MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 36 | APRIL 1954 | No. 4

MONEY MARKET IN MARCH

Bank reserve positions in the aggregate continued to be relatively easy during the month of March. However, the flow of funds in and out of the banking system and among financial centers tended to create unevenness in the distribution of reserves. The System Open Market Account acted on several occasions to exert a stabilizing influence on the volume of reserves available to the banking system. The Federal Reserve Bank of New York also purchased a moderate amount of securities from dealers under repurchase agreements, principally in the latter part of the month.

The financial operations of the Government were exceptionally large in March and gave rise to difficult problems of regulating the flow of funds between private accounts and Government accounts in depositary banks and in the Federal Reserve Banks. Government transactions included the collection of large amounts of corporate and nonwithheld individual income taxes, payments of interest on the public debt, and redemptions and sales of Treasury securities, as well as the usual day-to-day Government expenditures and receipts. In order to cushion the effect on the banks of the heavy tax collections while also facilitating the management of its balances, the Treasury permitted the redeposit of 50 per cent of tax checks of $10,000 or more in Treasury Tax and Loan Accounts in qualified drawee banks. Withdrawals of funds from Tax and Loan Accounts by the Treasury were timed with reference to other receipts and Government disbursements. They were suspended for ten days around the middle of the month to let the Treasury balances at the Federal Reserve Banks run down in anticipation of the receipt of tax collections later in the month. To meet its needs on the 15th and the 16th, the Treasury borrowed limited amounts from the Federal Reserve Bank of New York through the sale of special certificates of indebtedness.

The Treasury announced on March 4 that it would offer for payment on March 22 approximately 1.5 billion dollars of 94-day tax anticipation bills. The proceeds of this issue were to be used to retire, in part, the remaining amount (estimated to be about half) of the 5.9 billion dollars of tax anticipation certificates, due on March 22, that would not be surrendered in payment of taxes. The Treasury also announced that the decision to offer tax bills at this time postponed consideration of longer-term financing until later in the fiscal year. Both these announcements, along with the announcement by several New York City banks on March 17 of a reduction in their prime lending rate from 3¼ to 3 per cent, and the subsequent reductions on March 29 in rates charged by banks on loans to dealers, reinforced the generally confident atmosphere in the securities market. There was a further decline in some related market rates of interest. For the second time in as many months dealers in bankers' acceptances reduced their offering rates, this time dropping the rate for unindorsed 90-day acceptances from 1⅝ to 1¼ per cent. A slight further softening in commercial paper rates brought an increased interest in financing through this medium. Prices of almost all long-term Government securities rose a half a point or more over the month as a whole and, for the first time since 1951, prices of all of these issues rose above par at some time during the month.

Prices of short-term securities, in contrast, were slightly lower in March than in February, although yields on Treasury bills continued strikingly lower than rates on other short-term obligations for reasons discussed further below. Owing both to the uneven distribution of reserves among banks and to the decline in nonbank demand in a quarterly tax month, the average rates on the regular weekly issues of new Treasury bills sold in March ranged from 1.030 to 1.066

CONTENTS

per cent, compared with 0.893 to 1.031 per cent in February. Certificate yields were up by similar amounts. The new issue of tax anticipation bills sold at an average rate of 0.956 per cent, but this relatively low rate apparently resulted from the fact that the bills may be turned in at par on June 15 in payment of taxes, nine days before their scheduled maturity.

Total loans and investments of the weekly reporting member banks declined during March for the third straight month. There was very little net change in loans, as a seasonal expansion in business loans largely offset a contraction in other types of credits. Investments, however, declined 595 million dollars in the five weeks ended March 24, primarily as the result of bank sales or redemptions of the tax anticipation certificates that matured on March 22.

Member Bank Reserve Positions

Member banks in the aggregate gained a moderate amount of reserves over the five statement weeks ended March 31, and the spread between the average amount of excess reserves held by the banks and their borrowings from the Reserve Banks increased. For the five statement weeks in March it averaged 432 million dollars, compared with 291 million for the four weeks in February. However, within the month there was considerable fluctuation in the volume of reserves available to the banks, and as a result primarily of seasonal factors some of the larger banks, particularly those in New York City, were short of reserves at various times during the month and had to borrow from the Reserve Banks to meet their average reserve requirements. The uneven distribution of reserves within the month was a reflection of the wide swings in the volume of float outstanding and of the large transfers of funds between the banks and the Treasury that are usually associated with a quarterly tax period. Float rose 358 million dollars during the statement week ended March 3, as a number of bad storms scattered throughout the Midwest delayed air transport and hence check collections. Clearing weather the following week made it possible to get collections back on schedule and float declined almost as sharply as it had expanded the previous week. The third and fourth weeks saw the usual substantial midmonth expansion and subsequent contraction in float, but in the final week there was little net change. Over the five weeks as a whole float rose by 32 million dollars.

Table I

Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, March 1954

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

Factor	Statement weeks ended					Five weeks ended Mar. 31
	Mar. 3	Mar. 10	Mar. 17	Mar. 24	Mar. 31	
Operating transactions						
Treasury operations*	− 9	+ 86	+396	−470	−188	−185
Federal Reserve float	+358	−318	+312	−286	− 34	+ 32
Currency in circulation	− 47	+ 15	+101	+137	− 69	+137
Gold and foreign account	− 15	− 6	− 40	+ 11	+ 24	− 26
Other deposits, etc	− 40	+ 57	+143	−167	− 3	− 10
Total	+249	−168	+913	−774	−270	− 50
Direct Federal Reserve credit transactions						
Government securities						
Direct market purchases or sales	—	+123	−100	+ 50	—	+ 73
Held under repurchase agreements	—	—	—	+ 73	− 73	—
Loans, discounts, and advances	+ 18	+145	−146	+ 83	−202	−102
Total	+ 18	+268	−246	+206	−275	− 29
Total reserves	+267	+100	+667	−568	−545	− 79
Effect of change in required reserves	− 45	+ 54	−338	+353	+ 86	+110
Excess reserves	+222	+154	+329	−215	−459	+ 31
Daily average level of member bank:						
Borrowings from Reserve Banks	266	236	170	162	175	202
Excess reserves	468	606	740	701	657	634

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

* Includes changes in Treasury currency and cash.

The Treasury's heavy impact on bank reserves and the market was largely concentrated in the third and fourth statement weeks. For the period March 12-21, inclusive, withdrawals from Tax and Loan Accounts were suspended and Treasury balances with the Reserve Banks were allowed to drop in anticipation of large income tax receipts in the balance of the month. In order to cover its expenditures on the 15th and 16th, the Treasury borrowed 190 million dollars from the Federal Reserve Bank of New York on special certificates of indebtedness. However, on March 17 as taxes began to be collected in volume, the Treasury retired these certificates and in the next few days restored its balances at the Reserve Banks to normal working levels without any Tax and Loan calls. A large call was made, however, for March 22 to supply part of the funds needed to redeem that portion of the maturing tax anticipation certificates that had not been turned in for taxes on the 15th. Tax receipts deposited directly into the Federal Reserve Banks were larger this March than in other recent years, since only 50 per cent of the tax checks totaling $10,000 or more were deposited in the special "X" Tax and Loan Accounts.

