// MONTHLY REVIEW
Of Credit and Business Conditions
FEDERAL RESERVE BANK OF NEW YORK
Volume 36 DECEMBER 1954 No. 12

MONEY MARKET IN NOVEMBER

Member bank reserves were subject to wide fluctuations during November, but the average level of free reserves in the four weeks ended November 24 was above 775 million dollars. Unusually large changes in float and in Treasury balances, and seasonal changes in the demand for currency, were the major factors affecting bank reserves. The published week-to-week changes (shown in Table I) did not fully reflect the magnitude of the swings in these factors. Open market operations by the Federal Reserve System moderated, but did not fully offset, the effects on bank reserves. Money market conditions were generally easy, but the degree of ease varied with the fluctuations in the reserve positions of the banks, especially the large New York City "money market banks".

While Treasury bill and other short-term market rates tended to fluctuate inversely with the volume of bank reserves, the general trend of these rates during November was downward until the last few days of the month. The temporary decline in bank reserves at the beginning of the month caused the average issuing rate on the November 4 issue of Treasury bills to rise to 1.023 per cent from 1.007 per cent the previous week, but the three succeeding issues were sold at progressively lower rates. The average for the issue of November 26 was 0.897 per cent, the lowest rate since early August. The average on the December 2 issue, however, rose again to 1.029 per cent as the money market tightened over the month end. Yields on outstanding bills and certificates also declined during the middle of the month, and Federal funds were freely available during much of November at rates below 1 per cent, although higher rates prevailed at the beginning and end of the month.

Developments in the intermediate and long-term sectors of the Government securities market during November were strongly influenced by the Treasury's December refunding program. During the early part of the month, while the market waited for the Treasury's announcement of the terms of the refunding, Treasury bonds were quiet and prices tended to drift down. After the close of the market on November 18, the Treasury announced that holders of the 17.3 billion dollars of maturing or called issues would be given a choice of three securities—2½ per cent, 8⅔-year bonds maturing August 15, 1963; 1¼ per cent, one-year certificates; and 1⅛ per cent certificates maturing August 15, 1955, which were already outstanding in the amount of 3.6 billion dollars. Securities maturing or called for redemption on December 15 could be exchanged for any one or all of the three new issues. The subscription books were open for three days, November 22-24. The market received the terms of the exchange favorably. The announcement ended the uncertainty that had been a restrictive influence in the market for some weeks. Subsequently, however, the bond market declined and "rights" values were marked down. The price reductions reflected in part a lack of buying interest, and also increased optimism concerning the economic outlook. In addition, some offerings of the longer bonds reached the market partly from holders of the "rights" who were making room in their portfolios for the new 2½ per cent bonds of 1963.

On November 29 the Treasury released preliminary figures on the results of the refunding operation. All but 300-400 million dollars of the 17.3 billion dollars of eligible securities were presented for exchange, 6.7 billion for the 2½ per cent bonds, 5.3 billion for the 1¼ per cent certificates, and 4.9 billion for the 1⅛ per cent certificates.

The Treasury also announced in November that it was calling for redemption on March 15, 1955 the 2,611 million dollars of 2⅞ per cent, partially tax-exempt bonds of March 1955-60. On November 12, the Commodity Credit Corporation (CCC) completed the sale of the 1,170 million dollars of certificates of interest in crop loans that it had offered to the banks in October. Subscriptions to this offering were heavy, and allotments were made on a 25 per cent basis, except that subscriptions up to $50,000 were allotted in full.

CONTENTS

Money Market in November 153
The Canadian Banking System 156
Trends in Agriculture 161
Department Store Trade 166
Selected Economic Indicators 168

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Factor	Statement weeks ended				Four weeks ended Nov. 24
	Nov. 3	Nov. 10	Nov. 17	Nov. 24	
Operating transactions					
Treasury operations*	+ 40	+355	−331	+ 7	+ 71
Federal Reserve float	−305	+238	+463	−369	+ 27
Currency in circulation	−168	−140	+ 45	−179	−442
Gold and foreign account	+ 18	− 57	+ 18	+ 14	− 7
Other deposits, etc	+ 21	+169	−130	+ 19	+ 79
Total	−393	+563	+ 66	−508	−272
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+264	+100	−117	− 75	+172
Held under repurchase agreements	+ 25	− 25	—	—	—
Loans, discounts, and advances	+214	−226	+ 6	+138	+132
Total	+503	−151	−111	+ 63	+304
Total reserves	+110	+412	− 45	−445	+ 32
Effect of change in required reserves†	− 10	− 17	−252	− 39	−318
Excess reserves†	+100	+395	−297	−484	−286
Daily average level of member bank:					
Borrowings from Reserve Banks	170	92	87	121	118
Excess reserves†	652	1,189	984	784	902

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

In the four weeks ended November 17, the weekly reporting member banks increased their loans and investments by slightly more than a billion dollars. By far the largest part of this increase represents purchases of CCC certificates of interest, but there was also a moderate increase in commercial loans and in Government security portfolios, particularly toward the end of the four-week period.

Member Bank Reserve Positions

The wide fluctuations in member bank reserves during November reflected substantial intramonthly changes in almost all the regular money market factors. Some of these fluctuations were seasonal and could be anticipated, but some of the more important developments were not foreseeable in magnitude, so that action taken by the System to influence bank reserves was designed mainly to mitigate the swings in bank reserves. The reserve losses were particularly heavy at the beginning of November and in the latter part of the month, while the reserve gains tended to be concentrated in the second and third weeks of the month. As a result, free reserves on a daily-average basis dropped below 500 million dollars in the first statement week of the month, rose to nearly 1,100 million in the second, declined moderately to 900 million in the third, and then fell to about 660 million in the week ended November 24.

Both fluctuations in float and net Government expenditures and receipts caused swings of several hundreds of millions in member bank reserves at various times in the month, but the greatest sustained effects resulted from increased public demands for currency and an increase in required reserves. The currency outflow was heavy in every week except that ended November 17, when there was a minor intramonthly return flow. Demands for currency normally rise rapidly in November, partly because there are three holidays in the month, and partly because of the beginning of the Christmas trade. When holidays fall close to a week end, as all three did in November this year, currency demands are extra large. Over the four weeks as a whole, the loss of reserves resulting from the increase in currency totaled 442 million dollars. Required reserves of member banks increased by about 318 million, but this was almost entirely concentrated in the week ended November 17 in which the new CCC certificates were sold.

The Treasury's balances with the Reserves Banks, which had been above the normal level at the end of October, fell rapidly in the week of November 10 when defense and other expenditures suddenly rose. The net expenditures reduced the balances substantially below normal working levels, and made a large amount of additional funds temporarily available to the banks. In the following week the Treasury drew more funds from its Tax and Loan Accounts in the commercial banks than it needed to meet expenditures, in order to rebuild its deposits with the Reserve Banks. The net change in the Treasury's deposits for the four weeks, therefore, was small.

Due at least in part to the fact that there were three full or partial holidays in November, the volume of float outstanding fluctuated widely within the month, although there was little net change in the volume outstanding over the four weeks ended November 24 as a whole. Float contracted by more than 300 million dollars in both the first and last weeks of the month, while in the second and third weeks combined, there was an expansion of 701 million dollars.

