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MONEY MARKET IN MAY

Member bank reserve positions in the aggregate remained comfortable throughout May. Average "free" reserves were above 500 million dollars in all four statement weeks of the month, and member bank borrowings from the Federal Reserve Banks continued to be small. However, the reserve positions of a few banks in the larger money market centers were under some pressure at one time or another during the early part of the month as a result of shifts in the distribution of reserves. In order to relieve such pressures and to offset losses arising from an increase in required reserves and from other factors, the System Open Market Account entered the market in the latter part of the month and purchased 105 million dollars of bills. The three Federal Reserve Banks (Atlanta, Richmond, and Philadelphia) which had not reduced their discount rates in April lowered them from 1¾ per cent to 1½ per cent during May.

As a result of the localized reserve pressures, rates on Federal funds firmed in the early part of May and rates on dealer borrowings advanced somewhat, resulting in occasional recourse to the repurchase agreement facility at the New York Reserve Bank. Rates on commercial paper, however, continued to decline, and in the latter part of the month short-term open market rates eased rather generally.

The Treasury's financing operations constituted a major influence during May both on the Government securities market and on bank portfolio changes. Its offerings of securities for exchange and new cash, announced at the end of April, were well received by the market. The new issue of 1⅞ per cent, 4-year and 9-month notes was substantially oversubscribed, and subscriptions in excess of $10,000 were allotted 22 per cent, but not less than $10,000 on any one subscription. Approximately 2.2 billion dollars of the 9.8 billion dollars of notes subscribed for were issued for cash and an additional 2.9 billion in exchange for the maturing 2⅝ per cent certificates. Just under 3.9 billion of called or maturing bonds and certificates were exchanged for the new 1⅛ per cent certificates, while 514 million dollars of the 7.3 billion total of eligible certificates and bonds were not exchanged and will therefore be redeemed for cash in June. The subscription books were open only one day, May 4, for the cash offering and three days, May 5-7, for the exchange. "When-issued" trading in the new notes and certificates commenced at premiums of approximately ½ and ⅜ of a point, respectively, but thereafter lower levels prevailed as prices of all Government securities except bills dropped during the course of the month, reflecting the cumulative effects of a number of different factors (discussed more fully below). On May 21 the new notes fell slightly below par, and on May 28, the last trading day of the month, they closed at $99^{31}/_{32}$ (bid), while the new certificates closed at $100^{8}/_{32}$. Prices of intermediate and long-term bonds in general suffered even larger declines and closed on the 28th as much as $1^{31}/_{32}$ points below their April 30 levels.

The market for Treasury bills, on the other hand, remained firm within a range of about 0.60 to 0.90 per cent. Average issuing rates for the regular weekly issues ranged from 0.825 per cent for the May 13 issue to 0.718 per cent for the May 27 issue. The average rate for the May 27 issue was the lowest since July 10, 1947, the first issue after the wartime bill rate was "unpegged".

The weekly reporting member banks added 1,447 million dollars of securities (net) to their portfolios during the four weeks ended May 19, the largest part of this total being the new 1⅞ per cent notes. Their loans also rose during the four

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weeks under review; a substantial part of this increase was in security loans which also had a connection with the Treasury's financing operations.

Member Bank Reserve Positions

The majority of member banks were able to maintain their reserves at comfortable levels without difficulty throughout May despite the fact that, in the aggregate, they experienced some net reserve losses and an increase in required reserves in connection with the Treasury financing. As Table I indicates, currency in circulation expanded moderately. The recent strengthening of sterling (along with further reserve gains by other countries) was reflected in a market loss through foreign account operations. Other deposits and other Federal Reserve accounts also rose. Treasury operations had virtually no net effect on the market. Float rose slightly, but not enough to offset the other market losses.

During the four weeks ended May 26 member banks lost 335 million dollars from the operations of the regular market factors, including the rise in required reserves. In addition, they repaid, net, 15 million dollars of their borrowings from the Reserve Banks. As a partial offset to these losses, the System Open Market Account purchased 105 million bills, but member bank excess reserves dropped 245 million dollars. For the four weeks as a whole, however, member bank borrowings averaged 146 million and excess reserves 722 million, compared with 136 million and 715 million, respectively, in April.

Table I

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

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

Factor	Statement weeks ended				Four weeks ended May 26
	May 5	May 12	May 19	May 26	
Operating transactions					
Treasury operations*	−122	+ 73	+127	− 79	− 1
Federal Reserve float	− 32	+ 81	+ 80	−112	+ 17
Currency in circulation	−111	− 3	+ 52	+ 10	− 52
Gold and foreign account	−131	+ 23	+ 47	+ 32	− 29
Other deposits, etc.	− 20	− 28	− 65	+ 6	−107
Total	−415	+146	+240	−143	−172
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	—	—	+ 55	+ 50	+105
Held under repurchase agreements	—	—	—	—	—
Loans, discounts, and advances	− 77	+128	− 90	+ 24	− 15
Total	− 77	+128	− 35	+ 74	+ 90
Total reserves	−492	+274	+205	− 69	− 82
Effect of change in required reserves	− 74	+112	−204	+ 3	−163
Excess reserves	−566	+386	+ 1	− 66	−245
Daily average level of member bank:					
Borrowings from Reserve Banks	150	174	120	141	146
Excess reserves	709	685	702	790	722

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

* Includes changes in Treasury currency and cash.

The difficulties experienced by some member banks in covering their reserve requirements during May were more the result of timing and geographical shifts in the distribution of reserves than of the net reserve losses. The sharp drop in excess reserves in the week ended May 5 (see Table I) occurred at the end of that statement week so that it had little effect on either money rates or average bank reserve positions in the week. It did, however, make a number of the large banks in New York and Chicago short of reserves at the beginning of the following statement week, since those two groups of banks had taken the brunt of the reserve losses at the end of the first week. Therefore, they actively began to seek funds to make good their accumulating reserve deficiencies, and rates for Federal funds rose from the ¼-⅜ of 1 per cent level prevailing at the beginning of the month to as high as 1¼-1⅜ per cent. Some banks continued to have reserve deficiencies in the third statement week, probably in the hope that the usual intramonthly pattern of float and currency would ease the market in that week and reduce the rates on Federal funds, thus enabling them to cover their deficits more cheaply. However, the pressure of their demands helped to keep market rates firm until late in the third statement week. In the last week of the month, the money market turned considerably easier with Federal funds as low as ⅛ of 1 per cent.

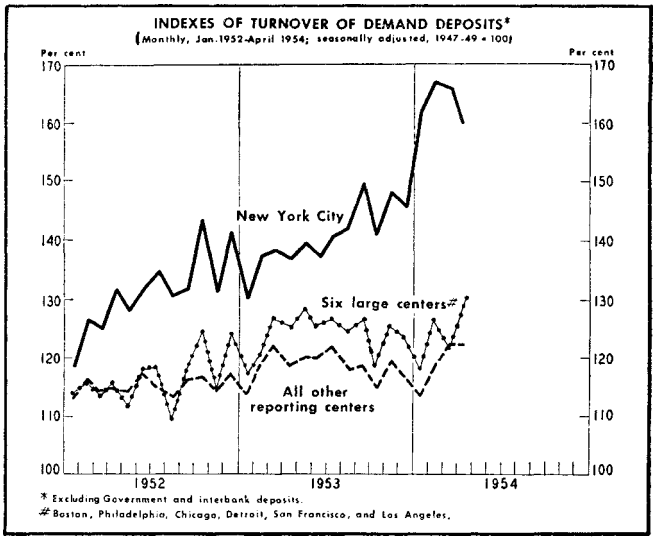
Treasury Financing and the Market for Government Securities

On April 30, when the Treasury announced its new cash and refunding offer, the market reacted favorably and prices of most securities were marked up. Those most affected were the intermediate maturities just beyond the new 1⅞ per cent notes of February 1959, as these issues were regarded as underpriced in relation to the new notes. In addition, the maturing 2⅝ per cent certificates temporarily moved up to a ¾-point premium, reflecting the "rights" value for the new 1⅞ per cent note. Except for a temporary advance to about 100½ in bid quotations for the maturing 2 and 2¼ per cent bonds, due mainly to sizable buying on shifts out of the maturing 2⅝ per cent certificates, prices of other Government obligations excluding Treasury bills began to give ground from the first trading day in May and continued to do so with little respite through the end of the month. A number of the longer 2½ per cent issues again dropped below par, and even at that level very little demand appeared. At the end of May prices of intermediate and long-term obligations had fallen back to the levels prevailing in the latter part of February.

