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MONEY MARKET IN OCTOBER

The volume of reserves available to the banking system moved up and down rather sharply at times during October, owing to the influences of changes in float, currency, the Treasury's balance, and other money market factors. In line with its general credit policy of "active ease", the Federal Reserve System took steps to moderate the reserve losses and to supply the net amount of funds needed to maintain bank reserves in a comfortable position throughout October. As a result, the volume of free reserves (excess reserves less member bank borrowing) held by the banking system increased from an average of about 700 million dollars in the five statement weeks ended September 29 to approximately 810 million in the four weeks ended October 27.

The most influential factors in the money market during the early part of October were the payment on October 4 for 4.2 billion dollars of new 1⅝ per cent Treasury notes of May 1957 and the increase in required reserves on October 5 (approximately 400 million dollars) which stemmed from the sale of the larger part of this issue to the commercial banks. To prevent this increase in reserve requirements from putting a strain on the money market, thus risking restriction of private credit and financing, and to offset month-end drains on bank reserves, the System Open Market Account purchased 275 million dollars of Treasury bills in the statement week ended September 29 and an additional 535 million in the week ended October 6. In the early part of the month, the Federal Reserve Bank of New York temporarily supplied additional reserves to the market through the purchase of short-term Treasury obligations under repurchase agreements with dealers. Later in the month, however, as bank reserves increased because of net disbursements from Treasury deposits with the Reserve Banks and a seasonal expansion in float, the System Open Market Account allowed part of its holdings of maturing Treasury bills to run off. The net amount of new reserves supplied by the Federal Reserve System through open market operations in the four weeks ended October 27 was 336 million dollars.

Short-term money rates tended to ease slightly during October as a reflection of the growth of bank reserves. Average issuing rates for Treasury bills in October ranged from 0.966 per cent to 1.009 per cent, compared with a range of 0.984 per cent to 1.024 per cent in September. Federal funds were quoted at rates of 1 per cent or less more frequently than they had been a month earlier, and rates on loans to Government securities dealers were generally lower than in September.

The easing tendencies in the short-term market were not, however, reflected in the intermediate and long-term markets. Prices of Government bonds were steady to firm during the first ten days of October but subsequently were marked down as much as ¾ of a point. In the last three days of the month, however, there was a partial recovery, and by the end of October, intermediate and long-term issues were down as much as $^{13}/_{32}$ from their September 30 quotations. While a number of factors contributed to the price decline, the primary ones appear to have been the large volume of corporate and municipal securities, as well as mortgages, which have continued to reach the market, and the market's uncertainty concerning the Treasury's financing plans for the remainder of the calendar year. Approximately 17.3 billion dollars of Government securities that mature or have been called for redemption in December will have to be refunded. Investors seemed to be staying on the side lines during most of October waiting to see what the Treasury would offer, and dealers by lowering quotations at times tended to back away from the few offerings that came into the market.

On October 22 the Commodity Credit Corporation (CCC) announced that it was establishing a 1,150 million dollar pool of crop loans in which banks would be offered participations

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at a 1⅝ per cent interest rate. Subscriptions for the certificates of interest in this pool were received on October 27; payment is to be made on November 12. The certificates are scheduled to mature on August 1, 1955, but they may be retired by the CCC prior to that date or repurchased by the CCC upon demand of the certificate holder at any time up to nine days prior to maturity. The CCC will deposit the proceeds of the sale of the certificates in the Treasury's general account with the Reserve Banks, and the Treasury has offered to deposit in the Tax and Loan Accounts of banks purchasing the certificates an amount equal to their payments for the certificates. Between October 1953 and January 1954, the CCC made three separate offers of certificates of interest in crop pools. These certificates were sold at rates of 2½, 2¼, and 2⅛ per cent, respectively, in an aggregate amount of 1,160 million dollars, but these offerings were not accompanied by the feature of redeposit in the Treasury Tax and Loan Accounts.

The earning assets of the weekly reporting member banks rose sharply during October, reflecting for the most part the commercial banks' purchases of the new Treasury 1⅝ per cent notes. The seasonal demand for business loans picked up somewhat in October, and commercial, industrial, and agricultural loans increased 128 million dollars net in the four weeks ended October 20. Last fall the increase in the comparable period was 77 million and, in 1952, 551 million.

Member Bank Reserve Positions

The banking system gained a substantial volume of reserves during October from both the Reserve System's bill purchases and the operations of the regular market factors. While the major part of these new funds was absorbed by increases in required reserves, free reserves rose moderately.

Of the operating factors, fluctuations in float probably had the greatest effect on the money market during October. The day-to-day and week-to-week changes in the amount of float outstanding were substantial and were considerably larger than had been anticipated. Despite the fact that only six Reserve Banks were open on Columbus Day, a large volume of checks was collected on that day and the day following (October 12 and 13)—these checks had already been processed and credited to the reserve accounts of the member banks—while the amount of new checks deposited was limited. As a result, the volume of float outstanding declined 318 million dollars during the week ended October 13 to the unusually low level of 346 million. This contraction reduced the supply of reserves available in the market, and a few banks in the money centers, finding it difficult to meet their reserve requirements for the week, carried reserve deficiencies forward to the week of October 20. Subsequently, float rose sharply, and even though a reduction occurred before the end of the statement week, a net increase of 387 million dollars was recorded for the week ended October 20, as Table I indicates. In keeping with the quickening pace of business and commercial activity that normally develops in the fall months, float rose 98 million dollars on balance over the four weeks of October.

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

Factor	Statement weeks ended				Four weeks ended Oct. 27
	Oct. 6	Oct. 13	Oct. 20	Oct. 27	
Operating transactions					
Treasury operations*	+141	− 9	+ 31	—	+163
Federal Reserve float	+153	−318	+387	−124	+ 98
Currency in circulation	−129	−108	+104	+ 85	− 48
Gold and foreign account	− 67	+ 88	− 17	− 9	− 5
Other deposits, etc	− 48	+ 9	+ 46	—	+ 7
Total	+ 53	−340	+551	− 49	+215
Direct Federal Reserve credit transactions					
Government securities					
Direct market purchases or sales	+535	—	−124	− 75	+336
Held under repurchase agreements	—	+ 29	− 29	—	—
Loans, discounts, and advances	− 44	+ 56	+ 19	− 25	+ 6
Total	+491	+ 85	−134	−100	+342
Total reserves	+544	−255	+417	−149	+557
Effect of change in required reserves†	−461	+ 71	−104	− 24	−518
Excess reserves†	+ 83	−184	+313	−173	+ 39
Daily average level of member bank:					
Borrowings from Reserve Banks	62	74	99	72	77
Excess reserves†	950	804	1,023	762	885

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

Treasury operations added more to bank reserves during October than float, but the day-to-day effects of these operations on the market were not so erratic. As was pointed out in the previous issue of the *Review,* income taxes came in faster than anticipated in the final week of September and, as a result, the Treasury's general account balance with the Reserve Banks rose to the unusually high level of 769 million dollars on September 29. The Treasury balance declined during October, and in the process Treasury operations returned some 163 million dollars to the banking system.

