 per cent, compared with about 12 per cent two years ago.

Further evidence of the increased strength of sterling on foreign exchange markets after 1951 is the fact that a number of countries found it necessary to restrict sharply their imports from the sterling area as well as from dollar countries. Moreover, several countries have resorted to purchases of sterling with dollars, and some have obtained sterling from the International Monetary Fund against their own currencies. At the same time there has been a sharp decline in sterling balances held by countries outside the sterling area; such balances fell by nearly 30 per cent from the end of 1951 to mid-1953.

### The Reopening of the Commodity Markets

By far the most significant relaxations of Britain's exchange and trade controls in recent years have had to do with the progressive reopening of various commodity markets, which had remained closed since the establishment of wartime controls on basic materials and foodstuffs. Along with the gradual return to private hands of much trading that had long been the exclusive province of government departments, authorized dealers generally have been accorded much readier access to foreign exchange not only for the financing of imports but also for engaging in entrepôt trade.

The resumption of private trading in certain commodities actually began early in the postwar period (wool, rubber, and tin between 1945 and 1949, for example), but initially the advance was slow. Following the outbreak of hostilities in Korea, progress was halted temporarily by renewed commodity shortages and inflation, and certain controls had to be reimposed. The trend toward private trading was resumed in the second half of 1951, however, and was considerably accelerated after mid-1952. In the latter half of 1952 private trading was extended to lead and fertilizers, and to some extent to coffee, sugar, and cotton. The grain market was reopened in mid-1953, and trading in wheat futures began again in Liverpool in December. Several other basic markets, including zinc, copper, and silver, were reopened during the year. Among the steps announced for early 1954 are the resumption of private trading in magnesium, sulphur, and pyrites, and the reopening of a grain futures market in London. Further freedom for cotton trading is in prospect later in the year.

The degree of freedom so far restored varies considerably from commodity to commodity. For tin, lead, zinc, and copper—the four metals traded on the London Metal Exchange—the restrictive licensing controls over international trading and domestic distribution have been almost entirely dismantled. Authorized dealers on the exchange are permitted to buy these metals for dollars in the dollar area, either for import or resale to other countries, even outside the sterling area, against payment in sterling or certain other currencies. Observance of the remaining exchange controls, which appear to be aimed at the prevention of such things as the excessive accumulation of certain soft currencies, is left primarily to the metal exchange itself, presumably with only *post facto* surveillance by the authorities. A different policy is followed in grain, of which the dollar area provides a large proportion of the supplies entering international trade. Grain purchased for dollars may not be resold outside the sterling area except against payment in United States or Canadian dollars, or in American Account sterling. British imports of grain, however, are now freed of specific licensing requirements, whatever the source or the currency used in payment. The partial restoration of private trading in raw sugar, which also is viewed primarily as a dollar commodity, has been similarly limited by the requirement that sugar purchased in the dollar area be resold outside the sterling area only for dollars or American Account sterling.

In general, the United Kingdom appears to have proceeded with caution in reopening commodity markets, presumably in order to guard against abuse of the new trading opportunities as well as the possibility of adverse payments developments. The dealings are for the most part open only to "authorized participants"; these are the traders who make up the various organized commodity markets and have a continuing interest in the commodity concerned. Especial care seems to have been taken to avoid excessive dollar losses through the resale of dollar commodities to countries outside the sterling area—mainly Continental Europe. Trading in metals now offers some scope for this so-called "commodity convertibility", but even here the possibilities are limited by the fact that nondollar countries derive their supplies of these metals largely from sources outside the dollar area.[1]

The reopening of commodity markets and the relaxation of many controls over international commodity dealing have been accompanied by extensive decontrol measures on the domestic side. Consumer rationing, subsidies, and restrictions on price and allocation at the various stages in the productive process have declined markedly. Further steps along this line have been announced for the early future, including the end of food rationing by next summer.

These measures, together with the restoration of more flexible monetary policies, have represented substantial progress toward a freer market economy in Britain. Internationally, the effect has been to establish better integrated world commodity

[1] It may be recalled that in August 1952 Britain introduced a scheme permitting the purchase of grain and certain other commodities in the dollar area for resale to other European Payments Union countries, but suspended it after a few days and later withdrew it entirely. These resale transactions did not subject the United Kingdom to a loss in monetary reserves, since the British EPU position was then such as to require settlement of the country's monthly EPU deficits or surpluses wholly in gold and dollars.

markets, with goods tending to move more readily in response to over-all demand and supply conditions. In the case of certain metals now traded on the London exchange, for example, the effect has been quite dramatic: with the return of private trading, London (and, to some extent, Continental) prices dropped sharply, tending to bring about more appropriate price relationships with the dollar area than during the earlier period of more restricted markets. These developments are highly important to the United Kingdom, which is seeking not only to render its economy more flexible but also to enhance its position as a center of international trade. Particularly significant are the relaxations of controls on commodities traded extensively with the dollar area; here, the re-establishment of world-wide markets cuts across the lines of hard-currency and soft-currency areas and tends to bridge the gap between them.

### Capital Transfer Controls

Restrictions on international capital movements, which were established by Britain at the start of World War II, have been substantially maintained since the end of the war. However, there have been certain instances in which the authorities have made revisions in the exchange regulations and practices in this field, too. In February 1953 dollar-area investors in the United Kingdom were authorized to repatriate the capital gains realized on investments that had been made in approved projects after January 1, 1950; prior to this, only the ordinary profits and the amount originally invested could be transferred. In addition, following the arrangements made last August for repaying Britain's wartime debt to Canada, broader authorization was given to British investors to switch from one Canadian security to another or between Canadian and United States securities. Previously, switching was permitted in United States securities, but Britons who sold their Canadian securities for dollars were required to turn over the proceeds to the British authorities, for use primarily in retiring the above-mentioned debt to Canada. Independently of this new freedom to trade in Canadian securities, the British authorities have approved applications for a substantially larger volume of investments in Canada during the past year. The total flow of new investment funds from Britain to Canada in 1953 accordingly was very much above any other postwar year.

Nondollar countries also have been affected by recent changes in capital transfer regulations. For example, in December 1952 the British authorities announced that French-owned blocked sterling would be eligible, subject to Bank of England approval in each case, for transfer into a French account where it would be available for normal commercial transactions. Also in December 1952, Britain agreed with Italy to amortize the latter country's sterling holdings by means of monthly installments settled through the European Payments Union, instead of requiring that Italy must first be an over-all EPU debtor before such balances could be used.

### Intra-European Trade Liberalization

From the standpoint of their direct effect on the volume of British imports and on potential dollar outlays, the most important recent measures of trade and payments liberalization have applied to transactions with the European Payments Union countries (primarily the countries of Western Europe and their associated monetary areas). During 1950-51, in the early days of the EPU, the United Kingdom had removed quantitative restrictions from a large proportion of its nongovernment imports from other EPU countries, and attained a so-called "liberalization percentage" of 90.[2] This was far in excess of the 75 per cent minimum standard set in 1950, by the Organization for European Economic Cooperation, for countries not in balance-of-payments difficulties. The emergence after May 1951 of large British deficits with the EPU and the generally unfavorable turn in the British balance of payments that year, however, led to the reimposition of many controls. The situation was reversed again during 1952; in November of that year, larger quotas were announced for certain imports from EPU countries, and in March 1953 further import relaxations increased Britain's EPU liberalization percentage to 58 from its low point of 44. In November 1953 the government announced further relaxations that pushed the percentage up to 75. It should be noted, moreover, that not all liberalization measures show up in the percentage comparisons. The latter do not reflect the removal of restrictions on goods that in the base year (1948) were imported on government account, or the enlargement of quotas without entirely eliminating them.