The large increases in the volume of funds in the money market in the week ended March 17, as a result of the increase in float and Treasury operations, and the subsequent large losses in the following statement week, were partially offset by changes in member banks' required reserves. While required reserves showed a moderate net decline for the month as a whole, they increased over 300 million dollars in the third week of March and declined by a similar amount in the fourth week as a result of deposit changes induced both by float and Treasury transactions and by changes in the volume of bank loans and investments.

The influence of other factors on bank reserves and the money market in March was moderate. Currency continued to return gradually to the banks, and by March 31, according to preliminary figures, the total amount in circulation was 1,080 million dollars below the amount outstanding on December 31, 1953 and 53 million below the amount outstanding on March 31, 1953. This was the first time there had been a year-to-year reduction in the amount of currency outstanding since October 1950. Gold and foreign account operations and the other market factors absorbed minor amounts of funds, as Table I indicates.

To help smooth out the effects on the market of the rather wide week-to-week fluctuations in the volume of reserves available to the banks, the System Open Market Account purchased a moderate amount of Treasury bills in the week ended March 10, sold some in the following week, and then purchased a few again in the fourth week. On balance, it bought 73 million dollars for the five-week period as a whole. The Federal Reserve Bank of New York purchased 73 million dollars of short-term Government securities under repurchase agreements from dealers in the fourth week but sold these in the final week of the month.

Treasury Financing and the Market for Government Securities

The business outlook and expectations concerning future Treasury financing and other official policies were the dominant factors influencing the Government security market in March. Most of the market's participants apparently continued to operate on the assumption that the supply of funds available for long-term investment in the months ahead would exceed demand and that as a result security prices would continue to rise. This expectation was buttressed by the Treasury debt announcements mentioned above and by the banks' reduction in the prime rate on commercial loans.

There was a moderate volume of activity in the bond market during March. Commercial banks seeking to lengthen the maturities of their security portfolios were among the more active participants, and both public and private pension funds continued to be net purchasers. Bonds that were selling at discounts at the beginning of the month rose above par early in March for the first time since 1951 and reached a three-year high on March 17. Prices eased somewhat in the following few days, but by the close of business on March 31 the prices of most issues were still a half a point or more above the levels at the end of February. A tendency was apparent during March for the longer 2½ per cent issues to meet resistance at about the par level. The 3¼'s of 1978-83, after an extraordinary rise in February to a peak of $109^{12}/_{32}$ (bid) on March 1 and 4, tended to lag behind the rest of the market through the remainder of March. A small supply of these bonds reportedly came into the market during the month, but the demand was relatively light and spasmodic.

During the month there were also a number of switches on profit-taking sales involving (especially) the 2⅞ per cent notes of March 1957 and, to a lesser extent, the 2⅜ per cent certificates of indebtedness of September 1954 by investors who had acquired them when they were first issued last September.

In the short-term market during the early part of the month, many nonbank investors liquidated bill holdings in preparation for their quarterly tax payments. With seasonal pressures building up against the money market banks, they too had only a limited interest in bills, with the result that prices sagged and yields edged up slightly. An important influence in limiting the change apparently was an expectation in some quarters that the money market would ease, and prices of Treasury bills would strengthen again, following the tax date. But the degree of market ease that some had anticipated did not fully develop, and dealers holding portfolios of short issues found themselves in a squeeze with market yields on bills considerably below the money rates at which funds for the "carry" could be obtained by buying Federal funds and borrowing from banks or others. Rates of approximately 1¼-1¾ per cent were being paid by Government security dealers to carry bills yielding 1-1¼ per cent. By the end of the month, when the money situation did ease materially, a substantial demand for bills developed in the market.

The situation in the market for short-term Treasury securities in recent weeks and months has been greatly influenced by two factors—first the sharp reduction in supply caused by the Treasury's large funding operations and redemptions in February and March, and second the heavy, but variable, nonbank demand for short-term securities—which together have tended to distort previously existing rate relationships. Between the end of January and the end of March, the total amount of Treasury securities maturing within one year or called for redemption was reduced by 10.2 billion dollars, or slightly less than 14 per cent. The largest holders of short-term Treasury securities today, with the possible exception of commercial banks, are corporations. At the end of last December, the latest date for which figures are available, commercial banks held 25 billion dollars of the 73 billion of securities called or maturing within one year; the Federal Reserve Banks and United States Government agencies and trust funds held 17 billion; and the "all other investors" category (which includes corporations and foreign accounts) held 29 billion. Roughly a third of that 29 billion was in bills and another third in certificates.

Corporations are interested in short-term Government obligations as temporary lodgment for their tax reserves and for other cash assets not currently needed. The concentration of tax payments in March and June as the result of the "Mills plan" and the current decline in corporate needs for working capital have both tended to augment corporate demands for short-term securities. Formerly much of this demand was channeled into nonmarketable Treasury Savings notes. But with the suspension of the sales of these notes last fall, the full brunt of the demand now falls on the marketable issues. This demand has no necessary connection with developments in bank reserve positions, and in recent months it has tended to keep bill rates lower in relation to other money market rates than has been customary in the past.

In the closing days of the month several of the large New York City banks reduced their rates on loans to dealers for

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. 30, 1953 to Mar. 24, 1954
	Feb. 24	Mar. 3	Mar. 10	Mar. 17	Mar. 24	
Assets						
Loans and investments:						
Loans:*						
Commercial, industrial, and agricultural loans	−109	− 39	+ 74	+ 458	− 118	− 559
Security loans	−306	+217	+ 98	− 71	− 91	− 462
Real estate loans	+ 1	− 23	+ 11	+ 20	+ 8	+ 36
Loans to banks	+ 72	−182	−129	+ 151	− 88	− 33
All other loans (largely consumer)	+ 5	− 28	− 2	+ 15	+ 33	− 219
Total loans, net*	−339	− 56	+ 51	+ 569	− 255	−1,254
Investments:						
U. S. Government securities:						
Treasury bills	+142	−132	+ 78	+ 429	+ 78	+ 100
Other	− 12	− 52	− 78	+ 127	−1,317	−1,291
Total	+130	−184	0	+ 556	−1,239	−1,191
Other securities	+ 81	+ 30	+115	− 60	− 24	+ 390
Total investments	+211	−154	+115	+ 496	−1,263	− 801
Total loans and investments	−128	−210	+166	+1,065	−1,518	−2,055
Loans, net, and "other" securities	−258	− 26	+166	+ 509	− 279	− 864
Liabilities						
Demand deposits, adjusted	−105	−125	+840	+ 144	−1,572	−2,892
Time deposits except Government	+ 50	+127	+ 67	+ 23	+ 130	+ 582
U. S. Government deposits	− 67	−373	−533	+1,121	+ 351	+ 769
Interbank demand deposits:						
Domestic	−370	+287	− 22	+ 454	− 921	−1,540
Foreign	+ 19	− 15	− 24	− 31	− 19	− 63

* 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.

purchasing or carrying Government securities from 1¾ per cent to 1½ per cent. Furthermore, one of the banks established a special preferential rate on loans against Treasury bills, the rate reportedly being set fractionally above the Federal funds rate. These announcements had a favorable psychological impact on the security market.