This bearish psychology represented the cumulative effect of a number of different factors, of which the following were among the more influential. One was the growing crisis in Indochina and the market's fear that, if this country were to become more directly involved, there would be important

changes in the Government's financing needs and policies, and that the direction of security prices might change markedly while the Government was in the process of working out a new program. Another influence was the growing optimism over the business outlook, which led to questions over whether the Reserve System's policy of "active ease" might be modified if production and employment actually began to rise. These questions seemed briefly to find some justification in the temporary firming of the New York and Chicago money markets early in the month. A third factor was the disappointment in market circles arising from the fact that rumors of impending reductions in member bank reserve requirements were not fulfilled. A fourth influence was the congestion and price concessions that developed in the distribution of the continuing large volume of new corporate and municipal bond issues, many of which reflected overoptimism in their original pricing. Moreover, there was a feeling on the part of a number of market analysts that the Treasury's February and May financing programs had overcrowded the intermediate area of the Government market as well. This feeling was accentuated by the fact that the actual percentage allotments of the new 1⅞ per cent notes were somewhat larger than the market had initially anticipated, and by the pressure brought to bear on the market by the "free riders" and others seeking to get out of the 1⅞ per cent notes as prices declined. In the latter part of the month, commercial banks purchased some of these notes at prices close to par but these purchases were not large enough to absorb the overhanging supply.

While market attention in May was centered on the new issues and the general price decline, there was other activity worthy of note. Institutional investors continued to dispose of Government bonds in order to make room in their portfolios for other types of obligations. Such sales were small, but a larger volume might have been sold if markets could have been found for them without depressing prices further. On May 9, the 2¾ per cent bonds of September 1961 had been outstanding for six months, and there was some activity in this issue as original subscribers undertook to cash in book profits at the lower tax rates applicable to long-term gains. The short-term market continued to be quite active despite the fact that the unsettled outlook kept the volume of activity in the intermediate and longer sectors of the market relatively low. Public funds and corporations which had recently sold new issues sought temporary investment outlets for the proceeds of these issues as did sellers of "rights" to the two new Treasury issues, and corporations continued to buy bills, chiefly the tax anticipation series, for the investment of their accumulating tax reserves. Foreign accounts were also net purchasers; the amount of Government securities held by the Reserve Banks in custodial accounts for foreign central banks or governments rose 123 million dollars in the four weeks ended May 26. Bill rates, as a result, were not only fairly stable during May, but were actually somewhat lower on the average than they had been in any other recent month.



Deposit Turnover

The rate of turnover of demand deposits in commercial banks has shown a marked increase in recent months, as the accompanying chart indicates. The primary reason for this rise appears to be the expansion in the volume of activity in the securities markets, and most particularly in the market for short-term Treasury obligations. The rise in debits and velocity is, of course, most striking in New York City where the principal securities markets are located. The average annual rate of turnover of demand deposits in the City banks in the first four months of 1954 (figures for May are not yet available) was nearly 64 per cent above the 1947-49 average. In the comparable months of 1952 and 1953, the average annual rate of turnover in New York City was 25 per cent and 36 per cent, respectively, above the 1947-49 average.

The rise in debits and velocity has been much more modest in other reporting areas, but the volume of debits arising from security transactions may be larger than the figures would at first glance suggest. Outside New York City, the primary determinant of the amount of debits and the rate of turnover or velocity is usually business activity. Thus debits and turnover tend to move directly with the gross national product, and since these data are available shortly after the end of the month and GNP data only after a considerable delay, they are often used in making short-run forecasts of GNP. In 1949, for example, when business activity slackened, the annual rate of turnover of demand deposits in the 344 cities outside New York City that report debits statistics dropped from 18.0 in 1948 to 17.3 in 1949. In 1953, however, when turnover might

have again been expected to decline or at least to level out in the last six months, it rose throughout the year and continued to rise, on a seasonally adjusted annual basis, in the first four months of 1954, as debits related to security operations have apparently more than offset declines in those arising from business transactions. The rate of increase has been somewhat greater in the six other large cities (Boston, Philadelphia, Chicago, Detroit, San Francisco, and Los Angeles) than outside these financial centers, as these six cities include important secondary securities markets, but the increase is noticeable in both series. In the six cities the annual turnover rate rose from 24.0 in 1952 to 25.6 in 1953, or from 16.4 to 23.7 per cent above the 1947-49 average and in the 338 other reporting areas from 18.4 to 18.9 or from 15.0 to 18.1 per cent above the 1947-49 base for 1952 and 1953, respectively.

Member Bank Credit

The earning assets of the weekly reporting member banks rose very sharply in the four weeks ended May 19, primarily as a result of their purchases of the new securities offered by the Treasury during this period. In the final week of April, as Table II indicates, the banks added 595 million dollars of bills to their portfolios, presumably the June 18 tax bills that were issued on April 27. In the middle of May, they sold to corporations and other investors approximately the same amount of bills in order to make room for their purchases of the new 1⅞ per cent notes and 1⅛ per cent certificates, or for the "rights" to subscribe to these securities. Thus, for the period under review, the amount of bills held by these banks showed little net change, but their note holdings rose 1,926 million and their certificates and bond holdings declined 265 million and 163 million, respectively. The reduction in certificates reflects the fact that the amount of the maturing 2⅝ per cent certificates that the banks exchanged for the 1⅞ per cent notes was larger than their acquisitions of the new 1⅛ per cent issue.

The banks' holdings of other securities declined during these four weeks, reversing the upward trend of recent months. During the period, New York City redeemed a fairly substantial issue of its tax anticipation notes and, since the principal holders of these obligations are generally the weekly reporting member banks in New York City, their holdings of "other securities" dropped 125 million during the four weeks ended May 19, compared with an increase of 66 million for the other reporting banks.

The increase in bank loans that occurred in these four weeks was much more modest than the rise in investments and resulted primarily from the firming of the reserve positions of some banks in the larger centers and from the developments in the securities markets during this period. As Table II indicates, loans to banks, a substantial part of which represents the sale of Federal funds, rose 169 million dollars in the four weeks ended May 19, and security loans rose 432 million. The New York City banks accounted for the larger part, 149 million and 307 million, respectively, of the increase in these two types of loans. Real estate and consumer loans showed only slight changes during the four weeks, but commercial, industrial, and agricultural loans dropped rather sharply again. An unknown but probably small part of the 373 million dollar decline in these loans may reflect the Commodity Credit Corporation's repurchase early in May of about 125 million of its outstanding certificates of interest. The larger part of the contraction, however, reflects declines in loans to food, liquor, and tobacco dealers, to metals and metal products companies, and to sales finance companies. Last year the contraction in loans to food, liquor, and tobacco dealers and to sales finance companies during the comparable period was of roughly the same magnitude, but loans to metals and metal products companies at that time were rising, while loans to commodity dealers were down substantially more last year than this.

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 May 19, 1954
	April 28	May 5	May 12	May 19	
Assets					
Loans and investments:					
Loans:*					
Commercial, industrial, and agricultural loans	−165	− 38	−100	− 70	−1,405
Security loans	−172	+287	+300	+ 17	+ 81
Real estate loans	+ 9	− 12	+ 18	+ 23	+ 101
Loans to banks	− 97	+265	+111	− 110	+ 120
All other loans (largely consumer)	+ 3	− 10	− 33	− 1	− 310
Total loans, net*	−423	+493	+295	− 140	−1,431
Investments:					
U. S. Government securities:					
Treasury bills	+595	− 2	−602	+ 17	− 169
Other	+113	+219	+219	+ 947	+ 327
Total	+708	+217	−383	+ 964	+ 158
Other securities	− 25	+ 65	−135	+ 36	+ 501
Total investments	+683	+282	−518	+1,000	+ 659
Total loans and investments	+260	+775	−223	+ 860	− 772
Loans, net, and "other" securities	−448	+558	+160	− 104	− 930
Liabilities					
Demand deposits, adjusted	+372	− 61	+106	− 438	−2,502
Time deposits except Government	+ 16	+130	− 3	+ 94	+ 968
U. S. Government deposits	+438	−616	−456	+1,944	+ 952
Interbank demand deposits:					
Domestic	−183	+560	+107	− 471	−1,201
Foreign	+ 24	− 11	− 17	+ 18	− 23

* 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.

BUSINESS INDICATORS IN A PERIOD OF ECONOMIC CHANGE

In periods of declining economic activity or other significant change, businessmen, bankers, and others professionally concerned with economic analysis keep a watchful eye on a number of statistical indicators of the nature and extent of such changes in economic activity. The public at large also becomes deeply interested in various official and unofficial indicators of economic trends which may affect the life of the entire nation and have repercussions throughout the world.

The Nature of Economic Statistics

The volume and quality of economic statistics now available are incomparably better than in the twenties, when the analyst had to rely upon inadequate data on monetary, financial, and price developments and upon only fragmentary data on production. At that time, no comprehensive data on total income, employment, and retail sales or major categories of inventories were available, while now all main aspects of the economy are fairly systematically covered by statistical series regularly appearing in official publications. True, there are still important gaps to be filled and, in some important cases (monthly estimates of construction, for instance), available data are still unsatisfactory. Yet, substantial progress has been achieved during the last twenty-five years.

