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MONEY MARKET IN JULY

Member banks began the month of July with substantially more than 500 million dollars of free reserves, and over the month as a whole they received a large additional volume of reserves through a net reduction in Treasury deposits with the Reserve Banks and from the operation of the other market factors. In view of the reduction in reserve requirements scheduled for the end of July and early August, which will release substantial amounts of reserves in advance of actual needs, the Federal Reserve System absorbed a major part of the reserve gains accruing to member banks during the month by redeeming or selling 520 million dollars of its bill holdings. Nevertheless, average free reserves held by member banks in the four weeks ended July 28 were 76 million above the average amount held in the five statement weeks of June. These reserves, however, were not always evenly distributed, and at times Chicago and New York City banks experienced deficiencies in their reserves, which resulted in temporary firming of the rates for Federal funds.

The Government securities market was quiet during most of July, reflecting not only the normal summer inactivity but also the tendency for investors to refrain from major portfolio adjustments pending the official disclosure of the terms of the Treasury's new cash offering and of the August and September refunding program. On July 16, the Treasury announced that it would offer for cash subscription on July 21 (the books to be open only one day) approximately 3.5 billion dollars of 1 per cent tax anticipation certificates. The certificates are to be dated August 2 and will mature on March 22, 1955. They will be receivable at par plus accrued interest to maturity in payment of income and profits taxes on March 15, 1955. Up to 75 per cent of the payments for the certificates may be made through credits to the Treasury's Tax and Loan Accounts in the commercial banks. Subscriptions to the new issue totaled approximately 9.3 billion dollars; subscriptions for $50,000 or less were allotted in full, while those for larger amounts were allotted on a 40 per cent basis, with none receiving less than $50,000. The total amount of the certificates to be issued will be 3,734 million dollars. The Treasury also announced on the 16th that it will offer holders of the 7.5 billion dollars of 2⅝ per cent certificates of indebtedness maturing on August 15 and September 15 a one-year certificate and either a long note or a short bond, the exact terms of the refunding to be announced toward the end of the month. On July 30, it announced that the refunding issues would be a 1⅛ per cent certificate to be dated August 15 and a 6¼ year, 2⅛ per cent bond maturing November 15, 1960.

Treasury bills were in greater supply in the market during most of July and bill rates rose somewhat, especially toward the end of the month. A price rise that occurred in the intermediate and long sectors of the list early in the month was partially wiped out after the preliminary announcement on the 16th of the Treasury's refunding plans, but prices of issues callable after 1964 subsequently rose again, showing gains of ½ to 1¼ points for the month as a whole. Issues maturing or first callable in the years 1958-61, the area in which the market expected that the refunding issue would most likely be placed, did not share in the rise and in some cases lost nearly half a point for the month as a whole.

For the four weeks ended July 21 (the latest date available), the loans and investments of the weekly reporting member banks rose moderately. Most of the increase occurred in the week ended June 30 when the reduction in member bank reserve requirements became partially effective. In subsequent weeks the changes were smaller and partially offsetting.

MEMBER BANK RESERVE POSITIONS

Member bank reserve gains were moderate on balance during July, but the flow of funds through the market was large and resulted in substantial day-to-day and week-to-week shifts in member bank reserve positions. Treasury operations dominated the market in the first two weeks of July, overshadowing even the holiday demands for currency which usually are the most important money factor at that time of year. At the end of June, the Treasury's general account balance with the Federal Reserve Banks was 875 million dollars, a total substantially

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

Factor	Statement weeks ended				Four weeks ended July 28
	July 7	July 14	July 21	July 28	
Operating transactions					
Treasury operations*	+578	−242	+ 23	− 15	+344
Federal Reserve float	+ 47	+ 69	− 29	−129	− 42
Currency in circulation	−250	+173	+127	+ 78	+128
Gold and foreign account	− 25	−199	+144	+ 56	− 24
Other deposits, etc	− 2	− 18	—	+ 76	+ 56
Total	+348	−218	+267	+ 65	+462
Direct Federal Reserve credit transactions					
Government securities					
Direct market purchases or sales	—	−135	−188	−197	−520
Held under repurchase agreements	—	—	—	—	—
Loans, discounts, and advances	+ 47	− 1	+ 10	+127	+183
Total	+ 47	−136	−178	− 70	−337
Total reserves	+395	−354	+ 89	− 5	+125
Effect of change in required reserves†	+ 3	+110	− 48	− 35	+ 30
Excess reserves†	+398	−244	+ 41	− 40	+155
Daily average level of member bank:					
Borrowings from Reserve Banks	56	53	57	85	63
Excess reserves†	975	808	928	683	849

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

above normal working levels. In order to allow this balance to drop to a more normal level, the Treasury limited its withdrawals from its Tax and Loan Accounts for the week ended July 7. But final fiscal-year payments by the various Government departments and agencies turned out to be considerably larger than anticipated, and the collection of these checks reduced the Treasury's deposits during the week of the 7th by more than half a billion dollars. Thus the banks experienced a substantial net gain of reserves for the week. In the following statement week, the Treasury rebuilt its general account balance and in the process withdrew 242 million dollars (net) from the banking system, thus contributing to the firmer tone of the money market. In the final two weeks of July, Treasury receipts and expenditures were approximately in balance. For the four weeks as a whole, therefore, the Treasury put 344 million dollars into the market.

The currency demands generated by the Fourth of July week end added to the usual end-of-the-month currency requirements would have put pressure on member bank reserve positions had it not been for the heavy Treasury disbursements early in July. During the two statement weeks that spanned the month-end and holiday period, member banks withdrew almost 420 million dollars in cash from the Reserve Banks, 250 million of it in the week ended July 7. During the remainder of July, however, currency flowed back to the banking system and member banks were able to deposit sizable amounts with the Reserve Banks for credit to their reserve accounts. For the four weeks as a whole, the banking system gained 128 million of reserves through the net return flow of currency.

Foreign account operations also had a marked effect on the money market on occasions during July, although, as Table I indicates, the net amount of funds absorbed by these accounts for the month as a whole was negligible. In the week ended July 14, foreign account holdings of Treasury bills were substantially reduced in order to meet a number of special bilateral debt settlements among members of the European Payments Union. Also, in the process of these settlements a substantial volume of funds was shifted back and forth between accounts with the commercial banks and with the Reserve Banks. After the settlements had been completed, the funds were largely returned to bank reserves, either through the purchase of new securities or in the form of deposit transfers. The impact of the bill reductions and deposit transfers and the subsequent security purchases was largely concentrated in New York.

The net effect on bank reserve positions of changes in float and the remaining market factors was small. The 76 million dollar gain from "other" factors, shown in Table I for the week ended July 28, reflects for the most part the quarterly payment by the Reserve Banks to the Treasury of the tax on the amount of Federal Reserve notes not covered by gold certificates. (The money market does not gain directly from such a transaction; however, direct Treasury payments to the public were larger by the amount of this tax payment than the change in its deposits would indicate.) Required reserves showed almost no net change in the four weeks under review which followed the reductions in reserve requirements in the latter part of June and preceded the reductions of late July and early August.

Federal Reserve discounts and advances rose moderately during the month (183 million dollars), reflecting in part the reaction from the abnormally low, "window-dressing" level of June 30 as well as the fact that some of the smaller country banks apparently find it more convenient to borrow from the Reserve Banks than to come to the money market, regardless of the availability of funds in the market. The largest amount of member bank borrowings outstanding at any one time during July was 125 million dollars, but total Reserve Bank advances and discounts, including loans to others than member banks, rose to 220 million on July 28.

The total amount of funds made available to the banking system through the operation of the regular market factors, changes in required reserves, and Federal Reserve discounts and advances was 675 million dollars, as indicated in Table I. But, as noted earlier, in the weeks of July 14, 21, and 28, the System Open Market Account sold or redeemed a total of 520 million dollars of Treasury bills. Thus, the net addition to member bank excess reserves for the period from June 30 through July 28 was only 155 million dollars.

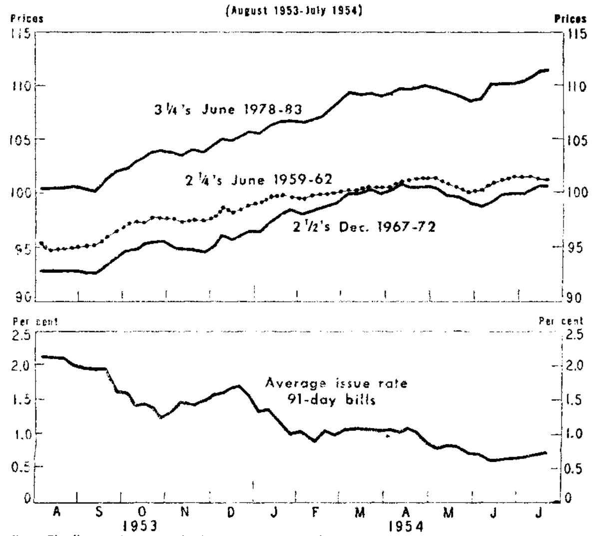
Treasury Financing and the Market for Government Securities

The Government securities market was generally quiet during July, as often occurs during the vacation period. The sustained high levels of member bank reserves and the continued decline in commercial loans at a time when a seasonal rise was expected were strengthening influences, but the occasional firmness of the central money markets and the discussion period pending final announcement of the Treasury's financing plans tended to restrict activity and price improvement, particularly in the short and intermediate sectors.

Yields on Treasury bills tended to rise somewhat over the month, reflecting reduced buying and a fairly sizable floating supply in the market. Prices of other short-term issues showed little net change during July, and the volume of trading in them was not large. Average issuing rates on Treasury bills rose from 0.646 per cent for the issue dated July 1 to 0.800 for the issue dated July 29. The principal participants in the bill market were, as usual, corporations and banks, but the System Open Market Account was a supplier of some importance. In the latter part of the month, the market's expectation that corporations might offer a substantial volume of short-term Treasury obligations for sale to raise funds to pay for their subscriptions to the new tax anticipation certificates tended to restrict trading and to put pressure on Treasury bill rates. In addition, the demand which the market had anticipated through the investment of the proceeds of new security offerings in the corporate and municipal security markets failed to materialize in the volume expected, as some of these funds were put into time deposits in commercial banks, certain of which were offering to pay interest on such deposits at an annual rate of approximately 1 per cent, whereas bills at that time were yielding about $\frac{3}{4}$ of 1 per cent. On the other hand, some buoyancy appeared in the market as the period drew to a close; the firmness probably reflected anticipation of the final increments in the reduction of member bank reserve requirements.