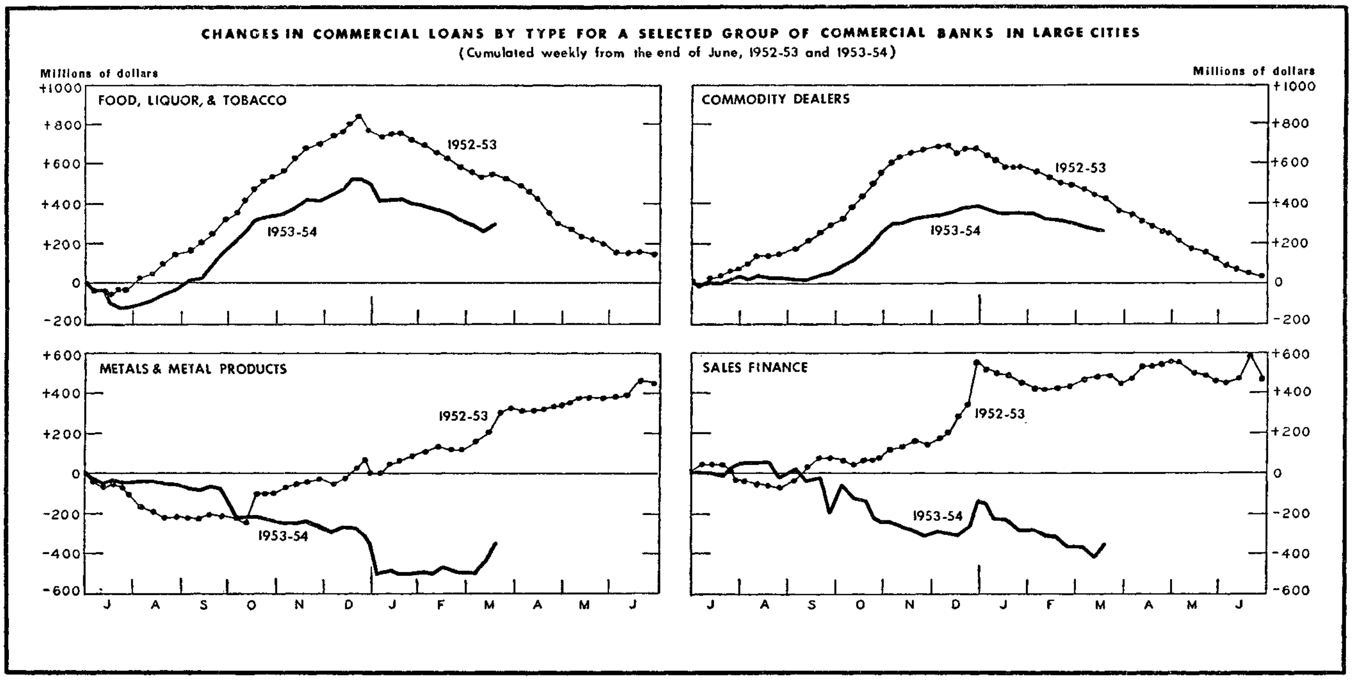
Member Bank Credit

The earning assets of the weekly reporting member banks contracted again in the five weeks ended March 24. The decrease was almost entirely in securities, as a decline in loans to banks and a reduction in security loans were largely offset by a substantial expansion in commercial loans in the middle of March. As the figures in Table II suggest, the weekly reporting member banks sold or redeemed either for taxes or cash a large amount of the tax anticipation certificates that matured on March 22. The effect of these sales or redemptions was partly offset by purchases of 595 million dollars of Treasury bills and 142 million of municipal and other non-Government securities. But for the five-week period as a whole, the investments of these banks were down 595 million dollars (net).

On the loan side of the picture, since funds tended to flow from the major money centers during these weeks, the larger banks rarely had excess Federal funds to sell in volume and interbank loans declined (176 million dollars during the five weeks under review). Security loans showed a substantial decline late in February and, although there was some net expansion in security loans early in March, for the five-week period as a whole they showed a net decline of 153 million dollars. Most of the increase in commercial, industrial, and agricultural loans in March is usually associated with quarterly tax payments. Under the "Mills plan" most corporations were required to pay 45 per cent of their annual tax bill this March, or 5 per cent more than in March 1953. Possibly as a reflection of this fact and their larger tax bill this year, the increase in business loans during the week ended March 17 was the largest increase for any individual week on record. The net increase in business loans in these five weeks, nevertheless, was smaller than in 1953, 266 million dollars against 456 million.

The over-all pattern of demand for business loans this year and last has been quite different, although there is some evidence that the disparities are narrowing under the stimulus of the banks' aggressive seeking for new loans. For example, the net increase in business loans of the weekly reporting banks this year for the eight weeks from January 27 through March 24 was 319 million dollars, compared with 326 million for the comparable eight weeks last year. However, taking a somewhat longer view, although these loans increased 2,463 million dollars in the period from the last Wednesday in June 1952 through the third Wednesday in March 1953, they rose only 142 million dollars over the comparable period ended in mid-March this year. The accompanying chart, which shows cumulated changes in large loans to four major groups of commercial borrowers in the past two years, illustrates some of the reasons why the over-all pattern of demand for the lending season from June through March has been so different. The figures on the chart cannot be used to indicate the absolute level of these loans, since not all banks report their loans by type of industry and since there are certain other technical imperfections in the series. For example, a large loan repaid in small instalments would appear only in the credit-granted figures and not in repayments, thus tending to inflate the series, while a large line of credit drawn in small amounts and repaid in a lump sum would appear only in the repayments data, thus tending to deflate the series. However, the figures are accurate enough to indicate the trend of such loans.

The two top panels on the chart show the net changes in loans for two groups of industries which normally exhibit a well defined seasonal pattern—food, liquor, and tobacco companies and commodity dealers. The seasonal pattern is evident in both years, but the amplitude of the fluctuations this year is considerably smaller than it was last year. The third panel shows changes in loans to metals and metal products companies. These companies borrowed heavily after the outbreak of the Korean war to finance expansion and to supply enlarged working capital needs. Their credit needs for these purposes apparently came to an end in the summer



of 1953, and since that time there has been a fairly steady net weekly decline in the volume of loans outstanding to companies in this field. Since last June the loans to the industries covered in this series have declined by approximately 350 million dollars; in the comparable period ended in March 1953 they expanded by about the same amount.

