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MONEY MARKET IN JUNE

The money market was easy during most of June, although there was some temporary firming over the last ten days of the month primarily as a result of a large increase in the Treasury's balance with the Federal Reserve Banks because of the accelerated collection of income taxes and as a result of efforts on the part of commercial banks to establish a more liquid position in anticipation of their June 30 statements. Announcement by the Board of Governors on June 21 of a reduction in reserve requirements, effective in stages from June 16 (retroactively) through August 1, was an important factor in tempering the tightening influences of the tax-date and statement-date adjustments. While member banks lost reserves over the month as a whole through Treasury operations and other factors, these losses were largely offset by the Reserve System's release of additional funds. The aggregate volume of excess reserves held by the member banks over and above their borrowings from the Reserve Banks (free reserves) remained high in all five statement weeks of the month and averaged 710 million dollars for the month as a whole, the highest figure for any month since January.

Total loans continued to decline on balance, although the increases occurring around the tax date were unusually large. The relatively plentiful supply of reserves encouraged banks to make substantial additions to their investment portfolios; in the four weeks ended June 16 the weekly reporting member banks purchased about 1.3 billion dollars of additional securities, although they sold Treasury bills later in the month to obtain reserves.

The money market ease and the banks' investment programs in turn had a favorable effect on the Government securities market and, in contrast to May, prices of all Government obligations except those with very short maturities rose. The price rise was temporarily reversed late in the month, but at the close of June prices were again generally firm. Over the month as a whole, prices of intermediate and long-term bonds were up $\frac{5}{8}$ to $1\frac{1}{2}$ points. Interest rates on finance company paper were reduced by $\frac{1}{8}$ of 1 per cent again in the middle of June to a range of $1\frac{1}{8}$ per cent on short maturities and $1\frac{1}{2}$ per cent on nine-month paper, marking the seventh such reduction since the beginning of the year.

The series of reductions in member bank reserve requirements announced after the close of the securities markets on June 21 are summarized in a table on page 90. The Board of Governors estimated that the reductions, when they are completed in August, will provide member banks with a total of about 1,555 million dollars of additional reserves and stated that the reduction "was made in anticipation of estimated demands on bank reserves during the summer and fall, taking account of probable private financing requirements, including the marketing of crops and replenishment of retail stocks in advance of the fall and Christmas sale seasons, as well as the Treasury's financing needs. . . . Changes in reserve requirements supply or withdraw relatively large amounts of bank reserves, even when effected on a gradual basis, as in the present action. Accordingly, such changes are comparatively infrequent. For more flexible and frequent adjustments to the credit needs of the economy the System relies chiefly upon open market operations to release or absorb reserve funds".

MEMBER BANK RESERVE POSITIONS

Treasury operations dominated money market developments over the course of the month, to a large extent even absorbing temporarily the reserves released through that part of the reduction of reserve requirements effective in June. The volume of funds flowing between the Treasury and the banks in connection with debt operations and income tax payments was extraordinarily large, and as is usual in quarterly months the flow was unevenly spaced within the month. Although the operation of the other market factors, at times, helped to offset the effect of Treasury transactions to some degree, it was necessary for the Reserve System to purchase a substantial amount

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Table I
Weekly Changes in Factors Tending to Increase or Decrease
Member Bank Reserves, June 1954
(In millions of dollars; (+) denotes increase,
(−) decrease in excess reserves)

Factor	Statement weeks ended					Five weeks ended June 30
	June 2	June 9	June 16	June 23	June 30	
<i>Operating transactions</i>						
Treasury operations*	+ 61	+203	-195	-764	+332	-363
Federal Reserve float	+ 43	- 19	+223	- 46	-184	+ 17
Currency in circulation	-237	+ 61	+ 70	+ 68	-169	-207
Gold and foreign account	- 67	- 42	+ 21	—	—	- 88
Other deposits, etc.	+ 8	+179	-119	-142	- 27	-101
Total	-101	+381	—	-883	- 48	-741
<i>Direct Federal Reserve credit transactions</i>						
Government securities						
Direct market purchases or sales	+ 75	+175	- 77	+229	-102	+300
Held under repurchase agreements	—	—	—	+ 92	- 92	—
Loans, discounts, and advances	- 27	+ 2	- 41	+473	-572	-165
Total	+ 48	+177	-118	+794	-766	+135
<i>Total reserves</i>	-143	+558	-118	- 89	-814	-606
<i>Effect of change in required reserves</i>	+ 72	- 3	- 57	+141	+375	+528
<i>Excess reserves</i>	- 71	+555	-175	+ 52	-439	- 78
Daily average level of member bank:						
Borrowings from Reserve Banks	193	147	117	178	138	155
Excess reserves	640	957	984	903	839	865

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.

of securities in order to ease the market through the periods of pressure.

In the week ended June 2, the first statement week of the month, Table I indicates that the Treasury had only a minor effect on the money market. But in the week ended June 9, an increase in Treasury expenditures was not fully covered by cash tax collections and calls on Tax and Loan Accounts at commercial banks. As a result, the Treasury's general account balance with the Reserve Banks was drawn down to 250 million dollars, thus putting over 200 million dollars into the money market. In the following statement week, the Treasury withdrew 1.6 billion dollars from its Tax and Loan Accounts, with roughly 1.0 billion of that called on the tax date. This total proved to be somewhat larger than necessary to meet the interest payments due on June 15 and other regular expenditures, with the result that on that day the market lost a substantial part of its previous gains.

The pattern of tax receipts led to further money market problems over the statement weeks ended June 23 and June 30. Much the largest part of June income tax payments are normally made by corporations. Under the Mills plan most corporations this year were required to pay 45 per cent of their total tax liability on their 1953 incomes in June. Part of these payments were made by tendering tax anticipation bills or Savings notes, and 50 per cent of the proceeds of all income tax checks of \$10,000 or more received in June was deposited by the Treasury in the commercial banks in special Tax and Loan Accounts ("X" balances).¹ Handling the tax payments in this fashion reduced the inevitable strain of the tax period on the money market, but a large amount of tax receipts remained to

¹ For a fuller explanation of the operation of "X" balances, see the article on "Treasury Tax and Loan Accounts at Commercial Banks" in the pamphlet *The Treasury and the Money Market*, the publication of which is announced elsewhere in this Review.

be deposited in the Treasury's general account with the Reserve Banks. During the week ended June 23, roughly 2 billion dollars of income tax receipts were so deposited. While the Treasury's disbursements in that week were also abnormally large, as it redeemed for cash the portion of the June 18 tax anticipation bills that had not been turned in for taxes, these redemptions served as only a partial offset to the tax receipts, and the Treasury's general account deposits increased by approximately three quarters of a billion dollars. At the end of the statement week, the balance in the general account was 1,220 million dollars. Although the Reserve Banks purchased a substantial amount of securities both outright and under repurchase agreements as additional offsets to the Treasury withdrawals, and although on June 22 roughly 180 million dollars of reserves had been retroactively released to country banks by the reduction of requirements as of June 16, member bank reserve positions tightened appreciably, money market rates firmed, and on the final day of the week ended June 23 bank borrowing rose.

The money market became easier during the final statement week of the month. Income tax receipts dropped off substantially, while expenditures continued at relatively high levels. Also in this week, the Treasury had to redeem in cash that part of the June 24 maturity of tax anticipation bills not turned in for taxes. Since its deposits at the Reserve Banks were already high, the Treasury made no withdrawals from Tax and Loan Accounts during the week, and its balances with the Reserve Banks, therefore, dropped back toward a more normal level. In the process, approximately 332 million dollars net was

DECREASE IN RESERVE REQUIREMENTS

The following is an excerpt from a statement issued by the Board of Governors of the Federal Reserve System for publication Monday, June 21, 1954:

The Board of Governors has reduced the reserves required to be maintained by member banks of the Federal Reserve System. The reduction will become effective on a gradual basis over the next six weeks.