The new offering of tax anticipation certificates was well received in the market. Both banks and corporations placed substantial subscriptions, the banks having ample room to subscribe within the specified limit of one half of their combined capital, surplus, and undivided profits. Trading in the new certificates on a "when-issued" basis opened

PRICES AND YIELDS OF SELECTED GOVERNMENT SECURITIES
(August 1953-July 1954)



Note: The figures plotted are for Thursday dates; the final date shown is July 22.

at a $\frac{2}{32}$ premium that was maintained through the end of the month. Activity in the "rights" for the issues to be refunded in August was light throughout the month, and prices of the August and September certificates were marked down slightly to $100\frac{12}{32}$ and $100\frac{14}{32}$, respectively.

Prices of intermediate and long-term issues both rose fairly steadily through Friday, July 16, when the preliminary announcement of the refunding offer was made, the increases indicating an absence of selling more than substantial purchase orders. But when trading opened on the following Monday, bonds were marked down sharply, partly as a reflection of market uncertainties over the significance of the announcement and partly as a result of some light bank selling. Prices were off as much as $\frac{10}{32}$ for the day. Subsequently, however, prices at the longer end of the list began to rise again, and at the end of July issues not callable until 1964 or later were more than $\frac{1}{2}$ a point or more above their June 30 quotations. The $3\frac{1}{4}$'s of 1978-83, the pacesetter, was up $1\frac{1}{4}$ points to a new high level of $111\frac{16}{32}$. The $2\frac{1}{4}$'s of June and December 1959-62, on the other hand, were close to $\frac{1}{2}$ a point below their June 30 levels, and the three bonds maturing or callable in 1961 and 1962 showed smaller changes for the month as a whole. Commercial banks were the principal participants in the intermediate sector of the market during July, purchasing a moderate amount of securities outright and others through swaps. Public and private pension funds provided the principal demand for the longer issues.

Over the past twelve months, as the accompanying chart indicates, the price increase in all sectors of the Government securities market has been quite marked, although not without interruption. The longest outstanding issue of Treasury bonds, the $3\frac{1}{4}$'s of 1978-83, which were selling close to par at the end of July 1953 rose to more than an eleven-point premium during the past twelve months, and the yield at bid prices on this issue dropped from 3.25 per cent to 2.60 per cent. The $2\frac{1}{2}$'s of December 1967-72, the so-called Victory issue, rose from a price of slightly over 93 to more than a half-point premium over par, the highest level since March 1951; the yield declined from 2.97 per cent to 2.46 per cent. The intermediate maturities, represented in the chart by the $2\frac{1}{4}$'s of June 1959-62, have risen substantially; this issue gained approximately six points, and its yield declined from about 2.88 per cent to 1.99 per cent. Average bill rates, illustrative of the trend in short-term obligations, declined from more than 2 per cent in mid-1953 to about $\frac{3}{4}$ of 1 per cent at the end of July 1954.

Member Bank Credit

Total loans and investments of the weekly reporting member banks rose 409 million dollars during the four weeks ended July 21; although loans declined 209 million dollars, investments rose 618 million. Commercial, industrial, and agricultural loans declined 338 million, following the sharp rise in the June tax payment period and were only partially offset, as Table II indicates, by moderate increases in each of the other major loan classifications except security loans. The decline in commercial loans reflected in part another small retirement (62 million on July 9) of the Commodity Credit Corporation's certificates of interest. The remainder of these certificates, along with a number of direct bank loans, all mature on August 2. The rise in investments occurred principally in Treasury bills.

In the comparable four-week period last year, weekly reporting member bank earning assets rose quite sharply (3,927 million dollars), reflecting both substantial direct bank purchases of the 5.9 billion dollars of tax anticipation certificates sold by the Treasury on July 15 and an increase in security loans for purchasing or carrying these certificates. Furthermore, commercial loans declined by only 126 million against 338 million this year, and portfolios of municipal obligations rose by 47 million, compared with a decline in 1954 of 21 million. This year, however, real estate loans have expanded somewhat more than they did in 1953—64 million against 18 million last year. In 1953, most of the decline in commercial loans represented a contraction in loans to food, liquor, and tobacco dealers, with only moderate, largely offsetting changes in loans to the other major industrial classifications. This year the decline in loans to food, liquor, and tobacco dealers during these four weeks was much more moderate, but there were in addition substantial net repayments of credits extended to metal and metal products companies, public utilities, and to unclassified borrowers.

Table II
Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks
(In millions of dollars)

Item	Statement weeks ended June 30	July 7	July 14	July 21	Change from Dec. 30, 1953 to July 21, 1954
Assets					
Loans and investments:					
Loans:*					
Commercial, industrial, and agricultural loans	− 12	−156	− 81	− 89	−1,822
Security loans	+326	−125	+ 9	−221	− 175
Real estate loans	+ 30	+ 3	+ 24	+ 7	+ 224
Loans to banks	−306	+357	+ 96	−113	− 120
All other loans (largely consumer)	+ 31	+ 64	− 13	− 33	− 229
Total loans, net*	+ 60	+144	+ 34	−447	−2,153
Investments:					
U.S. Government securities:					
Treasury bills	+297	−101	+ 4	+339	+ 292
Other	+ 49	− 49	− 30	+130	+ 926
Total	+346	−150	− 26	+469	+1,218
Other securities	− 26	+ 25	− 33	+ 13	+ 744
Total investments	+320	−125	− 59	+482	+1,962
Total loans and investments	+380	+ 19	− 25	+ 35	− 191
Loans, net, and "other" securities	+ 34	+169	+ 1	−434	−1,409
Liabilities					
Demand deposits, adjusted	−797	− 8	+341	+829	−1,736
Time deposits except Government	+129	− 33	+193	+ 44	+1,584
U. S. Government deposits	+892	−536	−856	−357	− 261
Interbank demand deposits:					
Domestic	+937	+252	− 97	−370	− 632
Foreign	− 25	+ 33	− 33	+ 1	− 31

* Figures for various loan items are shown gross (i.e., before deduction of valuation reserves); they therefore may not add to the total, which is shown net.

RECENT ECONOMIC PROGRESS IN GREECE

Notable progress toward improved economic balance has been made in Greece in the last three years. The domestic inflation that plagued the economy intermittently since the war has been brought under control, and the large balance-of-payments deficits of the earlier postwar years have now been reduced to manageable proportions.

These encouraging developments are essentially the result of a long effort of American-Greek cooperation. Postwar foreign economic aid, which has totaled 1.6 billion dollars to date, and four fifths of which has been provided by the United States, helped create the preconditions for the effective execution of energetic government policies, such as the re-establishment of budgetary balance during the last fiscal year and the successful devaluation of the drachma in April 1953. In addition, the advance toward balance-of-payments equilibrium was greatly aided by the gradual postwar recovery of Western European countries, which has brought about the reopening of Greece's most important traditional export markets. The recent progress, once it has been consolidated, should help pave the way for an attack on the long-term problem of raising the country's living standards and achieving satisfactory employment for its growing population.

The Background of Stabilization

The task of postwar economic recovery was especially difficult for Greece. The country, poor even before World War II, underwent during the war years extensive damage and economic dislocations, including a hyperinflation, and its population suffered malnutrition and many other hardships. Moreover, liberation did not bring peace: the civil war, which did not end until 1949, left additional damage and dislocation in its wake, limited the area where reconstruction could be started, and absorbed resources originally intended for this purpose.

The years 1944-49 were a period of grave political, economic, and social tension. Although considerable progress was made even during this period in re-establishing the transportation system and power supply on the basis of United States aid, industrial and agricultural output recovered only moderately prior to 1949. Despite the large supply of foodstuffs, other consumer goods, and raw materials furnished by the United States, per capita income and consumption in 1949 were still well below the level of the 1930's.

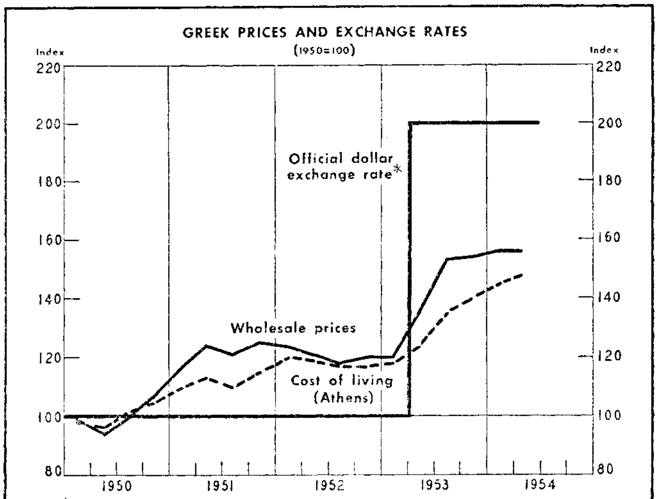
Against this background of serious and continued scarcities, efforts by trade unionists and other organized groups to regain prewar living levels generated virtually irresistible demands for increases in wages and other money incomes with resultant sustained inflationary pressures. Under these circumstances, neither direct controls on prices and wages nor attempts to curtail credit or absorb excess liquidity by means of gold sales were able to restore a measure of internal financial stability for more than relatively short periods. The economic structure was still so weak that any serious intensification of internal pressures, such as the threat of a general strike or the fear of renewed political unrest, or such external developments as a sudden spurt in world commodity prices, served to set off a new round of inflationary price and wage increases. Moreover, the budget during these years was heavily unbalanced because of the large military expenditures involved in the maintenance of an army of almost 250,000 men, the huge costs of supporting civil war refugees numbering as much as one tenth of the country's total population, and the dislocation of the tax system.