In order to counteract the normal month-end reserve losses and in anticipation of the rise in required reserves on November 13 in connection with bank payments for their allotments of the CCC certificates of interest, the System Open Market Account purchased outright, in the week ended November 3, 264 million dollars of Treasury bills and the Federal Reserve Bank of New York took a modest additional amount under repurchase agreements. At the beginning of the following week, the System Account purchased an additional 100 million Treasury bills. Immediately thereafter, however, a large volume of excess reserves began to accumulate in the market as a result of the decline in the Treasury's deposits at the Reserve Banks and a rise in float, and the System absorbed some of the surplus by selling 117 million dollars of short-term bills for which there was then a heavy demand. At the beginning of the final statement week of the month, the System Open Market Account sold an additional 75 million of short bills which continued to be in active demand. For the four weeks as a whole, these transactions resulted in a net increase of 172 million in the System's bill portfolio.

The Market for Government Securities

Probably the most important influence in the Government securities market during November was the Treasury's December refunding program. In view of the size of the operation

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and the uncertainty engendered by the many rumors that circulated in the market in advance of the announcement, both dealers and investors tended to limit their operations until the Treasury's program was announced. Trading in the "rights" and switching operations by some banks and other institutions accounted for a considerable part of the market activity up to the time of the announcement. In general, the market was quiet and prices in the intermediate and longer-term sectors tended to move down, although not steadily.

The announcement of the refunding offer was well received. After the terms had been "digested", however, "rights" values and the initial "when issued" quotations on the new bonds and certificates declined somewhat, but they remained at a premium through November 29. "Rights" closed on November 18, just before the refunding announcement was made, at a premium of $^{13}/_{32}$; they were subsequently marked down to 100$^{6}/_{32}$. The initial "when issued" quotation of 100$^{9}/_{32}$ on the new bonds was reduced to 100$^{2}/_{32}$ by the close of business on November 29. The 1¼ per cent certificates opened at a $^{9}/_{32}$ premium and were marked down to a $^{3}/_{32}$ premium by the 29th.

The 1956-58 area of the market, which had been depressed by the recent Treasury cash financing of 4.2 billion dollars of 1⅝ per cent notes of May 1957, benefited most from the refunding offer. A number of banks apparently wanted securities in this maturity range and switched out of "rights" into bonds or notes maturing or callable in this area. Prices of most of these issues, therefore, resisted the markdowns experienced by the longer issues and showed only minor net changes over the month as a whole. Prices of the 1⅝ per cent notes of May 1957, which had dropped below par not long after their issuance on October 4, began to firm after the November announcement and subsequently advanced to a quotation of 100$^{4}/_{32}$ (bid). By November 29, however, the price of these notes had declined to 99$^{30}/_{32}$. The amount of the "rights" sold by investors who preferred to do their own "refunding" into different maturities, however, was moderate.

Interest in the longest-term sector of the market was at a minimum during November. Insurance companies and some other institutions sold small amounts of various 2½ per cent bonds from time to time to make room in their portfolios for other investments, including the new 2½ per cent Treasury bonds of 1963, but very little buying interest developed. Also, the sharp rise in stock prices, which reflected a growing optimism over the economic outlook, and the heavy advance calendar of new toll-road and other municipal-type borrowings tended to depress bond prices. Long-term bond prices were down as much as ¾ of a point through November 29.

The bill market was strong during most of November despite some occasional tightening of bank reserve positions. Nonbank demand for short issues expanded, and the fact that the December refunding program will reduce the supply of short securities also stimulated the demand. The supply of bills in the market, especially those maturing before the end of the calendar year, was meager, however, and only a part of the demand could be met. Some who were unable to acquire specific maturities of Treasury bills or were reluctant to follow rates downward purchased certificates, including the March tax anticipation series, or short notes instead, and a fair volume of two-way trading developed in these issues. Apparently some banks also acquired December 15 "rights" as a money market instrument subject to resale when reserve positions tightened.

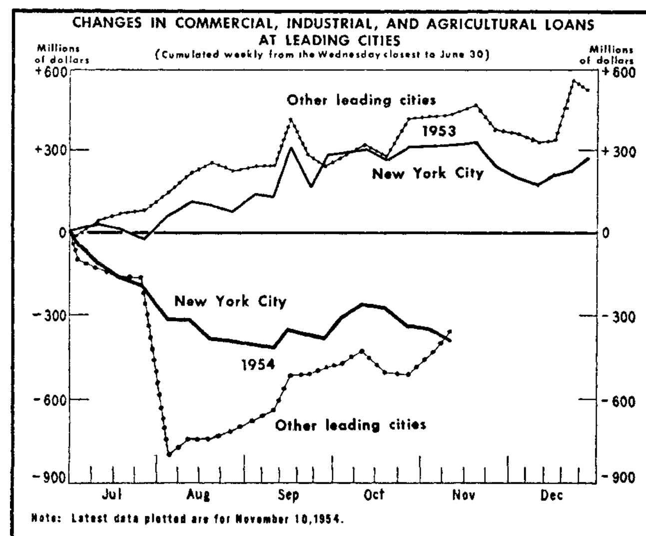
The strength of the demand for short-term issues during the better part of the month was reflected in the trends of prices and yields for these securities. Short-dated bills at times traded below ½ of 1 per cent, although closing bid quotations on most days ranged from about 0.60 per cent for the shortest issues to about 0.90 for the longest, the lowest levels since midsummer. At the very end of the month, however, bill yields, especially on short issues, rose. Prices of certificates, despite some weakening at the month end, rose as much as $^{2}/_{32}$, net, through the 29th.

Member Bank Credit

Seasonal demands for credit at the weekly reporting member banks have been modest all fall, as the accompanying chart indicates, although there has been a modest upturn recently. If allowance is made for the sale of 360 and 450 million dollars of CCC certificates of interest in October and December 1953, respectively, and the repayment of a large block of CCC certificates in August 1954, the net demand for accommodation at these banks during the period from the end of June through early November[1] was both smaller than in the comparable weeks of 1953 and slower in developing.

Furthermore, as the chart also indicates, there was a sharp difference between the experience of the New York City banks and weekly reporting banks in other areas. Commercial loans of

[1] The chart shows the change in loans only through November 10; subsequent figures indicate that the increase outside New York City, net of CCC, has been somewhat greater than in 1953, but for all weekly reporting banks combined, the increase in 1954 is still well below that of 1953.



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the City banks have shown a *net* decline since June even after an allowance is made for the August redemption of CCC certificates. This difference has apparently been the result of differences in the credit demands of three industries. Outside New York City, loans to food, liquor, and tobacco dealers by banks that report their loans by type expanded by nearly 300 million dollars in the nineteen weeks from the end of June through November 10, while those by banks in the City showed little net change. Banks in other large cities loaned about 250 million dollars, net, to commodity dealers and 100 million to miscellaneous commercial borrowers, while those in New York City loaned only about 150 million to commodity dealers and made no new advances, net, to the miscellaneous group. Loans to sales finance companies by New York City banks, however, contracted by less than 100 million, while those of banks in other cities were down close to 175 million.