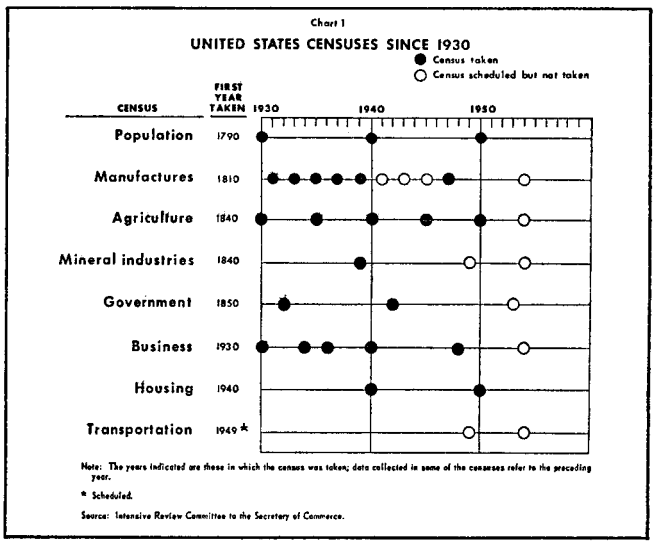
Most statistical indicators are estimates based on partial coverage and a set of assumptions, and are subject to revision. Practically all economic statistical series are derived either from samples or from reports by firms which happen to be members of a trade association or which for some other reason cooperate in compiling some particular statistical series. The nature and extent of the estimating involved will necessarily vary from case to case, but the assumption is usually made that changes among the nonreporting units follow closely the movements shown by the figures actually reported.

Estimating procedures are being continuously improved. To the extent that they involve sampling—a technique which has only recently come into extensive use in the field of economics—periodic verifications by census or other comprehensive data of the validity of the sample chosen have made it possible to obtain much greater precision. For example, in the recent revision of the Federal Reserve index of industrial production, the large mass of fragmentary data on output in various industries on a current basis were checked against, and adjusted to, the level of output indicated by the 1947 Census of Manufactures. Such censuses thus provide "benchmarks" to which less comprehensive but more frequent and up-to-date data can be linked and then carried forward.

Budget cuts since the end of the war have substantially reduced the coverage and the frequency of these basic sources of information, as scheduled censuses (see Chart 1) of various forms of economic activity have been omitted. Other economy moves have forced the discontinuing of the publication of statistical data or have weakened current reporting services which had been built up over many years. A review committee appointed by the President has recently recommended that the program of scheduled censuses adopted in 1948 be followed in the main. In order to fill in the gaps that have arisen, the committee specifically recommended that funds be appropriated for the important censuses of manufactures, agriculture, and business which provide benchmarks for many of the most widely used economic series and which have not been conducted on schedule in recent years.

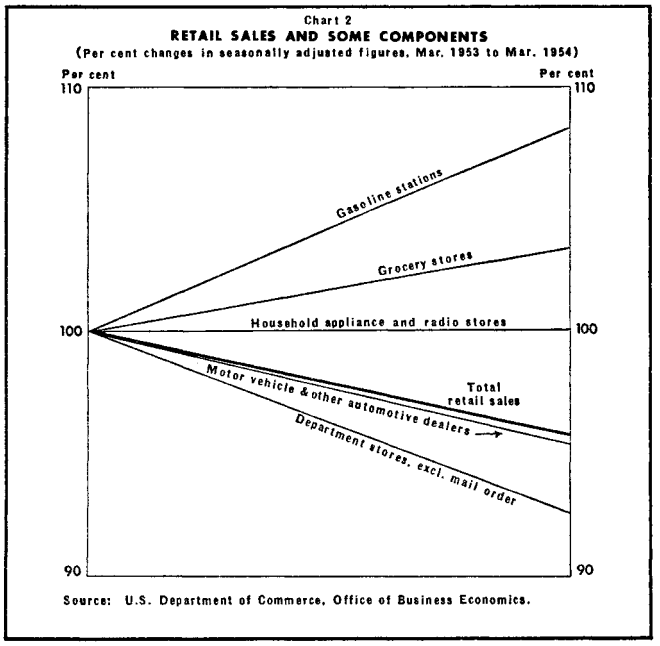
To the general public, the frequent revisions made in private and government statistics may well appear somewhat puzzling. Yet the agencies responsible for the compilation and release of business statistics inevitably face a choice between speed of publication and greater accuracy. Most of the changes subsequently made result from the processing of additional data received too late to be included in the preliminary release. Some series are also revised periodically when more comprehensive sources of information become available. Other revisions are made when the sample used becomes unrepresentative or when it becomes necessary to change concepts or definitions used. Revisions caused by the discovery of errors in reporting and compilation are rare and seldom result in appreciable changes.

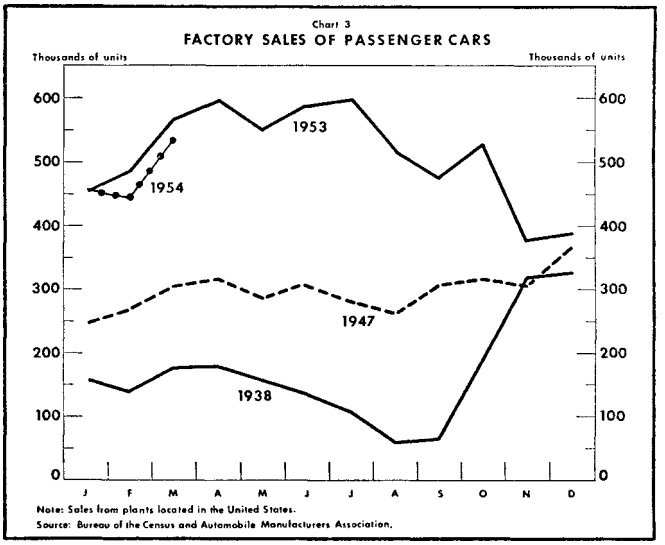
Any attempt to portray complex economic realities in one continuous series has to cope with numerous difficulties. Consider the problem of price indexes, which are computed by combining prices for a wide range of products and for various specifications of given types of products. Prices for commodities of standard specifications used in compiling such



indexes may not reflect special charges or discounts such as retail price concessions made when sales decline or retailers are overstocked. Similarly, the absorption of freight charges has tended in recent months to reduce the cost of steel to ultimate consumers, although it is without equivalent effect on the price quotations used in the index of wholesale prices. As a result, price indexes may at times fail to reflect fully or immediately changes in market conditions. In periods when such changes occur rapidly, a substantial volume of business may be transacted above or below list prices; or prices may become largely nominal when, for instance, mills stop buying scrap steel. At such times, only a careful and detailed analysis of the price structure can provide a sufficiently realistic insight into the market situation. At all times, moreover, over-all series may conceal important divergencies in the movement of their main components, as shown for example in Chart 2 which compares changes in some important components of retail sales between March 1953 and March 1954. Study of the movements of components will suggest qualifications of the conclusions which might otherwise be drawn from the over-all series.

In many statistical series, an effort is made to eliminate the effects of "normal" seasonal factors. Such adjustment of economic series for seasonal variations is by no means simple, since the pattern of such variations tends to change over time in response to numerous influences and institutional changes, such as, for instance, the spread of paid vacations. The disappearance of the seasonal pattern in automobile production in the first postwar years of shortages is a case in point (see Chart 3). Some of the difficulties in interpreting current figures on automobile production and sales arise from uncertainty





over the kind of seasonal pattern that is now re-emerging. As the chart suggests, that pattern, if it can yet be considered a pattern, is decidedly different from that of the last full prewar year.

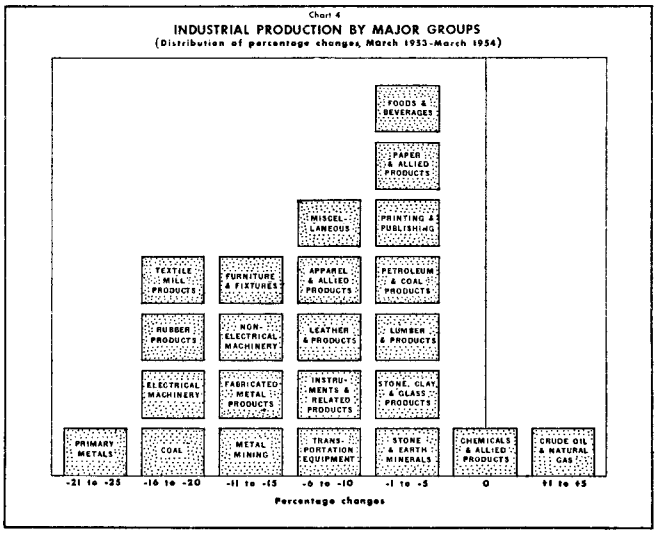
In some cases, the presence of seasonal forces is beyond doubt, but the way in which they assert themselves from year to year is subject to such wide variations that they defy any rigid mold. Thus, no satisfactory way has been found to present a seasonally adjusted series of the money supply—and yet there is general agreement that demand deposits at commercial banks, as well as currency in circulation, fluctuate within the year in response to seasonal influences. Changes in seasonal patterns, as well as the necessary technical improvements, such as shifts in the base period and in the weights used in constructing indexes along with improvements in presentation, increase the number of problems of interpretation with which the user of statistical data is confronted.