The sharpest difference in the experience between this year and last, however, has been in loans to sales finance companies, figures for which are shown in the fourth panel. For the 1952-53 period loans to these companies by the reporting banks rose by nearly 500 million dollars. This year to date they have contracted by about 350 million. This difference probably reflects several factors. First, the demand for consumer credit for the purchase of automobiles and other goods of the type normally financed by sales finance companies has declined. Second, repayments on previous loans have risen to a point where they are now more than sufficient to meet the reduced current demands for credit. Finally, some sales finance companies have been able to provide for a considerably larger part of their credit needs by long-term financing and by sales of short-term notes through the commercial paper market or directly to investors.

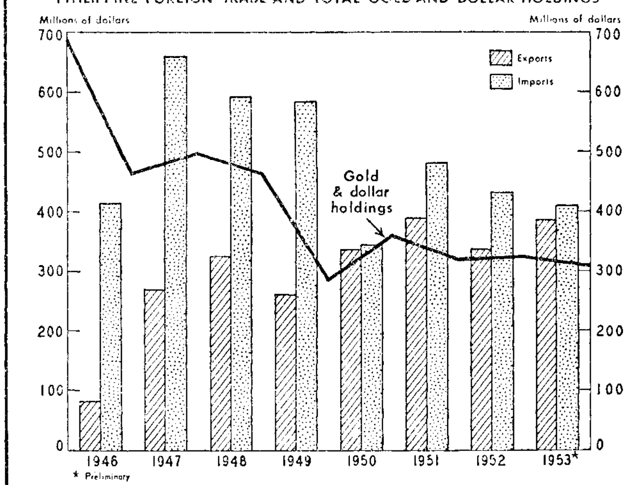
Direct bank loans to consumers have shown a similar trend in recent months. In the five weeks ended March 24 "all other" loans of the weekly reporting member banks recorded almost no net change, whereas last year they increased by 212 million dollars. Consumer loans account for most of the "all other" category.

RECENT ECONOMIC DEVELOPMENTS IN THE PHILIPPINES

Three months have passed since the Magsaysay administration took over the reins of government in the Philippines on December 30. These months have constituted a period of national stock-taking and of energetic preparation of new plans for coping with the country's economic problems. The Philippine Congress now has under consideration many of the adminstration's initial recommendations. The time therefore seems appropriate for reviewing the economic developments of the last few years and pointing out some of the economic problems that confront the country.

The Philippine economy suffered heavy destruction and deterioration during World War II. The extent of the damage was evident in the low level of production in the first postwar year, when agricultural yields were just a little over half the prewar level, industrial output was down to one fifth, and mineral extraction was reduced to a mere trickle. It took until 1951, fully five years, before both industrial and agricultural production overtook the prewar levels; mineral production has not even yet caught up. Moreover, although output in most fields is now substantially above prewar, the intervening years have witnessed a population increase of more than one third; consequently, output per capita is still below prewar. There was also considerable easing over the early postwar years of the critical inflationary conditions that pre-

PHILIPPINE FOREIGN TRADE AND TOTAL GOLD AND DOLLAR HOLDINGS



Source: International Monetary Fund. International Financial Statistics, March 1954; Balance of Payments Yearbook, 1950-53.

vailed at the war's end, and since 1949 prices have been relatively stable. However, inflationary pressures have not been completely eliminated, a result in part of the government's almost continuous budgetary deficits.

The gains that have been registered in the country's physical and financial health would have been impossible without very sizable amounts of economic assistance from the United States. This assistance enabled the Philippines to import much greater quantities of the goods necessary for rehabilitation and reconstruction and for combating inflation than it could otherwise have afforded. More recently, the Philippine Government itself has taken steps to accelerate economic growth and raise living standards. These include the establishment of a central bank in 1949, as well as other measures to strengthen the monetary and credit system, the adoption of import and exchange controls to conserve foreign exchange for essential imports, the improvement of the tax-collection machinery, the introduction of various measures to assist in the diversification of economic activity, and the enactment of legislation designed to improve the distribution of income. Nevertheless, much remains to be done, both in fully exploiting the potential benefits from measures already introduced, as well as in taking on additional urgent tasks.

Balance of Payments

For a country like the Philippines, whose energies are devoted primarily to agricultural production and especially to export crops, the state of its foreign trade and balance of payments is of vital importance for its economic health. While the volume of Philippine exports rose in each succeeding postwar year through 1952 commensurately with the increase in production, the country's export receipts fluctuated sharply, as has been the experience of other raw-material-producing countries during the postwar period. Thus, in 1949 receipts fell fully one fourth from the preceding year's total, but in 1951, as a result of the Korea boom, they reached a peak 49 per cent above 1949 (see chart). Imports also followed a familiar postwar pattern in the earlier part of the period, rising to very high levels during 1947-49 when the great demand deriving from the wartime destruction and nourished by inflated postwar incomes was being satisfied. However, imports dropped sharply following the imposition in December 1949 of exchange controls and rigorous import restrictions; they were allowed to rise again after one year, in order to counteract renewed inflationary pressures, but not to the previous high levels.

Despite the decline in imports and the consequent decline in trade deficits after 1949, the foreign trade position closely approached a balance only in 1950 and 1953. Most of the postwar deficit has been covered by United States dollar payments—expenditures by the United States Armed Forces and the Veterans' Administration, war damage payments under the Philippine Rehabilitation Act of 1946, grants by the Foreign Operations Administration (and its predecessors), and loans from the Reconstruction Finance Corporation and the Export-Import Bank (see table). While these large-scale dollar expenditures permitted the Philippines to maintain sufficient imports to substantially satisfy the demand for consumer and producer goods needed to repair the ravages of the war, it was eventually realized that some of the dollar resources were not being put to the best possible use, since an excessively large proportion was being devoted to luxuries and nonessentials or used to transfer capital out of the Philippines.

Import controls were accordingly adopted at the beginning of 1949 and were tightened toward the end of the year. In May 1950 the controls were broadened to include a comprehensive licensing system, established with the dual objective of reducing total imports and assuring that the available foreign exchange be used for imports considered essential for consumption or development. In addition to the direct import controls, in December 1949 controls were imposed on all foreign exchange transactions, initially in order to stem the very heavy capital outflow that followed the devaluation of sterling and other currencies in September of that year. A 17 per cent excise tax levied since March 1951 on the sale of exchange for most categories of imports and other foreign payments has also probably had some deterring effect on the demand for foreign exchange.

The import and exchange controls have been generally regarded as necessary under the conditions that have existed in the Philippines since the end of the war. The controls have helped to improve the composition of imports, with capital and producer goods increasing from one half or less of total imports in the early postwar years to two thirds in 1952 and 1953, and have greatly reduced the outflow of capital, which had been a serious drain on reserves.