The seasonal rise in the demand for currency, on the other hand, absorbed funds (48 million) during October. While the net amount over the full month was not substantial, the pattern within the month of an increase in currency circulation in the first two weeks and a decline in the last two tended to accentuate the swings in the supply of available reserves resulting from the increase in required reserves and the changes in float and Treasury deposits. Changes in bank reserves resulting from gold flows and other factors were minor in October.

The Market for Government Securities

During the first week of October all sectors of the Government securities market were steady with some tendency for prices to rise. Those subscribers to the new 1⅝ per cent notes who had planned to pay for the new issue by selling securities already in their portfolios had largely completed their selling programs. There was a demand for the 3¼'s of 1978-83 on the part of a small group of pension funds, while the supply was limited. In the intermediate maturities there was some switching, primarily on the part of banks seeking to lengthen their portfolios.

In the second week, however, the earlier firmness gave way to an easier tone, as market discussion was directed to the likely terms of the Treasury's December refunding and, particularly, to reports that the exchange offerings might include a long-term issue. The lack of any significant resistance to the markdown in prices for intermediate and particularly long-term issues also reflected the competitive influence of the continuing substantial demand for new capital on the part of corporations and, to an even greater extent, local governmental bodies financing public improvements and toll projects. In contrast to the rising yields (declining prices) for long-term Treasury issues, the quotations for high-grade corporate and tax-exempt bonds were steady to firm, thereby tending to bring the rate differentials closer to what the market currently regards as a more normal relationship.

As uneasiness concerning the market outlook grew, dealers became more cautious and backed away from even the small blocks of securities offered in the market. The bid quotation on the new 1⅝ per cent notes reached a high of 100$\frac{3}{32}$ on October 8, but by the 18th it had slipped below par and generally remained $\frac{2}{32}$ or more below for the remainder of the month. There was no large-scale selling pressure in the market, although there was some institutional liquidation and occasional selling of intermediate and longer issues by banks and others against the purchase of December "rights". Some of those transactions were undertaken in the expectation that the Treasury offering would facilitate replacement in portfolios of the longer maturities which had been sold. A portion of the selling also reflected the shifting of investment funds into mortgages and the corporate and municipal securities currently reaching the market. The price decline uncovered little buying interest until the last few days of the month when quotations leveled off and rallied from their low points, particularly the longer issues. However, prices of all Treasury bonds were lower for the month. The 3¼'s, which had risen from a closing bid on September 30 of 110$\frac{13}{32}$ to 111$\frac{4}{32}$ on October 8, closed on October 29 at 110$\frac{7}{32}$. The bank-restricted Victory issue (the 2½'s of December 1967-72) and the bank-eligible 2½'s (of September 1967-72) were off $\frac{7}{32}$ to 99$\frac{21}{32}$.

Interest in the short-term area of the market, on the other hand, was well sustained throughout October. Net purchases of Treasury bills for the System Open Market Account resulted in some contraction in dealers' holdings, and there was additional substantial buying of bills and other short-term issues by several nonbank investors temporarily investing the proceeds of market financing. On the other hand, commercial banks liquidated short-term issues on balance. The absorption of this selling, together with their tenders in the weekly auctions, enabled dealers largely to replace their holdings of Treasury bills and to meet the demand with a minimum impact on the rate level. The March 1955 tax anticipation certificates were steady throughout October. Prices of the regular certificates, however, weakened in the latter part of October and closed on the 29th approximately $\frac{3}{32}$ below the closing quotations on September 30.

Member Bank Credit

As noted earlier, the Treasury's sale of 4.2 billion dollars of 1⅝ per cent notes on October 4 dominated the changes in bank loans and investments during October. The weekly reporting member banks apparently purchased directly about 1.9 billion of these notes. In addition, they granted 413 million dollars of new loans to dealers in the week preceding the sale in order to help them carry securities purchased from investors who wished to sell outstanding obligations to make room in their portfolios for the new notes, as well as to enable the dealers to take up their own allotments of the new issue. In subsequent weeks, as Table II indicates, there was a further net rise in dealer loans, bringing the total increase for the four weeks ended October 20 to 454 million dollars. The weekly reporting member banks sold close to a half billion dollars of bills during these four weeks, partly to offset their note purchases and partly for reserve adjustment purposes, but on balance their Government securities holdings rose 1,495 million dollars over the four weeks.

The commercial, industrial, and agricultural loans of these

Table II

Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks

(In millions of dollars)

Item	Statement weeks ended				Change from Dec. 30, 1953 to Oct. 20, 1954
	Sept. 29	Oct. 6	Oct. 13	Oct. 20	
Assets					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans	+ 10	+ 87	+ 93	− 62	−2,247
Security loans	+413	− 26	+ 95	− 28	+ 269
Real estate loans	+ 18	+ 5	+ 17	+ 31	+ 474
Other loans (largely consumer)	+ 35	− 10	+ 27	− 12	− 121
Total loans adjusted*	+477	+ 53	+233	− 72	−1,665
Investments:					
U.S. Government securities:					
Treasury bills	−256	− 103	−230	+ 93	+ 59
Other	+ 44	+2,021	− 20	− 54	+4,544
Total	−212	+1,918	−250	+ 39	+4,603
Other securities	+ 43	+ 143	− 64	− 14	+1,081
Total investments	−169	+2,061	−314	+ 25	+5,684
Total loans and investments adjusted*	+308	+2,114	− 81	− 47	+4,019
Loans to banks	− 66	+ 10	+302	−108	+ 91
Loans adjusted* and "other" securities	+520	+ 196	+169	− 86	− 584
Liabilities					
Demand deposits adjusted	+496	− 767	+396	+798	− 747
Time deposits except Government	− 6	+ 48	+ 12	+ 16	+1,814
U. S. Government deposits	− 75	+2,588	−579	−446	+1,585
Interbank demand deposits:					
Domestic	−300	+ 767	+ 6	−256	− 74
Foreign	+ 5	+ 23	+ 68	+ 4	+ 65

* Exclusive of loans to banks and after deduction of valuation reserves; figures for the individual loan classifications are gross and may not, therefore, add to the total shown.

banks showed a net increase of 128 million dollars during this period and, in contrast to the preceding four weeks, the New York City institutions accounted for most of the increase. As might be expected at this time of year, food, liquor, and tobacco concerns as well as commodity dealers continued to be large new borrowers. In addition, substantial new credits were extended in October to petroleum, coal, and chemical industries and to retail and wholesale trade firms. Also, interbank loans showed a net expansion of 138 million dollars in the four weeks under review (the increase probably representing principally a rise in Federal funds transactions). Exclusive of loans to banks, total loans of the weekly reporting banks rose 691 million dollars during the four weeks ended October 20, and total investments 1,603 million.

RECENT BALANCE-OF-PAYMENTS TRENDS IN LATIN AMERICA

The balance of payments of the twenty Latin American republics as a whole[1] has developed encouragingly during 1953 and 1954. Exports to the United States have been maintained at record levels despite the slowing-down of United States business activity, while sales to Europe have actually increased. Over-all imports have remained relatively high, but have dropped sufficiently below the inflated levels of the 1951 and 1952 import boom to restore the customary sizable trade surplus. Many Latin American countries have consequently added to their gold and foreign exchange reserves, while others have at least been able to reduce their short-term liabilities. Although it is difficult to generalize about Latin America as a whole, certain broad tendencies and developments have characterized most of the countries.