The reductions will become effective according to the following schedule:

Effective	On net demand deposits	
	For	Percentage
June 24	Central reserve city banks	From 22 to 21 per cent
July 29	Central reserve city banks	From 21 to 20 per cent
July 29	Reserve city banks	From 19 to 18 per cent
August 1	Country banks	From 13 to 12 per cent
<i>On time deposits</i>		
June 16*	Country banks	From 6 to 5 per cent
June 24	Central reserve and reserve city banks	From 6 to 5 per cent

* Retroactive, so as to apply to the average balance in each country bank's account with its Reserve Bank for the period June 16 through June 30.

returned to the money market. Over the five statement weeks as a whole, net Treasury withdrawals from the market totaled 363 million dollars.

Other factors beside Treasury operations absorbed reserves during June. When Memorial Day and Independence Day fall on three-day week ends, as they did this year, the public's demand for currency over the holiday periods becomes unusually large. Thus member banks withdrew 237 million and 169 million dollars, net, from the Reserve Banks during the statement weeks ended June 2 and June 30, respectively. While they returned some excess cash to the Reserve Banks during the middle of the month, net withdrawals for the five weeks totaled about 207 million dollars. The market also lost funds through a continued rise in foreign deposits with the Reserve Banks and through an increase in "other Federal Reserve accounts". There was little net change in float for the month as a whole. Thus the market's net loss of reserves through all the regular factors totaled about 741 million dollars in June.

Required reserves fluctuated widely within the month, and the total probably would have shown a moderate increase for the five weeks as a whole if the Board had not reduced member bank reserve requirements. During the month the reduction in required reserves that stemmed from the Board's action is estimated to have been about 640 million dollars. A 182 million dollar reduction in the reserves which country banks are required to maintain against their time deposits took effect retroactively to June 16 (without the change the increase in required reserves shown in Table I for the week ended June 16 would have been 239 million instead of the 57 million increase indicated). A cut of approximately 195 million in the time deposit reserve requirements of reserve city and central reserve city banks and a reduction of about 265 million in the reserves against demand deposits in the central reserve city banks was made in the statement week ended June 30.

To offset the realized and anticipated losses of reserves through Treasury operations and other factors during June, the Reserve System put nearly half a billion dollars net into the market in the four weeks ended June 23: 402 million through outright purchases of Treasury bills and an additional 92 million through short-term Treasury securities acquired under repurchase agreements. In the last statement week of the month, after the announcement of the reserve requirement reduction, however, the System reduced its bill holdings by 102 million and all repurchase agreements were paid off. Thus, the net provision of Federal Reserve credit through Government security operations was 300 million dollars for the five weeks ended June 30.

Member bank borrowing declined moderately during the first three weeks of June (on a Wednesday-to-Wednesday basis) but rose sharply, as noted earlier, at the close of the week ended June 23 when the impact of tax payments upon the banks reached its peak and when the banks were beginning to prepare their June 30 statements. Repayments of borrowing in the final week of the month were larger than the previ-

ous week's increase, thus reducing Reserve Bank discounts and advances for the five weeks by 165 million to a negligible level of 37 million dollars. Since banks customarily publish a condition statement on June 30, borrowing is often largely eliminated on that date as part of a "window-dressing" operation.

As a net result of all these various developments during June, member bank excess reserves declined approximately 78 million dollars. Free reserves, however, rose 87 million dollars over the five weeks and on a daily average basis increased 134 million from the May average of 576 million.

THE MARKET FOR GOVERNMENT SECURITIES

The tone of the Government securities market was considerably more optimistic in June than it had been a month earlier, and the price decline that had characterized May was reversed shortly after the turn of the month. This reflected primarily some moderation of earlier concern over the international situation, the continuing decline in commercial loans of reporting member banks, as well as the improvement in the market for high-grade corporate and municipal obligations, stimulated in part by several very successful large flotations which lightened the calendar of pending financing at least for the summer months. A further strengthening influence was the reaffirmation of the System's easy money policy through substantial purchases of Treasury bills by System Open Market Account and, later in the month, the announced reduction in member bank reserve requirements.

Prices of short-term Government obligations remained fairly steady at relatively low yields throughout June, despite the firming of the money market in the latter part of the month. Most market observers regarded the tightening as a temporary development, especially after the announcement of the reduction in required reserves and, as a result, were unwilling to sell short-term securities at yields consonant with those quoted for Federal funds and rates on dealer loans. Average rates on the weekly issues of new Treasury bills continued at the lowest levels since the wartime rate of $\frac{3}{8}$ of 1 per cent was freed in

THE TREASURY AND THE MONEY MARKET

A new booklet, *The Treasury and the Money Market*, is now available from this Bank free of charge. This booklet is the third of a series of pamphlets—*Bank Reserves, Some Major Factors Affecting Them* (revised 1953) and *Money Market Essays* (1952) are the others—designed to furnish the student of banking with information not readily available elsewhere. The new booklet contains articles on the financial operations of the Government, including public debt transactions, and their effects on the money market. All of the articles first appeared in the *Monthly Review of Credit and Business Conditions* of the Federal Reserve Bank of New York and have been revised to bring them up to date. Requests for copies should be addressed to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y.

1947. The June 3 issue of new bills was sold at an average rate of 0.714 per cent, the June 10 issue at 0.616 per cent, and the June 17, 24, and July 1 issues for 0.633, 0.635, and 0.646 per cent, respectively. Rates on outstanding bill issues seldom rose above 0.70 per cent or fell below 0.50 per cent. Prices of both the August and the September certificates moved down $\frac{3}{32}$, while the two longer certificates were fractionally higher over the month as a whole, probably reflecting a tendency for some investors to prefer these issues to bills at current rates. Short-term bonds showed little net change. The volume of trading in short issues was fairly substantial during June, although bids and offers were not always evenly matched. Some corporations were selling to raise funds for June 15 tax payments, while banks and other investors absorbed short-term Treasury issues.

Interest in the longer Treasury issues during June was centered in the intermediate area. Secondary distribution of the $1\frac{7}{8}$ per cent notes of February 1959, which were issued in May, proceeded at a moderate pace early in the month. Outright bank interest in these notes as well as in the surrounding issues was fairly extensive, and a fair amount of switching also took place as banks and other investors sought to lengthen maturities. Prices of intermediate issues in general rose fairly steadily during the first three weeks of the month and then were marked up sharply on the morning of June 22. The $1\frac{7}{8}$ per cent notes, which closed May at a bid quotation just below par, traded briefly on the morning after the announcement of the reserve requirement reduction at a premium of almost three quarters of a point. However, the tighter position of member bank reserves in the latter part of the month, even after the first reserve requirement reductions went into effect, limited bank buying interest, and the market was unable to sustain the price markups that followed the announcement. The appearance of some profit taking also put pressure on prices. Over the next four or five days, therefore, quotations gradually dropped back close to or below the levels prevailing just before the reserve announcement. At the very end of June, however, a firm tone again developed. Over the month as a whole, the intermediate issues were up from $\frac{3}{8}$ to more than $1\frac{1}{4}$ points.

Interest in long-term bonds during June was limited, and although prices of these issues also firmed over the month as a whole, the rise reflected the general improvement in tone of the Government securities market rather than any particular investor buying in this area. In fact, profit taking and the liquidation of some of the longer issues from time to time during the month, partly by insurance companies, tended to dampen price increases in the long end of the list. Nevertheless, the $3\frac{1}{4}$'s of 1978-83 rose $1\frac{1}{2}$ points over the month and the other issues were up $\frac{7}{8}$ of a point or more.

Aside from the regular weekly bill offerings and the redemption of the unexchanged portion of the June 1 certificates, the June 15 bonds, and the tax anticipation bills, the Treasury did not engage in any financing operations during June.