The foreign trade position in 1953 was much improved over the preceding two years; according to preliminary data, the

Philippine Balance of Payments
(In millions of dollars)

Item	1946	1947	1948	1949	1950	1951	1952	First half, 1953
Goods and services, and private financing:								
Balance on trade account	−334	−390	−267	−326	− 6	− 93	− 96	− 38
United States military expenditures*	301	278	275	158	102	95	116	58
Other services†	− 41	− 88	−107	−120	− 84	− 93	− 73	− 28
Private remittances and direct investment	17	45	48	22	25	13	37	19
Net errors and omissions‡	− 75	8	−142	− 95	− 92	16	1	− 30
Total deficit	−132	−147	−193	−360	− 55	− 61	− 15	− 19
Financed by:								
United States Government grants and credits:								
Grants under Philippine Rehabilitation Act	32	87	130	203	155	10	3	—
UNRRA grants	5	4	—	—	—	—	—	—
ECA-MSA-FOA grants	—	—	—	—	—	3	22	14
United States Government credits§	6	60	3	—	35	—	—	—
Total United States Government grants and credits	43	151	133	203	190	13	25	14
Use of short-term foreign assets	203	− 26	21	181	− 87	57	3	7
Other means#	−114	22	39	− 24	− 48	− 8	− 13	− 2
Total financing	132	147	193	360	55	61	15	19

Note: Because of rounding, figures may not add to totals shown.
* Mainly payments by the Armed Forces and the Veterans' Administration. Also includes, however, some nonmilitary expenditures.
† Mostly transportation and insurance, and investment income.
‡ Presumably the large negative figures reflect for the most part unreported capital movements.
§ The 1946 figure represents drawings on surplus-property credits; the 1947 figure, a budgetary credit from the Reconstruction Finance Corporation; the 1948 figure, drawings on surplus-property and merchant-ship credits; and the 1950 figure, an Export-Import Bank loan.
# The following items comprise the chief components of the larger figures: in 1946, a reduction in United States Army holdings of pesos (−173 million dollars), partly offset by payments by the United States for guerrilla currency and destroyed currency (+35 million); in 1948, overpayment of back pay to the Philippine Armed Forces by the United States Government (+33 million); and in 1950, an increase in assets arising from export credits extended (−40 million) and a decrease in liabilities arising from postpayments on imports and unidentified payments on liabilities (−18 million).
Source: International Monetary Fund.

trade deficit was only about one fourth the deficits in 1951 and 1952. The improvement was the consequence of a decline in total import outlays compared with 1952 and a rise in export receipts, the latter attributable primarily to an increase in the prices received for coconut products and sugar. The government is hopeful that in 1954 the trade position will be balanced.

However, the outlook for the country's over-all payments position is clouded for two reasons. First, the United States nontrade dollar expenditures that have been such an important source of foreign exchange have declined to only a fraction of the earlier amounts and may well become even smaller. Secondly, the United States, which has been the outlet for more than two thirds of the Philippines' exports, will, according to existing law, no longer be a free market for many such exports after July 3 of this year. At that time, such exports are to become subject to United States duties equal to 5 per cent of the basic rate, with another 5 per cent to be added each year. However, two important Philippine exports, abaca and copra, are on the United States free list and consequently will not be affected; and certain others will continue to enter duty free, although under progressively diminishing quotas. The Philippine Government is trying to secure modification of the 1946 trade agreement with this country, which provided for these tariffs, and the United States Government has indicated its willingness to enter into consultation with the Philippines on this question. Both governments have announced that meanwhile they will request their respective Congresses to enact legislation that would extend the present free trade arrangement for another eighteen months.

Fiscal Position

Part of the pressure on the balance of payments has come from the government's deficit spending that has marked every postwar year except the fiscal year ended June 1952. Approximately half of the government's expenditures usually is for national defense, the maintenance of internal law and order, and public education, and another large part is for economic development and for investments made by various government corporations. Little is left for other essential government expenditures in such fields as public health and social welfare. According to the United States Economic Survey Mission (popularly known as the Bell Mission), which was sent to the Philippines in 1950 at the request of the Philippine President to survey the country's development needs and problems and recommend measures that would lead to a self-supporting economy, the government could effect a considerable reduction in its expenditures for investments by the government corporations, since the majority of the corporations do not appear to be efficiently operated. (The National Power Corporation is generally cited as the outstanding exception to this rule.) In line with this recommendation, the new administration is considering the sale of some of the government enterprises and is seeking ways to improve the efficiency of others.

It is on the revenue side, however, that there is the biggest opportunity for the government to institute changes that would result in a healthier fiscal situation. Although tax revenues have been much larger since fiscal 1951 (rising from 328 million pesos in 1949-50 to 549 million in 1951-52, and then declining rather substantially but not to the previous low levels), the increase cannot be regarded as permanent. It has been attributable primarily to the temporary 17 per cent tax on foreign exchange established in 1951 and, to a smaller extent, to temporary increases in individual and corporate income taxes, most excise taxes, and certain minor taxes. The foreign exchange tax is due to expire on June 30; the higher rates for the individual income tax have already lapsed (in December 1952); and most of the other rate increases are scheduled to terminate at the end of 1954.

Despite these increases, the total taxes collected by the government remain a much smaller part of the national income (only about 8 per cent in 1952) than in other countries with a similar level of income; it may consequently be surmised that there is room for a permanent and even larger rise in taxes. It is generally acknowledged, however, that revenues could be expanded at the present tax rates if the tax-collection machinery were improved; some progress has been made on this score during the past two years. It has also been recommended as highly desirable that the tax structure be changed to provide both a more equitable distribution of the tax burden, which now weighs unduly heavily upon those with low incomes, and greater incentives for industrial investment.

Following the single nondeficit year of 1951-52, there was again a substantial budgetary deficit in 1952-53, as a result of the continuing rise in government expenditures and the decline in tax revenues consequent upon the fall in foreign trade. During the first half of 1953-54, expenditures were at a rate that, despite heavier receipts, would seem to entail another large deficit. After the November 10 presidential election, an interim committee on finance and the budget reported to the then President-elect that not only had the government's cash resources been exhausted, but in addition sizable amounts had been diverted from other funds placed in trust with the national government by various government agencies. It would hardly seem possible, therefore, to avoid a large deficit even if the new administration is successful in its announced drive to collect about 100 million pesos reportedly due in back taxes. For the fiscal year beginning in July, President Magsaysay has introduced in the Philippine Congress a record budget of 668 million pesos, 7 per cent larger than in 1953-54, and has asked Congress to revive the higher individual income tax rates that expired in 1952 and to extend the 17 per cent exchange tax. In order to assure sufficient revenues, however, the Congress is also considering the renewal of the higher rates on the corporate income tax as well as of some of the other temporarily raised rates.

Monetary and Credit Policy

The financing of the government's deficits has of course had an expansionary influence upon the money supply, although in more recent years this influence, as well as the expansionary influence of bank lending to the private sector, has generally been offset by the contractionary effect of deficits in the balance of payments. In the earlier postwar period, the government covered a large part of its budgetary deficits by reliance upon financial assistance from the United States, by the use of trust and sinking funds, and by the drawing-down of cash balances. However, after the central bank was established in January 1949 there was increased recourse to the banking system. The government loans and investments of the central bank amounted to 148 million pesos at the end of the bank's first year of operation, and by the end of 1951 the total had risen to 264 million. During 1952 and 1953 government borrowing from the central bank flattened out, but the credit made available to the government and official entities by the rest of the banking system rose from 90 million pesos at the beginning of 1952 to 133 million at the end of November 1953, after having shown no net increase over the previous three years.