Current-Account Position with the United States

Latin America's exports to the United States have continued in the last three years at the high level of over 3.5 billion dollars first attained in 1951 (see Table I); imports from the United States, on the other hand, have declined from their 1951 peak of 3.7 billion dollars to slightly over 3 billion. The net result of sustained exports and reduced imports was a marked change from a deficit in 1951 to surpluses in 1952 and 1953 in Latin America's trade balance vis-a-vis the United States.

In the first half of 1954 the picture was slightly less favorable. Exports to the United States fell somewhat below the level of the comparable period of 1953. This development was primarily the outcome of several conflicting trends. Such countries as Argentina, Bolivia, Chile, Mexico, and Uruguay had lower dollar earnings from exports, as sales of their tin, copper, zinc, and wool declined. Colombia and the other coffee-producing countries, except Brazil, on the other hand, substantially increased their earnings as a result of the unprecedentedly high coffee prices in the first half of 1954. Brazil's dollar earnings during the first half of 1954 as a whole compared favorably with 1953, primarily because of the high prices of cocoa and coffee; but beginning with May 1954, in spite of record coffee prices, earnings derived from coffee exports to the United States fell sharply because of marketing difficulties that were related to certain features of the coffee price-support program in Brazil.

Imports from the United States in the first six months of 1954 were somewhat higher than a year earlier, as some of the severe import controls imposed in 1951 and 1952 were relaxed. Imports by Brazil, Colombia, Mexico, and most Central American republics, in particular, rose; however, decreases were reported for Argentina, Chile, Cuba, and Peru. With the rise in imports and the moderate decrease in exports, Latin America's surplus in United States trade fell substantially below January-June 1953.

While Latin America's trade surplus with the United States increased in 1952 and 1953, the area's net service payments to the United States have remained markedly stable over recent years; as a result, its current-account deficit with the United States declined substantially from the 1951 peak (Table I). During the first half of 1954, however, net service payments to the United States were somewhat larger than in January-June 1953 and, with the reduced trade surplus, led to a current-account deficit that contrasted sharply with the January-June 1953 surplus. In spite of this, a moderate recovery in the inflow of United States long-term capital, which had virtually halted during late 1953, and a parallel upturn in receipts of short-term capital resulting from increased commercial credits extended chiefly to Brazil and Colombia, enabled Latin America to add 101 million dollars to its aggregate gold and dollar holdings during the first half of 1954 (see Table II). Among the individual countries, Argentina, Colombia, and Venezuela substantially increased their gold and dollar holdings, while Brazil, Chile, and Mexico incurred losses. Of the commercial arrears that had been accumulated during 1951 and 1952 a good part was liquidated in 1953, but a major portion of this

[1] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, El Salvador, Uruguay, and Venezuela. Dependent territories of other countries are excluded.

Table I
Trade and Current-Account Balances of the Latin American Republics with the United States
(In millions of dollars; exports and imports f.o.b.)

Item	1950	1951	1952	1953	January-June 1953	January-June 1954p
Exports to United States	3,091	3,510	3,569	3,570	1,905	1,873
Imports from United States*	2,718	3,746	3,474	3,049	1,489	1,603
Trade balance	+ 373	− 236	+ 95	+ 521	+ 416	+ 270
Services (net)	− 588	− 711	− 675	− 647	− 298	− 328
Current-account balance	− 215	− 947	− 580	− 126	+ 118	− 58

p Preliminary.
* Excludes imports from the United States of military supplies under aid programs.
Source: U. S. Department of Commerce, *Survey of Current Business*, June and September 1954.

liquidation was effected by Brazil with the aid of a 300 million dollar Export-Import Bank loan.

Over-All Trade Position

The improvement that has marked Latin America's balance of payments with the United States has also generally characterized its position with other countries. Latin America thus attained an unusually large over-all trade surplus during 1953 and the first half of 1954 (see Table III). This surplus was the outcome primarily of an import decline from the 1951 level, a major part of the decline involving, as already noted, the United States; at the same time, an increase in exports, chiefly to countries other than the United States, also contributed.

Imports declined in 1953, largely as the result of direct import restrictions. Apart from Colombia, Ecuador, Peru, and certain of the Central American republics, all Latin America contributed to the decline. However, roughly one third of the total decrease was accounted for by Argentina, where severe import restrictions were imposed, accompanied by a restrictive monetary and fiscal policy. Brazil's imports also declined substantially. In the first half of 1954, however, import restrictions were relaxed in many countries and imports consequently rose somewhat.

Divergent Trends in "Dollar" and "Nondollar" Countries

The wide differences that have been noted in the balance-of-payments positions of individual countries reflect certain fundamental differences in the commodities produced and in the direction of their exports, which in turn determine the extent to which their exchange receipts consist of dollars and

Table II
Official Gold Reserves and Official and Private Short-term Dollar Holdings of the Latin American Republics
(In millions of dollars)

Country	1950	1951	1952		1953		1954
	June	June	June	Dec.	June	Dec.	June*p*
"Dollar" countries:*							
Colombia	122	124	138	194	197	237	319
Cuba	536	609	635	515	579	531	532
Mexico	224	352	266	375	339	341	287†
Venezuela	489	449	503	519	530	595	621
Others‡	311	344	391	374	461	390	421
Total	1,682	1,878	1,933	1,977	2,106	2,094	2,180
"Nondollar" countries:§							
Argentina	454	632	415	427	519	503	550
Bolivia	37	48	47	46	47	41	37
Brazil	442	529	398	390	451	423	417
Chile	102	115	96	121	129	121	106
Peru	78	100	103	107	109	104	103
Uruguay	255	354	309	301	311	337	331
Total	1,368	1,778	1,368	1,392	1,566	1,529	1,544
Total Latin American republics	3,050	3,656	3,301	3,369	3,672	3,623	3,724

p Preliminary.
* Countries conducting an overwhelming proportion of their trade in dollars and other convertible currencies.
† Includes latest available figure for gold reserves (April 30). Estimated change in reserves in May and June is included in "Others".
‡ Includes Paraguay which, although a "nondollar" country, is not reported separately.
§ Countries conducting a significant proportion of their trade in nonconvertible currencies.