MEMBER BANK CREDIT

The total increase in the earning assets of the weekly reporting banks in the five weeks ended June 23 was only 172 million dollars. Total loans dropped 513 million, while investments rose 685 million, a much more moderate increase than in other recent months. Commercial, industrial, and agricultural loans showed a moderate net decline as substantial commercial borrowing over the June 15 tax date partly offset declines in the rest of the period (see Table II). Loans on securities and loans to banks were down 245 million and 274 million, respectively. In the first four weeks of the period (through June 16) total investments of all the weekly reporting member banks rose by more than 1.3 billion dollars, but in the final week of the period under review, these banks sold a substantial volume of Government obligations, primarily bills. Over the five weeks as a whole, the New York City banks added 815 million dollars of securities to their portfolios while those outside the City reduced theirs by 130 million, net.

From the beginning of the year through June 23, as Table II shows, total loans of the weekly reporting banks declined 1.9 billion dollars. The contraction in commercial, industrial, and agricultural loans accounted for 1.5 billion of the total and that in "all other" or consumer loans for an additional 278 million. In the comparable period last year, total loans were up 339 million; commercial loans were off only 593 million and "all other" loans were up 685 million. On the other hand, total investments this year to date have risen by more than 1.3 billion dollars, whereas in the comparable period of 1953 they declined by 3.8 billion.

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 June 23, 1954
	May 26	June 2	June 9	June 16	June 23	
Assets						
Loans and Investments:						
Loans:*						
Commercial, industrial, and agricultural loans.....	-121	-255	- 28	+ 402	- 77	-1,484
Security loans.....	-151	+ 10	-299	+ 254	- 59	+ 164
Real estate loans.....	+ 8	+ 2	+ 6	+ 25	+ 18	+ 160
Loans to banks.....	+ 87	+ 42	-222	+ 13	- 194	- 154
All other loans (largely consumer).....	+ 10	+ 2	+ 12	+ 10	- 2	- 278
Total loans, net*.....	-167	-203	-531	+ 705	- 317	-1,944
Investments:						
U. S. Government securities:						
Treasury bills.....	- 23	+ 51	- 58	+ 539	- 587	- 247
Other.....	+106	+104	+ 79	+ 302	- 92	+ 826
Total.....	+ 83	+155	+ 21	+ 841	- 679	+ 579
Other securities.....	+ 56	+ 65	+142	- 14	+ 15	+ 765
Total Investments.....	+139	+220	+163	+ 827	- 664	+1,344
Total loans and investments.....	- 28	+ 17	-368	+1,532	- 981	- 600
Loans, net, and "other" securities..	-111	-138	-389	+ 691	- 302	-1,179
Liabilities						
Demand deposits, adjusted.....	+643	-428	+848	+1,388	-2,050	-2,101
Time deposits except Government..	+ 63	+ 37	+ 64	+ 81	+ 38	+1,251
U. S. Government deposits.....	-397	-167	-687	- 313	+1,208	+ 596
Interbank demand deposits:						
Domestic.....	-372	+391	+213	+ 436	- 821	-1,354
Foreign.....	- 46	+ 4	+ 8	+ 16	+ 34	- 7

* 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.

THE CHANGING PATTERN OF UNITED STATES FOREIGN AID

Since the end of World War II, foreign aid has been one of the major instruments of United States foreign economic policy which has sought to restore the economic and military strength of friendly countries and to promote an expanding world economy with a minimum of barriers to the free international flow of trade and capital. Until the end of 1951, the bulk of this assistance had been in the form of economic aid to Western Europe to help the countries of that area recover from the ravages wrought by the war. With the launching of the Mutual Security Program in fiscal year 1952, however, an increasing part of our aid appropriations was directed to the provision of essential military weapons and supplies in order to expedite and expand the defense efforts of our allies, while economic aid was continued to help provide a sound economic base for rearmament.¹ During the past two years, military assistance has increased sharply as the sizable appropriations of earlier years have been translated into shipments of finished military end-items.

Steady advances in European industrial and agricultural production, as well as substantial gains in that area's gold and dollar reserves since early 1952, have gradually reduced the need for United States economic assistance. Now, in mid-1954, economic aid to Europe in the form of nonmilitary commodity shipments seems to be coming virtually to an end as deliveries of goods still in the pipeline are being completed. In fact, the 3.5 billion dollar aid program for fiscal year 1955, now before Congress, contains only a negligible amount of new economic-aid funds ("mutual defense support") for European countries, such as Spain, Yugoslavia, Greece, and Turkey. On the other hand, in addition to a large amount for military aid ("mutual defense assistance"), a substantial sum has been earmarked for contributions to the military build-up of friendly nations ("direct forces support"). Furthermore, a somewhat larger amount than in previous years is projected for technical assistance and economic development in non-European areas.

The program for fiscal year 1955 foreshadows significant changes in the pattern of United States foreign aid, both with respect to its nature and, to a lesser extent, its geographical distribution. The present article will discuss some of the major characteristics of our aid in the more recent past and some of the changes that are now getting under way.

THE RISE OF MILITARY AID

The amounts of United States foreign aid extended under Government grants during the past eight years are shown in the accompanying table. The data are broken down into the two main categories of economic aid (including technical assistance) and military aid; they also single out Europe, which has been and still is accounting for the major share of United States aid expenditures.

The decline, since 1949, in economic aid and the increase

in transfers of military supplies and equipment to foreign countries are brought out clearly by the table. Particularly striking is the rapid fall in economic assistance to Western Europe: whereas in 1949 this segment of our aid constituted over three quarters of all United States Government grants, by 1953 it had fallen to less than one fifth of the global total. Military aid to all countries, on the other hand, had risen from a negligible share in 1949 to account for 70 per cent of all grant aid in 1953; over four fifths of all military assistance has gone to Western European member countries of the North Atlantic Treaty Organization (NATO).

Despite the rapid rise in military aid during the past few years, aggregate expenditures by the end of 1953 had used up only about half of the 19 billion dollars appropriated for this type of aid from the first appropriation for the Mutual Defense Assistance Program in the fall of 1949 through the Mutual Security appropriations for fiscal year 1954. The rest of the funds, although largely obligated, still remained to be disbursed at the beginning of calendar year 1954. This assistance includes the furnishing of both military end-items and services as well as purchases of military equipment abroad under the Defense Department's offshore procurement program, to be discussed below.

Within the past ten months, several new country programs have come into prominence. An agreement reached with Spain last September provides for the development and use of Spanish bases jointly by the United States and Spain and for military and economic assistance by this country. Similarly, the 100 million dollar aid pact with Japan, signed in March, calls for the furnishing of military end-items as well as for stepped-up offshore procurement in Japan by the United States. Military assistance to Pakistan is planned, and an increase in such assistance to Turkey has recently been announced.

ECONOMIC AID AND REARMAMENT

In recent years, as has been pointed out, economic aid to Europe has been geared to European rearmament. Early in 1951, well before the European Recovery Program (ERP) had run its originally scheduled course, the NATO countries had

United States Foreign-Aid Grants, Calendar Years 1946-53
(In millions of dollars)

Type of aid	1946-48*	1949	1950	1951	1952	1953
Economic aid:						
Europe.....	1,252	3,961	2,761	2,100	1,438	1,126
Other areas.....	1,307	1,049	708	869	497	647
Total.....	2,559	5,010	3,469	2,969	1,935	1,773
Military aid:						
Europe.....	141	166	513	1,111	2,143	3,464
Other areas.....	24	36	61	351	450	820
Total.....	165	202	574	1,462	2,593	4,284
Total grant aid.....	2,724	5,212	4,043	4,431	4,528	6,057

Note: All data are on a net basis, i.e., taking into account "reverse" grants, such as reverse lend-lease and a certain part of counterpart funds.
* Annual average.

Source: United States Department of Commerce.

¹ For a discussion of this phase of United States foreign aid, see "The Mutual Security Program" in the January 1952 issue of this Review.

been advised that any further economic aid would be directly related to, and even conditioned on, the degree to which they devoted their own resources to the common defense effort. Later that year, the Economic Cooperation Administration (ECA) officially stated that the main objectives of economic aid now would be "to build and maintain the defenses of the participating countries against aggression" and "to bring the economies of these countries to the point where they can independently sustain the necessary defense effort".