A major portion of the central bank's credits to the government was for development projects, and was obtained under a special clause of the Central Bank Act that permitted the bank to make, until mid-1951, direct advances to the government for developmental purposes, up to a maximum of 200 million pesos. The bank has also made budgetary loans available to the central government as well as to the local governments; these loans are limited to a maximum of 15 per cent of the borrower's average annual income and must be repaid within three months after the end of the fiscal year in which obtained. In addition, funds have been provided through open market operations in which the bank has purchased from other banking institutions bonds issued by the government or its agencies. While finding it necessary to provide the government with funds to cover its deficits, the central bank has repeatedly urged that the government balance its budget.

The banking system has also expanded its credits to the private sector, loans to business and individuals rising from 518 million pesos at the end of 1948 to 720 million in October 1953. Increases have been permitted by the monetary authorities even during periods when bank-financed government deficits and a surplus in the balance of payments were causing inflationary pressures. This course was presumably motivated by the central bank's belief that, in an underdeveloped economy, an over-all credit contraction might result in "sacrificing economic development" and "perpetuating . . . a depressed level of income and employment", and that therefore it was better to rely for the control of inflation upon fiscal and economic measures. Perhaps reflecting this attitude was the reduction to 1½ per cent on February 3 of the central bank's interest rate on loans and discounts for commercial banks, from the 2 per cent that had been in effect for several years.

Credit expansion has been guided, however, by a policy that the central bank has characterized as one of "selective restriction and selective expansion"; under this policy the bank seeks to discourage "loans for the financing of non-essential imports and speculative transactions" and to encourage and make available "abundant credit for socially desirable activities". In its attempt to channel credit in selected directions, the bank has had recourse, in addition to moral suasion, to a number of concrete measures. Among these was the imposition in 1949 of a cash deposit requirement of 80 per cent on all letters of credit for the importation of specified luxury and nonessential items (a requirement dropped in October 1953, a few months after the transfer of import licensing controls to the central bank); the requirement, beginning in 1951, of a 70 per cent ratio between outstanding letters of credit and net foreign exchange holdings, cash in bank vaults, excess reserves, and eligible securities (reduced in December 1953 to 50 per cent, reportedly in order to benefit small local banks with limited resources); the promotion of legislation, passed in 1952, providing for the establishment of, and special financial assistance to, rural banks that would concentrate on the financing of agriculture and small, local businesses; and the inauguration of an arrangement, also in 1952, whereby the central bank guarantees loans granted by other financial institutions for desirable industrial and other development projects, when the borrowers cannot meet the commercial banks' usual credit requirements.

While some of these measures were introduced only two years ago, by the middle of 1953 there was already noticeable a substantial alteration in the composition of commercial bank credits. Credits for commercial purposes had dropped by a significant amount, and credits for real estate financing had also declined, although to a lesser degree. On the other hand, credits for agriculture and industry, the two fields so important for economic development and yet traditionally so meagerly financed in underdeveloped countries, had shown a definite increase.

Diversification of the Economy

The credit policies of the central bank reflect its stand as one of the most vigorous exponents of the diversification of the Philippine economy. There are two principal reasons given for such diversification. First, approximately 70 per cent of the country's export receipts come from only three groups of exports—coconut products, abaca and the rope made from it, and sugar—the major part of which goes to only one market (the United States). Since a substantial part (roughly one tenth) of the nation's income depends upon the exports mentioned, any difficulties that might arise in marketing them are of vital importance to the Philippines. Second, the population has been increasing faster than agriculture can absorb it; a joint United States-Philippine survey has revealed that fully one third of the rural labor force is completely unemployed, while many more persons are seriously underemployed.

The government has had a more or less concrete program for the development of the economy since 1948. This program was revised in 1950, but the Bell Mission, which reached the Philippines later that year, suggested a further revision that was completed early this year. The fulfillment of the program has so far been heavily dependent upon United States financial and technical assistance. Funds provided by the Foreign Operations Administration (previously the ECA and the MSA) for equipment and technical assistance totaled 78 million dollars from the initiation of the joint Foreign Operations Administration—Philippine Council for United States Aid (FOA-PHILCUSA) programs in 1951 through last June, and it is estimated that another 17 million will be made available in 1953-54. In addition, the technical assistance offered by the FOA in all fields—including agriculture, industry, public health, fiscal policy, and public administration—has been of considerable importance. For every dollar contributed by the FOA, the Philippine Government has undertaken to contribute the equivalent in its own currency (two pesos) through the PHILCUSA. This matching has not been possible on an item-by-item basis, since some projects require more dollars than pesos, or vice versa. In the first two years of FOA-PHILCUSA cooperation the expenditures were predominantly in dollars (about 65 million dollars, as against 29 million dollars' equivalent in pesos), but the current year's activities will probably see a sharp reversal of this relationship, particularly in view of the decline that is now taking place in FOA aid.

Activities under the development program have thus far been heavily concentrated in the agricultural sector, although the latest revision places increased stress on the industrial sector. The emphasis in Philippine agriculture had until recently been so completely on export crops that production of food for home consumption had been much neglected. Consequently, although the country was formerly able to supply all of its own rice—the mainstay of the diet—and even had surpluses for export, in recent years rice has had to be imported. Under the development program, however, production has increased, and in 1953 there was more than sufficient rice to meet domestic demand. There has also been a substantial increase in subsidiary foods such as corn, root crops, vegetables, and fruits. Various measures have been taken to encourage the diversification and expansion of agricultural output. Irrigation facilities have been augmented; roads have been constructed; a large fertilizer plant has been built; an agricultural extension service has been established to provide farmers with information on better agricultural techniques; new institutional arrangements have been made to provide credit to the smaller farmers at reasonable interest rates. There are still important rural problems, however, such as the small size of the majority of farms, and the relationship between tenant farmers and landlords—problems to which the new administration has declared it will give high priority.

There has also been progress in the industrial sector. Reference has already been made to the increasing emphasis on the availability of credit for industry. The opening last year of the large Maria Cristina hydroelectric power plant provides an important source of cheap electricity. Incentives have also been offered industry by entirely exempting "new and necessary" enterprises from direct taxes for a period of six years, and in diminishing amounts for four more years. The import controls have also, in effect, provided a sheltering wall for domestic enterprises that could not exist in competition with tariff-free imports from the United States; in some cases, moreover, foreign firms have established plants there because the importation of their products was no longer allowed.

Among the important government enterprises that are already in operation, or soon will be, are the above-mentioned fertilizer plant, a cement factory, a large shipyard, a glass works, and a textile plant for the processing of ramie, a native fiber. New private enterprises that have been opened or for which definite plans have been completed include cotton spinning and knitting mills, jute spinning mills, a food processing plant that is reportedly the largest in the Far East, a concern for processing hardwood, an auto parts factory, several auto and truck assembly plants, three steel re-rolling mills, and an oil refinery. The choice of industries that are to be given priority under the government's development program is guided, according to the government, by several criteria: (1) that they can save or earn dollars; (2) that they can be brought into production quickly; (3) that they can stimulate other industries; (4) that they require relatively little capital, compared with the value of their output; (5) that they use predominantly domestic materials; and (6) that they can operate efficiently by reliance upon the internal market alone. These criteria, however, have not been observed sufficiently stringently, according to a recent review of the program by the Philippine National Economic Council; the Council's principal criticism was that new industries had so far been oriented heavily toward the production of consumer goods using imported materials.