Table II, which shows one more week than the chart, indicates a rather sharp rise (981 million dollars) in commercial, industrial, and agricultural loans at the weekly reporting banks during the most recent four-week period for which figures are available. This rise reflects for the most part bank purchases of the CCC certificates of interest sold on November 12. The weekly reporting banks apparently were allotted approximately 700 million dollars of these certificates. During these four weeks other loans on the books of these banks showed only a small net increase, as a decline in security loans in New York City largely offset increases in other classifications. Investments, however, rose by 276 million, as the banks purchased moderate amounts of all types of Government obligations.

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 Nov. 17, 1954
	Oct. 27	Nov. 3	Nov. 10	Nov. 17	
Assets					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans	− 83	+ 61	+ 29	+ 974	−1,273
Security loans	+ 15	+ 57	−291	− 130	− 80
Real estate loans	+ 23	+ 19	+ 29	+ 25	+ 570
All other loans (largely consumer)	+ 15	+ 29	− 24	+ 46	− 48
Total loans adjusted*	− 30	+165	−256	+ 915	− 871
Investments:					
U.S. Government securities:					
Treasury bills	+ 78	−206	+ 39	+ 263	+ 233
Other	+ 52	+ 31	− 20	+ 37	+4,644
Total	+130	−175	+ 19	+ 300	+4,877
Other securities	+ 14	+153	−271	+ 106	+1,083
Total investments	+144	− 22	−252	+ 406	+5,960
Total loans and investments adjusted*	+114	+143	−508	+1,321	+5,089
Loans to banks	− 28	+ 80	−283	+ 80	− 60
Loans adjusted* and "other" securities	− 16	+318	−527	+1,021	+ 212
Liabilities					
Demand deposits adjusted	+580	−578	+101	+ 109	− 535
Time deposits except Government	+ 29	+ 10	− 24	− 140	+1,689
U. S. Government deposits	−375	+ 1	+ 41	+ 909	+2,161
Interbank demand deposits:					
Domestic	−304	+326	+141	+ 462	+ 551
Foreign	− 8	− 25	− 31	+ 14	+ 15

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

THE CANADIAN BANKING SYSTEM

Important revisions have been made in Canadian banking legislation this year. The statutory cash reserve requirements of the chartered banks were raised; wider scope was provided for bank lending operations; and certain limitations on the Bank of Canada's freedom to engage in open market operations were removed. Along with the recent legislative changes, further progress has been made in developing a money market in Canada.

These developments have focused new attention upon Canada's banking system, particularly upon the continuing adaptation of banking activities to changes in the country's financial needs. They also underscore the prominent role that has come to be assigned to monetary policy as an instrument for maintaining economic stability and providing appropriate conditions for a sustained and balanced growth of the Canadian economy.

The Canadian Chartered Banks

Canada's commercial banking system consists of eleven so-called chartered banks—chartered by the Canadian Government and operating under the Canadian Bank Act (see Table I).[1] Adequate and generally competitive banking facilities for the country as a whole are provided through the widespread system of branch offices that are maintained by all except two of the banks. Typically, towns having populations of 10,000 or more are serviced by branches of two or more different banks. A total of 3,933 branch offices was being operated by the chartered banks in Canada at the end of 1953 (as well as 116 branches in foreign countries), thus providing an average of one banking office for each 3,800 people in Canada. This banking structure contrasts sharply of course with that in the United States, where there were 13,981 individual commercial banks on the same date; about 10 per cent of these had branch offices (the total number of branches being 5,627), providing an average of one commercial banking office for each 8,200 people.

The Bank Act of 1871, which set forth conditions governing the founding and functioning of banks, as well as the powers

[1] A merger between two of the chartered banks, the Bank of Toronto and the Dominion Bank, now in process, would reduce the number to ten. Such a merger would make the new bank (to be known as the Toronto-Dominion Bank) the fourth largest of the Canadian Banks.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

granted to them, established the basic legal framework for Canada's banking system. By providing that this legislation was to be reviewed at the end of ten years and that the bank charters were to be valid only for a ten-year period, the act set a precedent that has been maintained, and one that has been generally favored by Canadian bankers. Special circumstances have on occasion necessitated amendments to the Bank Act between the decennial revisions; and there have been several postponements of the decennial revisions themselves, accompanied by a temporary extension of the banks' charters; but the last three revisions have been made regularly at ten-year intervals—1934, 1944, and 1954.

Some of the more important revisions during the present century have provided for an independent private audit of banks (1913), for the initiation of government examinations by an Inspector General of Banks appointed by the Finance Minister (1924), for a reduction in the note issue of the chartered banks (1934), for the subsequent abolition of such issues (1944), and for a cash reserve requirement set at 5 per cent of total deposit liabilities (1934, but effective only when the Bank of Canada began operating in 1935). One of the distinctive features of Canadian banking legislation is the provision, which has been gradually clarified and extended, that banks could lend against assignments of agricultural products, raw materials, and other merchandise; this has proved to be a particularly appropriate credit vehicle in Canada for the financing of primary production and foreign trade, which have constituted a high proportion of over-all economic activity. A 1954 revision, which permits banks to acquire insured mortgages arising from new residential construction, constitutes new evidence of the continuing adaptation of banking activities to the country's changing financial needs.

Although the chartered banks, from 1935 until the revision of the Bank Act this year, were required to maintain at all times a minimum cash reserve, consisting of Bank of Canada notes and deposits with the Bank of Canada, of only 5 per cent of total deposit liabilities, the banks customarily maintained their cash reserves in the neighborhood of 10 per cent. The 1954 legislation requires the banks to maintain minimum cash reserves equal, on the average during each month, to 8 per cent and provides for a maximum requirement of 12 per cent. The Bank of Canada is empowered to vary the requirement between these limits, provided that notice of at least one month is given before each increase, and that any increase is no larger than 1 per cent. The initial reserve requirement was set at 8 per cent effective July 1, 1954; during recent months there has been a decline in the average reserve ratio of the banks from the traditional level of 10 per cent to somewhat less than 9 per cent.

Table I
The Canadian Chartered Banks
(As of December 31, 1953)

Bank	Number of branches		Total assets (in millions of Canadian dollars)
	In Canada	Outside Canada	
The Royal Bank of Canada	724	70	2,855
Bank of Montreal	598	4	2,417
The Canadian Bank of Commerce	646	9	2,000
The Bank of Nova Scotia	387	30	972
Imperial Bank of Canada	234	—	609
The Bank of Toronto	248	—	576
The Dominion Bank	182	2	534
Banque Canadienne Nationale	559	1	514
The Provincial Bank of Canada	350	—	203
Barclays Bank (Canada)	4	—	38
The Mercantile Bank of Canada	1	—	4
All chartered banks	3,933	116	10,722

Note: The data on both branches and total assets include foreign-incorporated subsidiaries of the Bank of Montreal (in California), the Canadian Bank of Commerce (in California), the Royal Bank of Canada (in France), and the Banque Canadienne Nationale (in France).