However, this shift in objectives from the earlier goals of economic recovery (exemplified also by the new label of "defense support") did not cause a very drastic change in the commodity composition of our economic assistance to Europe. Given the small margin of unemployed resources in the Western European countries at the time of Korea, continued assistance to the civilian sector of their economies was deemed necessary in order to safeguard the degree of economic recovery achieved by then and to compensate for the relative reduction in private consumption and investment which rearmament would bring in its wake. Thus, the United States continued to provide some of the resources in which European economies were deficient and, even during the defense-support period, furnished considerable amounts of civilian-type goods.² This reflected the fact that defense support was intended primarily to facilitate and expedite the shift of a relatively large amount of European resources to the support of rearmament.

Within the framework of economic aid to Europe, some direct dollar disbursements have taken place in recent years in connection with the operations of the European Payments Union (EPU). In fiscal year 1951, the ECA contributed 350 million dollars to the EPU capital fund. The ECA and its successor agencies also have made dollar payments to the EPU (the so-called "special resources") to cover all or part of the deficits incurred by chronic debtor members; by December 31, 1953, 353 million dollars had been supplied in this way.³

While a substantial recovery in European production has gradually diminished the need for economic aid, that area's gold and dollar position has also benefited by large United States Government purchases abroad (mostly for installations, supplies, and services required by our overseas forces) as well as by expenditures in foreign countries by United States military personnel. Such dollar disbursements totaled approximately 2.3 billion dollars in 1953, as against about 1.9 billion the previous year, with almost half of the yearly totals being expended in Western Europe. These military expenditures abroad have been a powerful offset to the decline in economic

aid; without these dollar receipts many European countries (and Japan) might have been forced to adopt much tighter restrictions of a discriminatory nature against the dollar area or other dollar-saving measures or, alternatively, might have required larger amounts of economic assistance.

DIRECT DOLLAR DISBURSEMENTS

A further important factor reducing the need for economic assistance has been the gradual emergence of various forms of defense aid involving straight dollar payments to foreign countries, chiefly NATO members. Under the United States offshore procurement program, the Defense Department has placed arms contracts with foreign munitions manufacturers; upon delivery, the equipment is paid for out of military-aid funds and transferred either to the producing country or to a third country. Offshore procurement thus takes advantage of unutilized productive capacity abroad and assists in the building-up of a foreign military production base which, it is hoped, will ultimately be kept operating by the foreign governments themselves. At the same time, unlike economic aid given in the form of specific commodities, this type of assistance is extended in the form of dollars that are freely spendable by the recipients.

By the end of 1953, an aggregate of 2.2 billion dollars in offshore procurement orders had been placed with Western European firms; France had received nearly half of these contracts,⁴ with the United Kingdom and Italy together accounting for slightly under 40 per cent. Since by December 31, 1953 only 375 million dollars' worth of deliveries had been made, there remained approximately 1.8 billion to be disbursed in 1954 and after against these orders.

Similar to offshore procurement in its effects on the recipient, although different in concept, is a type of grant aid first authorized for the fiscal year ended June 30, 1954, namely, dollar contributions to the defense programs of certain countries. Thus, aid appropriations for the past fiscal year included assistance of 85 million dollars for aircraft production in the United Kingdom and an equal sum to finance part of the French military output. Furthermore—and more importantly—under the same appropriation an amount of 400 million dollars was made available to help France defray the costs of the fighting in Indochina; through the shifting of other aid funds this amount was subsequently raised to 785 million. It was explicitly stated that these funds would not be tied to the shipment of specific aid goods from the United States, but rather would be used "to reimburse the French Government in connection with its expenditures in support of the war". Since no disbursements had been made by December 31, 1953 out of the aggregate 955 million dollars provided in this manner for direct financing in the United Kingdom and France, this type of aid transaction is not yet reflected in the accompanying table. In the early part of this year, France received an initial 80 million dollars of the funds earmarked for Indochina.

⁴ During 1952 and 1953, the Export-Import Bank advanced 254 million dollars to France to prefinance part of United States offshore orders.

² In 1953, for instance, out of total aid-financed commodity shipments to Europe of over 900 million dollars, 170 million represented cotton; 110 million was for bread and feed grains, with a like amount for nonferrous metals; machine tools and metalworking machinery accounted for slightly over 100 million, while another 80 million represented petroleum.

³ An additional 92 million dollars was paid directly to the United Kingdom in 1951 and 1952 under the so-called "Katz-Gaitskell Agreement", to reimburse that country for gold and dollar losses to the EPU as a result of the use of previously accumulated sterling balances by debtor members.

ECONOMIC AID TO NON-EUROPEAN AREAS

Economic and technical aid to non-European areas, while constituting only a relatively small part of our total foreign-aid expenditures, has nevertheless played a role of very considerable importance in meeting the needs of underdeveloped countries. United States economic-aid activities in these areas may be roughly classified under three headings: technical assistance, economic development, and relief.

Under the United States technical cooperation program, American technicians and specialists are at present active in about 35 countries in Latin America, the Near East, Africa, Southeast Asia, and the Pacific. Through the dissemination of technical knowledge, primarily in the fields of agriculture, health, and education, these specialists are helping the underdeveloped countries attack the basic problems of undernourishment, disease, and illiteracy. During the past three fiscal years, the cost of the program has averaged 125 million dollars annually; the Administration has requested 132 million for technical assistance in fiscal year 1955, characterizing the technical-assistance type of aid as of "the greatest significance in the long pull over the decades ahead". This amount includes also the United States contribution to the technical assistance program of the United Nations.

While technical cooperation merely covers the services of technicians, the training abroad of nationals of the aid-receiving countries, and the furnishing of supplies and equipment for demonstration purposes, this type of assistance has been integrated with some economic aid in certain countries of Southeast Asia, Formosa, and the Philippines. This aid involves chiefly capital goods and other materials needed in the countries' development programs, e.g., in the fields of transportation and communication. The foreign-aid appropriation for fiscal year 1954 for the first time provided funds for "special economic assistance" to the Near East (chiefly Israel), India, and Pakistan; for the fiscal year beginning July 1, about 225 million dollars is proposed to supplement technical cooperation with the necessary capital equipment.

Finally, relief operations of various kinds have in recent years figured prominently in United States aid operations in Asia and the Near East. Korean relief shipments by the Army Department, contributions to the United Nations Korean Reconstruction Agency, a 200 million dollar program for rehabilitation in Korea approved last August, and assistance, through the United Nations, to Arab refugees—all were in response to the dislocations and sufferings caused by war. Conditions or threats of famine were alleviated by special wheat loans to India (190 million dollars) and Pakistan (15 million dollars); Pakistan, in addition, received over 600,000 tons of wheat on a grant basis.

THE EXPORT-IMPORT BANK

In our foreign-aid activities a prominent role has been played by the Export-Import Bank, both through its own lending operations and as agent for various other Government loans. Prior to 1953, the Bank had been quite active in the

field of development loans. As examples may be cited the 135 million dollars advanced to the State of Israel since its creation, the 150 million dollar development loan extended to Mexico in 1950, and credits of various amounts granted from time to time to private and public entities in Brazil.

Aside from such loans for economic development, the ready availability of uncommitted funds and the possibility of quickly providing these funds in a variety of circumstances have made the Bank a highly flexible instrument for supplying loan assistance in a host of individual cases. In recent years, for instance, Export-Import Bank credits have financed the sale of United States cotton and the export of United States equipment and services required to develop foreign sources of strategic material, principally for the United States stockpile. Through the 125 million dollar credit to Argentina in 1950 and the 300 million dollar credit to Brazil early last year, the Bank enabled these countries to liquidate their commercial indebtedness to United States exporters. As mentioned in footnote 4, a total of 254 million was advanced to France in 1952 and 1953 in prepayment on dollar earnings under offshore procurement contracts. Finally, the Bank has functioned as disbursing agent for certain loans authorized by Congress and financed by specific appropriations, such as that part of Marshall Plan aid extended on a credit basis, the Indian and Pakistani wheat loans, and the 62.5 million dollar loan granted to Spain after that country came within the scope of United States aid. The recent 100 million dollar United States credit to the European Coal and Steel Community likewise will be administered by the Export-Import Bank.