Table III
Foreign Trade of the Latin American Republics
(In millions of dollars)

Item	1950	1951	1952	1953	January-June	
					1953	1954*
"Dollar" countries:						
Exports (f.o.b.)	3,257	3,855	3,919	3,857	1,961	2,195
Imports (c.i.f.)	2,521	3,208	3,344	3,305	1,557	1,673
Trade balance	+ 736	+ 647	+ 575	+ 552	+ 404	+ 522
"Nondollar" countries:						
Exports (f.o.b.)	3,367	3,979	3,188	3,737	1,693	1,833
Imports (c.i.f.)	2,852	4,492	4,254	3,111	1,426	1,631
Trade balance	+ 515	− 513	−1,066	+ 626	+ 267	+ 202
Total:						
Exports (f.o.b.)	6,624	7,834	7,107	7,594	3,654	4,028
Imports (c.i.f.)	5,373	7,700	7,598	6,416	2,983	3,304
Trade balance	+1,251	+ 134	− 491	+1,178	+ 671	+ 724

* The 1954 data are partly estimated.
Source: Adapted from International Monetary Fund, *International Financial Statistics*, November 1954.

other convertible currencies. On the basis of these differences, the Latin American countries may conveniently be divided into two groups. One group—the "dollar" countries—comprises countries whose trade is oriented primarily toward the United States, and which produce such commodities as petroleum, coffee, fruit, and sugar. This group may be regarded as including Colombia, Ecuador, Mexico, Venezuela, and the Central American and Caribbean republics. The second group —the "nondollar" countries—consists of Argentina, Bolivia, Brazil, Chile, Paraguay, Peru, and Uruguay. Their trade is oriented much less extensively toward the United States, and includes, on the export side, such primary commodities as tin, copper, and wool.

Exports of the "dollar" countries as a group to the rest of the world have been running at about 3.9 billion dollars annually, while imports have continued at about 3.3 billion dollars. The group has therefore been enjoying a substantial over-all trade surplus during recent years (see Table III). During the first half of 1954, the "dollar" countries, largely as a result of sharply increased coffee and cocoa prices, had an over-all trade surplus markedly above January-June 1953. In their trade with the United States, however, these countries have run a deficit, although one that declined from 221 million dollars in 1950 to only 61 million in 1953. During the first half of 1954, on the other hand, the "dollar" group actually achieved a 29 million dollar surplus with the United States. The earlier deficit with the United States had not given rise to any particular difficulties since the exports of the "dollar" countries generally commanded hard-currency payment even when sold in "nondollar" markets. Their over-all trade surplus has accordingly enabled the "dollar" countries as a group to add steadily to their gold and dollar holdings, although the holdings of Cuba and Mexico have shown considerable fluctuations (see Table II).

The "nondollar" countries have done somewhat less well. Their exports and imports have fluctuated considerably; following the Korean outbreak wide swings occurred in the prices of the major exports of those countries, while imports, which were unusually large in 1951 and 1952, were sharply cut back in 1953. Thus, the usual trade surplus became a deficit in 1951 and 1952, but the surplus reappeared in 1953 and the first half of 1954 (see Table III). Increases in exports in 1953 were most pronounced for Argentina where agricultural output recovered after drought had severely limited the country's exportable surpluses in 1952, and also for Brazil and Uruguay. During the first half of 1954, the group's exports were higher than during the corresponding period of 1953. It is probable, however, that "nondollar" countries' exports have declined rather sharply since mid-1954, as a result of the difficulties that Brazil experienced in marketing its coffee. Imports during the first part of 1954 rose substantially above January-June 1953, and the over-all export surplus declined to 202 million dollars, compared with 267 million during January-June 1953; the surplus in trade with the United States fell more sharply, from 405 to 242 million dollars.

Monetary, Fiscal, and Trade Policies

Despite the generally favorable trends in the trade and payments of Latin America as a whole during the last two years, many of the twenty republics, including some of the major ones, have encountered serious economic and financial difficulties, both domestically and internationally. These difficulties, however, have varied widely both in character and in magnitude as between the "dollar" and the "nondollar" countries. The "dollar" countries, whose exports have, as already noted, remained high and stable, have had no serious balance-of-payments problems. When a tendency to import in excess of exchange availabilities has occasionally developed, import demand has been restrained by such measures as the requiring of prior deposits on purchases of foreign exchange, increases in tariffs, and exchange surtaxes. Most of these countries have not had to resort to direct import and exchange controls. Only a few—chiefly Colombia, Costa Rica, Ecuador, and Nicaragua—have employed multiple exchange rates and direct trade controls; however, more recently such controls have been relaxed and the exchange rate structures simplified.

Many of the "dollar" countries have nevertheless had to deal with the problem of the inflationary impact of export surpluses on their domestic economies. Colombia, Ecuador, Haiti, and El Salvador have raised their export taxes on coffee and other export products as foreign prices have risen, and on occasion have accompanied such steps with monetary measures that have increased the reserve requirements against commercial bank deposits, as in Colombia, or have otherwise restricted credit expansion. Less frequently, taxes have been increased in order to reduce budgetary deficits. In a few instances, as in Cuba and Mexico, development programs have been temporarily slowed down.

For "nondollar" countries the problems that have arisen in recent years have been more difficult, since exports, as indicated earlier, have fluctuated substantially. The "nondollar" countries, in order to adjust themselves to such changes in their balance-of-payments positions, have resorted principally to direct quantitative controls on imports, especially imports of a "nonessential" nature. Such restrictions, particularly in Argentina, Brazil, and Uruguay, have been chiefly responsible for the sharp reduction in imports during recent years. Some of the "nondollar" countries appear also to have varied their multiple exchange rate systems in such a way as to maintain local-currency receipts when export prices are rising or falling. It is partly for this reason that Argentina, for example, frequently shifts commodities from one exchange rate category to another.

In addition, some "nondollar" countries have given increased attention during the past two years to the inflationary impact of earlier monetary and fiscal policies. Government borrowing from the central banks has been curtailed in a number of instances, and measures have been taken to bring under more effective control the steady expansion of commercial bank credit. Peru, for example, has raised commercial bank reserve requirements, while Chile has endeavored to limit credit expansion to a specified maximum rate, and Brazil has twice increased its rediscount rate. Nevertheless, inflation remains a serious problem in some of the "nondollar" countries.

The increased emphasis on reducing government deficits is apparent in a number of ways. The execution of large-scale development programs has at times been slowed down, for instance in Argentina and Peru. Taxes in many cases have been raised, and tariffs have been increased with the combined objective of securing additional government revenue, reducing imports, and encouraging the local production of goods previously imported.

Exchange Rate Adjustments

A number of Latin American countries also have modified their exchange rate structures; in particular, Bolivia, Brazil, Chile, Mexico, and Paraguay have all devalued or permitted partial depreciation of their currencies within the past two years.

Brazil in October 1953 instituted an exchange auction system that in effect resulted in a devaluation of the cruzeiro. Imports have been divided into five classes according to essentiality, and importers must bid at periodic auctions for the right to purchase foreign exchange for each import class. The resulting substantial premia, of course, tend to deter imports. In addition, however, the auction system has restored the price mechanism in the allocation of import licenses and, through the implicit taxation of importers' profits, has provided both a method for absorbing a portion of incomes and a source of government revenue. Exporters, on the other hand, continue to surrender their foreign exchange receipts at the official rate, but also receive additional payments (bonuses) in local currency. An August 1954 modification increased the local-currency bonuses paid to exporters, thus furnishing an additional export incentive.