Sources: *Bank Directory of Canada*, January 1954; and *Return of the Chartered Banks of Canada, December 31, 1953*.

Chartered Bank Operations

Data on the principal assets and liabilities of the Canadian chartered banks reveal some of the chief characteristics of the banks' operations, and a comparison of these data with roughly comparable data on the assets and liabilities of United States commercial banks points up some of the major differences in the banking activities of the two systems (see Table II).

As for the broad differences in the aggregate balance sheets shown in Table II, the Canadian banks have a somewhat higher proportion of earning assets to total assets than their United States counterparts, a higher ratio of loans to investments, a substantially higher proportion of commercial and industrial loans relative to total loans, and a lower ratio of capital and contingency reserves to total liabilities. Also, although the Canadian banks have a much larger proportion of their cash assets in the form of deposits with banks abroad, their total holdings of cash items and interbank deposits represent a smaller proportion of total assets. This is attributable mainly to the very small volume of interbank deposits in Canada and to the lower cash reserves maintained relative to deposit liabilities.

There are also a number of more specific differences between Canadian and United States banks that deserve particular mention. First, the Canadian banks have a high level of "notice" deposits (comparable on the whole to time deposits in United States commercial banks). At the end of 1953, as shown in Table II, they accounted for almost half of all deposits in the chartered banks in Canada; in contrast, such deposits in the United States commercial banks accounted for less than one quarter of all deposits. An important reason for this difference apparently lies in the fact that savings deposits in Canadian financial institutions other than chartered banks are relatively smaller than those in comparable financial institutions in the United States;[2] in part this is also a consequence of the fact that "notice" deposits, unlike time deposits in the United States, may be used as checking accounts, although the greater part are in practice inactive.

Secondly, the small amount of real estate lending by the Canadian chartered banks contrasts sharply with the major role that such lending has continued to play in the commercial

[2] Such institutions in Canada include the Post Office Savings Bank, the Quebec savings banks, trust and loan companies, credit unions, and the provincial government savings bank institutions in Newfoundland, Ontario, and Alberta.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

banking system of the United States, where there has been a progressive relaxation of legal restraints against such lending over the past forty years. The recent legislative action to permit Canadian banks to finance residential construction through insured real estate loans will, of course, enlarge the scope of their mortgage activities; at the end of October, such mortgage loans already amounted to almost 40 million dollars, and commitments for further mortgage financing were reportedly about 2½ times this figure.[3] Nevertheless, bank lending against real estate is not entirely new since the items labeled "farm loans" and "commercial and industrial loans" in Table II contain small amounts of short-term mortgage loans to farmers and to veterans, made under legislation adopted in 1944 and 1946.

Thirdly, Canadian banks have not engaged in "term lending" to business firms and in consumer lending to the same extent as United States banks. There has been no surge in "term lending" comparable to that which occurred in the United States in the late thirties and in the immediate postwar period. However, Canadian banks have done a certain amount of financing of a similar character through the purchase of corporate debentures. Although consumer financing by the Canadian banks has increased rapidly (except for the interruption caused by the imposition of consumer credit controls in Canada between November 1, 1950 and May 6, 1952), consumer loans represent a smaller proportion of total bank assets in Canada than in the United States. This reflects in part the relatively greater roles in Canada of the "specialized" consumer-financing institutions—sales finance companies, credit unions, small loan companies, and licensed money lenders. The revised Bank Act of 1954 permits the chartered banks, for the first time, to lend against chattel mortgages; this provision may tend to stimulate consumer lending by the banks.

A fourth distinctive feature of the lending operations of the commercial banks relates to their role in assisting in the financing of payroll purchases of the annual series of Canada Savings Bonds. The Canadian Government has floated a new issue of these small savings securities in the fall of each year since 1946. In order to facilitate payroll sales, while still permitting the government to receive full payment at the outset for all subscriptions, the chartered banks provide instalment loans to payroll subscribers, with the bonds serving as loan collateral. All payroll subscriptions to Canada Savings Bonds are concentrated around November 1; and the security loans of the chartered banks have thus tended to have a strong "seasonal" movement during recent years, with a marked peak toward the end of each year.

Some reference should also be made to check clearing in Canada. The clearing arrangements are facilitated by the relatively small number of banks and by the fact that a substantial proportion of total clearings consequently consists of purely internal clearings handled independently by each bank. As to interbank clearings, there are local clearing arrangements in virtually all Canadian towns where there are branches of at least two banks. However, most of the interbank clearings are handled through clearing houses that have been formally established by the Canadian Bankers' Association in fifty-two Canadian cities under powers conferred upon this association by its act of incorporation in 1900. The clearing houses in five cities—Montreal, Ottawa, Toronto, Winnipeg, and Vancouver—act as regional clearing centers for uncleared balances within their respective regions; and remaining clearing differences are then settled by means of debits or credits to the

[3] Prior to the new legislation, institutional mortgage financing in Canada was almost exclusively undertaken by insurance companies, trust and loan companies, and credit unions.

Table II

Assets and Liabilities of Canadian Chartered Banks and United States Commercial Banks, December 31, 1953

Item	Canadian chartered banks		United States commercial banks	
	Millions of Canadian dollars	Per cent of total	Millions of U. S. dollars	Per cent of total
Total assets	10,722	100.0	193,818	100.0
Investments, total	3,831	35.7	78,343	40.4
Federal government obligations	2,760	25.7	63,637	32.8
Provincial or state government obligations, etc.	486	4.5	10,854	5.6
Other securities	585	5.5	3,852	2.0
Loans, total	4,592	42.8	67,973*	35.1
Loans to farmers	334	3.1	4,987	2.6
Commercial and industrial loans	2,668	24.9	27,336	14.1
Security loans	588	5.5	3,581	1.8
Real estate loans	†	†	16,835	8.7
Other loans	1,002‡	9.3	16,198	8.4
Cash and balances with other banks§	2,005	18.7	44,961	23.2
Other assets	294	2.7	2,541	1.3
Total liabilities	10,722	100.0	193,818	100.0
Deposits, total	10,140	94.6	177,503	91.6
Business and personal	8,214	76.6	142,319	73.4
Demand	3,180	29.7	100,319	51.8
"Notice" or time	5,034	47.0	42,000	21.7
Federal government	497	4.6	4,538	2.3
Provincial or state government, etc.	171	1.6	11,632	6.0
Interbank (domestic banks only)	182	1.7	13,631	7.0
Other	1,076‡	10.0	5,383	2.8
Other liabilities	163	1.5	2,765	1.4
Capital accounts	419	3.9	13,551	7.0

Note: Because of rounding, figures do not necessarily add to totals.
The Canadian and United States data are not strictly comparable. For example, the Canadian figures include all assets and liabilities of all branches and subsidiaries of Canadian banks outside Canada, while the United States figures do not. The United States figures include the assets and liabilities of deposit-accepting trust companies, while the Canadian figures do not include comparable data for trust companies in Canada. In addition, there are differences in some of the components shown. For example, "security loans" include, in addition to loans to security brokers and dealers in both countries, "loans to others for purchasing or carrying securities" in the United States and "loans to individuals, for business purposes, on the security of marketable stocks and bonds" in Canada. Similarly, all real estate mortgage loans of United States banks are included under "real estate loans", while in the case of the Canadian banks small amounts of real estate mortgage loans to farmers and to veterans are included under "loans to farmers" and "commercial and industrial loans".