Progress was further retarded by the fact that private domestic savers, paralyzed by fears of renewed guerrilla action, foreign invasion, and continued inflation, placed the great bulk of their funds in stocks of merchandise, black-market foreign exchange, and gold. As a result, private productive investment had to be largely financed by means of bank credit or from counterpart funds arising from American aid.

Just as internal stabilizing action could be only intermittently successful during these years, attempts to cope with the huge balance-of-payments deficit by means of successive devaluations of the currency proved of only temporary help. Their beneficial effects in stimulating exports and restraining import demands were largely offset within a short time by further internal inflation. Moreover, there were definite limits to the expansion of traditional Greek exports so long as such vital foreign markets as Germany had not recovered.

In the two years following the end of the civil war in 1949, Greece was finally able first to match and then to exceed its pre-World War II output. By 1951 industrial production had increased 44 per cent over the 1949 level and by 25 per cent over 1939, while agricultural production had also made notable gains. The output increase was, to a large extent, the delayed result of the heavy importation of all types of industrial and agricultural equipment and raw materials, as well as foodstuffs, financed by United States economic aid. Since 1947, United States economic aid has in effect been equal to over one third of total Greek merchandise imports.

As early as 1950 a measure of internal price stability and some improvement in the country's external accounts had been achieved, but international price developments following the Korean outbreak led to renewed inflationary pressures that



*January 1950-May 1951, combined official and certificate rates.
Source: Adapted from International Monetary Fund, International Financial Statistics.

could not be fully contained. By the end of 1951, however, the post-Korea world price readjustment was leading to a significant improvement in Greece's terms of trade, domestic output was running at a record level, and the social tensions of the postwar period had measurably abated. The stage was thus set for the launching of an internal stabilization program that held real promise of enduring success.

Greek Money Supply and Bank Credit to Private Sector
(Indexes; December 1949=100)

End of month	Money supply			Bank credit to private sector		
	Note circulation	Demand deposits	Total	By central bank	By commercial banks	Total
1950—December	102	134	116	138	127	135
1951—December	118	184	147	172	152	166
1952—December	133	191	159	158	164	160
1953—March	130	189	156	157	n.a.	n.a.
December	188	278	228	167	196	176
1954—March	169	303	229	167	n.a.	n.a.
May	176	n.a.	n.a.	178	n.a.	n.a.

n.a. Not available.
Source: Adapted from International Monetary Fund, *International Financial Statistics*, and Bank of Greece annual reports.

The Predevaluation Stabilization

The successful execution of the stabilization program that got under way in late 1951 was aided by the fact that the Greek elections held in November 1952 resulted in the formation, for the first time since the war, of a government with strong parliamentary backing.

The program consisted primarily of the following steps. First, the ordinary budget deficit, which in fiscal 1950-51 had still amounted to about 13 per cent of expenditures, was eliminated within eighteen months, mainly through a partial reorganization of the tax system that led to an increase in tax receipts. Secondly, the use for government investment of counterpart funds arising from American aid was sharply curtailed, reducing public capital formation by some 35 per cent from 1950-51 to 1952-53, leading to a sizable increase in unused counterpart deposits with the Bank of Greece, and thereby providing a strong brake on further monetary expansion. Thirdly, existing commercial bank reserve requirements were more strictly enforced, credit ceilings were established for individual banks, and, most effective, substantial reductions were made in Bank of Greece credit used to finance private activities.

The extent to which the stabilization program had begun to bear fruit by the time the drachma was devalued in early 1953 may be seen in the Greek monetary and economic indicators shown in the table and chart. The total money supply increased only 8 per cent in 1952, compared with 27 per cent in 1951 and 16 per cent in 1950, and was actually declining in the months preceding the devaluation. Total bank credit to the private sector fell by 4 per cent in 1952, as against sharp rises in previous years. At the same time, wholesale prices and the cost of living, which had risen 17 and 10 per cent, respectively, in 1951 declined slightly in 1952 and remained stable during the first quarter of 1953. Finally, the quotation for the gold sovereign fell by about 20 per cent, despite the fact that the Bank of Greece ceased its selling operations in March 1952.

Economic activity, however, declined somewhat during this predevaluation period. With the cuts in government investments and with the general lessening of inflationary demands, industrial output, previously geared to these demands, fell and unemployment rose—a manifestation of the not unusual conflict between the restoration of a reasonable monetary balance and economic expansion. The business recession, which was particularly marked during the second half of 1952 and the first quarter of 1953, was especially noticeable in the building, textile, and other consumer goods industries.

Externally, the most tangible effect of the stabilization program was the substantial decline in imports due to the lessening of inflationary pressures. The external payments position was eased also by the post-Korea decline in world commodity prices. These two factors are primarily responsible for the sharp reduction of the current-account deficit of the Greek balance of payments from 320 million dollars' equivalent in the fiscal year ended June 1951 to 59 million in the year ended June 1953.

Exchange receipts from exports of goods and services, however, failed to increase significantly during this period, primarily because of the continuing overvaluation of the Greek drachma. Moreover, the failure of exports to expand contributed to the internal business recession. It thus became clear that the achievement of fuller external equilibrium and the establishment of a firmer basis for renewed internal expansion required an adjustment of the exchange rate. On April 9, 1953 the Greek Government accordingly devalued the drachma by 50 per cent, thus changing the official exchange rate from 0.0066 United States cents (15,000 drachmas to the dollar)[1] to 0.0033 per drachma (30,000 drachmas to the dollar), and at the same time eliminated the complex multiple-exchange-rate system previously in effect. Shortly afterward, moreover, quantitative restrictions on imports from all currency areas were virtually eliminated.

Effects of the Devaluation

The external effects of the devaluation were striking. During July-December 1953, Greece for the first time since the war achieved a current-account surplus, amounting to 13 million dollars. Partly because of a seasonal drop in exports and invisible earnings, a small deficit seems to have reappeared during the first half of 1954, but it is expected that the deficit, if any, for the entire fiscal year ended last June will be only a fraction of the predevaluation one.

Moreover, whereas in 1952 the reduction of the external deficit had been due chiefly to a fall in imports reflecting in part cuts in investment and the contraction of business activity, the recent improvement may be attributed principally to an increase in exports and invisible earnings. Exchange receipts from merchandise exports are estimated to have risen by at least a fifth from the year ended June 1953 to that ended June 1954, the currency readjustment making it possible to dispose not only of the record crops that became available for export in 1953, but also of previously accumulated stocks, notably tobacco. No less noteworthy was the rise of over a third in net earnings from tourism, shipping, emigrants' remittances, and other invisibles.

Imports have risen moderately, reflecting in part the virtual elimination of trade restrictions following the devaluation. The 1953 record harvest has permitted further cuts in cereal imports, which were valued at 18.2 million dollars during that year, compared with 35.9 million in 1952 and 65.3 million in 1951. At the same time devaluation, by raising the drachma price of imports relative to that of domestic import-substitutes, led to a shift in demand from imports to domestically produced commodities.

The improvement in the Greek balance of payments has involved all major currency areas. Particularly gratifying has been the reduction in the trade deficit with the dollar area. The Greek trade deficit with the United States and Canada fell to 30 million dollars during the year ended March 1954, from 56 million during the previous year and 88 million in 1951-52. Similarly, during the twelve months prior to March 31, 1954, Greek operations with the European Payments Union (EPU) resulted in a deficit of only 26 million dollars, compared with deficits of 102 million in 1951-52 and 47 million in 1952-53. Somewhat increased EPU monthly deficits, however, were incurred in the second quarter of 1954.

The achievement of a current-account surplus during July-December 1953 and the continuation of United States aid, though on a greatly reduced scale, enabled Greece to strengthen substantially its gold and foreign exchange position. By December 31, 1953, official gold, dollar, and sterling holdings amounted to 142.1 million dollars' equivalent, as against 92.8 million a year previous; by March 31, 1954 the total had risen to 152.5 million.

Beside contributing toward strengthening Greece's external economic position, devaluation helped to stimulate economic activity. As already noted, it led to a shift in demand from imports to domestically produced commodities. At the same time, by stimulating exports and raising export prices in terms of the drachma, it increased to some extent the income of export producers and traders. These effects of the devaluation in raising incomes and demand coincided with the substantial rise in farmers' incomes due to the exceptionally good 1953 harvest, which exceeded that of the previous year by

[1] The Greek Government as of May 1, 1954 cut the face value of bank notes, prices, wages, exchange rates, and all other monetary values to 1/1,000 of their previous value, without changing their relationships to each other. Until all "old" notes are withdrawn, however, all such monetary values are quoted both in terms of the "new" and "old" notes. In this article, all values are in terms of the "old" notes.

more than a third. Industrial production responded vigorously to the rising demand and, by the first quarter of 1954, was running 36 per cent above a year before and some 65 per cent above prewar levels.

While economic activity has thus picked up considerably, the relative internal balance that had been achieved at the time of the devaluation has on the whole been maintained. It is true that prices are now substantially higher than before April 1953—wholesale prices by some 30 per cent and retail prices by 25—but the rise reflects primarily the usual cost-raising effects of devaluation. Following a short period of increase, wholesale prices have been virtually stable for almost a year. The fact that the repercussions of the devaluation on domestic prices have not been so severe as might have been feared has been due in part to the continued decline in world commodity prices—although at a reduced rate—and even more to the improvement on the supply side, resulting from the record industrial and agricultural output and from the increase in imports that followed the virtual elimination of all import restrictions last year. To some extent, however, this has also reflected the fact that the government has continued to pursue cautious credit and fiscal policies.