Revisions of controls over "invisible" transactions with the other EPU countries have followed a similar pattern. Foreign exchange available to Britons for tourist expenditures, for example, was severely cut in November 1951 and again in January 1952. The allowance was increased in March 1953 and again in November, although it is still well below the mid-1951 level (except for travel to the Scandinavian countries, on which practically no limit is now placed with respect to genuine tourist expenditures).

In announcing the latest round of liberalization measures for trade and tourism with the EPU area, the Chancellor of the Exchequer noted that the new relaxations were not without their risks for the United Kingdom, which is still the largest debtor in the EPU. But he stated that the decisions were inspired by a desire to fulfill Britain's commitments to the OEEC and to promote a freer system of European trade and payments. It may be noted in this connection that the large British surpluses in the EPU in the last quarter of 1952 were

2 For the United Kingdom the base year for computations of liberalization is 1948. "Liberalization" of 90 per cent meant that quantitative restrictions had been removed from imports of goods that in 1948 had accounted for 90 per cent of the value of total British imports on private (nongovernment) account from other EPU countries.

supplanted by much smaller ones during the first half of 1953, and these gave way to some moderate deficits in the second half of the year. Moreover, most other EPU countries have pushed their own liberalization programs at least as far as Britain's; thus, with the possible exception of exports to France, Britain can probably hope for little more than a modest boost in its exports through the further relaxation of restrictions by its European trading partners.

At the same time that Britain cut its imports from the other EPU countries in late 1951 and early 1952, it imposed even sharper cuts on imports from other nonsterling countries, particularly in the dollar area. There has been no significant easing of these latter restrictions, although some of these regulations may have been applied more liberally. Neither have British tariffs been reduced significantly in the last two years. Indeed, Britain recently has imposed higher duties on a number of agricultural products imported from outside the Commonwealth. Apparently this was done in order to provide a measure of continued protection for some goods on which import quotas were being removed. The establishment of these new Commonwealth preferences became possible last October, when the signatories of the General Agreement on Trade and Tariffs (GATT) voted to waive the "no new preference" rule under certain conditions. One condition is that the new tariffs should not result in the displacement of imports from GATT members outside the Commonwealth by imports from overseas Commonwealth countries.

## Balance-of-Payments Background

The relaxations of controls over trade and payments outlined above have been made possible largely through a substantial improvement in Britain's balance of payments in the past two years. In turn, the various liberalization measures have impinged more or less directly on Britain's payments and reserve position, tending in some cases to improve it further, but in others to weaken it. Thus, the behavior of the balance of payments and of sterling-area gold and dollar reserves clearly has set—and will continue to set—limits on the rapidity and extent of liberalization of trade and payments.

The strongly favorable trend in Britain's over-all current-account surplus during 1952 was not maintained in the first half of 1953, but indications are that it may have been resumed later in the year. Exports have risen slowly, but fairly steadily, from the relatively low level of the second half of 1952—the latter apparently having been the result of import cuts imposed by a number of countries then experiencing a sterling shortage. British imports, too, were quite low in the second half of 1952, owing both to lower prices and to restricted volume, but the volume turned upward again early in 1953, and this largely accounted for the reduced over-all surplus in the first half of the year. Later in the year, however, imports declined again, and the trade gap narrowed as exports continued their slow increase.

For the first half of 1953 the current-account surplus, which includes British receipts of United States defense aid, was at an annual rate of only 162 million pounds as against 269 million for the year 1952. This, of course, is still very favorable compared with the 410 million deficit recorded in 1951. However, it falls somewhat short of Britain's official objectives in this respect; in December 1952 Chancellor Butler had pointed to the necessity of Britain's achieving, through larger exports, an annual current-account surplus of 300-350 million pounds in order to rebuild reserves and to finance a satisfactory program of overseas investment.

Despite the drop in the over-all surplus, Britain's payments position with the dollar area continued to improve through at least the first half of 1953. The deficit in that period was only 59 million dollars; if receipts of defense aid are included, a current-account surplus with the dollar area was reported for the first time in the postwar period. In 1951 Britain's current-account deficit with the dollar area had been more than 1,200 million dollars. For the most part, the improvement reflects a sharp decline in imports from dollar countries; in addition, there were moderately larger exports to the area and gains in various invisible items.

Britain's gold and dollar position also depends upon its payments relations with the EPU countries, and upon the transactions of other sterling-area countries both with the dollar area and with the EPU group. Britain's sterling-area partners, through their gold sales to the United Kingdom and their own transactions with the dollar area, added 221 million dollars in the first half of 1953 to the area's central gold and dollar reserves, while a further 138 million was received from the EPU. As a result of these gains and Britain's own dollar surplus, 521 million was added to British gold and dollar reserves in the first six months of 1953. During July-December 1953, however, reserves increased more slowly; at the year end reserves were 151 million dollars higher than in June. It is against the current trend in monetary reserves that the prospects for further major relaxations of controls must be considered.

## Conclusions

Britain's extensive progress in the easing of controls over international trade and payments may thus be said to have served two broad purposes. First, the decontrol measures themselves, in conjunction with generally favorable developments in the balance of payments and in the position of sterling on the principal exchange markets, have provided a greater degree of freedom and flexibility in the British economy, and have led to a strengthening of Britain's position in international trade and finance. Secondly, the measures so far taken have helped to set the stage for a gradual restoration of freer trade and payments, including, eventually, the convertibility of sterling into all other currencies, which is the stated aim of Britain and the other Commonwealth countries. From this standpoint, the recent liberalization measures have helped not only to provide the necessary technical foundation, but also to furnish a valuable body of experience as a guide for further progress.

Moreover, the possibilities for further advance should not be minimized. Britain's recent surpluses on current-account transactions, the reduction in sterling balances held outside the area, and the higher price of sterling in world exchange markets have greatly strengthened the position of sterling as an international currency. These favorable payments and exchange developments have made it more feasible, on the whole, to undertake significant relaxations of controls. Furthermore, the longer-run effects of such decontrol measures as have already been implemented or may be taken in the future should enhance Britain's economic efficiency and improve its position in the world economy, with consequent benefits for its balance of payments.

The pace of British progress toward freer trade and payments will, of course, be conditioned by the rate of improvement in Britain's external position, since the removal of restrictions may initially tend to exert an adverse influence on the balance of payments and on monetary reserves. More fundamentally, further progress depends upon the continued pursuit of non-inflationary domestic policies in Britain and throughout the sterling area, the directing of economic development toward greater production for export and greater competitive power in international markets, the maintenance of high levels of economic activity in other principal countries, and the cooperation of all trading nations and international organizations in building a freer and more stable world economy. None of these conditions admits of easy or automatic fulfillment, but the recent developments provide some ground for encouragement. Given the continuation of sound domestic policies within the sterling area and a growing measure of cooperation among the world's major trading nations, there is a fair prospect of continuing British progress toward the objectives of sterling convertibility and the removal of discriminatory trade barriers.