CONCLUSION

As the economy of the free world, and especially of Europe, has gained strength, foreign-aid appropriations have declined and the need for the Marshall Plan type of economic assistance has ceased or dwindled in many countries. Economic aid now serves primarily to supplement our military aid to countries in Europe and Asia whose economies have to support a disproportionate defense burden. At the same time, in line with our foreign-policy objectives, we are increasing somewhat our expenditures for economic development in non-European areas. Meanwhile, shipments of military supplies and equipment from the United States have continued at high levels.

All these aid activities have been supplemented in the recent past by large expenditures by and for our armed forces abroad, reflecting our vast military commitments overseas. While these expenditures on foreign goods and services may drop somewhat in the near future, offshore procurement disbursements are certain to increase as deliveries under contracts placed sometime ago are made. At the same time, direct dollar disbursements to finance certain budgetary expenditures of France are now taking place, while similar payments to the United Kingdom are in the offing. During the current year and also in 1955, the aggregate of these outlays will probably continue to provide an important source of foreign dollar receipts.

EARNINGS AND EXPENSES OF COMMERCIAL BANK TRUST DEPARTMENTS IN NEW YORK AND NEW JERSEY

Commercial banks operating trust departments have always been able to determine profits earned or losses incurred by those departments through the application of accepted accounting procedures. But an individual bank has not been able to test its trust department profit and loss experience against that of other, comparable banks, because data for other banks have not been available. To make such data available, and to make possible comparisons of an individual bank's trust department operating ratios with those of a comparable group of commercial bank trust departments, the New York State Bankers Association, the New Jersey Bankers Association, and the Federal Reserve Bank of New York jointly undertook a survey of trust department income and expenses. The survey was initiated at the request of the member banks in the Second Federal Reserve District that operate trust departments and was conducted with their cooperation.

Trust department income and expense data were sought from all the 464 member and nonmember banks operating trust departments in the States of New York and New Jersey.¹ Detailed returns (summarized in Table I) were received from 107 banks, including ten banks in New York City. These banks handle 26,600 personal trust accounts with 2.8 billion dollars of assets and 560 corporate trust accounts with outstanding bonds of 2.6 billion, and they have 2,070 corporate agency accounts.² The 97 reporting banks outside New York City normally handle about two thirds of the trust business done by banks in their area, but the ten reporting New York City banks do only a relatively small amount of the total New York City trust business. The New York City banks that handle the major part of the City's trust business did not report detailed figures. However, eleven of these banks did report total income and expense data, and this is summarized in Table II.

The 107 reporting banks are divided in Table I into two groups—those with profitable trust operations in 1953 and those with net losses on trust operations during the year. The 97 banks outside New York City are also arranged into four classifications by size of trust department income. Table I includes, in addition, a section detailing income and expense by type of trust account—personal and corporate—for 22 banks located in the larger cities of the New York Federal Reserve District.

The ratios shown in Table I are not averages of individual

¹ Banks in Fairfield County, Connecticut, that operate trust departments were also included in the survey. The three banks in Fairfield County that submitted data are grouped with banks in the State of New York in Table I. Similarly, two mutual savings banks in New Jersey that operate trust departments are grouped with New Jersey commercial banks in Table I.

² Personal trust accounts include such accounts as estates, testamentary and living trusts, guardianships, pension and profit-sharing trusts, and agency and custody accounts. Corporate trusts are all bond trusteeships. Corporate agency functions include acting as registrar, transfer agent, coupon and bond-paying agent, and dividend disbursing agent for corporate security issues.

bank ratios but are derived from aggregate dollar totals. This method of ratio derivation was used because the extreme range of some of the ratios would have biased average ratios unduly, especially those for the smaller trust departments.

Of the 107 trust departments surveyed, 51 had profitable operations in 1953 and 56 showed net losses, and these proportions of profitable and unprofitable operations were approximately maintained in three of the five groups of banks in Table I for which the number of banks with profitable and unprofitable operations is shown. However, as a percentage of total commissions and fees, losses of unprofitable trust departments were greater than profits of profitable trust departments in all five groups. Consequently, if figures for profitable and unprofitable trust departments are combined, all five groups of banks show net losses. On the other hand, when trust department net earnings are adjusted by the addition of "allowed credit for deposits" (income credited to the trust department, at rates that may vary from time to time and bank to bank, as earnings on uninvested trust balances deposited with the commercial banking department), the consolidated operating results of trust departments earning commissions and fees of \$50,000 or more become profitable, and the combined losses of trust departments earning less than \$50,000 are considerably reduced.

The data submitted by 22 banks showing earnings on, and expenses of, personal and corporate trust accounts indicate that corporate accounts are more profitable to handle than personal ones. Corporate accounts provided net earnings of 4.3 per cent of total commissions and fees for the 22 reporting banks, compared with a net loss of 17.3 per cent of total commissions and fees incurred on personal accounts. The addition of allowed credit for deposits raises profits on corporate accounts to 27.9 per cent of total commissions and fees, while the loss on personal accounts is converted to a 3.7 per cent profit.

The better net earnings on corporate trust accounts than on personal accounts resulted from a lower ratio of direct expense to total income. Total direct expense of handling corporate trust accounts amounted to less than two thirds of total commissions and fees earned on corporate accounts, while the same ratio for personal accounts was 98.7 per cent.

Income earned in 1953 from servicing various types of trust accounts, and expense incurred stated as a percentage of income, are shown in Table II for eleven large New York City banks that handle the larger part of the City's commercial bank trust business. These income and expense distributions indicate one interesting aspect of large-scale trust operations. As measured by "trust department net earnings", the eleven banks made a profit in 1953 amounting to but 0.2 per cent of gross trust department income. After addition of allowed credit for deposits, however, profit on trust operations increased to 8.3 million dollars, or 14 per cent of total commissions and fees. Similarly, after including allowed credit for deposits, the eleven

New York City banks showed adjusted net earnings of 17 per cent of their total commissions and fees from corporate trusts, and 9 to 17 per cent of the fees from estates, personal agencies, and personal trusts. All categories of personal trust business carried on by the eleven banks show net earnings after account is taken of allowed credit for deposits, though the

earnings rate for pension trusts (1.2 per cent) is small. Finally, the six banks reporting corporate trust and corporate agency figures separately had net earnings, after adjustment for allowed credit for deposits, of 44 per cent of the corporate trust fees and 9 per cent of the corporate agency fees they collected.