Economic Statistics Not a Substitute for Economic Analysis

Economic analysts and others making use of business statistics are confronted with two distinct but related problems, that of appraising the quality of individual series and that of interpreting their movements. Moreover, movements of any given series can be fully appraised only in relation to changes shown by other series. The question is frequently asked what economic indicators are of greatest value in appraising the current business situation and in anticipating future developments. Unfortunately, no simple answer can be provided. Our economic life is so complex that only a combination of various types of statistical—and nonstatistical—information can provide adequate guidance for interpreting current conditions and for anticipating prospective developments. Indeed,

economic analysis is much more than the interpretation of statistical series and certainly more than a mechanical reading of signals from a few selected series chosen for their symptomatic value. Exclusive reliance on one or a few leading series, or a combination of such series, has frequently misled analysts. While some analysts attach great importance to certain indicators, chosen for their comprehensiveness or because they usually lead other significant series at turning points, others prefer to analyze a rather wide range of data covering the principal areas of economic activity. To help in such analysis, this *Review* publishes each month a table of selected economic indicators. Although the number of series carried is necessarily limited, the selection included suggests the wide range and variety of data which are relevant for obtaining a balanced judgment of the business situation.

All business indicators do not usually move in the same direction; nor, for that matter, do the components of given indicators (as Chart 4 graphically illustrates with respect to the major components of the index of industrial production). Only after a contraction or expansion is well under way do the overwhelming majority of such indicators point in the same direction; around the crucial turning points, significant indicators frequently show divergent movements. Thus, the analyst's task is to correlate the movements of the various series and to assess and interpret their relative significance. And, in doing so, although he will attach greater weight to series which in the past have proven to be sensitive and which are not subject to substantial revisions, he must be continually alert to emerging developments which shift the importance of one series or another in each succeeding situation.



Employment, Unemployment, and the Labor Force

During recent months public concern over the trend in economic activity has naturally tended to focus much attention on the various indicators of employment. Interpretation of recent changes has been rendered more difficult than usual, however, by the fact that the monthly reports of the Bureau of the Census on employment and unemployment have been revised recently.

The Census report is the only body of data specifically developed for the purpose of providing comprehensive information on employment throughout the nation. Since it is based on interviews with individual households rather than on payroll reports of employers, it utilizes definitions of employment and unemployment which are specifically designed to facilitate a meaningful analysis of changes in the employment status of the labor force and which differ from those used by other agencies. In particular, people holding jobs are considered employed even if they are not actually working because of labor conflicts or temporary layoffs (provided they are expected to report back at a specific date within thirty days). Persons having left or lost a job who are not actively looking for work are usually considered "not in the labor force" rather than unemployed.

The Census labor force estimates are based upon a sample survey of 25,000 households interviewed on their status during the week containing the eighth of each month. The Census sample, originally designed in 1940, had not undergone any basic revision except for an improvement in sample design in 1943 and the substitution of a better report form in 1945. Significant changes in the distribution of industries during and since the war, the shift of population to suburban areas, and other reasons made a revision of the sample imperative. Delayed until January 1954 because of fund limitations and still confined, for the same reason, to only 25,000 households, the new sample has been distributed over 230 sample areas instead of the original 68.

When first released in January, the new Census sample showed a rise in unemployment of 1,237,000 as compared with 509,000 according to the old sample. On the other hand, the rise in unemployment during February indicated by the new sample amounted to 585,000 as compared with the 1,026,000 indicated by the old sample which was discontinued thereafter. More than half of the increase in unemployment between December and February was attributable to increases in the labor force and less than half to reductions in employment. There is, of course, no necessary contradiction between the fact that employment figures hold up well while unemployment rises, since our civilian labor force continues to grow, but the December-to-February increase in the estimated labor force has had no parallel in recent years, casting some doubts as to the validity of comparisons using estimates based on the old sample as a starting point; these are likely to be revised in the light of the new sample.

Monthly data on employment only are collected by two Government agencies. The Department of Labor, through the Bureau of Labor Statistics (BLS), reports monthly on nonagricultural employment, while the Department of Agriculture, through the Agricultural Marketing Service, estimates total farm employment. The BLS employment data are derived mainly from questionnaires mailed to approximately 155,000 business establishments to cover all persons on their payrolls during one single pay period ending nearest the fifteenth of each month. The coverage of this series varies from industry to industry, being relatively high in manufacturing where reporting establishments account for about 68 per cent of total employment. This extensive coverage permits publication of detailed breakdowns of employment by industry and by areas. In contrast to Census estimates, the series is limited to wage and salary earners actually on the payroll during the report period and does not cover individual proprietors, self-employed professional people, domestic servants, unpaid family workers, and some other less important categories. Since it is derived from employers' records, moreover, persons holding more than one job are counted each time they are listed on a payroll, while those on strike or temporarily dropped from the payroll are omitted. On the basis of monthly reports from employers, adjusted to social security statistics and other benchmarks, the BLS prepares estimates of actual employment in nonagricultural establishments, while the staff of the Board of Governors of the Federal Reserve System derives from them seasonally adjusted monthly estimates by major industry groups.

The Department of Labor also prepares a set of statistical data on insured unemployment, which was not designed specifically to measure either the size or the composition of total unemployment. Indeed, these statistics are a typical example of by-product statistics, since they arise from the operation of forty-nine separate State and district unemployment insurance programs. Weekly and monthly figures are released on the number of initial claims filed, and estimates of insured unemployment are derived by adjusting certain administrative figures on "number of weeks of unemployment claimed". The coverage of these data is limited to the segment of the labor force covered by these insurance programs (currently 37.6 million out of a labor force of over 64 million). Agricultural, government, and domestic workers are not covered by these data, nor are the self-employed, new entrants into the labor force, and persons who have exhausted their insurance benefits. Data on initial claims indicate the number of newly unemployed workers who believe that they are entitled to benefits (although not all filing claims actually qualify). Unemployed persons no longer eligible for benefits are not reported.

Unemployment insurance data are particularly difficult to interpret, because coverage and eligibility requirements vary from State to State. Also, claims filed may include workers who are on strike rather than unemployed and persons who may not actually be properly considered members of the labor force. Moreover, data on claims are subject to various technical limitations arising from the underlying legislation, which gives rise, among other things, to differences in the number of weeks for which benefits can be drawn during each claim period. However, because unemployment insurance data are available weekly, only a few days after the close of each week, they are widely used by experienced analysts of employment conditions familiar with their background and pitfalls.

Other Data of Special Current Interest

While industrial production has by now declined by about the same percentage as during the entire 1948-49 contraction, developments in other areas have not followed the same pattern. Thus, while in 1949 rising Federal expenditures and falling tax collections in the first nine months after the recession began contributed 9.3 billion dollars to offset other forces of contraction, the net expenditures of the Federal Government (including the Commodity Credit Corporation loans refinanced through sales of certificates of interest) from mid-1953 through March 1954 have remained approximately the same as during the first quarter of 1953. Another important difference is in construction. Construction has been strong in recent months, while it declined during the 1948-49 period. Consumer expenditures, in contrast, continued to rise all through the 1948-49 period (except for a small dip in the first quarter of 1949) when unsatisfied demands for automobiles and various types of durables were still strong, while this time there have been signs of a slight decline since the summer of 1953. Inventories bore the brunt of the adjustment in both periods, although the recent decline is probably less fully explained by the reversal from inventory accumulation to liquidation than that of 1948-49. The balance of this article will review some current statistics that help to clarify developments in these three fields.

Consumer Expenditures

The most comprehensive data on consumer expenditures are those prepared in connection with gross national product (GNP) estimates. "Synthetic statistics", such as the GNP tables, are derived from a wide range of source data which become available only after a substantial delay. Thus, preliminary estimates of the GNP and its main components are not available until the second month after the end of the quarter covered. Moreover, for current analysis, monthly and even weekly data are preferable to quarterly estimates. Therefore, retail sales data are used to detect changes in the rate of consumer buying, even though they fail to eliminate that part of sales of retail stores which is made to businesses (such as sales of lumber and hardware stores to builders and building trades or sales of automobiles for business use).

Monthly statistics on retail sales by major types of establishments are published by the Department of Commerce, which estimates them now on the basis of reports from all sales organizations operating eleven or more outlets and of a sample of the other stores in 230 sample areas throughout the country (the coverage of the sample areas having recently been broadened for reasons similar to those which led to the revision of labor force data). The price paid for the rapid release of preliminary estimates, as early as ten days after the close of the month, is in revisions three or four weeks later. These revisions (made after additional reports are received, mostly from the smaller stores), however, do not usually affect the direction and general magnitude of month-to-month changes shown by the preliminary figures.