* Loans and discounts *net*—that is, after deduction of valuation reserves of 963 million dollars. The various loan components are shown gross.

† Negligible.

‡ Includes loans of various types equivalent to 540 million Canadian dollars made by branches and subsidiaries of Canadian banks operating outside Canada.

§ Includes cash balances held internally and abroad, balances with both domestic and foreign banks, and cash items in the process of collection.

‡ Includes deposits in Canada equivalent to 197 million Canadian dollars in currencies other than Canadian dollars, and deposits equivalent to 741 million Canadian dollars in branches and subsidiaries of Canadian banks operating outside Canada.

Sources: *Return of the Chartered Banks of Canada, December 31, 1953; Statistical Summary* of the Bank of Canada, January 1954; and *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1953*, Washington, D. C.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

various banks' deposit balances in the Bank of Canada. There is, of course, a volume of float arising from these clearing arrangements, but it is carried by the chartered banks themselves; it thus has no influence on the reserve base, and its variations, even though large, can be averaged out without exerting, as in this country, any appreciable direct influence upon the calculation of reserve balances.

The time involved in interbank clearings is largely a function of geography: local clearings are usually handled in one day; regional clearings normally take at least two or three days; and coast-to-coast clearings may take up to five. The banks charge commissions, according to a fixed schedule of rates, for the cashing of all checks that are cleared at points other than the place at which they are actually cashed (except for a small volume explicitly marked "payable at par" under an arrangement with the issuer's bank).

The Bank of Canada

Prior to World War I, Canada's legal tender currency—which at that time consisted of Dominion Government notes—had to be backed 100 per cent in gold (apart from a relatively small fiduciary issue). The large expansion in currency necessitated by that war was made possible by the Finance Act of 1914, which authorized the government to make advances of Dominion notes to the chartered banks against appropriate securities. The government's authority to continue to exercise this central-banking function was extended after the war, in the absence of strong support for the establishment of a central bank; and the banks continued to resort to this practice of "borrowing reserves" during the twenties. However, the severe economic strains of the early thirties clearly revealed the unsatisfactory nature of this mechanism as a substitute for a central bank. Accordingly, a Royal Commission on Banking and Currency was appointed in mid-1933 to undertake a thorough examination of the country's monetary system. This commission issued a report in September 1933 favoring a central bank and, as a result, legislation was adopted in 1934 establishing the Bank of Canada. The Bank actually commenced operations on March 11, 1935.

The Bank of Canada was initially a privately owned institution. A 1936 amendment to the Bank of Canada Act, however, made the government a majority stockowner and gave it the power to select a majority of the directors. A further amendment in 1938 made the government the sole owner.

The Bank was given broad central-banking powers to engage in gold and foreign exchange transactions and in open market purchases or sales of government and certain other kinds of securities; to rediscount and deal in commercial paper; and to lend to Canadian banks and the central and provincial governments. Initially, the Bank was permitted to acquire, without restriction, short-term securities (with maturities not exceeding two years) issued or guaranteed by the central and provincial governments, as well as shorter-term securities (having maturities not exceeding six months) issued by the Governments of the United Kingdom, the British Dominions, the United States, and France. However, certain limits were placed on acquisitions of longer-term issues of any of these Canadian and foreign authorities. Under the 1954 amendments to the Bank of Canada Act, all limits on acquisitions of securities issued by the central and provincial governments and the United States Government were removed, while the authority to purchase longer-term British Government obligations and securities issued by the French and British Dominion Governments was rescinded. The amendments also required greater publicity with regard to the Bank's holdings of Canadian Government securities—specifically that a maturity distribution of such holdings be published every month. The power to engage in open market operations has been extensively used in connection with purchases and sales of both short-term and long-term securities of the central government.

The Bank of Canada also acts as fiscal agent, without charge, for the Canadian Government, and as an agent in the management of the public debt. The Bank now has the sole right of note issue, the chartered banks' authority to issue notes in Canada having been terminated in 1945; its notes replaced Dominion Government notes as legal tender, and can be counted by the banks in their statutory cash reserves. The Bank of Canada Act stipulates that the Bank of Canada must maintain a gold reserve equal to 25 per cent of its note and deposit liabilities; but this requirement has been suspended since May 1940.[4] Finally, as already noted above, the Bank of Canada has been empowered by the 1954 banking legislation revisions to vary the cash reserve requirements for the chartered banks between 8 and 12 per cent.

Monetary Policy and Techniques

In the latter half of the thirties, the Bank of Canada was mainly concerned with exercising its monetary powers to stimulate economic recovery. During World War II the Bank's operations were closely geared to the war finance program, the major features of the Bank's policies being, first, the provision of generally easy monetary conditions to assure the success of government borrowing operations and to allow for the added monetary needs of the rapidly expanding economy and, secondly, the maintenance of a relatively stable pattern of rates on government obligations (but at a level somewhat above that maintained in the United States). The Bank continued to support the prices of government securities in the early postwar period, thus maintaining easy money conditions, despite the emergence of unexpectedly strong and persistent inflationary forces. Although the monetary authorities attempted to exert a restraining influence on credit expansion

[4] On the latter date, all of the Bank's gold holdings, and its foreign exchange holdings above working balance needs, were transferred to the Exchange Fund Account under the control of the Foreign Exchange Control Board, a wartime agency that was given powers to control all foreign exchange transactions in the national interest, and which was authorized to hold all of the nation's monetary gold. Since the termination of the Foreign Exchange Control Board's operations in mid-December 1951, Canada's official gold reserves have been held in the Exchange Fund operated on behalf of the Minister of Finance.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

through informal agreements with the chartered banks, the government placed primary reliance upon fiscal action and the temporary continuation (until the latter part of 1947) of much of the wartime network of direct controls. But, with the large-scale retirement of government securities that began in 1947 and with firmer lodgment of the remaining government securities among investors, the "support" policy was modified early in 1948. Since that time, although often active at the "fringes of the market" as prices of government securities have moved up or down, the Bank of Canada has not maintained any fixed yield curve.

In the latter part of 1950, the need for increased defense outlays and the reappearance of inflationary pressures led to the initiation of a program of energetic monetary measures as an alternative to a comprehensive network of direct controls. This program was reinforced in the first half of 1951, as inflationary forces mounted in intensity. In the first half of 1952, following a clear-cut abatement of inflationary pressures, monetary restraints were relaxed substantially. During the past year, with a moderate slowing-down of economic activity in Canada, appropriate conditions of monetary ease have been maintained.