Peru, which has employed very few direct trade controls in recent years, has permitted its currency to fluctuate in free markets in response to demand and supply. On the whole, the Peruvian authorities have been able to prevent wide fluctuations in the exchange markets by occasional central bank purchases and sales of foreign exchange. However, during most of 1953 and early 1954, the Peruvian currency was subjected to sustained pressure and underwent a sizable depreciation. The country then strengthened its internal corrective policies and obtained stand-by credits totaling 30 million dollars from the International Monetary Fund (IMF), the United States Treasury, and a New York commercial bank. Since the conclusion of those agreements in February 1954, Peru's exchange rates have fluctuated within narrow limits.

Mexico received a stand-by credit for 50 million dollars from the IMF last April, at the time of the devaluation of the Mexican peso from 8.65 to 12.50 pesos per dollar. By the end of that month, Mexico had drawn 22.5 million dollars on the credit. The devaluation itself appears to have been a response primarily to Mexico's external difficulties, which were manifested in increased trade and current-account deficits and an outward movement of capital that assumed crisis proportions in the weeks immediately preceding the devaluation. In recent months, however, Mexico's external position has improved perceptibly.

Concluding Remarks

General economic conditions in Latin America appear to have improved noticeably over recent years. High levels of exports and imports, substantially above those prevailing before the Korean outbreak, reflect the continuing firm foreign demand for Latin American export products and the resulting sustained capacity to import. The favorable over-all balance-of-payments position is indicated by the increase of 674 million dollars in the area's gold and dollar holdings during the four years ended June 30, 1954. Moreover, many individual countries have been able to relax considerably their quantitative import controls and, in some cases, to simplify their foreign exchange rate systems. At the same time, an increase in industrial and agricultural output and a greater diversification of production and of export markets have occurred throughout much of the area.

The favorable over-all position, however, tends to obscure marked differences in the situations of individual countries and groups of countries. The "dollar" countries account for 498 million dollars of the 674 million increase in gold and dollar holdings; their exports command in general such favorable prices that their export receipts far exceed pre-Korea levels. Further, the inflationary pressures resulting from the high exchange receipts have not been seriously aggravated by such internal factors as accelerated industrialization efforts. By employing such measures as credit restrictions, tariff changes, export taxes, and alterations in multiple exchange rate structures, most of the "dollar" countries of Latin America have been able both to minimize inflationary pressures and generally to maintain balance-of-payments stability.

For most of the "nondollar" countries as well as for certain "dollar" countries like Mexico, on the other hand, the problems of achieving internal and external stability have been more complex. First, although export receipts continue to exceed the pre-Korea level, they have generally neither risen proportionately so high nor remained so stable as those of most "dollar" countries. Secondly, several large Latin American countries have been the scene of accelerated domestic economic development in recent years. They have had considerable difficulty, however, in devising and implementing coordinated fiscal, monetary, and exchange policies that would make it possible to combine high levels of private and public investment with a minimum of inflation and a reasonably satisfactory balance-of-payments position. In fact, continuous and rapid inflation has often tended to create such strong import demands that very serious balance-of-payments difficulties have frequently arisen despite unprecedented export earnings. In the absence of adequate anti-inflationary fiscal and credit policies, trade and exchange controls continue as the major instrument for securing balance-of-payments stability, as well as for effecting changes in income distribution and the allocation of resources.

Another important development worth noting has been the increased ability of Western European countries to supply goods at competitive prices, and at attractive credit terms, to Latin America. Further, this development has coincided with an improved supply from Europe's overseas currency areas of many products that compete with Latin America's exports. As a result, some European countries apparently are now seeking to abandon the bilateral trade-and-payments arrangements under which much of their trade, particularly with "nondollar" Latin America, has been transacted in recent years. On the Latin American side, a reduction of bilateralism frequently involves the elimination of, or at least a substantial reduction in, the premium prices that have been secured for commodities exported under bilateral agreements. It has therefore become even more necessary for Latin American countries to deal with the problems of inflation. These developments not only tend to lead to the adoption of stronger anti-inflationary measures, but also become important factors hastening the realignment of overvalued currencies. The resulting lessened rate of inflation and more rapid adaptation of exchange-and-trade arrangements to changing external conditions would aid the Latin American countries in achieving economic growth with fewer distortions and with reduced strains on their balances of payments.

ECONOMIC PATTERNS IN 1954

Since early in 1954 the indicators of over-all economic activity in the United States have displayed remarkably little change. During the first few months of the year there was a continuation of the general business contraction that started in mid-1953, and in some sectors of the economy declines persisted well into the current year, but in other sectors there was a leveling-off or improvement by the close of the first quarter that roughly offset the downward movements.

Following a 4 per cent decline from the second quarter of 1953 to the first quarter of 1954, gross national output of goods and services has been moving sideways on a seasonally adjusted basis. Similarly, adjusted industrial production, after declining about 10 per cent in the eight months following July 1953, has since moved within a very narrow range. The general level of prices, moreover, which seemed to be little affected by the boom conditions of early 1953 as well as by the subsequent contraction, have been steady for an even longer period. Most recently there have been some indications of an upturn in business activity—such as the latest declines in unemployment and the pickup in steel output—but signs pointing to a more-than-seasonal improvement are not yet sufficiently pronounced or widespread to denote a strong upward movement in the economy.

Divergent Trends

The over-all pattern of stability during most of 1954 tends to conceal, however, the changes and adjustments that have taken place within the broad aggregates. Thus, cuts in defense spending and declining outlays for producers' durable equipment have been offset by a marked increase in residential construction activity, a continued rise in State and local government spending, and some further gains in personal consumption expenditures. The declining components represented a continuation of trends that had played an important part in the business contraction that began after mid-1953. Inventory liquidation, which had been one of the major initiating forces in the slackening of business activity after the middle of 1953, persisted during 1954, but at a fairly steady pace, and consequently did not generate additional deflationary pressures. Spending categories that have expanded since early 1954 were generally those that had also been increasing, or had at least been fairly stable, during 1953. The balancing-out of activity since early in 1954 has thus reflected minor changes in the rates of decline or expansion of activity in various sectors rather than radical shifts in the direction of movement for any of the major components.

Lower Spending for Defense and Capital Equipment

Reductions in national security expenditures and, to a lesser extent, in private outlays for durable equipment, which were among the principal factors contributing to an economic decline after mid-1953, continued during 1954. In the second quarter of 1953, Federal spending for national security (including foreign aid) was at a post-Korea peak, reaching an annual rate of 54.3 billion dollars. A year later such spending was reduced to 44.7 billion, with most of the drop concentrated in the first half of 1954. Further reductions occurred in the third quarter of this year, and the recent revision of Federal spending plans for the fiscal year 1955 suggests an additional decline through mid-1955, although the rate of reduction is expected to be less than during the past year.

The greatest part of the cuts, past and prospective, affects spending for major procurement items such as tanks, warships, airplanes, and other "military hard goods". These items have long production lead-times and only limited similarity to civilian-type goods, which tends to make the readjustment process more difficult.

Meanwhile, private producers' expenditures for durable equipment declined from 24.8 billion dollars (seasonally adjusted annual rate) in the third quarter of 1953 to about 22.0 billion in the July-September quarter of this year. A recent survey of plant-and-equipment expenditure intentions suggests a further decline in the final quarter of the year. Primary metals producers and railroads are two industries that have experienced particularly sharp drops in investment outlays.