Variations in the effective rates of return to 94 New York

Table I
Percentage Distribution of Expense, Income, and Related Items for Commercial Bank Trust Departments in New York State and New Jersey, 1953

Item	97 banks in New Jersey and New York State* outside New York City								10 New York City banks†		22 banks reporting expense and income by type of account	
	By size of trust department income—total commissions and fees of:								Trust departments with			
	Under \$20,000		\$20,000 to \$49,999		\$50,000 to \$99,999		\$100,000 and over					
	Trust departments with	Trust departments with	Trust departments with	Trust departments with	Trust departments with	Trust departments with	Trust departments with	Trust departments with				
Net profits	Net losses	Net profits	Net losses	Net profits	Net losses	Net profits	Net losses	Net profits	Net losses	Corporate	Personal	
Number of banks	26	24	10	8	5	10	7	7	3	7	22	22
	Per cent of total direct expense											
Direct expense:												
Salaries and wages												
Officers	56.0	48.3	42.0	37.9	33.4	35.7	33.9	25.9	18.1	21.7	14.9	26.6
Employees	15.9	19.8	28.5	29.6	34.0	35.3	40.8	44.1	51.5	47.4	54.7	42.8
Pensions and retirements	3.4	2.2	3.3	3.6	4.3	1.9	3.9	3.4	4.5	3.4	3.7	4.0
Other expenses related to salaries	2.6	2.3	1.8	2.8	3.6	2.9	2.4	3.2	5.6	5.7	5.5	4.4
Occupancy of quarters	5.9	7.7	7.0	7.2	7.6	5.7	5.0	6.3	8.8	6.3	8.7	5.6
Furniture and equipment	1.5	1.9	2.0	1.1	1.6	1.6	1.2	2.0	1.3	1.7	1.9	1.7
Stationery, supplies, and postage	2.0	3.5	2.0	4.3	2.7	2.5	3.4	2.5	2.2	2.8	2.3	2.5
Telephone and telegraph	0.6	1.1	1.1	1.1	0.8	1.1	1.5	1.3	1.0	1.7	1.5	1.5
Advertising	3.4	5.1	2.2	5.4	5.3	3.0	2.2	2.2	0.5	0.7	0.3	1.6
Legal and professional fees	0.9	0.5	0.3	—	1.3	0.7	0.4	0.7	0.6	0.8	1.0	0.5
Periodicals and investment services	1.7	1.3	3.0	2.9	1.3	2.3	1.0	0.7	0.4	0.8	0.2	1.0
Examinations	3.8	2.6	2.6	2.3	1.7	1.6	0.9	0.8	0.8	0.9	0.5	0.7
Other direct expense	2.3	3.7	4.2	1.8	2.4	5.7	3.4	6.9	4.2	6.1	4.9	7.0
Total direct expense	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Additions to direct expense:												
Services by other departments	0.1	1.3	1.0	1.7	—	2.9	9.1	8.9	12.3	28.7	25.6	15.7
Overhead	9.7	10.0	10.1	29.3	10.4	9.1	8.8	14.6	8.0	16.0	13.9	14.0
Total direct expense plus additions	109.8	111.3	111.1	131.0	110.4	112.0	117.9	123.5	120.3	144.7	139.5	129.7
Deductions from direct expense:												
Services by other departments	2.3	2.3	7.1	0.6	4.1	2.4	0.8	1.9	—	7.1	2.4	5.0
Other credits	2.6	1.2	2.9	2.0	—	4.0	—	—	13.1	3.1	6.6	3.2
Total trust department expense (net)	104.9	107.8	101.1	128.4	106.3	105.6	117.1	121.6	107.2	134.5	130.5	121.5
	Per cent of total commissions and fees											
Commissions and fees from:												
Estates	46.1	27.6	32.8	32.4	38.6	21.0	24.0	19.1	1.1	5.9	—	16.1
Pension trusts	1.1	0.5	3.1	1.3	0.3	1.2	1.5	3.0	3.7	0.8	—	3.2
Personal trusts	42.6	56.4	42.0	46.3	41.7	43.7	46.1	39.1	8.1	15.5	—	39.2
Personal agencies	9.6	10.9	21.6	17.1	15.7	25.1	25.6	23.4	12.6	31.2	—	41.5
Corporate trusts	—	1.9	0.4	0.8	3.5	0.9	0.5	1.2	23.5	16.9	30.0	—
Corporate agencies	0.6	2.7	0.1	2.1	0.2	8.1	2.3	14.2	51.0	29.7	70.0	—
Total income from commissions and fees	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total direct expense	62.6	166.4	70.2	123.7	76.2	122.1	69.1	93.5	75.1	87.6	65.4	98.7
Net income after direct expense	+ 37.4	- 66.4	+ 29.8	- 23.7	+ 23.8	- 22.1	+ 30.9	+ 6.5	+ 24.9	+ 12.4	+ 34.6	+ 1.3
Net indirect expense	3.1	13.0	0.8	35.1	4.8	6.8	11.8	20.2	5.4	30.2	20.0	21.3
Net earnings before income taxes	+ 34.3	- 79.4	+ 29.0	- 58.8	+ 19.0	- 28.9	+ 19.1	- 13.7	+ 19.5	- 17.8	+ 14.6	- 20.0
Income tax charges or credits (+)	10.0	1.8	10.0	+ 4.2	2.7	—	8.8	0.9	10.3	+ 1.7	10.3	+ 2.7
Trust department net earnings	+ 24.3	- 81.2	+ 19.0	- 54.6	+ 16.3	- 28.9	+ 10.3	- 14.6	+ 9.2	- 16.1	+ 4.3	- 17.3
Allowed credit for deposits	6.3	21.5	9.0	12.2	6.7	22.5	8.5	13.9	19.4	29.0	23.6	21.0
Trust department net earnings (adjusted for deposit credits)	+ 30.6	- 59.7	+ 28.0	- 42.4	+ 23.0	- 6.4	+ 18.8	- 0.7	+ 28.6	+ 12.9	+ 27.9	+ 3.7
Related items:												
Average rate allowed on deposit credit	1.80	1.80	1.92	2.37	1.88	1.99	1.82	1.67	1.90	1.97	2.16	2.16
Dollar amount of total direct expense (thousands)	119	261	221	326	257	844	1,270	2,405	1,160	2,767	2,008	3,999
Dollar amount of total commissions and fees (thousands)	191	157	315	263	338	690	1,839	2,572	1,544	3,158	3,068	4,051
Average number of officers and employees:												
Officers—full time	1.0	1.1	1.3	2.5	2.6	3.3	5.1	9.9	6.7	7.3	2.5	5.8
part time	1.7	1.8	2.0	1.3	1.0	4.7	3.4	—	1.0	7.0	2.3	3.6
Employees—full time	1.0	1.1	3.0	3.9	4.0	9.4	18.7	45.9	55.3	48.9	2.5	3.0
part time	1.3	1.5	2.0	1.8	1.0	3.2	16.5	—	4.7	4.0	3.8	2.0

* Includes three banks in Fairfield County, Connecticut.

† Total expense and income data for eleven other New York City banks that did not report in detail are distributed in Table II.

and New Jersey banks for servicing trust accounts of different types and sizes are shown in Table III.³ The rates were computed by taking aggregate trust income in each group of banks as a percentage of the aggregate carrying value of trust assets as of December 31, 1953.⁴ For the four types of personal trust accounts shown, only the income and asset value of

accounts carried at inventory or book value were used.⁵ For corporate accounts, total income was related to the total par value of bonds outstanding under the trust indentures.

The average rates shown in Table III, which are based on gross fees and commissions collected, indicate that the highest returns were yielded on estates and personal trusts; these were slightly higher in New Jersey than in New York. Rates on corporate trusts appear extremely low. As indicated above, however, trust department income from corporate trusts is related to the total par values of the bond issues outstanding under trust indentures. These values are often large, but the work of the trustee is fixed in the main by the terms of the trust indentures, and does not increase proportionately with the dollar volume of bonds outstanding under them.

³ New York City banks are excluded from the table, because complete data on rates were not available for them. The three Fairfield County (Connecticut) banks, included with New York State banks in Table I, are also excluded.

⁴ Rates thus obtained are influenced by fiduciary account turnover. Some estates and trusts existing at the beginning of the year were terminated during the year and were not in existence at the year end. Other estates and trusts were established during the year and had existed for less than a full year at the year end. Trust account turnover, together with income fluctuations resulting from record keeping on a "cash basis", yielded extreme rates for individual banks in some instances. These extremes were eliminated from the results shown in Table III.

⁵ Assets of personal trust accounts were reported on three different bases: (1) inventory or book value, (2) unit or par value, and (3) a combination of (1) and (2). Inventory or book value is the most widely used method of valuing personal trust account assets and provides the most meaningful base for rate comparisons.