## THE AGRICULTURAL SITUATION

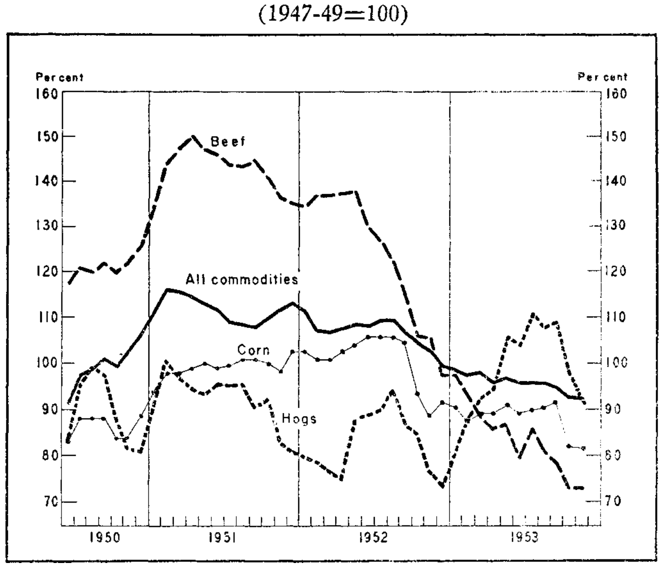
Despite another year of high output, agricultural income and purchasing power, as well as the value of farm assets, fell off during 1953 from 1952 levels, while farm debt rose slightly. Lower production costs were more than offset by declines in the prices received by farmers. The Bureau of Agricultural Economics of the United States Department of Agriculture expects a further slight decline in farmers' purchasing power during 1954 as a result of lower cash receipts not fully offset by reductions in production costs. These developments have been felt by manufacturers in the form of lower demand for farm equipment and, to a lesser extent, for consumer durables. The large crops and declining prices have also posed budgetary problems for the Federal Government in carrying out its price support program.

### Production, Income, and the Value of Farm Assets

The physical volume of farm production in 1953 rose slightly above 1952 output to the highest level on record. Although crop production was about the same, a small rise in livestock and livestock products (including dairy and poultry products) served to raise total output above the 1952 level. The near-record harvest was achieved despite poor weather conditions in many parts of the country; dry weather was more widespread and prolonged than usual and severely damaged some crops and pastures, while late rains also caused some damage. Weather conditions benefited other crops, however, with the result that total crop production was about the same as the preceding year's crop and only 3 per cent below the 1948 peak. The average yield per acre was at a record high, offsetting a slight decline in the acreage harvested. With respect to livestock and products, the output of eggs, poultry, and beef set new records in 1953; within this group, the only product showing a noticeable decline in output was pork.

Despite the continued high level of farm output, the economic position of the farmer has deteriorated somewhat as a result of a steady decline in prices. Agricultural cash income in 1953 was noticeably below the levels of the two preceding years; gross cash receipts for 1953 are estimated to have fallen to 31.2 billion dollars, 4 per cent below 1952 and 6 per cent under the 1951 peak. After breaking sharply in September 1952 the index of prices received by farmers continued downward with but two minor upturns in March and May of last year, as shown in the chart, and in mid-November was at its lowest level since the beginning of the Korean war, 20 per cent below the peak reached in February 1951. The prices of many major crops have been close to support levels, and, in fact, the market has priced some com-

**Indexes of Prices Received by Farmers Since the Start of the Korean War**
(1947-49=100)




Source: U. S. Bureau of Agricultural Economics; prices and the "all commodities" index have been converted to 1947-49=100 base by the Federal Reserve Bank of New York.

**Selected Indexes of Prices Received by Farmers, 1953, and Percentage Changes from 1952 and 1951***
(1947-49=100)

| Commodity | 1953 | Percentage change from | |
|---|---|---|---|
| | | 1952 | 1951 |
| United States | | | |
| All commodities | 95.8 | −11 | −14 |
| Wheat | 92.9 | − 6 | − 6 |
| Corn | 88.1 | −13 | −11 |
| Cotton | 104.5 | −14 | −20 |
| Beef | 83.7 | −34 | −42 |
| Hogs | 98.3 | +18 | + 5 |
| Potatoes | 77.8 | −48 | + 5 |
| Eggs | 101.8 | +14 | # |
| Milk | 98.4 | −11 | − 5 |
| New York State | | | |
| All commodities | 92.3 | −14 | − 9 |
| Potatoes | 63.4 | −62 | + 5 |
| Eggs | 98.8 | + 8 | − 4 |
| Milk | 93.8 | − 9 | − 6 |

* The indexes shown for 1953 and those from which the percentage changes were computed are unweighted averages for the first eleven months of each year. Price data and the "all commodities" indexes were converted to 1947-49 = 100 base by the Federal Reserve Bank of New York.

# Less than 0.5 per cent.

Sources: Bureau of Agricultural Economics, United States Department of Agriculture, and New York Crop Reporting Service, New York State Department of Agriculture and Markets.

modities (corn and wheat, for example) below Government loan or purchase values. Prices of beef and potatoes (neither of which is price supported) have fallen particularly sharply, as shown in the accompanying table.

As a result of such price declines, the volume of crops placed under Federal support programs in both 1952 and 1953 increased greatly. By June 30, 1953, the dollar volume of credit extended by the Commodity Credit Corporation on 1952 production had reached a total of 2.9 billion dollars, three times the credit extended on the previous year's crops. Almost 90 per cent of the dollar value was accounted for by six major products—wheat, corn, upland cotton, cottonseed, milk and butterfat, and tobacco. Support programs have also bolstered prices of 1953 crops, and large quantities of the year's production have been moving under loan and purchase agreement programs. For example, by November 27, over 4 million bales (or about 25 per cent) of the 1953 cotton crop had already been pledged against CCC loans.

Since domestic demand for farm products has remained high, the sharp price declines seem mainly attributable to the fact that the near-record crops of the past two years have been superimposed on the large carry-overs from earlier years. Heavy livestock marketings and the decline of agricultural exports in late 1952 and in 1953 have contributed to the pressure toward lower prices. Reduced foreign demand has been mainly responsible for the accumulation of surplus stocks of wheat and cotton. On August 1, 1953, for example, the total carry-over of cotton amounted to 5.5 million bales, compared with 2.8 million bales a year earlier; in the crop year ended August 1, 1953, exports of cotton were roughly 2.5 million bales less than in the same period a year earlier. In aggregate terms, the dollar volume of exports of all agricultural commodities during the year ended June 30, 1953 was 31 per cent below the previous year; since prices were also lower, the decline in physical terms was, of course, somewhat less.

The effects of the unusually large supplies available to domestic markets became especially noticeable when, beginning late in 1952, beef prices fell sharply as drought and fear of continued falling prices induced cattlemen to hasten the marketing of their cattle. In addition, at least one commodity experienced a decline in domestic consumption: corn consumption declined because of the smaller livestock population.

In contrast to the sharp declines in prices received by farmers (11 per cent over all), the prices paid by farm families (as measured by the Department of Agriculture's index of prices paid for family living and farm operation items, including wages, interest, and farm real estate taxes) were only about 3 per cent lower than in 1952 during the first eleven months of 1953. Similarly, total production costs in 1953 were estimated to be down by about 2 per cent from 1952, reflecting, for the most part, lower prices for such supplies as feed and livestock. The parity ratio (the ratio of prices received by farmers to prices paid by them) dropped below 100 in October of 1952 and averaged 93 per cent for the first eleven months of 1953, compared with an average of 101 in 1952. This was the lowest level since 1941.

As a result of these adverse relative movements of prices paid and prices received, farmers were not able to keep so large a share of their gross incomes. In 1953 farmers retained, before taxes, only 36 per cent of gross income, compared with 39 per cent in 1952 and about 50 per cent during 1942-47. Consequently, farmers' realized net income in 1953 has been estimated by the BAE at 12.5 billion dollars, 7 per cent less than in 1952. The reduction in net income has been accompanied by only minor decreases in the prices of goods used in family living, and the purchasing power of farm net income before taxes, in terms of 1935-39 prices, has reached its lowest level since 1940; in 1953 it was only about two thirds its 1947 peak. It should be noted, however, that farm income has been distributed among a steadily decreasing farm population. The purchasing power of net income from farming on a per capita basis rose by three fifths from 1940 to 1953, compared with a per capita increase in purchasing power of two fifths for the nonfarm population.