Conclusion

The further development of the Philippine economy requires continuing large expenditures by the government for the construction of basic public utilities and perhaps other physical plant. However, it also requires, to at least as great an extent, further improvements in the government's administration of fiscal matters, of public corporations, and of labor and other welfare legislation. The pursuit of such goals has been given an important place on the new administration's agenda, and many committees have been set up to investigate the relevant problems and to advise the government as to the steps it ought to take. But government action alone will not be sufficient. Equally important is compliance by the public with a number of existing laws that are of basic significance for healthy growth, and a willingness to invest in the future of their own country.

The country is in the happy position of having an industrious and skillful people and of being fairly well endowed with physical resources. There is considerable land that could be brought under cultivation after not unreasonably large expenditures on road construction, drainage, and certain other basic improvements; and there are rather ample supplies of many raw materials and of water for hydroelectric power, which provide an opportunity for rather broad diversification of the economy. Moreover, if the country pursues a proper course it should be able to continue to command fairly sizable external resources through its own export earnings and through investment from abroad. These are assets that should help pave the way for further economic progress.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954		1953		Percentage change	
		February	January	December	February	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	123p	125	126r	134	− 2	− 8
Electric power output*	1947-49 = 100	162	164	160	155	− 1	+ 5
Ton-miles of railway freight*	1947-49 = 100	—	93p	89	100	+ 4	− 8
Manufacturers' sales*	billions of $	23.6p	23.9	24.1	24.7	− 1	− 4
Manufacturers' inventories*§	billions of $	46.1p	46.4	46.7	44.6	− 1	+ 3
Manufacturers' new orders, total*	billions of $	21.9p	20.7	22.0	24.5	+ 6	−11
Manufacturers' new orders, durable goods*	billions of $	9.5p	8.5	9.6	12.4	+12	−23
Retail sales*	billions of $	13.8p	13.7	13.9	14.5	+ 1	− 5
Residential construction contracts*	1947-49 = 100	196p	185	177	182	+ 6	+ 8
Nonresidential construction contracts*	1947-49 = 100	189p	202	229	167	− 6	+13
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	88.0	88.1	88.5	88.7	#	− 1
Wholesale prices†	1947-49 = 100	110.5p	110.9	110.1	109.6	#	+ 1
Consumer prices†	1947-49 = 100	115.0	115.2	114.9	113.4	#	+ 1
Personal income (annual rate)*	billions of $	282.9p	283.7	284.6	281.0	#	+ 1
Composite index of wages and salaries*	1939 = 100	—	254p	253	244	#	+ 4
Nonagricultural employment*	thousands	48,213p	48,388	48,560r	49,113r	#	− 2
Manufacturing employment*	thousands	16,055p	16,234	16,404r	17,039r	− 1	− 6
Average hours worked per week, manufacturing†	hours	39.5p	39.4	40.2	40.9	#	− 3
Unemployment††	thousands	3,385	2,359	1,850	1,788	+43	+89
Banking and finance							
Total investments of all commercial banks	millions of $	77,860p	78,680p	78,140p	76,030	− 1	+ 2
Total loans of all commercial banks	millions of $	66,930p	66,490p	68,260p	64,070	+ 1	+ 4
Total demand deposits adjusted	millions of $	99,670p	102,430p	103,280p	98,340	− 3	+ 1
Currency outside the Treasury and Federal Reserve Banks*‡	millions of $	30,084p	30,191	30,330	29,897	#	+ 1
Bank debits (U. S. outside New York City)*	millions of $	96,642	89,570	91,507	93,935r	+ 8	+ 3
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 $	21,151	21,444	21,807	18,982r	− 1	+11
United States Government finance (other than borrowing)							
Cash income	millions of $	6,530p	4,602	5,339	6,267	+42	+ 4
Cash outgo	millions of $	5,302p	4,749	6,294	5,754	+12	− 8
National defense expenditures	millions of $	3,676p	3,603	4,245	4,012	+ 2	− 8
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	138	144	138	137	− 4	+ 1
Residential construction contracts*	1947-49 = 100	—	183p	153	174	+20	+23
Nonresidential construction contracts*	1947-49 = 100	—	218p	201	175	+ 8	+15
Consumer prices (New York City)†	1947-49 = 100	112.8	113.0	113.0	111.1	#	+ 2
Nonagricultural employment*	thousands	—	7,567.2p	7,610.6	7,619.5	− 1	− 1
Manufacturing employment*	thousands	—	2,698.8p	2,724.3	2,785.0	− 1	− 3
Bank debits (New York City)*	millions of $	62,350	59,910	54,022	50,832	+ 4	+23
Bank debits (Second District excluding New York City)*	millions of $	4,377	4,183	4,392	4,141	+ 5	+ 6
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, April 1, 1954.
p Preliminary.
r Revised.
n.a. Not available.
* Adjusted for seasonal variations.
† Seasonal variations believed to be minor; no adjustment made.
‡ The seasonal adjustment factors for this series have been revised.
§ Revised series. Back data available from the U. S. Department of Commerce.
# Change of less than 0.5 per cent.
†† On the basis of a new sample, unemployment in January and February was 3,087,000 and 3,385,000, respectively.

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

Reflecting in part the later date of Easter this year (April 18) as compared with 1953 (when Easter fell on April 5), daily average sales at department stores in the Second Federal Reserve District during March fell approximately 8 per cent below the level attained last year, according to preliminary estimates. On a seasonally adjusted basis, with allowance for the later Easter shopping season, daily average sales in March 1954 are estimated to have fallen short by about 4 per cent of the volume for March 1953, when District department stores were experiencing a relatively good spring selling season. The seasonally adjusted index of sales in this District for March, tentatively estimated at 99 per cent of the 1947-49 average, was also somewhat below the final figures for February (102) and for January (101) of this year. To some extent, this relative slackening in sales may have reflected a tendency on the part of consumers to defer purchases in anticipation of reductions in Federal excise taxes on April 1, though the impact of this kind of influence is difficult to assess.

Trends in Homefurnishings

Furniture store sales in the Second District have during recent months been running substantially below sales of a year earlier. In contrast, sales of homefurnishings at District department stores declined only slightly below the levels of the preceding year during the fourth quarter of 1953 and during January 1954; preliminary figures indicate that in February 1954 such sales at department stores actually exceeded the February 1953 dollar volume.