The monetary authorities have relied upon two major instruments in implementing their policies—open market operations and informal agreements. The compactness of the Canadian banking system has lent itself readily to informal agreements between the banks and the monetary authorities for the implementation of bank lending and investment policies aimed at maintaining financial stability. Examples of actions of this sort include the agreement in March 1946 which, in effect, prevented undue switching from short-term to long-term government securities in bank portfolios, the February 1948 agreement to limit bank financing of business capital needs, and the agreement of February 1951 to check the further expansion of total bank credit and to curb bank lending for less essential purposes.

Open market operations by the Bank of Canada have been the principal instrument of quantitative monetary control in Canada since the founding of the Bank in 1935. In the late thirties they were used to foster economic recovery, and during and immediately after World War II to implement a "stable rate" policy; after the outbreak of the Korean hostilities, open market operations were carried on in such a manner as to restrain monetary expansion. In a statement last March, at a hearing of the Standing Committee on Banking and Commerce of the House of Commons in Canada, the Governor of the Bank of Canada referred to the Bank's operations in government securities "as part of our program to improve and broaden the money market for the benefit of lenders and borrowers and of our financial structure as a whole. . . . While the total amount of our holdings of government securities is necessarily determined by considerations of monetary policy, we have endeavored to help make a market for all government issues and have been very substantial buyers and sellers". The Bank of Canada thus seems to have conducted open market operations to influence the whole credit structure and the range of interest rates.

The effectiveness of open market operations in Canada seems to have been hindered by the fact that the customary 10 per cent reserve ratio of the chartered banks was far above the 5 per cent minimum legally required until this year. The absence of a well-developed money market, which reflected in part the fact that Canada is a relatively young country, apparently also made effective open market policy more difficult. Scope for open market operations should, however, be enhanced by the recent progress toward the development of a Canadian money market, which will be discussed below, as well as by the powers granted to the Bank of Canada to vary reserve requirements and the enlarged authority to deal in longer-term securities. Development of the money market may also increase the importance of the rediscount rate; up to the present, changes in the so-called "Bank Rate" in Canada have been used purely for psychological purposes.[5]

Selective credit controls have also been used to some extent in Canada. Consumer credit controls, administered by the Government, were employed during World War II, were temporarily reimposed in November 1950 and reinforced in early 1951; they were subsequently abandoned in 1952. Also in early 1951, at the time of the understanding between the Bank of Canada and the chartered banks, margin requirements were increased on loans for carrying corporate stocks.

Finally, given the important role of international trade and payments in the Canadian economy, shifts in Canada's balance of payments inevitably have an important bearing upon the country's monetary system. Some alterations in Canada's foreign economic policies—particularly, the suspension of a fixed exchange rate for the Canadian dollar in October 1950—have been partly based on monetary considerations. In a country where foreign trade is of such great importance, the formulation of monetary policy necessarily takes into account that policy's possible impact upon the international, as well as the domestic, position.

The Development of the Money Market

As already noted, the effectiveness of open market and rediscount policy in Canada throughout the postwar years seems to have been hampered by the absence of a developed money market. When the Bank of Canada commenced operations in 1935, there was a reasonably good market for long-term government securities, but the short-term money market outside the chartered banks was almost nonexistent. As late as 1952, there were few of the instruments and institutional arrangements that characterize the money markets in London and

[5] The Bank Rate has been changed on only two occasions: from 2½ per cent to 1½ per cent effective February 8, 1944, reflecting an intention to continue easy money policies during the war and early postwar period; and an increase to 2 per cent effective October 17, 1950, reflecting an intention to tighten monetary restraint.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

New York. Treasury bills had been sold by tender since the mid-thirties, but bills were held almost exclusively by the chartered banks who used them to adjust their reserve positions through sales to, and purchases from, the Bank of Canada. There was no commercial paper, and there were no interbank loans. Borrowing by the chartered banks from the Bank of Canada was very unusual, and there was no rediscounting. There was, in short, no regular market into which temporarily idle funds of banks and business concerns could flow, and upon which banks and business concerns could draw to meet short-term needs.

Recently, however, the development of the money market has received impetus from many quarters. In 1953, the issue of Treasury bills was changed from a fortnightly to a weekly basis and the offering was broadened to include nine-month as well as the usual three-month bills; as a result an investor now finds it possible to obtain bills maturing in any week within the next nine months. In the same year, the Bank of Canada adopted the practice of concluding purchase and resale agreements with recognized dealers taking a jobbing position in short-term government securities; such a dealer may, within agreed limits, sell Treasury bills and short-term government bonds to the Bank of Canada with an undertaking to repurchase them over a short period at a predetermined yield. The new banking legislation, by raising the minimum reserve ratio to 8 per cent and by empowering the Bank of Canada to raise the ratio up to 12 per cent, has also tended, by making the chartered banks more sensitive to changes in liquidity, to foster more active trading in money market instruments. These tendencies have also been furthered by the discontinuance of the earlier arrangement under which the chartered banks could obtain immediately available funds through direct sales of Treasury bills to the Bank of Canada. The chartered banks themselves have been encouraged by the monetary authorities to make "day-to-day" loans to investment dealers to assist them in carrying positions in short-term government securities.

An increase in the flow of short-term funds seeking investment is already apparent; chartered banks have taken advantage of the facilities provided by the market, and nonfinancial corporations and municipalities have shown increasing interest in the new outlet for idle funds. As yet the market is largely confined to short-term government securities, but this in itself is a major advance. In time, a better market for nongovernment instruments may develop and thus help to channel funds in directions that will further the growth of the Canadian economy.

The growing money market is also likely to increase the effectiveness of monetary policy. The development of facilities for rapid and inexpensive adjustment of the banks' reserve positions tends to encourage the chartered banks to carry smaller cash reserves above the minimum requirements. As a result, relatively moderate shifts in the over-all supply of reserve funds may make borrowing from the central bank necessary; several of the chartered banks did in fact begin in 1954 to do some borrowing at the Bank of Canada. If money market activities should give rise to increased use of the Bank of Canada's rediscount and advance facilities, the role of rediscount policy might be enhanced in Canada. A broader money market would also tend, by creating more sensitive connections with the related markets for longer-term government securities, to increase the effectiveness of open market policy.

Conclusion

Although Canada is frequently regarded as a new and rapidly developing country, it has a long tradition of sound and stable banking; and the transformation of the country within the past century into one of the world's foremost and strongest nations owes much to the strength and vitality of its banking system. Moreover, against the background both of the evolutionary adaptation of bank operations to changing financial needs and of the creation of a central bank, the banking system is well prepared to continue to play a dynamic role in the further development of Canada's great economic potential.