Reductions in capital expenditures may be traced in part to the cuts in national security outlays. In other cases, completion of the bulk of expansion and modernization plans accounts for the decline. Removal of the excess profits tax and the more liberal amortization procedures under the new tax law may have helped to limit the decline in investment spending.

Record Construction Outlays

Strong gains in construction activity, especially in residential building, have helped to offset declines in the output of capital and defense goods. Private outlays for new construction, seasonally adjusted, have risen in each quarter of 1954 and in the third quarter were about 2 billion dollars greater, at an annual rate, than during the second quarter of 1953. New residential building, which has been favored by an easier mortgage market and by more liberal terms for Federally guaranteed loans, accounted for most of this increase. Private nonresidential construction outlays have also been high during this year, despite somewhat lower spending on industrial building and farm construction.

Meanwhile, public construction outlays, apart from those made directly by the Federal Government, were also increasing. Large bond issues, floated in the easier money market by State and local governments and by local authorities created to administer large construction projects such as turnpikes and bridges, have made possible these increased expenditures. Total construction activity, thus aided in both the private and public sectors by policies of active monetary ease, has risen to record levels, showing a substantial margin of increase over the year-previous figures. In September aggregate outlays for new construction were 8 per cent above September 1953, and the recent high levels of new contract awards and new housing starts provide some assurance that the construction boom will continue at least in the immediate future.

Personal Consumption Maintained

A mainstay of economic strength during 1954 has been the steady stream of consumer spending. From the first to the second quarter of the year, such spending rose slightly more than 1 per cent (seasonally adjusted) and this was nearly enough to offset the much greater percentage drop in government outlays. Approximately the same level of expenditures appears to have been maintained during the third quarter of this year.

The maintenance of consumer spending has been largely attributable to the steady flow of personal income receipts and to the increase in disposable income which followed the income tax cut at the beginning of this year. A reduction in many Federal excise taxes last April has also helped to bolster sales. The firmness of total personal income in 1953-54, in turn, has been in part the result of increased "transfer" payments (such as unemployment insurance) and larger property income, which offset the drop in farm income and in wage and salary receipts.

Consumer spending patterns during 1954 do not appear to have shown marked changes, although sales of automobiles and certain other consumer durables are now well below those of a year ago. There has been a moderate rise during 1954 in sales of nondurables, however, in which the ground lost after mid-1953 has been recovered. Spending for services, meanwhile, continued to rise during the year, although at a somewhat slackened pace, as rents and the prices of other services tended to level off.

Steady Inventory Depletion

An outstanding feature of economic developments in 1954 has been the steady liquidation of stocks held by manufacturers of durable goods. From a high level of 27 billion dollars (seasonally adjusted) in the autumn of 1953, such inventories fell to about 24 billion at the close of last August. Manufacturers' sales of durables also declined during this period, however, owing especially to smaller sales of military hardware, producers' durable equipment, and passenger cars; the ratio of stocks to sales consequently changed little for the period as a whole.

Stocks held by wholesalers and retailers of durable goods declined by about 1 billion dollars during the year ended last August but, in the nondurable goods field, inventories underwent little net change on a seasonally adjusted basis, since lower holdings by manufacturers were offset by higher stocks in the hands of dealers. The reduction in total business inventories from the 1953 high of 82 billion dollars to 78 billion at the end of last August was thus heavily concentrated in the durable goods manufacturing sector.

The size and duration of inventory depletions suggest, in terms of past experience, that the liquidation process may by now be well advanced. Up to the end of August, the drop in the value of total inventories was about 5 per cent, compared with a maximum drop of 6 per cent during the 1948-49 recession; in physical terms, moreover, the extent of recent inventory liquidation may already equal or exceed the declines in the earlier period, which partly reflected price cuts.

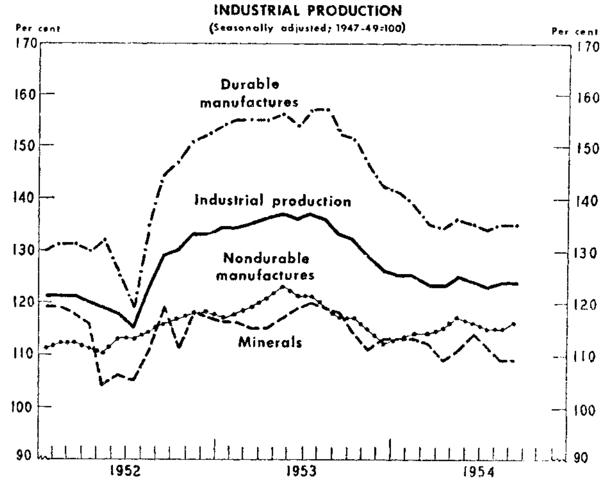
As regards manufacturers' inventories, moreover, the recent data show that stocks of finished goods have begun to decline while stocks of purchased materials seem to be leveling off; up to the middle of 1954, the inventory drop had been concentrated in stocks of purchased materials and goods in process while finished goods continued to pile up. The more recent developments may mark the final phase of the inventory liquidation process—although, to be sure, it might be an extended last phase.

In addition to evidence contained in the over-all statistics, reports from a number of key industries also support the view that stocks have been reduced to more manageable levels. Steel producers, for example, have noted a significant reduction in users' stocks of this commodity. Also, the output of some major groups of durable consumer goods such as furniture and television sets, which earlier in the year had fallen well below sales, has risen significantly since last spring. This may indicate that cutbacks in new output have permitted businessmen to work off excessive stocks and to resume production more in line with current sales.

Patterns in Production and Employment

Declines in spending for defense equipment and for private producers' equipment naturally have impinged most directly on the sales and output of durable goods. Changes in the composition of consumption spending added to this effect since automobile sales dropped appreciably; on the other hand, sales of most other consumers' goods have been relatively steady, and output trends for nondurable goods helped offset the more

Chart I
INDUSTRIAL PRODUCTION
(Seasonally adjusted; 1947-49=100)



protracted decline in the case of durables, as may be seen in Chart I.

The net result has been that total industrial production, seasonally adjusted, has remained between 123 and 125 per cent of the 1947-49 average from January through September 1954. Moreover, since early spring output of durable and nondurable goods has exhibited little more than seasonal changes, remaining respectively about 15 per cent and 5 per cent below the peak 1953 months. Movements within these broad categories have nevertheless continued, apparently reflecting in part the economy's shift away from defense-oriented industries and the decline in passenger car sales. Among the most pronounced changes during the year have been the rise since May in the output of electrical machinery and the nearly steady fall since January in the production of transportation equipment. In addition, there were sharp declines in the output of the lumber and rubber industries, largely because of labor disputes.

The employment picture during 1954 has reflected not only the pattern of changes in production, but also increases in the labor force and advances in productivity. Factory employment, seasonally adjusted, dropped by about 1.2 million persons (7 per cent) from July 1953 to March 1954 and by a further 0.5 million between March and August, after which there seems to have been some improvement. Roughly three fourths of the reduction occurred in durable goods industries, with the rate of decline for durables relatively more pronounced during the latter portion of this period. In the broader area of employment in all nonagricultural establishments, there was a decline of 1.5 million jobs from July 1953 to March 1954, and another drop of 0.5 million through August, after seasonal adjustment. The employment decline thus came to be more and more concentrated in manufacturing and particularly in the making of durable goods.