In 1952 and 1953, as in 1949 when prices of farm products also fell sharply, the value of farm assets declined; in all other years since 1940 farm assets increased in value. According to BAE estimates, the decline in the year ended December 31, 1953, due to receding values of land and livestock, was about 8.4 billion dollars, or about 5 per cent; the reductions in asset values in 1952 amounted to 3.3 billion. In contrast, farm debt since 1946 (both real estate and all other types) has been rising steadily and farmers went deeper into debt by 1.4 billion dollars during 1952 and 800 million in 1953. The result of this combination of decreased asset values and increased debt has been a reduction in the proprietary equities of farmers (and other owners of farm property) by 14.5 billion dollars (about 9 per cent) since 1951. Even though this situation is somewhat less favorable than in other recent years, proprietary equities still constitute the overwhelming share (nearly 90 per cent) of total claims on farm assets. The value of farm assets has increased by four fifths since the beginning of 1944, rising by 69.5 billion dollars, while farm debt, on the other hand, has increased only 7.8 billion, although it too has almost doubled over the same period.

## Trends in Major Farm Products

Despite the drought, a good wheat crop was harvested in 1953. A winter wheat crop of 878 million bushels was about one-sixth less than the previous year's, reflecting lower yields per acre and fewer acres harvested, but the spring wheat crop exceeded that of 1952 by a fifth. The entire wheat crop of 1.2 billion bushels, about 8 per cent below the previous year's 1.3 billion bushels, was above average and the fourth largest on record. Depressed by large carry-overs, expectations of a large crop, and lower exports, wheat prices in 1953 averaged about 10 per cent below the loan value. Farmers are pledging wheat for loans under the Federal price support program at such a rate that, if continued, by the end of this January over 500 million bushels (or about 45 per cent) of the 1953 crop will have been pledged, setting a new record. Wheat production in 1954 may be lower than last year, since Secretary of Agriculture Benson last summer set acreage restrictions and farmers approved marketing quotas which are calculated to limit the 1954 crop to 950 million bushels. Plantings will be limited to 62 million acres, compared with the 78.6 million planted for last year's crop. Early in October when seeding of winter wheat was begun, there was extreme drought, but rains coming later in the month improved the outlook for the crop.

Almost ideal weather conditions prevailed for the maturing and harvesting of late grains although corn was damaged in some areas of the Corn Belt by prolonged drought. Fewer acres were planted to corn last year than in 1952, but a crop of nearly 3.2 billion bushels of good quality corn was harvested. Only 3 per cent less than the 1952 harvest, the large crop exceeds anticipated consumption. Unless prices rise above support levels, a significant portion of the crop will move under Federal support operations, and will be added to the approximately 550 million bushels of Commodity Credit Corporation holdings at the start of the new crop year. Acreage allotments for the 1954 crop are under consideration by the Secretary of Agriculture. Total feed supplies are larger than last year, and there will be about 3 million fewer farm animals (largely because of the smaller 1953 pig crops) to consume them during the 1953-54 feeding year. Like feed grains, the hay crop was both large and poorly distributed; large areas of the South and Southwest, hard hit by drought, have inadequate feed supplies and the CCC has made feeds available at reduced prices to "disaster" areas in thirteen States. In addition, pasturage has been the poorest since 1939.

Poor pasturage and fear of falling prices caused feeders and cattle raisers to send their animals to market in such unprecedented numbers that the volume of slaughterings fully offset the natural increase in the cattle population, ending, for the present at least, the build-up of herds. This may indicate that the peak of the current cattle cycle has been reached; at any rate, the BAE expects little change from the January 1953 cattle population of 94 million head during the next year or two. Prices broke sharply in mid-1952 as a result of the large supply; the decline in that year was most pronounced for the lower grades of beef, but in the first half of 1953 it extended to the better grades. Some recovery has occurred since mid-year in the prices of better-grade steers. Hog production declined again last year, reaching a five-year low and pushing prices in July to the highest point since the peak reached in 1947-48. The hog-corn price ratio turned more favorable for pig raisers, portending a larger pig crop next spring. Until the fall of 1954, then, pork will continue in relatively short supply, but larger beef supplies will be available to consumers. On the whole, total meat production this year will probably be only slightly less than in 1953.

## Second District Farm Products

While there are farms in the Second Federal Reserve District which raise cattle, wheat, other grains, and even tobacco, major interest here lies in dairy, egg and poultry, and vegetable farming—forms of farming best suited to smaller-scale operations and the varying soil conditions and terrain found in this region, and adapted to the needs of large near-by metropolitan markets. Dairying is the major agricultural enterprise, and dairy products generally account for nearly half of farmers' cash receipts in this District.

Although per capita consumption of fluid milk remained high and prices were lower, demand for milk products did not keep pace with production in 1953; consumption of cream fell off and butter consumption in the nation remained at the 1952 all-time low of nine pounds per person. Prices weakened as a result of the excessive supply, and the Federal Government purchased substantial quantities of butter, cheese, and nonfat dry milk. These support operations have been less important in this District than in certain other dairying areas, because by far the largest share of New York State's dairy production is consumed as fluid milk or cream.

The downward trend since 1944 in the country's milk cow population ended late in 1952; by the end of June 1953 the cow population was larger by 2.6 per cent than it was a year earlier. A similar increase occurred in the size of herds on New York State farms. Larger herds increased milk output, both in the United States and in New York; the country's milk production increased by 4 per cent during the first ten months of last year, as compared with the same period in

1952, while in New York State the increase was slightly greater. Milk output per cow in this region was little changed from 1952, as larger feedings of concentrates and high-quality hay offset the poor pasturage caused by drought. Prices received by dairymen in this State averaged 9 per cent lower than in the corresponding eleven months of 1952, but the Cornell index of dairy farming costs averaged only 2 per cent lower, reflecting lower feed and milk cow prices. Both cash receipts and net incomes from dairying, therefore, were less than in 1952 in New York State. The BAE estimates that, in the nation as a whole, cash receipts from dairying were about 9 per cent less than in 1952 and totaled 4.2 billion dollars. Receipts are expected to decline somewhat in 1954, while net income will be little changed from last year, as slightly lower costs are anticipated.

Last year was, in general, a good one for the poultrymen of the country, whose farms turned out record quantities of eggs and poultry. Higher egg prices and favorable egg-feed price ratios have prevailed throughout most of the country during the year. In New York State, egg prices during the first eleven months of the year, running counter to farm prices in general, averaged about 8 per cent higher than in the same period of 1952 but the farmers' gain from higher prices was partly offset by slightly lower production. New Jersey farmers, on the other hand, taking full advantage of higher prices, increased their egg marketings. Increasingly favorable egg-feed price ratios further enhanced the profitability of this type of farming. The BAE expects egg production in the country as a whole to increase again this year, although net returns may be somewhat less as prices are expected to be slightly lower, while feed prices and other costs will probably remain at present levels.

Potato farmers probably suffered the sharpest reduction in income. The continued long-term decline in per capita consumption of potatoes together with large supplies served to push prices sharply downward. During 1953, potatoes brought only half as much as they did a year earlier, when they were priced at abnormally high levels owing to a short supply. In New York State, the price decline was worse than in the country as a whole, prices having fallen nearly two thirds. The Long Island crop was about the same size as the previous year's, but Upstate production was down a little. Developments in truck crops and fruits in the State during the year were mixed—the tomato crop, severely damaged by dry, hot weather, was about one-fourth smaller and production of grapes and peaches was a little less than a year earlier. On the other hand, the commercial apple crop, while below average, exceeded production during 1952 by 15 per cent.

On the whole, cash income from farm marketings in the Second District during 1953 was about 6 per cent lower than in 1952 (estimated from data for the first ten months). Although the aggregate physical volume of marketings was somewhat higher, prices declined an average of 14 per cent, compared with 11 per cent in the country as a whole.