Recent Monetary and Fiscal Developments

The devaluation was followed by a substantial increase in the money supply, which rose 47 per cent from April 1953 through March 1954. The increase reflected mainly two factors: first, the influx of gold and foreign exchange into the official reserves and, secondly, expanded government borrowing to meet the needs of agriculture during the months when the unusually large 1953 crops had to be harvested and put on the market. Significantly enough, there was only a limited expansion in total bank credit extended directly to the private sector, while bank lending to the government for purposes other than the financing of agriculture was reduced. With industrial production running almost 40 per cent higher than in the previous year, agricultural output one third larger, and foreign sales booming, the increase in the money supply does not seem unduly out of line. Nevertheless, the monetary authorities took a number of steps in the first quarter of 1954 to prevent continued monetary expansion from jeopardizing economic stability. The release of counterpart funds, arising from United States aid, for the financing of investment outlays was temporarily slowed down, reserve requirements against certain types of deposits of official entities with commercial banks were raised, and the Bank of Greece curtailed its own lending activities.

The government's resolve to prevent a renewal of inflation was also indicated by its fiscal policies. Despite continued heavy defense expenditures, which still accounted for some 50 per cent of total ordinary expenditures, the ordinary budget for 1953-54 called for a 300 billion drachma (10 million dollar) surplus, which may well have materialized. While such a surplus represents less than 4 per cent of total ordinary expenditures, its very existence is a stabilizing psychological factor.

The 300 billion drachma surplus on the ordinary budget is being applied toward the financing of the government's investment program, which, after having been curtailed in 1951 and 1952 as part of the stabilization effort, is scheduled for a substantial expansion, with particular emphasis on electric power, agriculture, and mining. The investment outlays are, however, to be subject at all times to review in the light of over-all monetary developments. Indeed, it was in line with this policy that, as previously noted, the release of counterpart funds was slowed down at the turn of the year to halt the continued expansion of the money supply.

The government's investment program is also being partly financed by means of a 300 billion drachma, seven-year loan—the first truly voluntary domestic bond issue since the war. Issued at par, the new government bonds carry tax-free coupon interest at 5 per cent per annum and, in addition, have a lottery feature providing for cash, automobiles, tractors, and similar prizes, which are also tax exempt. The principal of the new issue (but not the coupon interest) is protected against further devaluation through linkage to the United States dollar, with redemption payments to be effected on the basis of the official exchange rate at the time of payment. The issue, which opened on June 9, was oversubscribed by 35 per cent within a ten-day period primarily by nonbank investors, thus providing convincing proof of the growth of confidence in the drachma during the past two years.

The free market for the gold sovereign, where the 50 per cent exchange rate devaluation has not led to a fully comparable rise in the gold price in terms of drachmas, has also reflected the growing conviction on the part of investors that no early renewal of rapid price inflation is to be expected. Domestic economic expansion at relatively stable prices offers more promising profit opportunities than the purchase of gold; in addition, the gold quotation has tended to move in line with the world-wide decline in free-market gold prices.

Some Longer-term Problems of Greek Economic Policy

The relative success of the Greek stabilization program has important implications for the longer-term problems facing the Greek Government, more particularly to insure that sufficient new investments will be made to provide satisfactory employment and higher living standards for the country's growing population. Two major conditions must be fulfilled if this aim is to be accomplished while maintaining reasonable economic balance: an increasing part of the internal expenditures involved must be financed by means of budgetary surpluses and voluntary private savings, and additional foreign aid or credits will have to be obtained.

As far as securing the needed internal financing is concerned, it is encouraging that public investment outlays are now being partly financed by the surplus on the ordinary budget and through an internal loan, and that recently a certain amount of private investment seems to have been financed with funds obtained through the dishoarding of gold and foreign exchange. The external financing problem, on the other hand, is more difficult because of the reduction and prospective ending of United States economic aid. It is therefore vital that exports of goods and services be expanded and diversified, and with this aim in view the Greek development program is concentrating heavily on the promotion of mining activities and export agriculture. Moreover, the continued expansion of agricultural and industrial production will permit a further curtailment of imports, thus releasing foreign exchange for the financing of capital goods imports. Action is also urgent in promoting tourism for which the country's potential is great.

In addition, there appear to be some possibilities of cushioning the impact of the reduction in United States Government grants by securing loans from foreign and international public lending agencies, and by encouraging the inflow of foreign private capital. Negotiations are reportedly under way concerning development loans by the International Bank for Reconstruction and Development. In addition, a new foreign investment law has been enacted that gives foreign private capital favorable tax treatment and liberalizes the transfers of earnings and the repatriation of capital. It is noteworthy that similar privileges apply to Greek shipowners if they transfer their ships from foreign to Greek registry. Moreover, with a view to improving the country's international credit standing, the government is trying to arrive at a settlement of Greece's prewar external debts, which are in default.

Conclusion

The very real progress toward internal and external stability in Greece in recent years shows how large-scale foreign aid, by helping a country to achieve a sizable recovery of output, income, and productivity, can set the stage for the successful application of the traditional fiscal and monetary-policy weapons and promote the constructive use of available internal funds. Combined with a timely devaluation of the currency, the recent Greek anti-inflation program has laid the basis for a renewed and stable advance in output and income. With the easing of the tensions and pressures that had precluded successful stabilization in Greece during the earlier postwar period, there have emerged relatively favorable economic and political conditions under which the approximate internal and external economic balance recently attained has some promise of enduring.

TREASURY FINANCING IN FISCAL 1954

The fiscal year that ended June 30 was marked by the transition of the nation from a fighting to a cold war economy and was accompanied by a contraction in business activity. Treasury receipts and expenditures during the year reflected the changes in the economy that stemmed from these developments. While defense expenditures declined substantially, certain of the so-called "built-in stabilizers" called for larger outlays. The full impact on Treasury income and outgo of the business recession that began to develop about a year ago was not realized, however, because of offsetting developments. On balance, the Treasury's financial position was better in fiscal 1954 than in fiscal 1953, both on a cash and on a budget basis.

Nevertheless, the Treasury borrowed almost as much from the public as in the preceding year in order to raise its operating cash balance to a more comfortable working level. Through the choice of issues both in refunding operations and in new money borrowings during the year, the Treasury was able to alter the maturity schedule of the debt so that by the end of the fiscal year the amount of issues maturing within five years was 8.8 billion less than at the beginning of the year. Also, some progress was made in lengthening the average maturity of the marketable debt despite the passage of time which brings outstanding issues closer to maturity; the average maturity of this portion of the public debt moved from 5.5 years at the year's beginning to 5.7 years at the end of June.

Cash Operations

Mainly as a result of lower defense expenditures, cash disbursements by the Government in fiscal 1954, at 71.9 billion dollars, were almost 4.5 billion lower than in fiscal 1953, the peak year for the rearmament drive following the outbreak of the Korea conflict. However, cash receipts at 71.8 billion dollars were close to the collections in fiscal 1953. Consequently, the Treasury closed its books on cash operations with a small deficit of 150 million dollars, whereas in the preceding year, as Table I indicates, the cash deficit had amounted to over 5 billion dollars.

Various counteracting developments served to bring about this virtual extinction of the cash deficit. The most notable development of the year was the drop in defense spending. Following the signing of the truce in Korea in July 1953, spending for defense and related programs declined steadily and, by the final quarter of fiscal 1954, was running at an annual rate of around 44 billion dollars, compared with an annual rate of over 53 billion in the last quarter of the preceding fiscal year. This decline left total outlays for defense in the past fiscal year several billion dollars below the level planned as recently as January. The larger-than-anticipated cutback reflects in part a delay in the rearmament program arising from the shift in the basic structure of the military organization adopted during the year, as well as military economies following the end of hostilities in Korea that were larger than had been expected.

The total impact on the economy of the change in the defense program was greater than the change in current expenditures because of a sharp contraction in obligations incurred for future purchases. The decline in new orders placed by the Defense Department, which began in the fall of 1952, continued through the second quarter of the past fiscal year. This decline in the rate of contract-letting carried new orders (obligations) substantially below expenditures, as shown in the accompanying chart. Some military contracts were canceled after the Korea truce, while new orders for other items apparently were delayed pending a revision in the basis of the defense program. Despite a small increase in contracting in the subsequent months—January through May 1954 (June data are not yet available)—the volume of outstanding orders dropped by over 13 billion during the first eleven months of the past fiscal year to almost 19 billion dollars below the peak of over 50 billion dollars reached in September 1952. At the end of May, however, the Defense Department had over 22 billion dollars in unobligated spending authorizations, or almost half the total provided for the past fiscal year. Nearly 9.5 billion of these unobligated balances are available for major procurement and production, or in other words for ordering military hardware, and another 7.5 billion are available for "undisclosed" purposes.

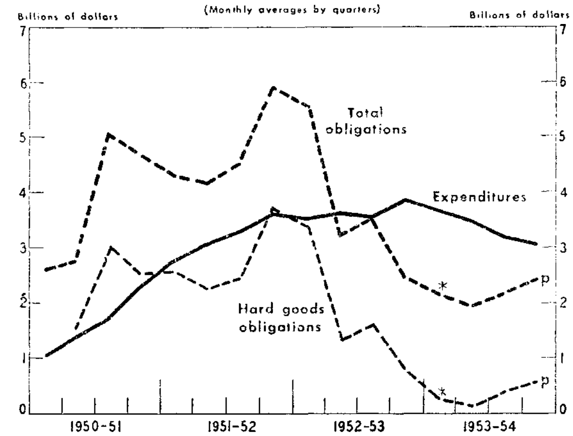
In the nondefense area, expenditures showed a net decline despite growing unemployment compensation payments, resulting from the general reduction in economic activity, and an increase in the need for farm price-support loans. The decline in market interest rates reduced the need for Government support of the mortgage market, and a greater reliance on private financing of farm price-support loans and of housing loans by the Public Housing Authority reduced Federal cash outlays. At the same time, foreign economic aid fell short of the prior year's spending.