Within the durable goods field, employment dropped in all major components after July 1953, with especially sharp percentage cuts occurring in ordnance and transportation equipment. In nondurable goods manufacturing, the sharpest employment declines were in the textile and apparel industries. Employment in mining has dropped steadily and substantially for more than a year, but in other sectors of nonagricultural employment the changes have been relatively minor and largely offsetting.

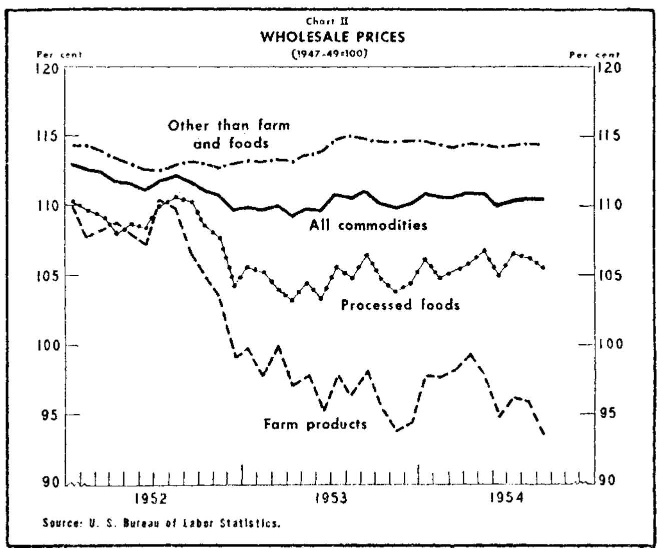
In the meantime, unemployment has varied largely in response to seasonal influences since last spring, although the September-to-October decline was more than usual. A sharp rise in the closing months of 1953 and early 1954 produced a peak last March, but unemployment subsequently declined fairly steadily. The Bureau of the Census estimated unemployment at 2.7 million persons in early October, or about 1.6 million more than a year previous; the increase between these two periods was approximately equal to the rise in the civilian labor force. October unemployment amounted to 4.2 per cent of the civilian labor force, compared with a postwar October average (1946-53) of 3.0 per cent.

Pronounced Stability of Prices

Prices in general have continued to show the marked stability which has characterized the entire period since the reaction to the post-Korea rise. The consumer price index has moved between 113 and 116 per cent of the 1947-49 average since the middle of 1952, and the index of wholesale prices has scarcely changed since the beginning of 1953. The economy has not experienced this degree of extended price stability, particularly in the wholesale markets, since wartime price controls were in effect.

Again, however, there has been divergence within the totals, as may be seen in Chart II. Wholesale farm products prices have responded largely to changing supply conditions (some of which were seasonal) during the last year and a half by falling during most of 1953, recovering during the early months of 1954, and then falling again, while indexes for processed foods and for other commodities have, on the whole, moved very little either way. Consumer prices have also displayed diverse movements within the aggregate. Declines in transportation costs during 1954, reflecting primarily the intensive competition in the sale of automobiles, were offset by slightly higher rents and increased prices for medical and personal care, while food and apparel prices underwent only very minor fluctuations.

The decline in farm prices during 1953 centered mainly on livestock, as heavy sales of cattle for slaughter exerted downward pressure on prices throughout the year. In the autumn, seasonally large supplies of pork added to this pressure in the market. Grain prices were also lower during the year, owing to large carry-overs, lower exports, and new crops of near-record size. By April of this year, farm prices had risen again to nearly the highest point reached in 1953, with a seasonal rebound in livestock and a sharp increase for coffee. These changes far more than offset a drop of about 40 per cent in wholesale egg prices from October 1953 to April 1954. After April, however, hog prices fell sharply since increased



slaughtering was anticipated, pulling down the average for all farm prices. Among the processed foods, dairy product prices in 1954 have been lower than last year's levels, but again they have been offset by rises in cereal and bakery products, sugar and confectionary items, and packaged materials.

Within the total for commodities other than farm and food products, the divergence has been less marked. Firm demand in world commodity markets and the usual "stickiness" in the prices of highly fabricated items have generally helped to minimize price fluctuations. Also, the Government program for stockpiling strategic materials has served to buoy the prices of some commodities, despite the occasional unsettling effect of uncertainty in the market about the extent and timing of the program. In addition, the relatively easy availability of funds has probably facilitated the orderly liquidation of inventories, thus helping to avoid precipitous price declines for some items. There were, however, some fairly pronounced price movements. Prices for hides, skins, and leather goods in the last year and a half have followed much the same pattern as livestock prices, although with smaller amplitude of change. Lumber and wood product prices dropped 5 per cent from early 1953 until the summer of 1954, and then turned up sharply as industrial disputes in the Northwest reduced supplies. With declines in petroleum prices, the cost of fuel, power, and lighting has fallen since early this year.

Conclusion

The view of most observers currently is that the economy is likely to experience continued crosscurrents for some months ahead. Many look forward to a significant retardation or cessation of inventory liquidations, but the favorable effect may be substantially offset by further cutbacks in defense expenditures and in new plant and equipment outlays. High construction activity in the months immediately ahead seems assured by the recent record levels of new contract awards, although if there is no over-all rise in economic activity the basis for continued record-breaking performance in the construction sector may become weaker. There is a widespread tendency, supported in part by the results of recent surveys of consumer purchase intentions, to look toward some expansion in consumer spending.

It will, of course, require some increase in economic activity merely to keep the country's expanding labor force and productive potential as fully employed as it is today; an even greater rise in economic activity would be required to reduce unemployment substantially. It seems fair to say that a rise from current levels of output and employment may depend heavily on continued advances in personal consumption spending. Such spending tends to rise along with population growth even in periods of over-all stability, and this may provide one firm base for renewed expansion.

DEPARTMENT STORE TRADE

Second District department store sales in October, on a seasonally adjusted, daily average basis, rose an estimated 2 per cent above September and equaled sales in October 1953. Sales at New York City department stores in October were 3 per cent under September and were 1 per cent lower than in October a year ago.

On the basis of year-to-year quarterly comparisons, department store sales throughout the country have shown gradual improvement since the beginning of 1954. For the nation as a whole, seasonally adjusted, daily average sales were 5 per cent below 1953 in the first quarter of the year; 3 per cent below in the second quarter; and equal to 1953 sales in the third quarter. Moreover, sales in each of the twelve Federal Reserve Districts have conformed to this same general pattern of improvement.

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

Item	1954			1953
	Sept.	Aug.	July	Sept.
Sales (average daily), unadjusted	106	80	73	102
Sales (average daily), seasonally adjusted	102	105	101	98
Stocks, unadjusted	120	111	104	123
Stocks, seasonally adjusted	115	115	117	118r

r Revised.