Monthly data on total retail sales can be supplemented by weekly data for department store sales. Department store sales statistics were developed more than thirty years ago by the Federal Reserve System at a time when no other even fragmentary data on the rate of consumer buying were available. They are based on data furnished by cooperating stores which in most areas represent a very large proportion of sales of this type of store, although in some areas the sample is less satisfactory. However, developments in the merchandising field since the inauguration of this series, such as the establishment of retail outlets by mail-order houses and department store branches in suburban areas, the growth of appliance chains and of automotive stores, and of integrated suburban shopping centers and of discount houses, have not only decreased the representativeness of department stores as an indicator of the rate of total consumer spending for goods but have also created numerous statistical problems. Thus, for instance, the gradual shift of business to suburban areas has affected sales for indi-

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954			1953	Percentage change	
		April	March	February	April	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	123*p*	123	124	136	#	−10
Electric power output*	1947-49 = 100	165	165	162	159	#	+ 3
Ton-miles of railway freight*	1947-49 = 100	—	85*p*	90	102	− 5	−17
Manufacturers' sales*	billions of $	24.4*p*	24.1	23.6	26.4	+ 1	− 8
Manufacturers' inventories*	billions of $	45.3*p*	45.8	46.1	45.2	− 1	#
Manufacturers' new orders, total*	billions of $	23.1*p*	22.9	22.0	25.7	+ 1	−10
Manufacturers' new orders, durable goods*	billions of $	10.1*p*	10.2	9.6	12.7	− 1	−20
Retail sales*	billions of $	14.3*p*	13.8	14.0*r*	14.3	+ 3	#
Residential construction contracts*	1947-49 = 100	—	205*p*	201	179	+ 2	+16
Nonresidential construction contracts*	1947-49 = 100	—	182*p*	192	179	− 5	+ 2
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	92.5	89.8	88.0	88.0	+ 3	+ 5
Wholesale prices†	1947-49 = 100	111.1*p*	110.5	110.5	109.4	+ 1	+ 2
Consumer prices†	1947-49 = 100	114.6	114.8	115.0	113.7	#	+ 1
Personal income (annual rate)*	billions of $	—	282.8*p*	283.0	282.7	#	#
Composite index of wages and salaries*	1939 = 100	—	253*p*	253	246	#	+ 3
Nonagricultural employment*‡‡	thousands	48,114*p*	48,376	48,632	49,717	− 1	− 3
Manufacturing employment*‡‡	thousands	16,113*p*	16,259	16,349	17,466	− 1	− 8
Average hours worked per week, manufacturing†‡‡	hours	39.0*p*	39.5	39.6	40.8	− 1	− 4
Unemployment**	thousands	3,465	3,725	3,671	1,582	− 7	—
Banking and finance							
Total investments of all commercial banks	millions of $	77,360*p*	75,740*p*	78,030*p*	73,240	+ 2	+ 6
Total loans of all commercial banks	millions of $	66,750*p*	67,050*p*	66,070*p*	65,280	#	+ 2
Total demand deposits adjusted	millions of $	98,600*p*	96,670*p*	99,570*p*	98,000	+ 2	+ 1
Currency outside the Treasury and Federal Reserve Banks*¶	millions of $	29,995*p*	30,010	30,084	30,022	#	#
Bank debits (338 centers)*§	millions of $	62,918	64,116	62,406	62,668	− 2	#
Velocity of demand deposits (338 centers)*§	1947-49 = 100	122.5	122.5	119.4*r*	118.8	#	+ 3
Consumer instalment credit outstanding†	millions of $	20,909	20,900	21,151	19,767*r*	#	+ 6
United States Government finance (other than borrowing)							
Cash income	millions of $	3,036*p*	12,260*p*	6,530	3,214	−75	− 6
Cash outgo	millions of $	5,303*p*	6,231*p*	5,302	6,443	−15	−18
National defense expenditures	millions of $	3,619*p*	4,125*p*	3,714	4,470	−12	−19
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	138	137	138	140	#	− 2
Residential construction contracts*	1947-49 = 100	—	191*p*	197	185	− 3	+ 5
Nonresidential construction contracts*	1947-49 = 100	—	192*p*	177	193	+ 8	− 3
Consumer prices (New York City)†	1947-49 = 100	112.5	112.4	112.8	111.1	#	+ 1
Nonagricultural employment*††	thousands	—	7,500.6*p*	7,544.3	7,628.3	− 1	− 2
Manufacturing employment*††	thousands	—	2,667.0*p*	2,676.0	2,834.4	#	− 6
Bank debits (New York City)*¶	millions of $	60,479	64,069	62,350	52,038	− 6	+16
Bank debits (Second District excluding New York City)*	millions of $	4,313	4,450	4,377	4,325*r*	− 3	#
Velocity of demand deposits (New York City)*‡	1947-49 = 100	159.9	166.0	167.2	137.0	− 4	+17

Note: Latest data available as of noon, June 1, 1954.
p Preliminary. *r* Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ Series revised 1943 to date.
§ Previously reported for United States outside New York City. Now excludes New York City and six other leading financial centers.
# Change of less than 0.5 per cent.
¶ The seasonal adjustment factors for this series have been revised.
** Unemployment figures for April 1953 are on the basis of the old sample and, therefore, not necessarily comparable with those for the three months of 1954 which are on the new sample basis; consequently, a per cent change from a year ago is not shown.
†† Series revised back to January 1952.
‡‡ Employment and hours data have been revised as a result of adjusting employment levels to a more recent benchmark.

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

vidual cities. The recent shift of department store statistics to a metropolitan area basis has solved the problem only in part, since the vigorous growth of suburban branch stores is reflected in department store statistics with a lag (because their sales can usually only be included, if the performance of individual stores is to be concealed within the totals, after year-ago figures become available). Yet, department store data are widely used in appraising trends in consumer buying, first, because they are released for a large number of individual localities and by districts, thereby permitting study of regional differences in the movements of consumer buying, and, second, because Federal Reserve Banks release, in addition to weekly sales data, monthly data on sales and inventories by department as well as for the totals. However, when the drop in consumer buying is largely accounted for by durables, notably automobiles, as during the second half of 1953, department store sales are clearly not a suitable guide for appraising aggregate consumer expenditures.

Consumer expenditures have been an area of strength during the decline of economic activity which began in the summer of 1953. On the basis of the over-all estimates used for gross national product, total consumer expenditures declined in the first quarter of 1954, after allowance for the normal seasonal influences, only 0.4 per cent from the all-time peak reached during the third quarter of 1953. Retail sales declined somewhat more, nearly 3 per cent; and they had already declined slightly from the high levels of the first half of 1953. Service expenditures, however, continued to increase through the first quarter of 1954 (no monthly data are available to approximate expenditures for service).

Inventories

Reduction of inventories is an important aspect of the recent decline in business activity. While during the second quarter of 1953 additions to nonfarm inventories were valued at 7.0 billion dollars (seasonally adjusted annual rate), the estimated reduction of such inventories during the first quarter of 1954 was at a rate of 4.4 billion.

The monthly series of the Department of Commerce has the most comprehensive coverage and breakdowns among the various sources of inventory statistics. It is computed from end-of-month balance sheet information as reported by samples of retailers, wholesalers, and manufacturers, and data for each of the groups are published separately. In addition to the classification by these three major groups, the monthly totals contain breakdowns by types of retail and wholesale business and, in the case of manufacturers, by major industry. By combining data for the appropriate manufacturing industries, figures are derived showing stocks broken down into nondurable and durable goods categories at the manufacturing level; similar totals are available for the retail and wholesale levels. Stocks of manufacturers, which include well over one half of all nonfarm business inventories at present, also are broken down by stage of fabrication (i.e., purchased materials, goods in process, and finished goods). Since goods in process and, to a lesser degree, the stock of purchased materials awaiting the fabrication process can usually be more closely controlled by businessmen than finished goods inventories, an analysis of changes in levels of stocks in the three categories may provide some clue as to the voluntary nature of any accumulation or liquidation. All these data, most of which are also published on a seasonally adjusted basis, give book values, while the quarterly over-all estimates of changes in inventories which form part of GNP accounts are adjusted to eliminate the effect of price changes on their valuation. Such quarterly estimates are made for changes in total inventories and for nonfarm inventories only.

It must be kept in mind, however, that estimates of inventory changes within the framework of GNP accounts are among the most tenuous, since large areas of inventory holdings are covered by very small samples and the book values collected are adjusted for estimated changes in the price level to obtain a measure of the movement in physical quantities at current prices. Estimates of changes in business inventories are subject to frequent and substantial revisions.