Table I
Cash Income and Outgo of the United States Treasury, Fiscal Years 1953 and 1954
(In billions of dollars)

Transactions	1953	1954	Change 1953-54
I. Cash income	71.3	71.8	+0.5
Individual income taxes	32.6p	32.6	+ *
Corporate income taxes	21.5p	21.7	+0.2
Trust funds†	6.5	6.8	+0.3
All other	13.8	14.1	+0.3
Refunds	− 3.2	− 3.4	−0.3
II. Cash outgop	76.4	71.9	−4.5
National defense‡	50.7	47.3	−3.4
Nondefense	25.7	24.6	−1.1
Interest on debt	4.7	4.6	− *
Veterans	4.3	4.2	−0.1
International finance and aid§	1.9	1.2	−0.7
Government corporations#	2.0	0.4	−1.6
Trust funds†	5.2	6.8	+1.6
All other	7.4	7.6	+0.2
Clearing account for outstanding checks	+ 0.3	− 0.1	−0.4
III. Net cash deficit (I-II)	− 5.1	− 0.2	+4.9

Note: Because of rounding, figures do not necessarily add to totals.
p The breakdown is based partly on estimates by the Federal Reserve Bank of New York.
* Less than 50 million dollars.
† Covers only the major trust funds (i.e., funds covering old age, railroad retirement, unemployment, veterans' life insurance, and civil service retirement).
‡ Covers military outlays by the Defense Department and related expenditures for strategic and critical materials, the National Advisory Commission for Aeronautics, and the Selective Service System, as well as military assistance under the Mutual Security Act, the Atomic Energy Commission, government maritime activities (formerly under the Maritime Commission), the Coast Guard, expenditures for defense production, and the redemption of Armed Forces leave bonds.
§ Covers economic and technical assistance under the Mutual Security Act and other foreign assistance programs, as well as the net redemption of notes issued to the International Monetary Fund.
# Covers RFC, CCC, Export-Import Bank, FNMA, and other wholly owned Government corporations. The partially owned corporations are included in the disbursements under "All other".
Source: *Daily Statement of the United States Treasury.*

DEFENSE DEPARTMENT EXPENDITURES AND OBLIGATIONS, FISCAL 1951-54



* Revised from a gross to a net basis July 1953. Differences between the two bases were small prior to that time.
p Preliminary average of April and May only.
Source: Defense Department and Treasury Department.

While both defense and nondefense expenditures dropped for the reasons just given, revenue remained essentially unchanged. Collections of income and profits taxes were substantially the same as in the preceding year, despite the decline not only of economic activity but also of tax rates on both individual and corporation incomes. Individual income tax collections remained level with the previous year, because personal income—although declining moderately on a quarterly basis throughout the year—was higher in fiscal 1954; the larger tax payments on this higher income apparently offset the losses arising from the January 1 reduction in rates on individual incomes. Corporate tax collections also changed very little from the previous year; although the average profits—on which the collections in fiscal 1954 were based—were higher,[1] the increase in liabilities on the basis of profits alone was apparently offset by the larger reduction arising from the cumulative credit for new capital additions under the excess profits tax. It should also be noted that neither the fairly sharp reduction in corporate profits that occurred with the onset of the business contraction in mid-1953, nor the demise of the excess profits tax on January 1, 1954, was reflected in the tax collections of fiscal 1954, since the tax payments for most corporations on the lower calendar-1954 profits—on which the lower rates are effective—would not be due until later in the new fiscal year.

[1] The tax collections in these two fiscal years were based on profits in the three calendar years, 1951-53, which varied considerably. Because of the Mills plan—under which tax collections are being progressively moved ahead so that payments will be completed in the six months following the income year—collections in fiscal 1954 included 90 per cent of the tax liabilities on calendar-1953 profits; the latter were almost 3 billion higher than the 1952 profits, on which 80 per cent of the tax liabilities from that income were paid by most corporations in the comparable half of fiscal 1953. The increase in tax collections in fiscal 1954 from this pattern of payments and variation in profits more than offset the decline in collections in the first half of fiscal 1954 from the comparable half of fiscal 1953, arising from the lower proportion (20 per cent as against 30 per cent on the second calendar-1951 profits) due on the smaller volume of calendar-1952 profits.

Budget Operations

In contrast to the small cash deficit, the budgetary deficit, representing the excess of budget expenditures over receipts, amounted in fiscal 1954 to slightly over 3 billion dollars. This deficit compares with a net budgetary deficit of over 9.4 billion dollars in the preceding year. The difference between the budgetary and the cash deficit in fiscal 1954 is accounted for in large part by: (1) the inclusion in budget expenditures of 2.7 billion in noncash intra-Governmental payments and accrued liabilities, such as the transfer of interest and other payments to the trust funds and the excess of accrued interest on Savings bonds over the interest actually paid on Savings bonds that were redeemed; (2) by the exclusion from the budget accounts of slightly over 150 million of net cash receipts from the public by the trust accounts; and (3) by adjustments both for net receipts by the miscellaneous group of funds (including the partially owned Government corporations) in the Deposit Fund Accounts and for a decrease in outstanding checks.

While the cash position in fiscal 1954 was almost 3 billion better than the budget position, the improvement was about a billion and a half less than the nearly 4.4 billion difference between the cash and budget deficits in the preceding year. The smaller difference in fiscal 1954 was mainly the result of a sharp drop in the excess of cash collections over disbursements by the trust funds, which primarily reflected the shift in the transactions of the Unemployment Fund from net receipts to net disbursements. Receipts by the Old-Age and Survivors' Insurance Fund increased as a result of the increase in tax rates from 1½ to 2 per cent each on employers and employees, effective January 1, but the rise was less than the rise in benefit payments by that fund, and the net collections by that fund, although substantial, were not quite so large as in fiscal 1953.

Variation During Fiscal 1954

As in most recent years, the Treasury's regular cash operations showed considerable variation over the fiscal year. The Mills plan has progressively increased by 10 per cent, in each of the past four years, the corporation tax payments falling due in the first half of the calendar year. Furthermore, despite greater reliance by individuals upon current withholding arrangements, there has continued to be a decided concentration of individual income tax payments in the January-June period. Consequently, the first half of a fiscal year, July-December, has been a period of lean tax collections, during with the Treasury has been compelled to borrow large amounts.

The variation in cash receipts was felt most acutely in the past fiscal year, because at the beginning of the period there was a margin of less than 9.5 billion dollars between the existing debt and the legal limit. Although the cash balance on hand at the beginning of the year totaled over 4.5 billion dollars, this was less than one month's anticipated operating disbursements (and part of it had been raised by anticipating the September receipts through the sale of tax anticipation bills in June). Operating outlays in the six months were expected to exceed receipts by some 9 billion dollars; while the cash borrowing needed to cover the operating needs could be undertaken within the free margin below the debt ceiling, this would leave only minimal leeway to cover the expected increase in liabilities to the trust funds and the increase in accrued interest.

When the President's request for an increase in the debt ceiling was denied, the Treasury resorted to several measures. First, to keep cash needs within the debt limit, over 800 million of farm price-support loans by the Commodity Credit Corporation was resold to commercial banks. Secondly, to leave room within the statutory debt ceiling for the sale of a marketable bond in November, the Treasury terminated the sales of Savings notes late in October. Until then, the latter issue could be purchased at will by investors. Finally, to obtain the maximum feasible public subscription to that bond within the debt ceiling, the Treasury in November retired 500 million dollars of a marketable note issue by using half of the "free" gold in its General Fund. The notes were purchased from the Federal Reserve System and, since the gold was transferred to the System, the operation had no immediate effect on bank reserves.

During this first six-month period, nearly 8.7 billion of "new money" was raised in the market. The large volume of new money borrowing in this six-month period was necessary not only to finance the net cash deficit and to redeem a small issue of tax anticipation bills maturing in September 1953, but also to cover the attrition (the unexchanged portion) of maturing marketable issues as well as some net redemption of Savings bonds. The substantial volume of net cash borrowing, along with an increase in noncash borrowing of 1.1 billion dollars (that occurred through the issuance of Treasury obligations to the trust funds and other Government agencies and through the net increase in accrued interest on Savings bonds), brought the debt subject to the statutory ceiling to 274.7 billion dollars by the end of December, only 329 million short of the maximum allowable.

During the last half of the year, the Treasury realized a substantial surplus of close to 8 billion dollars which was used to redeem close to 5.7 billion net of debt (including Government corporate issues) held by the public and to add about 2.2 billion to the Treasury's working balance. Since almost 1.6 billion in noncash borrowing occurred in the second half of the fiscal year, the debt subject to the ceiling declined by 3.9 billion to somewhat less than 271 billion dollars. This left a margin of slightly over 4.2 billion dollars to cover requirements in the coming period of lean tax collections in the new fiscal year.

Comparison with Budget Forecasts

The close approach to a cash balance achieved in fiscal 1954 was about as forecast in the *Budget Message* submitted to Congress last January by President Eisenhower. But, while the net result was close to the mark, cash receipts and expenditures were each more than 3 billion below the January expectations. The decline in cash outlays below the January *Budget* estimate occurred mainly in defense outlays, while most of the reduction in receipts occurred in income and profits taxes. Corporate profits during the 1953 calendar year (on which taxes were paid by most corporations beginning March 1954) were less than originally assumed. In addition, the cumulative credit for new capital additions under the excess profits tax law apparently tended to lower corporate tax liabilities more than anticipated.

At the same time, personal income sagged somewhat, whereas stability had been assumed in the January estimate. Also, individuals apparently made larger-than-normal prepayments of taxes on calendar 1953 incomes through withholdings, so that the amount of final payments in 1954 on 1953 incomes was less than had been projected. Both of these factors led to an overestimation of individual income taxes and an underestimation of refunds (which are deducted from receipts). Other receipts were around 800 million below the *Budget* forecast, reflecting for the most part less-than-anticipated collections of excises and below-estimated contributions to the trust funds.

Changes in the Public Debt

Even though the Government's operating cash deficit was much smaller than in the preceding year, borrowings from the public in fiscal 1954 were only slightly less than in fiscal 1953. The net borrowing in excess of the deficit resulted in a larger working balance at the close of the year than at the beginning. Nevertheless, the cash balance in the General Fund, together with the remaining margin of borrowing authority under the debt ceiling, was not expected to be sufficient to meet net expenditures during the first half of the new fiscal year and to leave an adequate working balance at the close of the period.