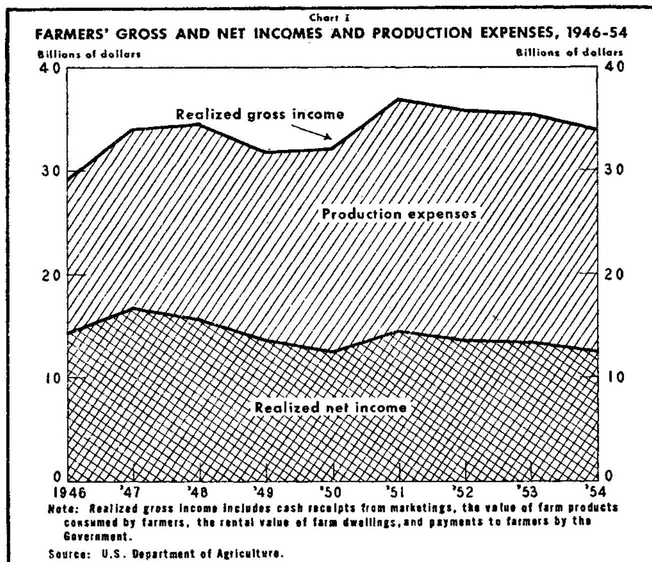
At the same time, the Canadian monetary authorities, recognizing that monetary stability and a maximum of freedom for the exercise of individual initiative are critically important conditions for rapid and sustained economic growth, have concluded that it is both appropriate and necessary to rely heavily upon monetary policy to maintain conditions conducive to such growth. To this end, actions have recently been taken in Canada, along the lines discussed in this article, to enhance the future flexibilty and effectiveness of monetary policy.

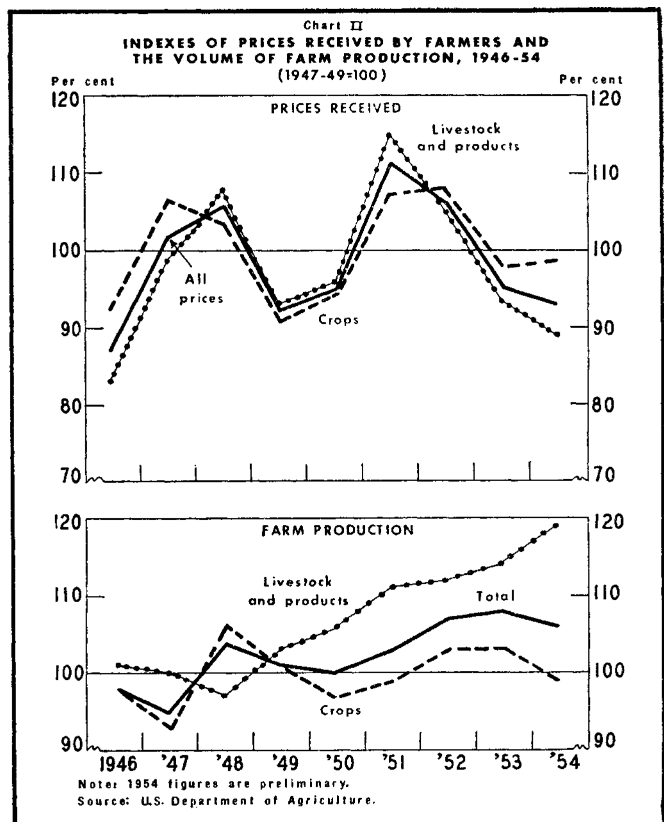
TRENDS IN AGRICULTURE

Gross farm income in 1954 appears to have declined for the third consecutive year from the record 1951 level, as crop output was reduced and livestock prices on the whole were lower. Production costs have also fallen, but not enough to offset the drop in gross income, and net receipts consequently declined, as they have in every year but one since 1947 (see Chart I). As in past years, part of the farmer's income stemmed from the Federal Government price-support program, and stocks of farm commodities held by the Commodity Credit Corporation (CCC) rose to record levels, although the rate of increase was not so rapid as in 1953.

The decline in net farm income this year marked a continuation of the process of readjustment which American agriculture has undergone throughout the postwar period, and especially since 1951. The high demand for farm products engendered by World War II, by the worldwide shortage of food and of other farm products in the early postwar years, by the war in Korea, and by the operation of the price-support program

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis





served as a powerful stimulus to rapid mechanization and improved farming techniques and resulted in advances in agricultural productivity at a rate rarely experienced before. Between 1939 and 1953, farm output rose by more than 30 per cent, although acreage in use showed almost no increase. The rise in output, moreover, continued through 1953 even though the demand that originally stimulated the broadening of productive capacity failed to increase at the same pace; farm exports have, in fact, sharply contracted for the past three years from early postwar levels. The resulting imbalance of supply and demand has, since 1951, brought falling farm prices and incomes as well as large-scale Government accumulation of surplus stocks and intensified output restrictions.

During 1954, over-all farm output declined slightly for the first time since 1950, partly because of the effects of acreage restrictions. It is also noteworthy that, although net farm income declined at a greater rate than income for the country as a whole, per capita farm income appears to have remained about the same this year as in 1953, mainly because of continuing migration from farms to urban communities, a development which has been characteristic of the postwar period. Per capita purchasing power of the farm population also appears to have been reduced only slightly this year, and although total farm debt rose during 1954, financial assets of farmers are expected to be as high at the end of the year as they were at the beginning.

Shift Toward Livestock

The growth in farm production since the end of World War II has centered in livestock and livestock products (see Chart II). Since 1946, output of livestock and associated products has expanded about 18 per cent while crop production, which has fluctuated substantially during the postwar period, will this year only about equal the 1946 level. This development has reflected a similar shift in the structure of consumer demand associated with rising incomes and changing income distribution patterns. Even though total per capita consumption of foodstuffs has changed little between 1947-49 and 1954, per capita consumption of beef advanced by 22 per cent over this period, cheese consumption by 10 per cent, and egg consumption by 8 per cent. On the average, Americans ate 28 per cent more chickens in 1954 than during 1947-49 and 41 per cent more turkeys. Per capita consumption of wheat, on the other hand, declined 7 per cent, that of corn meal 10 per cent, and of sweet potatoes 44 per cent.

Postwar increases in the production of beef, poultry, eggs, and milk have been especially impressive. Cattle herds and production of beef have both trended upward and in 1954 reached levels 15 and 39 per cent, respectively, above those of 1946. The application of improved feeding, breeding, and management methods has resulted in continual increases in yields of eggs and of poultry meat, per unit of feed input. Egg production rose by 16 per cent between 1946 and 1954, while production of broilers has more than tripled. Dairy farmers, too, have managed to increase the productivity of their herds and, during the postwar years, have maintained production at high levels while reducing the number of milking cows; milk production per cow is now about 13 per cent higher than in 1946.

The output of livestock and livestock products has continued to rise during 1954, apparently increasing by about 4 per cent from last year's record level. Output of red meats and poultry made new records and, at the same time, the farm

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

inventory of livestock increased slightly. The cattle cycle, which has been in its upward phase since 1949, appears to have reached its peak earlier in the year; poorer range and pasturage conditions and the outlook for a smaller corn crop, stemming partly from drought, stimulated the marketing of cattle, and slaughtering this year probably exceeded additions to herds. Net additions to the inventory of hogs reflect the relatively favorable hog-corn price ratio that prevailed during 1953 and early 1954, when prices received by farmers for hogs were at unusually high levels. Poultry flocks also increased during the year, and egg and milk production both rose to new record levels.