Construction

In the case of construction activity, the transition from dollar values to physical measures always poses difficult problems. Measurement of several important types of construction in physical terms has never been satisfactorily solved, and the best guide in this field must still be dollar figures on the value of construction work "put in place" (incorporated into the GNP accounts as well as a current monthly series). For anticipating future developments, two private agencies as well as the Bureau of Labor Statistics provide valuable data. The F. W. Dodge Corporation reports on the number of projects, the value of construction contracts, and square footage of floor space for the main branches of construction activity in thirty-seven States. A trade publication, the *Engineering News Record,* reports the value of engineering awards involving heavy construction work and large residential projects. Finally, the BLS publishes series on the number of dwellings authorized in urban areas and of all nonfarm housing starts. All three sources provide at best general indications of the current trends; the two private series do not have complete coverage and are subject to erratic movements when large contracts are made. More important, not all plans necessarily result in actual construction, and work may be delayed or interrupted.

Comprehensive construction statistics measuring the value of work put in place each month are estimated jointly by the

Department of Labor and the Department of Commerce from a variety of private and Government sources, including those just mentioned. Even though for various reasons, including cuts in funds available, these statistics have important shortcomings, they are the best available over-all measure of construction activity. Construction is currently perhaps the strongest area in the business picture. Indeed, the estimated dollar value of new construction during the first four months of this year exceeded year-ago levels by 1.6 per cent, slightly more than the estimated increase in construction costs.

Conclusions

While statistics covering various phases of economic developments in this country have been greatly expanded and improved, they must frequently be regarded as tentative approximations rather than as precise measurements. Many of them are based on sampling procedures which must be reviewed and checked against comprehensive or benchmark data as such data become available. Some of the broad series, such as general price indexes, may cover up conflicting trends in component series. Seasonal adjustments are difficult in many instances, and must be revised at frequent intervals. It is not always possible to segregate completely and to measure accurately certain major phases of current activity, such as consumer expenditures or savings. And the various series are of changing significance and importance with the passage of time. Consequently, the interpretation of current conditions and prospects requires constant analysis and appraisal of various types of statistical and nonstatistical information to yield valid conclusions.

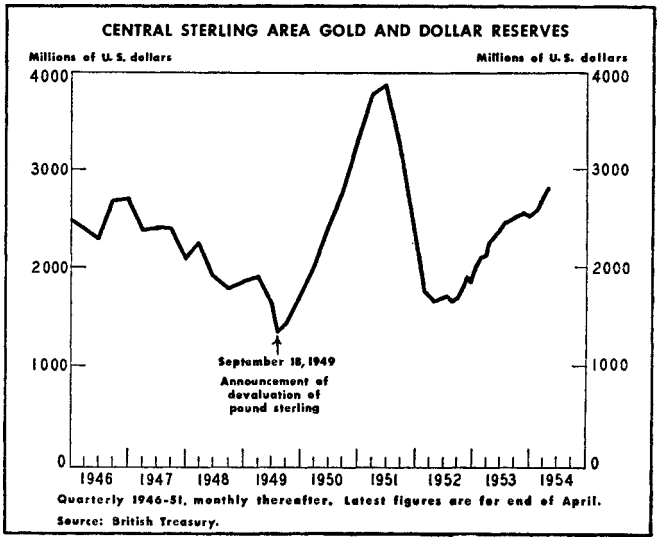
STERLING AREA PAYMENTS AND POLICIES

The sterling area's dollar accounts have remained in surplus during the past year, notwithstanding the slowdown in economic activity in North America. Indeed, in the past few months there has not only been a strengthening of sterling in world exchange markets, but also an accelerated growth in the area's vital central reserves of gold and dollars. At the same time, Britain and other sterling area countries have continued the progressive relaxation of trade and payments restrictions. Two of the major steps taken recently were the reopening of the gold market in London and the enlargement of the area within which sterling is freely transferable. Even more significant than the individual steps themselves, however, is the fact that they fall into a pattern of cautious but steady advance in the program that was reaffirmed by the Commonwealth Finance Ministers in Sydney last January—the attainment of the "widest possible system of multilateral trade and payments, the reduction and progressive elimination of import restrictions, and the convertibility of sterling and other important currencies".

The recent auspicious developments in payments trends and in the easing of controls have clearly rested in part upon certain special factors. Among these have been improvements in the terms of trade and short-term capital inflows of a possibly temporary nature. But these recent developments also have reflected such fundamentally sound achievements as greater internal financial stability and more balanced economic development throughout the area. The prospects for a sustained advance toward sterling convertibility therefore have been considerably enhanced.

The Rising Gold and Dollar Reserves

During March and April the sterling area's central gold and dollar reserves[1] rose by 237 million dollars (or close to 10 per cent) to 2,820 million (see chart), and there may well have been a further significant increase in May. One of the most encouraging aspects of these gains is that they have occurred despite both the somewhat reduced levels of economic activity in the United States and Canada and the progressive easing of trade and payments restrictions by sterling area countries. However, a significant part of the recent increases appears to have



[1] These official reserves, which are held by Britain in the Exchange Equalization Account, reflect to a large extent the gold and dollar position of the entire sterling area, even though some of the overseas members maintain official gold and dollar reserves of their own.

stemmed from short-term movements of capital, some of which may have been nonrecurrent or even subject to reversal.

Along with the accelerated growth of gold and dollar holdings, sterling has shown marked strength in world exchange markets. Not only did American-account sterling, on several occasions in late April and early May, reach its upper limit of $2.82, but transferable sterling also moved to new heights in terms of dollars. The transferable pound has commanded a price of about $2.79 during recent weeks, compared with about $2.72 a year earlier and $2.62 two years ago.

It is especially noteworthy that the official reserves have increased during every month since August 1952, except December 1952 and December 1953, when large loan-service payments were made to the United States and Canada. The total gain during this time has been over 1.1 billion dollars, with October 1952-April 1953 and the period since February 1954 showing the most rapid increases.

In contrast to the reserve gains of a year ago, the recent increases have been less dependent upon dollar receipts from the European Payments Union and from American defense-aid grants. However, it is not clear how much of the recent gains can be attributed to foreign trade and other payments on current account, and how much to capital transactions. One type of capital movement reported in the past few months was the building-up of working balances in London for dealing in the newly reopened or extended markets for gold, commodities, and foreign exchange. Speculative anticipations of a widening in the official limits for the dollar-pound exchange rate, and interest rate differentials coupled with the higher forward price of sterling, were also reported as having contributed, at least marginally, to the recent inflow of funds. The anticipations of wider limits for exchange rate variations now seem to have subsided, however, and opportunities for profitable "interest arbitrage" have been reduced by the Bank of England's latest cut in the bank rate and the accompanying adjustments in the structure of money market rates in London.

Payments Relations with Dollar Countries

While capital flows may have affected the reserves quite noticeably in the past few months, longer-run trends in the sterling area's gold and dollar holdings have reflected primarily the area's current-account transactions with dollar countries. Following the sharp improvement during 1952 and through the first half of 1953, the sterling area's payments on current account with these countries deteriorated somewhat in the second half of the year and in early 1954, although there may have been some improvement during recent months. The weakening in the area's dollar accounts in the second half of last year stemmed more from Britain's own dollar transactions than from those of the overseas sterling countries; however, Britain had improved its current-account dollar position markedly in the first half of the year, and for 1953 as a whole its payments relations with the dollar area were far more satisfactory than in any other postwar year. Moreover, the poorer showing in the second half of the year was mainly attributable to the year-end interest payments on the United States and Canadian loans. The overseas sterling countries also did less well in their direct transactions with the dollar area in the second half of 1953, largely as a result of lower exports by both the dependent and independent areas. The independent members' dollar position was very much improved in 1953 over the two preceding years, however, and the deterioration in their dollar trade accounts in the second half of last year was more than offset by improvements in their other gold and dollar transactions, including higher gold sales to the United Kingdom.

Even though United States defense-aid grants tended to decline during 1953 and the first months of 1954, such aid has continued to be an important sustaining element in the sterling area's dollar position. Moreover, expenditures on account of the American and Canadian armed forces in Britain increased last year, and receipts from United States offshore purchases rose even more sharply and are expected to increase further during 1954.

United States Government expenditures in the sterling area have thus helped to lessen the adverse effect of recent readjustments in the American economy on the sterling area's dollar accounts. Probably of greater significance has been the underlying confidence in the recuperative power of the United States economy, and in the sterling area's ability to "ride out" an American recession of moderate proportions. The latter is in marked contrast to the 1949 experience when sterling area cost and price levels were regarded as being out of line with other countries, and expectations of devaluation led to massive capital outflows. (It may be, in that sense, fair to say that recent experience reflects, in part, the delayed result of the 1949 devaluation heretofore obscured by other factors.) Another factor that has tended to mitigate the effects of trends in the United States is the recent buoyancy in the economies of Western Europe. Moreover, whatever may have been the impact of the United States contraction on the sterling area's dollar earnings, it was less serious and less noticeable because it was reflected only in a reduced rate of reserve accumulation, rather than in an actual decline in gold and dollar holdings.

Improved EPU Position

The sterling area's improved standing in the European Payments Union in the past few months is another encouraging and apparently somewhat unexpected development; the area's monthly EPU surplus rose from 4 million dollars' equivalent in February to 79 million in April.