During fiscal 1954 over 2.7 billion dollars net was borrowed in cash from the public, as shown in Table II, but, after adjusting for the redemption of nearly 225 million of Government corporation issues (which in effect reduced the size of the

Table II
Cash Deficit and Public Debt, Fiscal Years 1953 and 1954
(In billions of dollars)

Source and use of funds*	1953	1954	Change 1953-54
Cash operating deficit	+ 5.1	+ 0.2	−4.9
Change in Treasury balance, cash operations	− 2.3	+ 2.6†	+4.9
Cash borrowing from the public, net‡	+ 2.8	+ 2.7	− §
Cash borrowing on direct debt, net	+ 2.9	+ 3.0	+ §
Gold retirement of direct debt	—	− 0.5	−0.5
Noncash borrowing on direct debt	+ 4.0	+ 2.7	−1.3
Increase in the public direct debt	+ 7.0	+ 5.2	−1.8
Public direct debt at end of year#	266.1	271.3	+5.2
Treasury's balance at end of year	4.7	6.8	+2.1
Deposits⁑	*3.2*	*5.7*	*+2.5*
Gold	*1.0*	*0.5*	*−0.5*
Other	*0.5*	*0.6*	*+0.1*

Note: Because of rounding, figures do not necessarily add to totals.
* Plus (+) indicates the provision of funds by borrowing to cover a deficit or build up the balance.
† The net change in the General Fund reflects the reduction in gold for the purpose of retiring debt, as well as the change in deposits from cash operations with the public.
‡ Includes a small amount of redemptions of Government corporation issues.
§ Less than 50 million dollars.
\# Includes a small amount of debt not subject to the statutory ceiling.
⁑ Deposits in Tax and Loan Accounts at commercial banks and in available funds at the Federal Reserve Banks.
Source: *Daily Statement of the United States Treasury.*

Table III
Changes in Gross Public Debt, Fiscal Years 1953 and 1954
(In millions of dollars)

Type of issue	1953	1954
Marketable obligations	+6,866*	+3,135†
United States Savings bonds‡	+ 170	+ 212
Treasury Savings notes	−2,164	+ 628
Investment Series bonds—Series B-1975-80	− 755§	− 479†
Special issues	+2,799	+1,691
All other obligations	+ 49	+ 3
Total	+6,966	+5,189

Note: Because of rounding, figures do not necessarily add to totals.
* Takes into account the issuance of 921 million dollars of 1½ per cent marketable Treasury notes in exchange for Investment Series B bonds (714 million dollars of this was exchanged by the Federal Reserve System), and 417 million dollars of 3¼ per cent marketable bonds issued on May 1, 1953 in exchange for Series F and G bonds, as well as a reduction of 132 million dollars of marketable bonds arising from delayed payments on subscriptions, under a special instalment arrangement, to a cash and exchange offering made in May 1952.
† Takes into account the issuance of 479 million dollars of 1½ per cent marketable Treasury notes in exchange for Investment Series B bonds.
‡ Includes discount accrued during the year on all unredeemed Savings bonds, i.e., the increase in the redemption value arising from accrued interest.
§ Change includes a reduction of 921 million in exchange for 1½ per cent marketable notes and an increase of 166 million arising from delayed payments on subscriptions to a cash and exchange offering made in May 1952.
Source: *Daily Statement of the United States Treasury.*

Treasury's net cash direct borrowing) and for the retirement of debt to the extent of 500 million with "free" gold, the cash increase in the direct public debt came to nearly 2.5 billion dollars. Noncash borrowing, mainly from the trust funds, and the net increase in accrued interest on Savings bonds amounted to over 2.7 billion dollars. Thus, the public debt increased nearly 5.2 billion dollars.

The net increase in the public debt was roughly equivalent to the rise in holdings of Government securities by the banking system. Nonbank investors liquidated about 2 billion dollars of their holdings (even after counting the increase in the redemption value of Savings bonds arising from accrued interest), and this was about equivalent to the increase in the investments of Federal agencies and trust funds. The decline in nonbank private holdings centered in holdings by business corporations and may reflect the drop in tax liabilities on the current year's profits, arising both from the slackening in production and from the termination of the excess profits tax on January 1.

Changes in Composition of Debt

Substantial changes in the composition of the debt were effected during the year, as shown in Table III. Outstanding marketable issues increased by over 3.1 billion dollars net, reflecting not only an excess of new borrowing over the attrition on maturing and called issues in exchange offerings and the retirement of debt with "free" gold, but also a net increase arising from conversions of nonmarketable issues.

During the year, nearly 480 million of Investment Series B bonds were converted by private investors into 1½ per cent marketable notes. This was more than double such conversions in the preceding year. The decline in market rates during the year made the sale of such issues more advantageous than in the preceding year, when the notes could be sold only at a discount, and more investors apparently took advantage of the opportunity to shift some of their funds from the Investment Series B bonds into other, more attractive investment outlets.

Net sales of Savings notes in fiscal 1954 amounted to over 625 million dollars despite the termination of their sale late in October. After October, redemptions of outstanding issues to meet the large quarterly corporate tax payments and other requirements reduced the amount of Savings notes outstanding by nearly 1.2 billion dollars, largely offsetting earlier net sales.

Savings bonds rose slightly more than 200 million dollars in redemption value during the fiscal year, as the net increase of almost 600 million from accrued interest somewhat more than offset the excess of redemptions (at issue price) over sales. Reflecting the renewed interest in Savings bonds (particularly by investors of large means) following the decline in yields on comparable market issues, sales of Series E and its companion Series H bonds set a new record level since fiscal 1946, and exceeded redemptions (at issue price) of these issues by around 850 million dollars. Sales of Series J and K bonds also increased, but they fell short of redemptions of these and F and G bonds by nearly 1.3 billion dollars, mainly as a result of redemptions of matured bonds of the latter two series. Apparently, individuals to some extent reinvested the funds obtained on the maturing F and G bonds in Series H, J, and K bonds and also in the larger-denomination E bonds, while institutional investors, which are also holders of F and G bonds but are not eligible to purchase E and H bonds, increased their purchases of J and K bonds but not sufficiently to replace all of the maturing F and G bonds in their portfolios.

Special issues, which are available only to trust funds and other Government agencies, increased in fiscal 1954 by over 1.9 billion as a result of the noncash intra-Governmental borrowing, but part of this rise was offset by the cash redemptions of these issues by the Postal Savings System to cover the continued net withdrawals by their depositors. The rise in special issues in the past fiscal year was considerably less than in fiscal 1953, mainly because of a shift by the Unemployment Fund from net purchases in fiscal 1953 to net redemptions in fiscal 1954; with the rise in unemployment during the past year, the fund drew on its reserves to cover the excess of compensation payments over receipts, as mentioned previously.

Marketable Issues

The composition and maturity schedule, as well as the volume, of marketable issues were altered during the year. The amount of Treasury bonds outstanding, after increasing in fiscal 1953 for the first time since February 1946, declined by over 700 million dollars. Treasury note issues, on the other hand, increased by more than 1.5 billion as a result of the new issue offered in May, while certificates increased by almost 2.6 billion as a result of switches from bonds in exchange offerings.

The change in the maturity schedule of the marketable issues was even more marked than the change in the volume of the debt and the types of issues. By the end of June, outstanding issues maturing within five years were 8.8 billion less than at the end of June 1953, while those maturing in more than five years were 11.9 billion higher. The Treasury achieved notable success during the past fiscal year in refunding almost 19 billion of maturing and called issues into intermediate issues and in confining almost all of its net new money borrowing in the market to such issues. Despite this accomplishment, over 60.1 billion dollars in marketable issues (including Treasury bills outstanding at the beginning of the year) will mature, and must be refunded, within the current fiscal year. In fiscal 1954, almost 67 billion dollars of maturing and called issues were refunded.

THE VELOCITY OF DEMAND DEPOSITS IN NEW YORK CITY

Following the revision made last year of the monthly data on debits to demand deposit accounts other than Government and interbank and the related data on the rates of deposit turnover or velocity,[1] this Bank recently completed the computation of revised seasonal factors for the monthly series on deposit turnover. Indexes of the revised turnover data, on a seasonally adjusted basis, are now shown regularly in the table on Selected Economic Indicators that appears elsewhere in this *Review* as well as in a separate release.

The accompanying chart shows the actual turnover rates (i.e., debits divided by average deposit balances for the month), adjusted for normal seasonal variation, of the deposits of the banks in New York City, six other financial centers, and all other (338) reporting centers. The chart discloses significant differences, not only in the levels of the three series, but also in the ways in which they reflect changes in general business conditions or are affected by purely financial developments. The indexes of velocity that appear in the table on Selected Economic Indicators, on the other hand, do not permit a direct comparison between the rates of deposit turnover for the different series. These indexes indicate only the comparative change in velocity for each series from its own level during a base period rather than absolute rates of turnover.

As may be noted on the chart, the velocity series for the 338 outside centers, which has remained well below the level of the series for New York or for the six other financial centers, shows clearly the recession of 1949, the subsequent recovery in the spring of 1950, and the rapid increase in economic activity following the outbreak of the war in Korea. This series, however, has shown relatively little movement since 1951 and has failed to reflect, to any degree, the recessionary tendencies which developed after the middle of last year. Velocity at the six financial centers other than New York City, after declining in similar fashion during the 1949 recession, has registered only very moderate increases since 1951. In sharp contrast, the New York City velocity series has been rising almost continuously since the end of the postwar reconversion period except for brief interruptions during the 1949 recession and again in 1951.

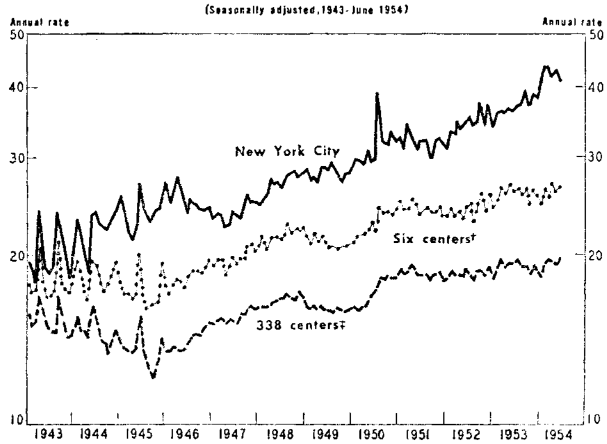
1 See "Bank Debits and Velocity: Economic Indicators" in the May 1953 issue of this *Review*. See also "Postwar Changes in the Velocity of Deposits" in this *Review* for March 1949.