The lag in consumer buying at District furniture stores, in terms of year-earlier levels, set in during the late spring of 1953. Except for a brief gain in July, the year-to-year decline continued thereafter, becoming very pronounced toward the end of 1953. Whereas furniture store sales in the third quarter were only moderately (3 per cent) below the corresponding period in 1952, fourth-quarter sales fell 14 per cent short of year-earlier levels, with the decline for December alone amounting to 26 per cent. The latest available figures indicate year-to-year declines of 15 and 16 per cent, respectively, for sales during January and February of the current year. (See table opposite.)

In assessing the significance of these recent percentage declines it is, of course, important to bear in mind that furniture store sales had been at exceptionally high levels during the fourth quarter of 1952, and that they had continued relatively brisk in the early months of 1953. However, the slackening in furniture store sales during recent months would appear to be fairly significant even if measured in relation to the corresponding periods of two, three, and four years earlier. Thus, while aggregate sales for the three-month period from December 1953 through February 1954 fell short of sales a year earlier by 22 per cent, they also lagged substantially behind the corresponding three-month periods in 1951-52 (by 11 per cent), in 1950-51 (by 14 per cent), and in 1949-50 (by 13 per cent).

That the slackening of sales at District furniture stores is not necessarily indicative of a comparable decline in the *aggregate* demand for furniture and other homefurnishings products on the part of consumers in the District is demonstrated by the comparative strength of buying at homefurnishings departments of District department stores, already noted. As the table below indicates, sales by homefurnishings departments recently have not fluctuated as widely as those at furniture stores, having failed to match either the spectacular rise in sales registered by furniture stores in late 1952 or their recent rate of contraction.

The type of merchandise offered consumers by the homefurnishings departments of District department stores appears, on the whole, to be closely comparable to that carried by furniture stores. What, then, accounts for the rather wide divergence in the sales experience of the two types of sellers since mid-1952? While a variety of factors have undoubtedly been at work, a significant part of the explanation may derive from the fact that furniture stores and department stores cater to somewhat different groups of customers whose spending patterns may well show different degrees of sensitivity to changes in broad economic trends as well as to other, more specific, influences. Thus a high proportion of furniture store sales is typically made to customers who pay on the instalment plan; in 1953, for example, over four fifths of Second District furniture store business was conducted on this basis. Although comparable data are not available for the homefurnishings departments of District department stores, the relative use of instalment credit appears to be lower in these departments than in furniture stores.

The sharp upsurge of furniture store sales in 1952, as well as the fact that department store homefurnishings sales

Second District Sales at Furniture Stores and Homefurnishings Departments in Department Stores*
(Monthly rates, 1950=100)

Period	Furniture stores		Homefurnishings departments in department stores	
	Index	Percentage change from a year previous	Index	Percentage change from a year previous
1953—First quarter	84	+ 6	76	− 7
Second quarter	95	+ 1	79	+ 1
Third quarter	85	− 3	76	− 1
Fourth quarter	129	−14	110	− 2
December	143	−26	111	− 4
1954—January	64	−15	72	− 4
February	71*p*	−16*p*	78*p*	+ 4*p*

* Furniture store data derived from a constant sample of stores, and department store data based on figures of main and basement store homefurnishings departments.

p Preliminary.

failed to participate in this gain, may therefore in part have been attributable to the greater impetus given to furniture store sales through the expiration of Regulation W in May of that year and the consequent easing of instalment credit terms. Perhaps more important, however, was the broad stimulus to consumer buying provided by rapidly rising levels of income and employment which brought many new customers into the market, and which probably had a particularly strong effect on buyers in income groups who typically make purchases on an instalment basis and for whom, in many cases, purchases of homefurnishings items represented "marginal outlays" made possible through extra earnings from overtime pay or temporary jobs. Conversely, the contraction in general business activity as well as in actual or anticipated income levels, which began in mid-1953, may well have had a sharper impact on customers of furniture stores than upon those of the homefurnishings departments of department stores. To some extent, reduced sales of furniture stores may also reflect a tightening of credit policies on the part of the stores, as their customers' income prospects have become less favorable at the very time when, for many of these customers, the burden of repaying previously incurred instalment debt had substantially risen. It is interesting to note, in this connection, that a decline in the proportion of instalment sales to total District furniture store sales (in relation to year-earlier levels) has continued in recent months.

In part, the divergence in the recent sales experience of furniture stores and of homefurnishings departments of Second District department stores may also be attributable to a possible difference in the impact upon the two types of stores of intensified competition from other types of sellers. On a national level, household appliance stores (including "discount houses") and various specialty homefurnishings stores carrying such lines as floor coverings, draperies, and upholstery apparently chalked up considerable sales gains in 1953 over the preceding year, in large part through offering customers liberal price concessions on items also carried by furniture stores and department stores; the experience in the District may well have been similar. It is possible that furniture stores had been doing a relatively greater volume of business than department stores in lines that are particularly vulnerable to such competitive attacks and that they are therefore more seriously affected by intensified price competition. However, no direct evidence on this point is available.

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

Area	Net sales			Stocks on hand Feb. 28, 1954
	Feb. 1954	Jan. through Feb. 1954	Feb. 1953 through Jan. 1954	
Department stores, Second District	+ 2	− 1	0	− 4
New York—Northeastern New Jersey Metropolitan Area	+ 3	0	−1	− 6
New York City*	+ 2	0	−2 (−2)	− 8
Nassau County	—	—	—	—
Westchester County	+ 5	+ 5	+5	− 3
Northern New Jersey	+ 2	− 2	+2	− 4
Newark	+ 3	− 2	+1	− 3
Fairfield County	− 6	− 8	—	−11
Bridgeport	− 7	− 8	—	—
Lower Hudson River Valley	+ 5	+ 1	+4	+ 2
Poughkeepsie	+ 6	+ 2	+4	+ 2
Upper Hudson River Valley	− 1	− 5	−1	− 4
Albany-Schenectady-Troy Metropolitan Area	0	− 5	—	− 5
Albany	+ 1	− 4	−3	− 6
Schenectady	− 2	− 6	+2	− 2
Central New York State	+ 1	− 2	+3	+ 9
Utica-Rome Metropolitan Area	− 1	− 7	+1	0
Utica	+ 3	− 3	+2	+ 2
Syracuse Metropolitan Area	+ 1	− 1	+3	+13
Northern New York State	−18	−16	+3	+ 2
Southern New York State	0	− 4	0	+ 3
Binghamton Metropolitan Area	0	− 3	−1	+ 5
Elmira	− 8	− 9	0	0
Western New York State	+ 1	− 1	+4	+ 2
Buffalo Metropolitan Area	− 3	− 3	+3	+ 2
Buffalo	− 3	− 4	+3	+ 2
Niagara Falls	− 1	− 3	+3	—
Rochester Metropolitan Area	+ 9	+ 4	+5	+ 2
Apparel stores (chiefly New York City)	+ 1	0	−1	0

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

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

Item	1954		1953	
	Feb.	Jan.	Dec.	Feb.
Sales (average daily), unadjusted	83	81	178	81
Sales (average daily), seasonally adjusted	102	101	101	100
Stocks, unadjusted	104	98	104	109r
Stocks, seasonally adjusted	107	111	113	112r

r Revised.