### Outlook for 1954

Assuming average growing conditions and little change in the international situation, the BAE expects the year ahead to be little changed from 1953. Cash receipts will probably be a little lower, since acreage restrictions and marketing quotas for certain basic crops will reduce marketings or the volume going into support programs somewhat, and no compensating increases in prices are anticipated. Operating costs may be lower, but not enough to compensate fully for the reduction of gross income, and net income, therefore, may be a little less than in 1953. The "cost-price squeeze" will continue to bear down on farm families (but probably not more heavily than last year). Farmers have begun to adjust to the lowering of incomes from the exceptionally high wartime and early postwar levels; in addition to reducing expenditures for new farm equipment, some farmers have modified or postponed plans for purchasing consumer durable equipment or for making home improvements. As a further consequence, readjustments in farming techniques making for greater efficiency and shifts into more remunerative types of farming can be expected.

## NEW FEDERAL RESERVE INDEX OF INDUSTRIAL PRODUCTION

The Board of Governors of the Federal Reserve System announced during the past month a comprehensive revision of its index of industrial production, one of the most widely used indicators of variations in economic activity. The more important changes include a substantial increase in the number of industry series comprising the index, changes in the weights assigned the various industries to make the over-all index more representative of the present structure of American industry, and improvements in the adjustments for seasonal variations. The new index is similar in general contour to the old one for the period covered by the revision (1947-53) but shows somewhat greater growth, because of its improved coverage of the newer or more rapidly growing industries, and greater stability, largely because of better adjustment for purely seasonal variations in activity.

The index of industrial production has been designed to measure monthly changes in the physical volume of output of manufacturing and mining industries. These industries, covering a vast and heterogeneous array of products and processes, account for approximately one third of the national income. Among the more important areas of the economy *not* covered by the index are construction activity, public utilities, transportation, trade, services, and agriculture. The index is not, therefore, a measure of total economic activity. In general, fluctuations in industrial production tend to be wider and more frequent than those in the economy as a whole. A comprehensive measure of aggregate economic activity, and of major changes in the economy, is provided by the estimates of gross national product. But the underlying figures for this more comprehensive indicator cannot readily be estimated on a monthly basis, and even as prepared on a quarterly basis detail must be sacrificed in providing full coverage. The index of industrial production not only measures directly the output of industries accounting for an important part of the variations in total economic activity, but, since these industries represent strategic sectors of the economy, quickly reflects changes likely to have a wide-reaching influence upon over-all economic activity.

The history of the industrial production index since it was initially presented in 1927[1] has been one of periodic revision and improvement. The 1927 version of the index, based upon 60 series covering 35 industries with 1923-25 as a base, was extensively revised in 1940, when, among other changes, 21 series were added and the base period was shifted to 1935-39. In 1941 and 1943, additional revisions were made in the index to reflect more accurately the expanded production of war goods and to introduce new data not previously available. These revisions necessitated the addition of certain series to reflect production of goods not previously made or which were unimportant before the war and, by 1943, the index was based upon 100 series, of which 64 were published.

The results of the most recent reworking of the index were published in the December 1953 issue of the *Federal Reserve Bulletin.*[2] In this revision, weights, seasonal adjustments, and basic data were revised, many new series were added, new independent annual indexes were developed, the base period was shifted to 1947-49, and industrial groupings were rearranged. In addition, certain new statistical techniques were introduced, and the form of presentation was altered. For the present, revision of detailed series has been carried back only as far as January 1947, but the new indexes of the major categories (industrial production, total manufactures, durable and nondurable manufactures, and minerals) have been linked to the older series extending back to 1919. These back data were converted to the new base and adjusted to newer benchmark data.

A major innovation and improvement in the new industrial production index is the development of annual indexes, computed independently of monthly data. Annual data are generally available in greater detail or with more comprehensive coverage than monthly series; altogether, approximately 1,400 series of industry or product data are used in the annual indexes as compared with 175 series in the monthly indexes. For more than two thirds of the monthly series, the annual indexes are sufficiently reliable to serve as benchmarks to which the monthly series are adjusted; for the remainder, the annual and monthly series are identical since the annual data are merely totals of monthly data. Use of the improved annual indexes will provide a necessary check upon most of the monthly data since they unavoidably must depend upon less comprehensive, or less reliable, estimating procedures. For example, the annual series will provide in many cases a means of adjusting those monthly series that are prepared from data on man-hours to annual benchmarks measured in terms of actual physical volume (or closely related alternatives). Similar corrections can be made for industry data that, when gathered monthly, are based upon such indirect evidence of actual volume as the consumption of raw materials.

**New Index of Industrial Production**
**(1947-49=100)**

| Period | Seasonally adjusted | | Unadjusted | |
|---|---|---|---|---|
| | 1953 | 1952 | 1953 | 1952 |
| January | 134 | 121 | 132 | 119 |
| February | 134 | 121 | 136 | 123 |
| March | 135 | 121 | 138 | 123 |
| April | 136 | 120 | 136 | 120 |
| May | 137 | 119 | 136 | 118 |
| June | 136 | 118 | 136 | 118 |
| July | 137 | 115 | 129 | 108 |
| August | 136 | 123 | 136 | 123 |
| September | 133 | 129 | 135 | 131 |
| October | 132 | 130 | 136 | 134 |
| November | 130*p* | 133 | 131*p* | 134 |
| December | | 133 | | 131 |
| Year | | 124 | | 124 |

*p* Preliminary.

As in earlier revisions, the number of monthly series used has been increased, and the index is now based upon 175 series, of which 130 will be published monthly. The increase in the number of basic series reflects improvements in both the amount and type of data available as well as industrial and economic developments. Nearly one fifth of the new index, as applied to the base years 1947-49, will consist of activities not directly represented in the old index. The additions are expected to give the industrial production index a higher degree of representativeness. Earlier versions of the index tended to reflect more heavily the activity of basic industries, which fluctuate more sharply than nonbasic industries. As now constituted, the index makes use of more data representing intermediate and final stages of production.

In computing the index, the Board has made use of a wide variety of statistical series compiled by both Government and private sources; the Board does not compile any basic industrial statistics itself. Since the index is intended to measure physical output, the preferred type of data is that which measures quantities produced in physical terms. The index is not rigidly limited to this type of measurement of output, however, mainly because for a great many industries the only types of data available on a monthly basis do not measure physical

[1] Although the index of industrial production was first presented in 1927, a prototype index known as the *Index of Production in Selected Basic Industries* appeared in the December 1922 *Federal Reserve Bulletin* and was published, along with indexes for 22 industry groups, until 1927.

[2] Reprints of articles describing the new indexes and tabulations of back data are available, upon request, from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C. Current monthly data appear in the Board's "Business Indexes" release and later are published in the *Federal Reserve Bulletin;* the total index also appears in the Selected Economic Indicators table in this *Review.*

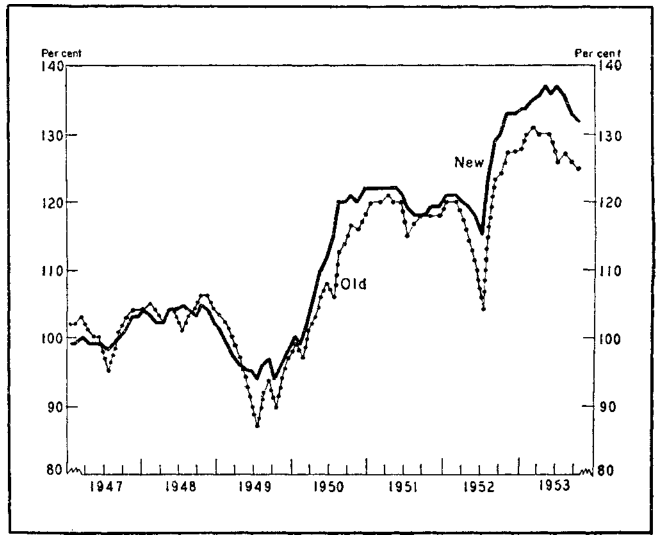
output. (In addition, such a measure does not adequately reflect the amount of fabrication or work done during a given month in certain industries, such as shipbuilding, where the time period for completed production is relatively long.) Where it is not possible (or advisable) to use physical units produced as the measure of output, related series which tend to fluctuate more or less closely with output are used, such as shipments, materials consumed, and man-hours. The annual index relies for the most part upon measures more closely related to physical production, while the monthly index makes relatively greater use of man-hour data. Most of the data are gathered by United States Government agencies; series accounting for 83 per cent of the total annual index in 1947-49, and for 76 per cent of the monthly index in those base years, are from Government sources, while the rest of the data are obtained from trade associations and their publications.