Furthermore, the rate of increase has shown no signs of slackening during the last two years, when velocity in the other centers rose very little. As a result, the spread between the level of the New York City series and those for the outside centers has widened considerably over that period. Moreover, the rate of deposit turnover in New York City, even after adjustment for normal seasonal variation, has exhibited frequent and sizable short-term fluctuations of a magnitude greater than those shown by the six other leading financial centers and much greater than those of the other reporting centers.

To a large extent, the difference between the levels of the velocity of demand deposits in New York City and in other reporting centers arises from the fact that a relatively large proportion of New York City debits results from purely financial transactions. The growing discrepancy over recent years in these levels probably stems directly from the greatly increased volume of activity in certain financial markets. Historically, trading on the stock exchange has been the most important source of financial debits, but in the years during and since the last war the importance of debits arising from trading in Government securities has increased considerably. The fact that operations in the market for Government securities have given rise to such substantial (and disproportionate) increases in debits and velocity in New York City is a result of the rapid turnover of the large dollar volume of such securities, together with the use of trading techniques that require full payment for each purchase (rather than payment of net balances after offsetting purchases and sales, as for private securities) and of financing practices that make it possible for traders to operate with small deposit balances.

Trading in private securities and underwriting of new issues probably have continued to contribute heavily to the increased volume of New York debits and to account for some of the short-run changes in the rate of deposit turnover, which in the chart appear as irregular fluctuations, as well as for the proportionally larger increase in the velocity of New York demand deposits in recent years. In each year since 1947, the volume of new corporate security issues has exceeded by a large amount

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS*
(Seasonally adjusted, 1943-June 1954)



Note: Plotted on ratio scale to show proportionate changes.
* Except interbank and Government deposits; June 1954 preliminary.
† Boston, Philadelphia, Chicago, Detroit, San Francisco, and Los Angeles.
‡ All reporting centers except New York City and six centers.

the volume issued during any year since 1929. Similarly, offerings of new municipal securities since 1947 have been at unprecedented levels. Furthermore, the volume of trading on the stock exchange in recent years has recovered from the low levels recorded during the late thirties and early forties, and prices have pursued an upward trend.

It is clear, however, that the major irregular movements in the New York City velocity series during the war reflected the successive War Loan drives and, since the end of the war, have been associated with major Treasury financing operations and, on a few occasions, with Federal Reserve open market operations. While appropriate data are not available to demonstrate this interdependence on a firm statistical basis, almost all peaks in the rate of deposit turnover in the new series can be traced either to Treasury financing operations or to increased activity in the market for Government securities arising from overt Federal Reserve policy actions or other influences.

In many instances, peaks in the New York City velocity series are matched by corresponding, although much less pronounced, movements in the series for the six other financial centers, but such peaks are proportionally much smaller in the series for the 338 other centers, if they appear at all. Increased financial debits in the six financial centers and in all the other reporting centers during such periods of activity probably reflect largely debits to the accounts of nonbank purchasers of Government securities or the disposition of funds obtained by sellers, even though the bulk of Government securities transactions takes place in New York City. Trading in Government securities on the part of large corporations throughout the country has increased in recent years, as they have attempted to keep their funds more fully invested.

During and immediately after World War II, eight successive peaks from January 1943 through the end of 1945 in all three series reflect the War Loan and Victory Loan drives. The sharp increases in velocity during these drives were the joint result of sudden drops in private demand deposits and simultaneous increases in debits, as payments for subscriptions to Government securities were charged to private accounts. Thus, the numerator of the velocity ratio increased and the denominator decreased simultaneously. Since the drives were nation-wide, all three series show sharp peaks of comparable magnitude.

Since the end of the Victory drive, most peaks in the velocity of New York City demand deposits have been accompanied by increased activity in the Government securities markets, frequently related to portfolio adjustments by commercial banks and nonbank investors. These adjustments were in turn often precipitated by changes in reserve requirements or Treasury refunding operations.

Thus, the sharp peak in August 1950 occurred during a period of great market activity associated with a large Treasury exchange operation involving substantial Federal Reserve portfolio adjustments. The peak in March 1951 followed the announcement of the "accord" between the Treasury and the Federal Reserve System, the simultaneous exchange offering of nonmarketable bonds for a large volume of long-term marketable securities, and heavy trading in other Treasury issues. In September 1953, still another peak was associated with a marked increase in market activity following a large refunding operation by the Treasury and the Federal Reserve System's re-entry into the Government securities market after more than a month of inactivity although, in this instance particularly, large offerings of private, and to a lesser extent municipal, securities may have been of some significance. The marked rise in the early part of 1954 apparently was also related to a pronounced expansion in activity in both private and public securities markets, but trading in short-term Government securities seems to have played an especially prominent role.

As previously noted, the influence of large transactions in the Government securities market on the rate of deposit turnover is accentuated by the trading practices of such markets. Practically all payments among stockbrokers, Government security dealers, investment bankers, and related financial businesses are made in funds which either are immediately available to buyers or become so within one day. With a very large proportion of relatively prompt-payment items among the total checks deposited, traders have little need to hold substantial idle balances while awaiting the clearance of checks or while anticipating payments. Thus, the "efficiency" of deposit balances held by security dealers or others participating in the market is multiplied, and, even though the deposits of Government security dealers are a relatively insignificant proportion of the New York City total, their exceedingly high rate of turnover exerts a disproportionate influence on the total velocity figures for the City.

Moreover, Government security dealers (as well as security brokers and dealers in general) are able to conserve further on their holdings of deposit balances by virtue of their methods of financing transactions. As indicated, full cash payment, usually resulting in an equivalent debit (unless a bank is the purchaser), must be made daily for each purchase of Government securities. Dealer payments are frequently financed through a special type of temporary credit accommodation known as a "day loan". These loans, payable the same day as they are made, enable dealers either to pay for securities they have contracted to purchase or to pay off loans secured by securities that they wish to deliver. To the extent that the

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954 June	1954 May	1954 April	1953 June	Percentage change: Latest month from previous month	Percentage change: Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	124p	124	123	136	#	− 9
Electric power output*	1947-49 = 100	173	169	165	164	+ 2	+ 5
Ton-miles of railway freight*	1947-49 = 100	—	92p	89	102	+ 4	−13
Manufacturers' sales*	billions of $	24.2p	24.0	24.4	25.9	+ 1	− 7
Manufacturers' inventories*	billions of $	44.5p	44.8	45.2	46.2	− 1	− 4
Manufacturers' new orders, total*	billions of $	22.9p	22.8	23.0	25.2	#	− 9
Manufacturers' new orders, durable goods*	billions of $	10.0p	10.0	10.0	12.4	#	−19
Retail sales*	billions of $	—	14.0p	14.2	14.4	− 1	− 3
Residential construction contracts*	1947-49 = 100	224p	216	213	174	+ 4	+29
Nonresidential construction contracts*	1947-49 = 100	189p	178	184	166	+ 6	+14
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	92.3	92.8	92.5	87.2	− 1	+ 6
Wholesale prices†	1947-49 = 100	110.0p	110.9	111.0	109.5	− 1	#
Consumer prices†	1947-49 = 100	115.1	115.0	114.6	114.5	#	+ 1
Personal income (annual rate)*§	billions of $	—	285.2p	284.4	287.3	#	#
Composite index of wages and salaries*	1939 = 100	—	255p	255	248	#	+ 3
Nonagricultural employment*‡	thousands	48,116p	48,148p	48,260r	49,970	#	− 4
Manufacturing employment*‡	thousands	15,976p	16,064p	16,150r	17,575	− 1	− 9
Average hours worked per week, manufacturing†‡	hours	39.6p	39.3	39.0	40.7	+ 1	− 3
Unemployment‡	thousands	3,347	3,305	3,465	1,562	+ 1	—
Banking and finance							
Total investments of all commercial banks	millions of $	—	78,570p	77,360p	72,932	+ 2	+ 8
Total loans of all commercial banks	millions of $	—	67,120p	66,750p	65,025	+ 1	+ 3
Total demand deposits adjusted	millions of $	—	98,700p	98,600p	96,898	#	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,006p	30,013	29,995	30,163	#	− 1
Bank debits (338 centers)*	millions of $	64,335	60,854	62,918	63,100	+ 6	+ 2
Velocity of demand deposits (338 centers)*	1947-49 = 100	123.1p	119.4	121.3	120.0	+ 3	+ 3
Consumer instalment credit outstanding†	millions of $	21,110	20,932	20,909	20,635r	+ 1	+ 2
United States Government finance (other than borrowing)							
Cash income	millions of $	11,265	4,882	3,036	10,181r	+131	+11
Cash outgo	millions of $	6,881	6,228	5,303	7,901r	+ 10	−13
National defense expenditures	millions of $	3,929	3,477	3,619	4,587	+ 13	−14
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	139	140	138	141	− 1	− 2
Residential construction contracts*	1947-49 = 100	—	223p	208	174	+ 7	+30
Nonresidential construction contracts*	1947-49 = 100	—	221p	216	206	+ 3	+13
Consumer prices (New York City)†	1947-49 = 100	112.9	112.9	112.5	112.0	#	+ 1
Nonagricultural employment*	thousands	—	7,467.4p	7,513.2	7,697.0	− 1	− 3
Manufacturing employment*	thousands	—	2,618.1p	2,639.5	2,868.1	− 1	− 8
Bank debits (New York City)*	millions of $	60,153	60,750	60,479	52,420	− 1	+15
Bank debits (Second District excluding New York City)*	millions of $	4,347	4,016	4,313	4,268	+ 8	+ 2
Velocity of demand deposits (New York City)*	1947-49 = 100	156.1	164.1	159.9	137.4	− 5	+14

Note: Latest data available as of noon, July 30, 1954.
p Preliminary. r Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ Employment and hours data have been revised as a result of adjusting employment levels to a more recent benchmark.
§ Revised series.
# Change of less than 0.5 per cent.
‡ Unemployment figures for June 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.
Source: A description of these series and their sources is available from the Domestic Research Division ,Federal Reserve Bank of New York, on request.

transactions entered into by dealers do not add to their total inventories during the day, these day loans are extinguished by the end of the same day without any necessity for further borrowing. Thus, a large amount of trading, giving rise to a great volume of debits, may take place without the dealers needing to hold large working balances and without any increase in deposits growing out of the temporary day loans.