Second District department stores had a better sales record over the first three quarters of the year than stores in any

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

Area	Net sales			Stocks on hand Sept. 30, 1954
	Sept. 1954	Jan. through Sept. 1954	Feb. through Sept. 1954	
Department stores, Second District	+4	+1	+1	−2
New York—Northeastern New Jersey Metropolitan Area	+5	+1	+2	−2
New York City	+6	+1	+1	−3
Nassau County	—	—	—	—
Westchester County	+4	+5	+5	+5
Northern New Jersey	0	−1	0	+1
Newark	−2	−1	0	0
Fairfield County	−2	−5	−5	−3
Bridgeport	−3	−6	−6	—
Lower Hudson River Valley	+9	+3	+3	−5
Poughkeepsie	+8	+2	+2	−8
Upper Hudson River Valley	+1	−2	−1	−8
Albany-Schenectady-Troy Metropolitan Area	+1	−2	−1	−8
Albany	+4	−1	−1	−13
Schenectady	−3	−2	−1	−1
Central New York State	−1	−2	−2	−4
Utica-Rome Metropolitan Area	0	−4	−4	−2
Utica	+6	0	0	−1
Syracuse Metropolitan Area	−1	−1	−1	−5
Northern New York State	+4	−6	−6	−4
Southern New York State	+1	−2	−1	−4
Binghamton Metropolitan Area	+4	−1	−1	−3
Elmira	−6	−7	−6	−9
Western New York State	+1	0	0	+1
Buffalo Metropolitan Area	0	−2	−2	−1
Buffalo	−1	−3	−3	−1
Niagara Falls	+8	+3	+4	—
Rochester Metropolitan Area	+3	+4	+4	+4
Apparel stores (chiefly New York City)	+15	+2	+2	−5

other District except Boston. Sales were even with 1953 in the first quarter, and following a slight (1 per cent) decline in the second quarter, they rose 2 per cent in the third quarter. Consequently, for the nine-month period (which included the same number of trading days in 1954 as last year), total Second District sales were 1 per cent above 1953, as were sales in the Boston District. The other ten Districts, despite their improved sales performance from quarter to quarter this year, showed declines from 1953 for the first nine months that ranged from 1 per cent in the Atlanta, Kansas City, Minneapolis, and St. Louis Districts to 10 per cent in the Cleveland District.

In the Second District, seasonally adjusted, daily average sales data for the first three quarters of 1954 are available for six local trading areas—four cities (New York City, Newark, Buffalo, and Bridgeport) and two metropolitan areas (Rochester and Syracuse). As the accompanying table shows, sales in each of these trading areas improved over last year between the first and third quarters of this year.

At the end of September, inventories held by Second District department stores were slightly (2 per cent) below the year-earlier level. The dollar value of outstanding orders, however, which had been consistently below year-ago levels since July 1953, rose to a point 5 per cent above last year's figure at the end of September. Also, the value of new orders placed by Second District department stores increased sharply in September; the total for the month was 23 per cent higher than for September 1953.

Department Store Sales by Quarters in Selected Localities of the Second Federal Reserve District, 1954*
(Percentage change from preceding year)

Locality	Jan.-Mar.	Apr.-June	July-Sept.
Cities			
New York City	+1	−1	+3
Newark	0	−4	+1
Buffalo	−5	−1	−2
Bridgeport	−7	−6	−4
Metropolitan areas			
Rochester	+2	+5	+4
Syracuse	−2	−1	0

* Computed from indexes of average daily sales; adjusted for seasonal variation.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954 September	1954 August	1954 July	1953 September	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	123r	133	#	− 7
Electric power output*	1947-49 = 100	172	176	176	161	− 2	+ 7
Ton-miles of railway freight*	1947-49 = 100	—	89p	89	100	#	−14
Manufacturers' sales*	billions of $	23.7p	23.5	24.1	25.4	+ 1	− 7
Manufacturers' inventories*	billions of $	43.6p	43.9	44.2	47.1	− 1	− 7
Manufacturers' new orders, total*	billions of $	24.2p	22.6	22.6	22.7	+ 7	+ 7
Manufacturers' new orders, durable goods*	billions of $	11.3p	10.0	9.7	10.1	+13	+12
Retail sales*	billions of $	—	14.2p	14.3	14.0	− 1	+ 1
Residential construction contracts*	1947-49 = 100	254p	244	233	180	+ 4	+41
Nonresidential construction contracts*	1947-49 = 100	218p	202	188	243	+ 8	−10
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	90.8	91.2	91.5	88.9	#	+ 2
Wholesale prices†	1947-49 = 100	110.0p	110.5	110.4	111.0	#	− 1
Consumer prices†	1947-49 = 100	114.7	115.0	115.2	115.2	#	#
Personal income (annual rate)*	billions of $	—	285.4p	285.7	287.7	#	#
Composite index of wages and salaries*	1939 = 100	—	257p	257	252	#	+ 3
Nonagricultural employment*	thousands	48,031p	47,939p	47,982	49,707	#	− 3
Manufacturing employment*	thousands	15,769p	15,736p	15,775	17,263	#	− 9
Average hours worked per week, manufacturing†	hours	39.7p	39.7	39.4	39.9	#	− 1
Unemployment‡	thousands	3,099	3,245	3,346	1,246	− 5	—
Banking and finance							
Total investments of all commercial banks	millions of $	83,330p	83,040p	79,990p	76,730	#	+ 9
Total loans of all commercial banks	millions of $	67,250p	66,450p	67,290p	66,310	+ 1	+ 1
Total demand deposits adjusted	millions of $	101,180p	99,400p	100,000p	97,700	+ 2	+ 4
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,931p	29,986	30,028	30,267	#	− 1
Bank debits (338 centers)*	millions of $	62,554	63,591	63,408r	61,698	− 2	+ 1
Velocity of demand deposits (338 centers)*	1947-49 = 100	119.4p	123.1	119.4	118.8	− 3	+ 1
Consumer instalment credit outstanding†	millions of $	—	21,310	21,246	21,347	#	#
United States Government finance (other than borrowing)							
Cash income	millions of $	5,280	5,376	2,956	6,373	− 2	−17
Cash outgo	millions of $	5,364	7,788	5,142	6,294	−31	−15
National defense expenditures	millions of $	3,297p	3,761	3,585	4,222	−12	−22
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	136	137	138	136	− 1	#
Residential construction contracts*	1947-49 = 100	—	157p	181	135	−13	+ 1
Nonresidential construction contracts*	1947-49 = 100	—	189p	180	248	+ 5	−16
Consumer prices (New York City)†	1947-49 = 100	112.7	113.0	113.3	113.2	#	#
Nonagricultural employment*	thousands	—	7,437.0p	7,467.2	7,600.1	#	− 3
Manufacturing employment*	thousands	—	2,576.6p	2,607.4	2,758.2	− 1	− 9
Bank debits (New York City)*	millions of $	57,317	67,030	63,046	55,442	−14	+ 3
Bank debits (Second District excluding New York City)*	millions of $	4,278	4,177	4,304	4,313r	+ 2	− 1
Velocity of demand deposits (New York City)*	1947-49 = 100	150.4	176.3	163.0	149.6	−15	+ 1

Note: Latest data available as of noon, November 1, 1954.

p Preliminary.
r Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
# Change of less than 0.5 per cent.
‡ Unemployment figures for September 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.