At the beginning of 1954 it had appeared that the weakening in the area's EPU position during the latter part of 1953 was unlikely to be reversed in the first half of 1954, apart from seasonal improvements. Further deficits were expected to result from such factors as the removal of restrictions on imports from

nonsterling EPU countries by Britain and various members of the overseas sterling area, rising levels of economic activity within sterling area countries which threatened to increase their demand for imports, and the more intensive probing of sterling area markets by European traders. Recent trends show, however, that sterling area exports (particularly by the United Kingdom) to EPU countries have been well maintained or enlarged, and that any increase in expenditures on imports has recently been more than counterbalanced by capital inflows.

Nevertheless, Britain's cumulative debt to the EPU still stands at about a half billion dollars, and it now appears certain that a substantial part of this debt will have to be repaid over the next few years through direct payments to the EPU's creditor members. It should be noted, however, that the debt repayment arrangements emerging from the recent negotiations for the EPU's renewal are apparently designed to facilitate progress toward the convertibility of the leading EPU currencies, as well as to enable the EPU to continue for the present on a basis satisfactory to its members.

Export Performance

Notwithstanding the improved over-all payments position of the sterling area with the rest of the world in 1953, the second half of the year was less satisfactory than the first, and there is not yet strong evidence of any underlying improvement in the area's current-account payments in 1954. Aggregate sterling area exports to other countries have been relatively steady in value since the 1951-52 decline, the improvement in the sterling area's trading accounts in 1953 being primarily attributable to a sharp decline in imports. This decline, in turn, stemmed from three main factors—the import restrictions imposed during the preceding year, the attainment of general economic stability in most sterling area countries, and a reduction in import prices. However, since mid-1953 there has been an increase in the volume of imports in response to increased economic activity and the easing of trade restrictions.

The failure of exports to increase during 1953 may be ascribed partly to price declines (especially for primary commodities) and to the import restrictions introduced by certain nonsterling countries. Nevertheless, the area's general export performance during the past few years apparently has not been on a scale that would seem to permit the wholesale relaxation of the remaining trade and payments restrictions. Indeed, such relaxations as have occurred, while by no means insignificant, seem to have hinged to a major extent on improvements in the terms of trade through reduced import prices. The Commonwealth Finance Ministers accordingly declared last January that it was a primary task of all sterling area countries to increase their earnings by intensive efforts over the whole field of exports. Member countries were urged to expand exports in both new and traditional lines and to "push" sales to all markets, nondollar as well as dollar.

As regards the overseas sterling area countries, there would seem to be limits to the possible promotion of their exports, which consist largely of primary goods that seem unlikely to respond dramatically to more intensive sales efforts. For the United Kingdom, on the other hand, competitive considerations have grown increasingly important in the efforts to expand its exports of manufactures, especially since Germany has expanded its sales and has moved toward regaining its prewar share of world markets. Such competition seems to have been evident not only in regard to price and quality but also in such matters as credit terms. The Chancellor of the Exchequer announced in April a change in the export-credit guarantee procedures that should facilitate the granting of longer-term credits and thus improve the competitive position of British exporters of capital goods.

Britain's own exports since last autumn have been at a higher rate than a year earlier, although this increase has been largely directed to the overseas sterling countries (notably Australia) and to certain other countries that have relaxed some of their import restrictions on British goods. There also have been some relatively encouraging increases in sales to certain dollar area countries. A further encouraging point is the remarkable increase in exports of new or virtually new items. Aircraft and refined petroleum are the outstanding examples of exports that have experienced a manifold growth, but there are a variety of others, including many items of electrical and electronic equipment.

Further Removal of Restrictions

The gradual removal or modification of sterling area trade and exchange controls has progressed in recent months. A previous article in this *Review*[2] discussed the steps that Britain had taken along these lines up to the end of 1953, and this process has continued during the current year, not only in Britain but also in many of the overseas sterling countries. In addition, a number of nonsterling countries, especially in Western Europe, have followed a similar course and have made substantial headway in reducing discrimination against dollar trade.

In the sterling area the relaxations have largely been made possible by the generally favorable balance-of-payments position. Yet it is perhaps equally significant that many of these measures have themselves been designed to make sterling a more usable and more desirable currency and have, accordingly, tended to enhance confidence in sterling and to sustain the area's external payments position.

An important step in March was the widening of the transferable-sterling-account area to include nearly all nonsterling, nondollar countries. Sterling payments by these countries to one another or to sterling area countries, whether for current-

[2] "Recent Changes in Great Britain's Trade and Payments Controls", January 1954.

account or capital purposes, may now be made without prior Bank of England approval. Previously, many of these countries had only "bilateral" sterling accounts, and all transfers to or from such accounts required the acquiescence of the British exchange authorities. Besides simplifying Britain's administrative procedures, and replacing the complex of bilateral exchange rates, in markets outside London, with a single rate for transferable sterling, this move should add to the usefulness of sterling by permitting funds to flow more readily from countries with sterling surpluses to those that have deficits.

The move is clearly in the direction of strengthening sterling and preparing the way for its fuller convertibility, although it does not, of course, commit the United Kingdom authorities to supply dollars in exchange for transferable sterling, as they would have to do under a more comprehensive system of convertibility. However, there is now a much more unified market in which sterling may, through private channels, be converted into dollars in transactions among transferable-account countries, and it is noteworthy, as pointed out earlier, that the dollar rate for transferable sterling recently has been at only a very small discount from the rate for convertible, American-account sterling.

Another important move undertaken on the same day as the consolidation of the transferable-accounts area was the reopening of the London gold market after fourteen years. The market as presently established is primarily for nonresidents, in the sense that sterling area residents may not purchase gold except for certain licensed purposes (although authorized British dealers may, within limits, trade on their own account), and that only sterling in American, Canadian, or registered[3] accounts may be converted into gold. Nevertheless, the move has re-established London as a leading gold center, with the accompanying advantages of increased invisible earnings and enhanced international standing for sterling.

The resumption of private trading in basic foods and industrial raw materials also has continued during the past few months, leaving few items still under government control in Britain. For example, the tungsten market was reopened on April 1, and the private importing of butter and certain types of cheese was resumed in May, when these items were derationed. Private importing and derationing of meat is scheduled for early in July, which will remove the last vestige of the rationing system used in World War II. In addition, some of the remaining trading restrictions in the commodity markets that were reopened earlier have been removed: thus, trading in cotton futures began in May, and currency restrictions have been modified to permit wider use of transferable sterling and certain other nondollar currencies for trading in commodities of dollar area origin.

[3] Registered sterling is a new form of sterling established to facilitate dealings of transferable-account-area residents in the London gold market.

The United Kingdom has not been alone among sterling area countries in relaxing trade and exchange restrictions. Australia and New Zealand, for example, have removed or modified some of their trade barriers against nonsterling countries, including the dollar area. South Africa announced in late 1953 that its import regulations would be revised so as to abolish discrimination against the dollar area. Moreover, many of the overseas sterling countries have adjusted their own foreign exchange, gold, and commodity trade regulations in response to the changes initiated by the British.

Payments Among Sterling Countries

The policies and achievements noted above seem clearly to be aimed at promoting a world-wide system of freer trade and payments, and not a "sterling bloc" set off from the rest of the trading world. This is in accord with the Commonwealth Finance Ministers' emphatic rejection last January of the view "that any solution of our problems can be found in the creation of a closed system of discriminatory arrangements". Nevertheless, the course of trade and payments among the sterling area members and the development of sterling area resources clearly have a profound importance for the area's payments position with the rest of the world.

There have been significant differences in Britain's payments position with particular overseas sterling countries during the postwar period, especially as between the dependent and independent members; but the usual payments pattern has been for the United Kingdom to have, on balance, a substantial current-account surplus with the rest of the area. This has been financed by an outflow of capital, by net foreign exchange earnings of the overseas members, and at times through net drawings on the latter countries' sterling balances. This customary surplus with the overseas sterling area nearly disappeared during the first half of 1953, mainly because of the import restrictions introduced by some of the overseas members; at the same time, British investment in the sterling area was quite low and the sterling balances of the overseas members rose. Investment in the overseas sterling area and Britain's surplus on current account alike recovered markedly in the second half of last year, and the improvement seems to have been maintained in early 1954; the sterling holdings of the overseas members continued to rise in the latter half of 1953, although at a much less rapid rate. However, as regards British overseas investment, there appears to be continuing concern about the problem of generating sufficient savings to take care of investment needs at home and to maintain an adequate flow abroad, and about the ways in which the funds are used overseas. Thus, in granting the sterling countries somewhat wider access to the London capital market last January, the British Government emphasized that the greater investment entailed burdens and risks, and that the new loans must be in line with the general policy of improving the sterling area's balance of payments and must be supported

by an "adequate" contribution from the resources of the borrowing country.