For the most part, components of the index are classified in conformance with the Standard Industrial Classification, developed by the Bureau of the Budget, which is generally used by Federal agencies in compiling industrial statistics. Individual series are combined to form indexes for products and industries and for groups of industries, building up to indexes for mining and manufacturing, the two major classifications. In addition, manufacturing industries are arranged into durable and nondurable manufacturing industries. Twenty-five SIC industry groups and sixteen major totals and subtotals in addition to the total index are published on a seasonally adjusted basis. Greater detail as to specific products is published in the indexes for which no seasonal adjustment is attempted.

In computing the monthly indexes for total industrial production and its subclassifications, data for each individual industry or product are converted to percentages relating the output level in each month to the average levels in the 1947-49 base period for that industry or product. These percentages are then adjusted or corrected to take account of the deviations between the monthly estimating procedures and the levels shown by the annual series. Finally, the adjusted percentages for each reported industry or product are combined by means of weights (representing the relative importance of each industry in the 1947-49 base period) into indexes for the various published classifications. The monthly percentage relatives are based upon the average output per working day, adjusting for the different number of days in each month and, where pertinent, for the number of Saturdays and Sundays; no direct adjustment is made for holidays. (The seasonal adjustments, however, adjust for the effects of holidays along with other seasonal influences.)

Another important modification in the new index is the changed seasonal adjustment procedure. Formerly, each series was adjusted for seasonal variation, and the adjusted relatives were combined to form seasonally adjusted total and subtotal indexes. In the new procedure the 25 industry group indexes are directly adjusted and the individual series are left unadjusted.

**Index of Industrial Production**
(Seasonally adjusted; 1947-49=100)




Note: Old series converted to 1947-49=100 base to facilitate comparison with the new index.

The adjusted indexes for the major divisions and for the total index are obtained by aggregating the adjusted group indexes. This procedure makes for greater efficiency and flexibility. Because far fewer seasonal adjustment computations are required, more frequent reviews and revisions of seasonal patterns are permitted. As shown in the chart, the new index is smoother than the old, due not only to its greater comprehensiveness, but also to the new and more effective seasonal adjustments. In particular, the older adjustments did not adequately allow for the growing practice of plant-wide shutdowns for vacations, and in the years since the war the old indexes for July regularly showed a rather sharp dip. Even with the improved procedures, however, the new series cannot allow immediately for current changes in seasonal patterns, nor make prompt and accurate adjustments for the emergence of seasonals in industries which have not experienced such variation through years of sustained peak production.

The base period in the new index is the average for the three years 1947-49; in the old index, 1935-39 was used as a base. The use of 1947-49 as equal to 100 per cent does not imply that that period was a "normal" one. It is merely a convenient period recommended by the Office of Statistical Standards of the Bureau of the Budget, and many statistical agencies, both government and private, are now using this uniform base. It makes the new index more convenient to work with, facilitates comparison with many other series, and permits inclusion of recently developed data.

Weights for the current indexes are based largely on value-added data derived mainly from the 1947 Census of Manufactures. (Use of value-added data avoids the duplication that would be inherent in the use of gross value of product, which includes purchased materials.) The average relative importance of the major classifications as of the 1947-49 base years were: durable manufactures, 45.17 per cent; nondurable manufactures, 44.85 per cent; and minerals, 9.98 per cent. Manufacturing is weighted a little more heavily, and minerals a little less, than in the old index.

Altogether, the new indexes of industrial production are a great improvement over the former measure. They provide greater accuracy, detail, and convenience, and are sufficiently flexible to allow the computation of different groupings for special analytical purposes. Both as a measure of industrial change and as a barometer of general business activity, the industrial production index is on a firmer footing than ever before.

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

| Item | Unit | 1953 | | | 1952 | Percentage change | |
|---|---|---|---|---|---|---|---|
| | | November | October | September | November | Latest month from previous month | Latest month from year earlier |
| UNITED STATES | | | | | | | |
| *Production and trade* | | | | | | | |
| **Industrial Production***‡ | 1947-49 = 100 | 130*p* | 132 | 133 | 133 | − 2 | − 2 |
| Electric power output* | 1947-49 = 100 | 159 | 160 | 161 | 149*r* | − 1 | + 7 |
| Ton-miles of railway freight* | 1947-49 = 100 | — | 98*p* | 100 | 110 | − 2 | − 2 |
| Manufacturers' sales*‡‡ | billions of $ | — | 24.9*p* | 25.4 | 24.3 | − 2 | + 1 |
| Manufacturers' inventories* | billions of $ | — | 46.3*p* | 46.5 | 43.6 | # | + 7 |
| Manufacturers' new orders, total*‡‡ | billions of $ | — | 22.4*p* | 22.7 | 23.3 | − 1 | − 7 |
| Manufacturers' new orders, durable goods*‡‡ | billions of $ | — | 10.1*p* | 10.1 | 11.5 | # | −14 |
| Retail sales* | billions of $ | 14.3*p* | 14.0 | 14.0 | 14.0 | + 2 | + 2 |
| Residential construction contracts* | 1947-49 = 100 | 178*p* | 183 | 180 | 178 | − 3 | # |
| Nonresidential construction contracts* | 1947-49 = 100 | 254*p* | 262 | 243 | 207 | − 3 | +23 |
| *Prices, wages, and employment* | | | | | | | |
| Basic commodity prices† | 1947-49 = 100 | 87.4 | 86.4 | 88.9 | 91.4 | + 1 | − 4 |
| Wholesale prices† | 1947-49 = 100 | 109.8*p* | 110.2 | 111.0 | 110.7 | # | − 1 |
| Consumer prices† | 1947-49 = 100 | 115.0 | 115.4 | 115.2 | 114.3 | # | + 1 |
| Personal income (annual rate)* | billions of $ | — | 287.3*p* | 286.3 | 277.2 | # | + 4 |
| Composite index of wages and salaries* | 1939 = 100 | — | 252*p* | 252 | 242 | # | + 4 |
| Nonagricultural employment* | thousands | 48,743*p* | 49,144 | 49,157*r* | 48,857 | − 1 | # |
| Manufacturing employment* | thousands | 16,590*p* | 16,779 | 16,951*r* | 16,755 | − 1 | − 1 |
| Average hours worked per week, manufacturing† | hours | 39.9*p* | 40.3 | 39.9 | 41.1*r* | − 1 | − 3 |
| Unemployment | thousands | 1,428 | 1,162 | 1,246 | 1,418 | +23 | + 1 |
| *Banking and finance* | | | | | | | |
| Total investments of all commercial banks | millions of $ | 78,210*p* | 76,790*p* | 76,730*p* | 78,260 | + 2 | # |
| Total loans of all commercial banks | millions of $ | 67,250*p* | 67,120*p* | 66,260*p* | 63,400 | # | + 6 |
| Total demand deposits adjusted | millions of $ | 100,220*p* | 100,280*p* | 97,690*p* | 99,410 | # | + 1 |
| Currency outside the Treasury and Federal Reserve Banks* | millions of $ | 30,282*p* | 30,245 | 30,267 | 29,667 | # | + 2 |
| Bank debits (U. S. outside New York City)* | millions of $ | 91,653 | 92,291 | 94,305 | 84,366 | − 1 | + 9 |
| 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 $ | 21,586 | 21,486 | 21,347 | 17,961 | # | +20 |
| *United States Government finance (other than borrowing)* | | | | | | | |
| Cash income | millions of $ | 5,398*p* | 2,950 | 6,373 | 4,996*r* | +83 | + 8 |
| Cash outgo | millions of $ | 6,250*p* | 5,759 | 6,294 | 5,558 | + 9 | +12 |
| National defense expenditures | millions of $ | 3,876*p* | 4,113 | 4,222 | 3,760 | − 6 | + 3 |
| SECOND FEDERAL RESERVE DISTRICT | | | | | | | |
| Electric power output (New York and New Jersey)* | 1947-49 = 100 | 137 | 135 | 136 | 135 | + 1 | + 2 |
| Residential construction contracts* | 1947-49 = 100 | — | 127*p* | 135 | 159 | − 6 | −24 |
| Nonresidential construction contracts* | 1947-49 = 100 | — | 220*p* | 248 | 186 | −11 | +37 |
| Consumer prices (New York City)† | 1947-49 = 100 | 112.9 | 113.3 | 113.2 | 112.9 | # | # |
| Nonagricultural employment* | thousands | — | 7,629.0*p* | 7,599.5 | 7,591.5*r* | # | + 1 |
| Manufacturing employment* | thousands | — | 2,735.2*p* | 2,737.7 | 2,746.6*r* | # | # |
| Bank debits (New York City)* | millions of $ | 54,269 | 54,152 | 58,391 | 47,537 | # | +14 |
| Bank debits (Second District excluding New York City)* | millions of $ | 4,034 | 4,321 | 4,351 | 3,745 | − 7 | + 8 |
| 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, January 4, 1954.