Another type of financial transaction, arising in part from the payment practices in Government securities markets and in part from the methods used by member banks in adjusting reserve balances, also has contributed, although in a less important fashion, to the expanded volume of debits in New York City since the end of World War II. When sales of Federal (immediately available) funds to dealers or other nonbank traders in the market take place, financial debits may be created. These debits arise because a sale of Federal funds requires for repayment, in many cases, a check drawn by the borrower; this check, in the case of a nonbank borrower, results in a debit. The effect of these transactions, which have been of increasing importance in recent years, is not entirely limited to the New York City series, as institutions outside New York City have played an increasing role in this market in recent years.

Both the velocity series for the six financial centers outside New York City and, to a much lesser extent, that for the 338 other centers have reflected from time to time fluctuations in activity in financial markets—especially those for Government securities. In the case of the 338 centers, however, velocity is shaped primarily by general economic forces,[2] and the series for those centers remains an important tool for analyzing business conditions and, in particular, the credit situation. On the other hand, the frequent and substantial fluctuations in the velocity of demand deposits in New York City, while generally explicable in terms of the structure and activity of the securities markets, tend to obscure the influence of broad economic developments. Consequently, the value of the New York City series in an analysis of general business conditions is sharply limited.

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2 It also has a narrower range of seasonal fluctuations (monthly figures normally ranging between 94.0 and 105.5 per cent of the yearly average, compared with 86.5 to 113.0 per cent for the New York City series).

DEPARTMENT STORE TRADE

Preliminary estimates for July indicate that sales at Second District department stores, on a seasonally adjusted basis, rose 2 per cent above the level of the previous month and equaled sales in July 1953. Total sales during the first seven months of 1954 were approximately the same as in the comparable period last year.

Gross Transactions and Average Value per Transaction at New York City Department Stores

Retail sales data are generally reported in dollar terms, and not in terms of the physical quantity of goods moved. The quantity of goods sold may frequently be a significant economic variable in itself, however; in addition, the analysis of trends in dollar sales data may often be made more meaningful through use of an indicator of changes in the physical quantity of goods sold.

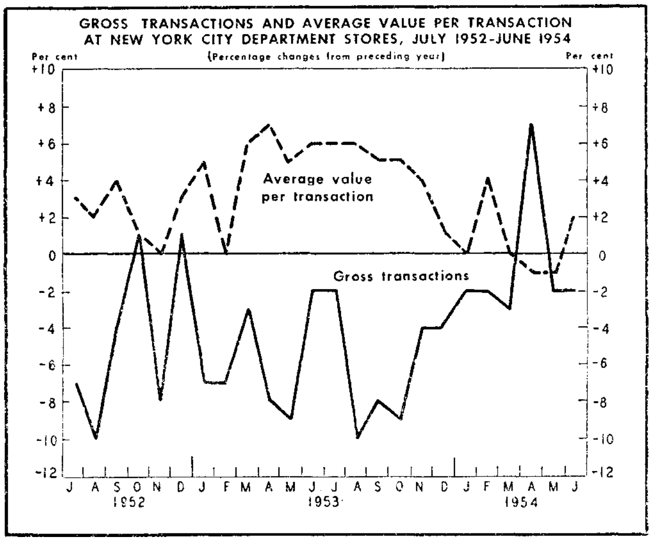
In department store statistics, an approximate indicator of physical goods movement is available in sales transaction data. A selected group of New York City stores reports regularly to this Bank on gross transactions (the total number of sales checks issued) and net dollar sales (gross sales minus returns and allowances). One sales check frequently covers more than one item, of course, and transactions data consequently tend to understate physical goods movement. But they do provide an approximate measure of it, and average transaction values derived by relating these data to net dollar sales are sometimes useful in analyzing certain aspects of consumer spending in department stores—tendencies to buy higher-priced or lower-priced merchandise, for example.

The total number of sales transactions reported by New York City department stores and the average value of these transactions changed only slightly in the first six months of 1954 from previous-year levels. (The accompanying table indicates that transactions declined 1 per cent and average value rose 1 per cent.) This relative year-to-year stability was in marked contrast to the experience of the previous year and a half. Then, consumers were indicating strong preferences for higher-priced merchandise, preferences which were evidenced by an increasing average value per transaction at a time when prices of department store type merchandise generally were gently declining. At the same time, however, consumers were reducing the number of their purchases at department stores to such an extent that New York City department store sales

Gross Transactions, Net Dollar Sales, Average Value per Transaction, and Prices at New York City Department Stores, 1953-54
(Percentage change from preceding year)

Period	Gross transactions	Net dollar sales	Average value per transaction	Prices*
1953				
January-June	−6	−1	+5	−1
July	−2	+4	+6	−1
August	−10	−5	+6	−1
September	−8	−4	+5	−1
October	−9	−5	+5	−1
November	−4	0	+4	0
December	−4	−3	+1	−1
July-December	−6	−2	+4	−1
1954				
January	−2	−2	0	−1
February	−2	+2	+4	−1
March	−3	−3	0	−1
April	+7	+6	−1	−1
May	−2	−3	−1	−1
June	−2	0	+2	−1
January-June	−1	0	+1	−1

*Weighted average of apparel and homefurnishings prices for New York City, computed from data of the Bureau of Labor Statistics.



actually declined from previous-year levels.[1] These divergent tendencies in transactions and average value per transaction are illustrated in the accompanying chart.

The first six months of 1954, on the other hand, was a period of relatively stable net dollar sales, resulting from similarly stable levels both of gross transactions volume and of average value per transaction, in comparison with the preceding eighteen months. As the table shows, sales increased (by 2 per cent) in February, for the first time since July 1953, and increased again (by 6 per cent) in April. In the other four months, sales either declined moderately from previous-year levels (in January, March, and May) or just equaled last year's level (in June). For the six-month period, the net dollar sales total was the same as for the first half of 1953.

The February sales increase was associated with a 4 per cent increase in average value per transaction, which in turn resulted in part from the fact that one department store remained open on Washington's Birthday, for a feature promotion of "big ticket" items—appliances and household goods. The April sales rise depended on a 7 per cent increase in transactions volume; this reflected both the excise tax reductions of April 1 and the shifting of most of the Easter shopping season this year from March, where it fell last year, into April.

In the case of the Easter shift, it is clear that the April transactions and sales increases were partly "borrowed" from March. Also, the increases resulting from excise tax reductions were partly borrowed from preceding months, as consumers held off from the purchase of taxed articles in anticipation of lower tax rates after April 1.[2] The February rises in sales and average value per transaction may represent borrowings from subsequent months, to the extent that consumer purchasing power used up in the Washington's Birthday promotion was not available for expenditure later.

In the absence of the factors leading to this "borrowing" of sales by February and April from the months where they would otherwise have fallen, net dollar sales would have been lower in the two months when sales increased, but higher in some or all of the other four months when they decreased or did not rise. This points to an underlying element of stability in department store trade during the six months that was perhaps even greater than that actually shown by the monthly figures.

Two alternative interpretations may be made of this stability. The more optimistic interpretation would emphasize the "bottoming out", after a two-year decline, in the volume of gross transactions; the dimmer view would stress the leveling off, after a two-year rise, of the average value per transaction. Actually, the evidence of the half year's experience does not seem strong enough definitely to confirm either of these interpretations. But the evidence does indicate clearly that the first half of 1954 was a period of transition in consumers' preferences as to the prices and quantities of merchandise they would buy at New York City department stores.

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

Area	Net sales			Stocks on hand June 30, 1954
	June 1954	Jan. through June 1954	Feb. through June 1954	
Department stores, Second District	+1	0	0	−3
New York—Northeastern New Jersey Metropolitan Area	+2	0	+1	−4
New York City	+1	0	0	−7
Nassau County	—	—	—	—
Westchester County	+8	+4	+4	+1
Northern New Jersey	+2	−2	−1	+1
Newark	+3	−2	−1	+1
Fairfield County	−2	−7	−7	−9
Bridgeport	−2	−7	−7	—
Lower Hudson River Valley	+4	+1	+1	0
Poughkeepsie	+3	0	0	−3
Upper Hudson River Valley	0	−3	−2	−8
Albany-Schenectady-Troy Metropolitan Area	0	−3	−2	−9
Albany	0	−3	−3	−13
Schenectady	+1	−2	0	−2
Central New York State	0	−3	−2	−2
Utica-Rome Metropolitan Area	−5	−6	−5	−5
Utica	−2	−2	−2	−10
Syracuse Metropolitan Area	+2	−2	−1	0
Northern New York State	−5	−10	−10	+2
Southern New York State	−4	−3	−2	+2
Binghamton Metropolitan Area	−4	−3	−2	+5
Elmira	−7	−8	−7	−6
Western New York State	0	−1	−1	+5
Buffalo Metropolitan Area	−3	−3	−3	+3
Buffalo	−4	−3	−3	+3
Niagara Falls	+6	+2	+4	—
Rochester Metropolitan Area	+5	+3	+4	+9
Apparel stores (chiefly New York City)	+2	−1	−1	0

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

Item	1954			1953
	June	May	April	June
Sales (average daily), unadjusted	99	98	101	98r
Sales (average daily), seasonally adjusted	102	100	102	101r
Stocks, unadjusted	107	118	118	110r
Stocks, seasonally adjusted	114	115	113	118

r Revised.

1 See the last discussion of department store transactions data in this *Review*, November 1953, p. 172.

2 The initial impact of the excise tax reductions on department store trade was discussed in the July issue of this *Review*, p. 100.