Conclusion

The sterling area's progress toward a stronger currency and a sounder pattern of international payments is an outstanding feature of the free world's economic gains during the past two years. Moreover, the determination of the sterling Commonwealth countries, reaffirmed at successive economic conferences, to proceed gradually toward a freer system of world payments has produced a record of solid accomplishment. The United Kingdom has played the major part, both in developing an improved balance of payments with nonsterling countries and in dismantling the restrictive controls left over from the wartime and postwar emergency periods. But Britain has by no means been alone in this endeavor; the other sterling area countries, especially the independent members that had drawn so heavily on the sterling area's resources in 1951-52, have improved their own external accounts very considerably since that time, and recently have found it possible to relax some of their earlier import and exchange restrictions.

In assessing the prospects for continued, and perhaps even more rapid, progress toward a freer system of sterling trade and payments, the crucial importance of preserving internal economic stability needs to be underscored. Similarly, the potential threats inherent in any developments that would tend to affect adversely the area's terms of trade must be recognized. Moreover, although there have been some welcome underlying shifts in the regional pattern of sterling area exports, there would seem to be need for an expansion in total exports as well as for further increases in the proportion of exports going to the harder-currency areas. Finally, there is some question about the extent to which the highly favorable payments developments in the past few months may have reflected only temporary gains.

Nevertheless, the basic trends in the sterling area's external accounts seem to be fundamentally sound. They strongly suggest that the area should be able to make further significant progress in easing restrictions and improving the usefulness and strength of sterling. The pace and extent of such advances would depend not only upon developments within the sterling area itself but also on the pursuit of appropriate policies by other leading countries—including the United States and the principal trading countries of Continental Europe. Given such a climate of effective cooperation and sound domestic developments in the principal Western countries, there would seem to be a good prospect for achieving the limited aims of nonresident convertibility, and thus preparing the ground for an advance toward full convertibility and a truly nondiscriminatory system of world trade and payments.

DEPARTMENT STORE TRADE

Second District department store sales in May, after adjustment for regular seasonal influences, are tentatively estimated to have declined 2 per cent from the level of the previous month, and 4 per cent from May 1953. In April, sales had risen by 3 per cent from the preceding month to 102 per cent of the 1947-49 average. Total sales for the first five months of 1954 approximately equaled those of the same period last year.

Consumer buying at New York City department stores during the first four months of 1954 seems to have been somewhat better maintained than aggregate purchases in the remainder of the District. The record for the City, where cumulative store sales matched year-earlier levels, was more favorable than the record for every other major urban area within the District, with the exception of Rochester. Year-to-year declines in these areas ranged from 1 per cent in the Syracuse Metropolitan Area to 5 per cent in the Utica-Rome Metropolitan Area, with sales in the important Buffalo area receding by 4 per cent. In the cities of Bridgeport and Elmira, furthermore, sales fell by 7 and 6 per cent, respectively. The comparative stability in the volume of New York City department store sales in the early months of this year is also shown by the movements of seasonally adjusted sales series covering the six cities or areas for which such data are available: on an adjusted basis, department store sales in New York City during January-April of 1954 declined less from their peak months in 1953 than did sales in the Buffalo and Syracuse areas and the cities of Newark and Bridgeport. For the Rochester area, however, department store sales volume, seasonally adjusted, showed about the same record as New York City stores.

If only the January-March period is considered, New York City sales, in comparison with most other areas within the District, held up even better. During each of these months, the sales volume in the City, compared with year-earlier levels, was ahead of sales for the rest of the District, marking the first three-month period since 1947 when the sales experience of New York City department stores was comparatively better than that of stores outside the City. In April, however, New York City sales in comparison with year-earlier levels again lagged slightly behind the rest of the District. It is difficult to determine to what extent the variation between April and the first three months of the year was due to a differential effect of the Easter season in various sections of the District, to sporadic factors, or to more fundamental developments.

The sales experience of New York City stores early in 1954 is noteworthy because, in recent years, sales at these stores have generally tended to lag behind those for the rest of the

District. In 1953, monthly comparisons of New York City sales with year-earlier levels had, without exception, been less favorable than equivalent comparisons for the rest of the District; during 1953 as a whole, department store sales in the City had declined by 3 per cent, as against a rise in aggregate sales for all other areas of 4 per cent. This tendency toward a lag in New York City sales has been attributed to a number of long-range factors, including, for example, the rapid growth of the City's suburban areas, transportation problems, and the impact of the City sales tax. It does not seem likely that the influence of these factors has significantly changed in recent months. Rather, the performance of New York City department store sales during these months was apparently attributable to the influence of short-term fluctuations in general business activity. While generalizations based on a few months' experience must necessarily be very tentative, the data suggest that sales of New York City stores did not benefit so fully from the business expansion early in 1953 as did sales elsewhere in the District, and that the impact of the subsequent contraction in business activity was less. (Thus the more favorable year-to-year comparisons for New York City sales in the first four months of 1954 than for most other areas in the District reflected not only comparative stability in New York City sales during recent months but also relatively slow sales in early 1953.)

A conclusion that recent declines in business activity have had a milder impact on New York City than on most other areas in the District is bolstered by an examination of first-quarter employment trends in the District, which have broadly paralleled trends in department store sales. Although the contraction in employment in the manufacturing industries of New York City has been of approximately the same order of magnitude as in the other major areas, these industries play a proportionately less important role in New York City's over-all employment, and total nonagricultural employment in the City during the first quarter of 1954 was only 1 per cent below that for the corresponding period in 1953. Average weekly earnings of production workers in New York City manufacturing industries, moreover, rose more than a dollar over this period and reached an all-time record in March, suggesting that, even in manufacturing, incomes have held up well. The experience of most other urban areas in the District presents a considerable contrast. Greater percentage declines in employment than in New York City were recorded for the Newark, Buffalo, Albany-Schenectady-Troy, Syracuse, and Utica-Rome areas, and for the cities of Elmira and Bridgeport. Moreover, these areas showed no increase in average weekly earnings comparable to that recorded for New York City; such earnings actually declined in the Buffalo, Utica-Rome, and Syracuse areas and in Bridgeport, mainly as a result of reductions in overtime pay and growing part-time employment. In March, the Bureau of Employment Security of the United States Department of Labor reclassified Buffalo, Syracuse, and Bridgeport as "areas of moderate labor surplus" after having described them as "areas of balanced labor supply" for over a year. (New York City has been classified as an "area of moderate labor surplus" since July 1952, when it was changed from a classification of "substantial labor surplus".) In Rochester—the only major area in the District where department store sales during the first few months of 1954 substantially exceeded the year-earlier level—employment trends, as in New York City, were more favorable than in other urban areas in the District.

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

Item	1954			1953
	Apr.	Mar.	Feb.	Apr.
Sales (average daily), unadjusted	101	85	83	95
Sales (average daily), seasonally adjusted	102	99	102	102
Stocks, unadjusted	118	116	104	121r
Stocks, seasonally adjusted	113	111	107	115r

r Revised.

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

Area	Net sales			Stocks on hand Apr. 30, 1954
	Apr. 1954	Jan. through Apr. 1954	Feb. through Apr. 1954	
Department stores, Second District	+ 6	0	+ 1	− 2
New York—Northeastern New Jersey Metropolitan Area	+ 6	+ 1	+ 2	− 3
New York City	+ 5	0	+ 1	− 5
Nassau County	—	—	—	—
Westchester County	+14	+ 6	+ 6	+ 3
Northern New Jersey	+ 3	− 1	0	− 1
Newark	0	− 2	− 1	0
Fairfield County	0	− 7	− 7	− 9
Bridgeport	0	− 7	− 7	—
Lower Hudson River Valley	+17	+ 3	+ 4	+ 3
Poughkeepsie	+17	+ 2	+ 3	+ 3
Upper Hudson River Valley	+ 1	− 3	− 1	− 6
Albany-Schenectady-Troy Metropolitan Area	+ 2	− 2	− 1	− 6
Albany	0	− 3	− 2	− 9
Schenectady	+ 4	− 2	0	− 1
Central New York State	+ 8	− 2	− 1	+ 3
Utica-Rome Metropolitan Area	+ 4	− 5	− 3	− 5
Utica	+ 6	− 2	0	− 6
Syracuse Metropolitan Area	+10	− 1	0	+ 6
Northern New York State	− 6	−14	−14	+ 1
Southern New York State	+ 7	− 2	0	+ 2
Binghamton Metropolitan Area	+ 7	− 2	− 1	+ 5
Elmira	+ 6	− 6	− 4	− 5
Western New York State	+ 7	− 1	− 1	+ 4
Buffalo Metropolitan Area	+ 4	− 4	− 4	+ 2
Buffalo	+ 4	− 5	− 5	+ 2
Niagara Falls	+ 8	+ 1	+ 2	—
Rochester Metropolitan Area	+14	+ 4	+ 5	+ 7
Apparel stores (chiefly New York City)	+ 6	− 1	− 1	− 6