*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.
‡ Revised series. Back data available from the Board of Governors of the Federal Reserve System. (See article in this issue.)
# Change of less than 0.5 per cent.
‡‡ Revised series. Back data available from the U. S. Department of Commerce.

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

## DEPARTMENT STORE TRADE

Second District department store sales in December were about equal to the record District volume of last year, according to preliminary information. Estimates for the closing days of the month also indicate that total District department store sales for the year as a whole will be close to the 1952 dollar volume.

Department store sales in New York City fell an estimated 3 to 4 per cent below the volume in December 1952. Above normal temperatures during the first two weeks of the month, and an eleven-day newspaper strike which interrupted the promotional advertising that traditionally opens the Christmas season, both exerted depressing influences upon sales in New York City. A marked reduction in the volume of telephone and mail order sales occurred during the strike period. Despite these disadvantages, total New York City sales for the four weeks ended December 26 (including one day in November) were only 2 per cent below the comparable period in 1952.

In most localities within the Second District outside New York City, the dollar volume of consumer purchases of department store merchandise during December was greater than, or equal to, that of December 1952. Estimated sales in the Buffalo and Rochester Metropolitan Areas exceeded the record 1952 figures, while shoppers in the Syracuse Metropolitan Area and the city of Newark spent approximately the same amount of money in department stores as they did in December a year ago.

Stocks on hand in department stores at the end of November were slightly larger (1 per cent) than a year earlier. The District stock figure, however, was held down by the 2 per cent decline below the year-ago level in the dollar value of inventories held by New York City stores. Department store customers in the District outside New York City made their selections from stocks that were 5 per cent larger than a year ago.

The dollar volume of commitments outstanding for additional merchandise at the end of November for Second District department stores conformed to the recent pattern of year-to-year declines; aggregate outstanding orders were 20 per cent below the level of November 30, 1952. The value of new orders placed by department stores, however, which had been below year-earlier levels since June, rose in November 1953 to 9 per cent above the year-ago figure.

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

| Item | 1953 | | | 1952 |
|---|---|---|---|---|
| | Nov. | Oct. | Sept. | Nov. |
| Sales (average daily), unadjusted | 129 | 110 | 102 | 127 |
| Sales (average daily), seasonally adjusted | 102 | 104 | 98 | 101r |
| Stocks, unadjusted | 132 | 130 | 123 | 131r |
| Stocks, seasonally adjusted | 115 | 116 | 117 | 114r |

r Revised.

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

| Locality | Net sales | | | Stocks on hand Nov. 30, 1953 |
|---|---|---|---|---|
| | Nov. 1953 | Jan. through Nov. 1953 | Feb. through Nov. 1953 | |
| Department stores, Second District | + 2 | +1 | +1 | + 1 |
| New York—Northeastern New Jersey Metropolitan Area | + 1 | −1 | 0 | 0 |
| New York City* | − 1 | −2 (−2) | −2 (−2) | − 2 |
| Nassau County | n.a. | — | — | n.a. |
| Westchester County | + 7 | +4 | +5 | 0 |
| Northern New Jersey | + 2 | +3 | +3 | + 2 |
| Newark | + 2 | +1 | +2 | + 3 |
| Fairfield County | − 2 | n.a. | n.a. | + 4 |
| Bridgeport | n.a. | n.a. | n.a. | — |
| Lower Hudson River Valley | + 4 | +4 | +4 | +10 |
| Poughkeepsie | + 5 | +5 | +5 | + 7 |
| Upper Hudson River Valley | 0 | −1 | 0 | + 2 |
| Albany | 0 | −2 | −2 | + 5 |
| Schenectady | + 1 | +2 | +3 | − 2 |
| Central New York State | + 5 | +5 | +4 | + 8 |
| Mohawk River Valley | + 2 | +3 | +3 | + 6 |
| Utica | + 2 | +4 | +4 | + 6 |
| Syracuse Metropolitan Area | + 6 | +5 | +5 | + 9 |
| Northern New York State | + 2 | +5 | +4 | + 4 |
| Southern New York State | + 2 | 0 | 0 | + 7 |
| Binghamton Metropolitan Area | 0 | −1 | −1 | +10 |
| Elmira | 0 | +2 | +1 | + 1 |
| Western New York State | + 8 | +5 | +5 | + 6 |
| Buffalo Metropolitan Area | +11 | +5 | +5 | + 6 |
| Buffalo | +11 | +4 | +5 | + 6 |
| Niagara Falls | + 9 | +5 | +5 | — |
| Rochester Metropolitan Area | + 2 | +5 | +5 | + 5 |
| Apparel stores (chiefly New York City) | 0 | −1 | −1 | + 5 |

* 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, December 31, 1953)

Industrial production continued to decline moderately in November, while construction activity and retail sales strengthened somewhat further. For the first time since last February consumer prices declined. Wholesale prices of industrial commodities decreased slightly in December, while farm products recovered from the November dip as hog prices rose sharply.

## Industrial Production

The Board's revised index of industrial production declined in November to a seasonally adjusted level of 130 per cent of the 1947-49 average. This compares with 132 in October and the record 137 reached last May and again in July. In November a year ago the index was 133.

Output of durable manufactures in November, as measured by the revised seasonally adjusted index, was 147 per cent of the 1947-49 average, down 6 per cent from the exceptionally high rate reached earlier this year. Moderate further declines from October to November among metal-fabricating industries reflected mainly decreases in consumer goods. There was a sharp drop in auto output in November, associated in large part with model change-overs. With demands from consuming industries declining, output of primary metals decreased further in November to a level 10 per cent below the peak rates of last spring. Steel output continued to decline in December to about 80 per cent of rated capacity as compared with 90 in November.