Table II
Distribution of Income and Expense on Various Types of Trust Accounts
Handled by Eleven Large New York City Banks, 1953
(Ratios in per cent of total commissions and fees)

Item	Total personal and corporate accounts	Total personal accounts	Estates	Pension trusts	Personal trusts	Personal agencies	Total corporate accounts	Corporate trusts	Corporate agencies
Number of banks reporting item.....	11	11	11	11	11	11	11	6	6
Commissions and fees.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total expense—direct and indirect.....	98.4	102.2	99.7	117.9	98.9	102.3	92.9	97.7	93.6
Net earnings before income taxes.....	1.6	- 2.2	0.3	- 17.9	1.1	- 2.3	7.1	2.3	6.4
Income tax charges or credits(+)-.....	1.4	+ 0.1	3.2	+ 5.4	- 1.2	+ 1.1	3.7	1.3	3.5
Trust department net earnings.....	0.2	- 2.1	- 2.9	- 12.5	- 0.1	- 1.2	3.4	1.0	2.9
Allowed credit for deposits.....	13.8	13.8*	11.5	13.7	10.5	17.7	13.7	43.2	6.4
Trust department net earnings (adjusted for deposit credit).....	14.0	11.7	8.6	1.2	10.4	16.5	17.1	44.2	9.3
Commissions and fees (thousands).....	\$59,736	\$35,406	\$4,086	\$3,430	\$13,692	\$14,198	\$24,330	\$2,111†	\$11,603†

* A small amount of deposit credit reported in total for personal accounts was allocated by type, according to the distribution in the other banks.

† Since income and expense data for corporate trust and corporate agency accounts were reported separately by only six banks, the commissions and fees figures shown for these categories will not add to "total corporate account commissions and fees", which includes data from eleven banks.

Table III
Average Rates of Return* Earned on Trust Accounts of Different Types and Sizes
by 94 New York and New Jersey Banks, 1953

Type of account	Size of trust department income—total commissions and fees of:										Total	
	Under \$10,000		\$10,000 to \$19,999		\$20,000 to \$49,999		\$50,000 to \$99,999		\$100,000 and over			
	Average size of accounts	Average rate of return	Average size of accounts	Average rate of return	Average size of accounts	Average rate of return	Average size of accounts	Average rate of return	Average size of accounts	Average rate of return	Average size of accounts	Average rate of return
Estates:												
New York.....	\$ 32,900	0.04	\$ 33,100	1.71	\$ 67,100	1.23	\$ 75,900	0.77	\$ 85,900	0.36	\$ 78,500	0.47
New Jersey.....	36,100	0.83	38,100	1.36	40,200	0.97	67,100	0.42	212,700	0.87	87,800	0.73
Personal Trusts:												
New York.....	16,700	0.36	31,200	0.38	41,000	0.31	39,900	0.35	59,100	0.31	47,900	0.32
New Jersey.....	21,800	0.34	46,300	0.31	49,000	0.45	76,200	0.35	92,900	0.41	72,600	0.39
Pension Trusts:												
New York.....	156,900	0.25	76,100	†	332,500	0.14	38,600	0.25	282,000	0.15	258,900	0.15
New Jersey.....	36,600	0.02	68,400	†	115,500	0.17	30,300	0.35	73,700	0.02	72,800	0.02
Personal Agencies:												
New York.....	39,400	0.19	58,100	0.17	83,700	0.20	35,000	0.40	149,100	0.20	114,400	0.21
New Jersey.....	301,600	0.12	63,700	0.26	44,200	0.14	94,000	0.20	—	—	75,100	0.19
Corporate Trusts:												
New York.....	57,800	0.06	125,600	0.09	267,300	0.08	106,500	0.07	534,100	0.07	317,700	0.07
New Jersey.....	118,900	0.03	—	—	26,600	0.13	993,300	0.08	19,800	0.17	404,000	0.08

* Rates of return represent total commissions and fees as a percentage of the carrying value of trust account assets. See footnotes 4 and 5 to the accompanying text.

† No income shown, banks probably on a "cash basis".

DEPARTMENT STORE TRADE

Sales at department stores in the Second Federal Reserve District rose 3 per cent in June, on a seasonally adjusted basis, and preliminary data indicate that this June's sales were 1 per cent higher than sales in June of last year. The year-to-year increase in June, combined with earlier increases in February and April, offset sales decreases in January, March, and May, and brought total sales for the January-June period to a level just equalling the first six months of 1953.

Consumer buying at Second District department stores has been more stable than at stores in the rest of the country in the first five months of this year. Sales at Second District department stores were 1 per cent under the first five months last year, a more favorable record than was achieved in any other Federal Reserve District except Boston. The remaining Districts experienced year-to-year declines in department store sales ranging from 2 per cent in the Minneapolis District to 11 per cent in the Cleveland District, while sales for the country excluding the New York District fell almost 5 per cent below those of 1953.

The relatively favorable 1954 sales experience of Second District stores is in contrast to the record of the last period of recession in economic activity, in 1948-49. In 1949, for example, Second District sales declined more than sales for the rest of the country, both during the first five months and during the year as a whole. The contrasting 1954 experience may indicate that recent declines in economic activity have been more marked elsewhere than in this District, and that the trend of department store sales here has consequently reflected, at least in part, a greater degree of income stability in the Second District than in the rest of the country. There is other evidence tending to confirm this hypothesis. In the first four months of this year, nonagricultural employment declined at a somewhat slower rate in the District than in the country. Also, the impact of declining farm prices on total income appears to have been slighter in this District than in any other.¹

In both the District and the country, basement sales have shown greater strength in 1954 than main store sales, in comparison with a year ago, possibly reflecting more "bargain consciousness" on the part of consumers in a period of "softer" economic conditions. Both basement and main store sales, however, have declined more elsewhere, on the average, than in the Second District, where basement store sales were at about the 1953 level in the first five months of 1954 and main store sales were down slightly over 1 per cent, giving a decline of about 1 per cent from last year in total sales for Second District department stores for the period January through May.

Among major main store categories, sales increases were registered by Second District stores in piece goods and household textiles and in "miscellaneous" main store departments, such as toys, sporting goods, candy, and cameras. But for the

¹ See "The Economy of the Second Federal Reserve District: Part I—Where Does the Second District Get Its Income?", this *Review*, November 1953, pp. 169-72.

country as a whole, preliminary figures indicate that every important merchandise group showed sales below year-ago figures. Moreover, Second District sales declines were moderate in most cases—only 1 per cent for homefurnishings, and ranging around 2 per cent below January-May 1953 for small wares, women's and misses' accessories, and men's and boys' wear—and were marked only in women's and misses' apparel, where sales declined over 3 per cent.

In the homefurnishings group, declines in sales of furniture and bedding and domestic floor coverings slightly more than offset increased sales of housewares, phonographs, records, radio and television sets, and major household appliances, giving a modest decrease in sales for the group as a whole. Appliance sales were up only slightly from last year for the January-May period. However, after declining sharply in January, they showed moderate year-to-year gains in each of the next four months. This has led to some speculation as to whether department store appliance sales—which have fallen steadily and substantially in recent years as a result of compe-