The revised seasonally adjusted nondurable manufactures index in November showed a slight further decline to 116, which is 5 per cent below the record May level. The November decline reflected mainly further reductions at textile and apparel factories, where curtailments since last spring have been marked. Output of rubber and leather products showed little further change at levels considerably below the spring high. Activity in the paper, chemicals, and petroleum refining industries was also steady and at rates only slightly below earlier peaks.

A slight further decline in the revised minerals index to 113, from 114 in October and 120 in midsummer, reflected mainly declines in coal mining—associated in part with output curtailments in steel and some other heavy consuming industries. Crude petroleum production and output at metal mines have also been reduced in recent months, while production of stone and earth minerals has continued at advanced rates.

## Construction

Dollar volume of construction work put in place, seasonally adjusted, increased slightly further in November and was not far below the early spring peak. The number of housing units started in November, at 80,000, was down less than seasonally from October and was not far below the relatively large number started in November 1952 (86,000). Value of contracts awarded for nonresidential construction declined substantially in November from the close-to-record October level.

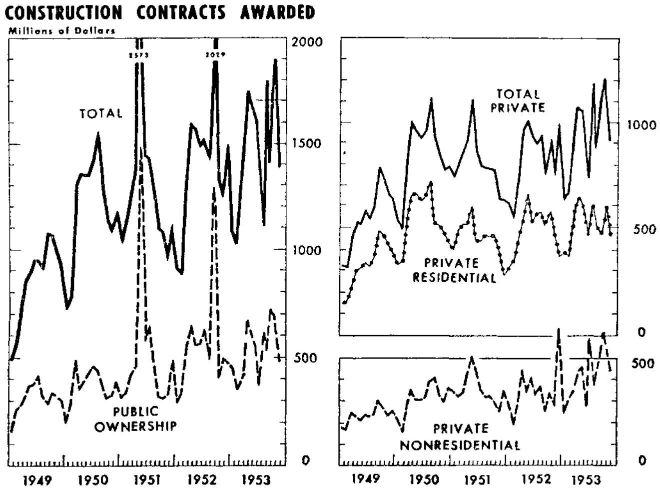
## Employment

Seasonally adjusted employment in nonagricultural establishments declined 400,000 in November to 48.7 million, about the same as in November 1952 and almost 800,000 below the midyear peak. Unemployment increased nearly 300,000 in early November to 1.4 million, the same as a year earlier. Claims for unemployment benefits increased further in December and were considerably more numerous than last year.

## Distribution

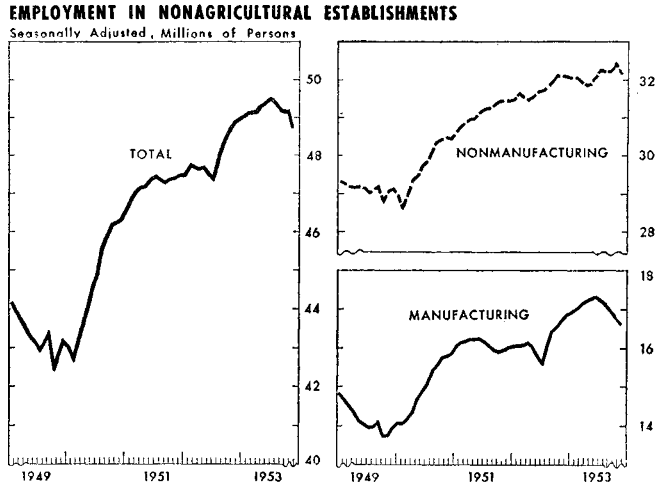
Department store sales in November and the pre-Christmas weeks of December compared favorably with last year's high

**CONSTRUCTION CONTRACTS AWARDED**




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

**EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS**




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 November.

level. Seasonally adjusted sales in most other retail lines also strengthened in November, with new and used car sales volume remaining unusually large. Total retail sales in the first eleven months of 1953 were about 5 per cent above the comparable period of 1952. Seasonally adjusted stocks held by department stores at the end of November are estimated to have continued at about the level of the preceding two months.

### Commodity Prices

The average level of wholesale commodity prices in December was somewhat higher than in mid-November, owing chiefly to sharp increases in prices of hogs and pork. Hog marketings, which had expanded in October—earlier than usual for the season—dropped to unusually low levels in late November and December. Prices of some other foodstuffs also advanced. Average prices of industrial commodities decreased slightly, as prices of scrap metals, hides, fuel oil, and gasoline declined.

Consumer prices declined 0.3 per cent in November, the first decrease since last February. Rents and various services continued to rise, but there were decreases in prices of foods and used cars. Average retail food prices probably changed little in December.

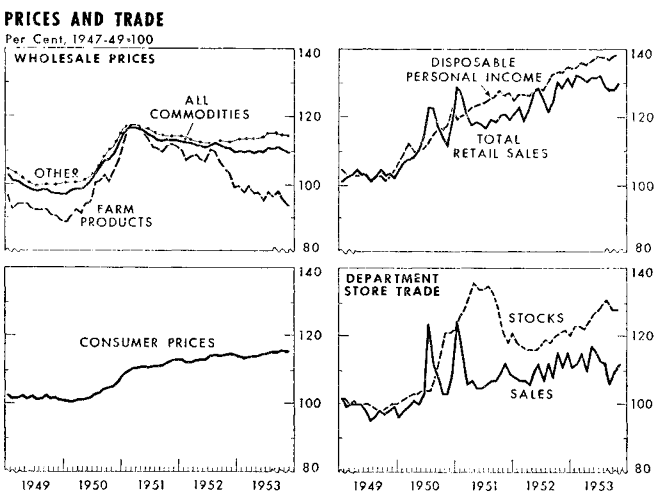
### Bank Credit and Reserves

Total loans and investments at banks in leading cities increased somewhat during the first three weeks of December. Bank holdings of corporate and municipal securities and loans for purchasing and carrying securities increased. Commercial, industrial, and agricultural loans showed only a moderate rise for this season of the year. Holdings of U. S. Government securities were little changed.

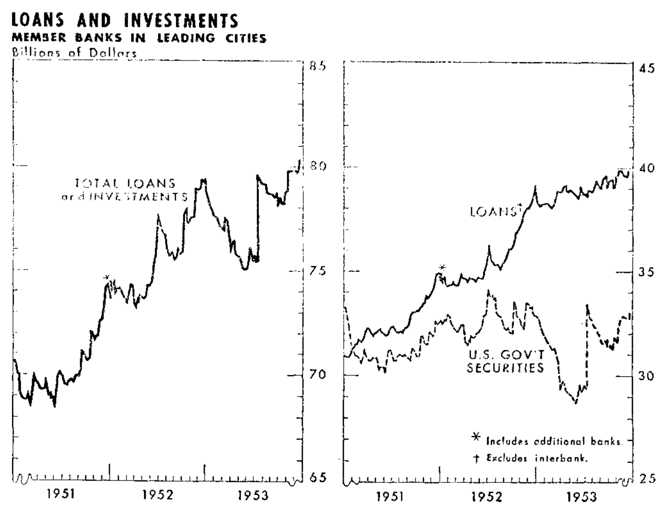
Bank reserve positions between late November and late December tended to be somewhat tighter than in other recent months. On average, however, member bank excess reserves exceeded borrowings at the Federal Reserve. System purchases of U. S. Government securities, both outright and under repurchase agreements, and Federal Reserve Bank float supplied a substantial volume of reserves to banks. These funds were absorbed in part through a pre-Christmas outflow of currency into circulation, by increases in required reserves, and at times by increases in the Treasury balance at the Federal Reserve.

### Security Markets

Yields on longer-term Treasury securities declined sharply during December, and yields on other high-grade bonds declined slightly. Reflecting seasonal influences in the money market, Treasury bill yields increased somewhat in the first half of December and declined later in the month.




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 November, except income (October) and department store stocks (October 31).




Federal Reserve data. Weekly figures, latest shown are for December 16.