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

Area	Net sales			Stocks on hand May 31, 1954
	May 1954	Jan. through May 1954	Feb. through May 1954	
Department stores, Second District.....	- 4	- 1	0	- 2
New York—Northeastern New Jersey				
Metropolitan Area.....	- 4	0	0	- 3
New York City.....	- 3	0	0	- 4
Nassau County.....	- 4	+ 3	+ 3	+ 4
Westchester County.....	- 8	- 3	- 2	- 1
Northern New Jersey.....	- 7	- 3	- 2	0
Newark.....	- 11	- 8	- 8	-23
Fairfield County.....	- 11	- 8	- 8	-
Bridgeport.....	- 9	0	0	+ 3
Lower Hudson River Valley.....	- 9	- 1	0	0
Poughkeepsie.....	- 6	- 4	- 3	- 6
Upper Hudson River Valley.....				
Albany-Schenectady-Troy				
Metropolitan Area.....	- 6	- 3	- 2	- 6
Albany.....	- 7	- 4	- 3	-11
Schenectady.....	- 4	- 2	- 1	0
Central New York State.....	- 7	- 3	- 3	+ 1
Utica-Rome Metropolitan Area.....	- 8	- 6	- 5	- 4
Utica.....	- 4	- 3	- 1	- 6
Syracuse Metropolitan Area.....	- 7	- 2	- 2	+ 3
Northern New York State.....	- 6	-12	-11	+ 2
Southern New York State.....	- 6	- 3	- 2	+ 3
Binghamton Metropolitan Area.....	- 5	- 2	- 2	+ 6
Elmira.....	-14	- 8	- 7	- 4
Western New York State.....	0	- 1	- 1	+ 5
Buffalo Metropolitan Area.....	+ 2	- 3	- 3	+ 1
Buffalo.....	+ 2	- 3	- 3	+ 1
Niagara Falls.....	+ 4	+ 1	+ 3	-
Rochester Metropolitan Area.....	- 1	+ 3	+ 3	+12
Apparel stores (chiefly New York City)...	- 4	- 2	- 2	- 5

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

Item	1954			1953
	May	April	March	May
Sales (average daily), unadjusted.....	98	101	85	101
Sales (average daily), seasonally adjusted..	100	102	99	103r
Stocks, unadjusted.....	118	118	116	120r
Stocks, seasonally adjusted.....	115	113	111	117r

r Revised.

tion from other appliance outlets and the discontinuation, reduction in size, and leasing of many appliance departments—may not finally have “bottomed out”.

Sales decreases were general in departments in the small wares group, with only the silverware department showing a significant gain in sales. Similarly, in women's and misses' accessories lines, only handbags and small leather goods sales registered much improvement. The increases in both silverware and handbag sales probably reflected the effect of the excise tax reductions on April 1.

Men's and boys' wear sales, which had shown a small (about 1 per cent) increase through April of this year compared with 1953, fell sharply—by about 14 per cent—in May, bringing sales for 1954's first five months slightly below the corresponding period a year ago. Sales of women's and misses' apparel for the five months fell over 3 per cent from the 1953 level, with the largest declines coming in furs (almost 8 per cent) and dresses (over 7 per cent). Girls' wear, and blouses, skirts, and sportswear showed moderate sales gains.

The reduction on April 1 in rates of the Federal retail excise tax had an expected favorable effect in April and May on sales of furs, handbags, jewelry, luggage, silverware, and toilet articles. Sales of these items in April showed increases ranging from 6 to 34 per cent over April last year. Fur sales are particularly notable in this respect. They showed year-to-year losses of 15, 6, and 42 per cent in January, February, and March, before the tax was reduced, but gained by 34 and 33 per cent in April and May, after the reduction took place.

Part of the increases in sales of items on which the tax was reduced reflect, of course, the influence of the Easter shopping season (which fell mostly in March last year but mostly in April this year). This influence may be eliminated to some extent, however, by combining March-April sales and comparing the total with a similar aggregate for last year. Such a comparison indicates that the tax reduction provided a noticeable initial stimulus to sales, and reports for May suggest that this sales stimulus has continued to be felt.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954					1953		Percentage change	
		1954			1953		Latest month from previous month	Latest month from year earlier		
		May	April	March	May					
UNITED STATES										
<i>Production and trade</i>										
Industrial production*	1947-49 = 100	125 _p	123	123	137	+ 2	- 9			
Electric power output*	1947-49 = 100	169	165	165	161	+ 3	+ 5			
Ton-miles of railway freight*	1947-49 = 100	—	89 _p	87	106	+ 3	+ 13			
Manufacturers' sales*	billions of \$	24.1 _p	24.4	24.1	25.8	- 1	- 7			
Manufacturers' inventories*	billions of \$	44.8 _p	45.2	45.8	45.7	- 1	- 2			
Manufacturers' new orders, total*	billions of \$	23.1 _p	23.0	22.9	25.9	+ 1	- 11			
Manufacturers' new orders, durable goods*	billions of \$	10.1 _p	10.0	10.2	13.1	+ 1	- 23			
Retail sales*	billions of \$	—	14.2 _p	13.9 _r	14.4	+ 3	+ 3			
Residential construction contracts*	1947-49 = 100	219 _p	213	205	164	+ 3	+ 34			
Nonresidential construction contracts*	1947-49 = 100	172 _p	184	182	159	- 7	+ 8			
<i>Prices, wages, and employment</i>										
Basic commodity prices†	1947-49 = 100	92.8	92.5	89.8	88.1	#	+ 5			
Wholesale prices†	1947-49 = 100	110.9 _p	111.0	110.5	109.8	#	+ 1			
Consumer prices†	1947-49 = 100	115.0	114.6	114.8	114.0	#	+ 1			
Personal income (annual rate)*	billions of \$	—	282.0 _p	282.9	284.7	#	+ 3			
Composite index of wages and salaries*	1939 = 100	—	255 _p	254	248	#	+ 3			
Nonagricultural employment*††	thousands	48,162 _p	48,247	48,427 _r	49,781	#	- 3			
Manufacturing employment*††	thousands	16,034 _p	16,145	16,276 _r	17,531	- 1	- 9			
Average hours worked per week, manufacturing†††	hours	39.3 _p	39.0	39.5	40.7	+ 1	- 3			
Unemployment**	thousands	3,305	3,465	3,725	1,306	- 5	—			
<i>Banking and finance</i>										
Total investments of all commercial banks	millions of \$	78,570 _p	77,360 _p	75,740 _p	72,660	+ 2	+ 8			
Total loans of all commercial banks	millions of \$	67,120 _p	66,750 _p	67,050 _p	65,440	+ 1	+ 3			
Total demand deposits adjusted	millions of \$	98,700 _p	98,600 _p	96,700 _p	97,490	#	+ 1			
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	30,013 _p	29,995	30,010	30,110	#	#			
Bank debits (338 centers)*§	millions of \$	60,854	62,918	64,116	61,281	- 3	- 1			
Velocity of demand deposits (338 centers)*§	1947-49 = 100	119.4 _p	121.3 _r	122.5	120.0	- 2	- 1			
Consumer instalment credit outstanding†	millions of \$	20,932	20,909	20,900	20,213 _r	#	+ 4			
<i>United States Government finance (other than borrowing)</i>										
Cash income	millions of \$	4,882	3,036	12,260	5,294	+61	- 8			
Cash outgo	millions of \$	6,228	5,303	6,231	6,643 _r	+17	- 7			
National defense expenditures	millions of \$	3,477 _p	3,619 _p	4,125 _p	4,215 _r	- 4	- 18			
SECOND FEDERAL RESERVE DISTRICT										
Electric power output (New York and New Jersey)*	1947-49 = 100	140	138	137	141	+ 1	- 1			
Residential construction contracts*	1947-49 = 100	—	204 _p	195	172	+ 5	+ 10			
Nonresidential construction contracts*	1947-49 = 100	—	215 _p	191	196	+13	+ 11			
Consumer prices (New York City)†	1947-49 = 100	112.9	112.5	112.4	111.4	#	+ 1			
Nonagricultural employment*††	thousands	—	7,513.8 _p	7,500.6	7,654.0	#	- 2			
Manufacturing employment*††	thousands	—	2,639.6 _p	2,667.0	2,833.7	- 1	- 7			
Bank debits (New York City)*§	millions of \$	60,750	60,479	64,069	51,281	#	+ 18			
Bank debits (Second District excluding New York City)*	millions of \$	4,016	4,313	4,450	4,132 _r	- 7	- 3			
Velocity of demand deposits (New York City)*†	1947-49 = 100	164.1	159.9	166.0	139.3	+ 3	+ 18			

Note: Latest data available as of noon, July 2, 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 May 1953 are on the basis of the old sample and, therefore, not necessarily comparable with the figures shown for 1954 which are on the new sample basis; consequently, a percentage 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.