The increased output of livestock and livestock products has, since 1951, resulted in sharp price declines for these items, following pronounced earlier advances. Beef cattle prices, in particular, dropped 47 per cent between May 1952 and October 1953. Hog prices also declined in 1952, the average falling to a six-year low, but prices moved up again in 1953. Recent sharp reductions in the prices of eggs and poultry (which in October were 39 and 25 per cent lower than a year ago), a greater-than-seasonal drop in milk prices after the lowering of support prices in April, and further declines in beef prices largely account for the lower level of farm prices this year.

Farm Crops

The output of farm crops, as noted earlier, has undergone little net change in the postwar period. A peak in 1948, spurred by shortages and high prices during the preceding year, favorable weather, and high domestic and foreign demand was followed by declines in the next two years, a temporary rise in 1951-53, and another decline this year. The lower levels of crop output in recent years, compared with the early postwar period, reflect in part adjustments to a weakening in demand. This, in turn, stemmed from the continuing shift in domestic consumption patterns away from crop foods and toward livestock and its products and, more importantly, from declining purchases of American farm commodities by foreign customers; between 1951 and 1954, United States agricultural exports fell by 26 per cent.

Because the support program has limited price declines for crops, the price mechanism has not exerted its full effect in bringing about adjustments of output to lower levels of demand. Rather, reductions in crop production have, in considerable measure, been attributable to the imposition of acreage and marketing restrictions and also, in some years, to unfavorable weather conditions.

Total crop production in 1954, when acreage restrictions on wheat, cotton, and corn were in effect, fell by 4 per cent from the 1952-53 level, and 7 per cent from that of 1948. If the acreage taken out of use by acreage restrictions on major crops had remained idle, the decline in crop output in 1954 would have been greater than actually experienced. Much of this acreage, however, was planted to other crops, adding to surpluses of these crops or creating new surpluses. Thus the output of soybeans rose by 30 per cent this year over 1953 to the highest level in history, the output of barley rose 52 per cent, and the output of sorghum increased 50 per cent.

About 90 per cent of the decline in agricultural exports between 1951 and 1954 has centered on two crops, wheat and cotton. The production of wheat and other grains in the postwar years has risen throughout the world, so that in many countries wheat imports have been replaced by grain produced at home, and world trade in wheat has contracted. Moreover, with American wheat prices kept artificially high, wheat producers elsewhere have at times been able to undersell United States wheat producers, and Americans now have a smaller share even of the reduced world market. The result has been that the total value of United States wheat exports has fallen by more than 50 per cent since 1951, and is now down almost 70 per cent from the 1947-49 average. Between 1953 and 1954 alone, wheat exports are estimated to have dropped 25 per cent. In 1954, wheat acreage allotments called for an over-all cutback of 21 per cent from the 1953 level and farmers generally planted close to their allotments, with the result that the 1954 wheat crop of 960 million bushels was the smallest since 1943 and almost one-fifth below the 1953 crop. An increase in yields per acre, however, has pushed this year's wheat output slightly above anticipated levels.

The value of cotton exports in 1952 and 1953 was also sharply below the levels of immediately preceding years, but foreign purchases have considerably improved in 1954. It is expected that cotton exports this year will be almost half again as large as in 1953, and although they will still be substantially below the 1951 level, they will be higher than in the early postwar years. Other countries have increased their output and exports of cotton, but the recovery of Western European demand has helped to maintain United States exports.

Cotton farmers planted considerably fewer acres in 1954 than they were permitted under Department of Agriculture regulations. The Department had called for a 15 per cent reduction in acreage for the 1954 crop, but acreage actually planted to cotton was 21 per cent less than in 1953, and cotton production was down 20 per cent. The sharp reduction in plantings partly resulted from the fact that some of the cotton killed by frost in May was not replanted but also appears to reflect a tendency of cotton farmers to underplant in years when acreage allotments are cut back sharply.

For the major corn producing areas, the Department of Agriculture had scheduled a 17 per cent reduction in acreage this year, but many farmers elected not to participate in the program (mainly because a large share of corn output is used directly as feed) and about the same acreage was planted as last year. Much of the corn, therefore, is not eligible for CCC supports. Even so, corn production fell by 7 per cent from last year, as drought and searing temperatures at the usual time of pollination sharply reduced yields in many areas.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Price Supports

Declines in prices of major crops after 1952 resulted in large-scale Federal Government support operations in 1953 and again during the current year, despite reduced output of crops. In 1953 alone the price-support program compelled the Government, acting through the CCC, to provide over 3 billion dollars in loans on, and purchases of, farm output, thus accounting directly for more than 10 per cent of the gross farm income realized during the year. Final figures for 1954 are not yet available, but in the twelve months ended September 30, the CCC had bought or made loans for about 3.6 billion dollars of farm output.

Much the largest part of the benefits provided by the price-support program goes to producers of the so-called "basic" commodities—wheat, corn, cotton, tobacco, rice, and peanuts—which in general account for only about a fourth of all farm cash receipts. Of the 6.4 billion dollar investment held by the CCC on September 30, about 5.0 billion, or about 80 per cent, was accounted for by only four commodities—wheat, corn, cotton, and tobacco.

The amount of wheat added to Government holdings during the period ended September 30, 1954—over 300 million bushels—was equivalent to about one fourth of the total harvest in 1953 and brought total Government stocks to a level higher than the entire output in each of several postwar years. The cotton added was equivalent to nearly a third of the 1953 crop, raising stocks to more than twice their previous level. Stocks of corn rose by 40 per cent during the year to a level equivalent to about a quarter of a year's production.

The support program, as noted earlier, is far more important for crops than for livestock and its products, and many farm products (usually accounting, in the aggregate, for over half of total farm income) are not eligible for any form of price support. Cattle and calves, for example, which last year provided farmers with about one sixth of all cash receipts, are not supported at all. The same is true of hogs and of poultry and eggs, each of which brought in about 12 per cent of last year's cash receipts. Outside the six basic crops, the only important products to receive price support are dairy products, which together account for about 14 per cent of farm cash receipts. In 1953, about 8 per cent of the output of these products was purchased under the support program.

Production Costs

In the early postwar years, farmers' production expenses rose relatively more rapidly than receipts, attaining a peak in 1952 after gross income had already started to decline. Since 1952, aggregate expenses have receded but at a somewhat slower pace than gross income. The latter development reflects the tendency for prices paid by farmers to be less flexible than the prices of commodities sold by the farmer. Total expenses in 1954 have been estimated at 21.6 billion dollars, 2.5 per cent less than in 1953 and 7 per cent under 1952 but still 46 per cent greater than during the first postwar year.

The changes in expenditure patterns in recent years, and especially since the end of World War II, include some important shifts in the structure of farming costs. These may be traced in part to the shifting emphasis on certain products but also to the changing methods of production.

In this connection, the most important shift has been the increasing use of machinery. The number of tractors on farms, for example, has increased by 90 per cent since World War II and has gone up almost one third since as recently as 1950. There are now more than twice as many grain combines on farms as in 1946, more than three times as many corn pickers, and 70 per cent more motor trucks. Two-thirds more farms have milking machines than at the start of this period.

Expenditures for new machinery reached a peak in 1951 and have declined steadily since then, but such investment is still high compared with the earlier postwar years. With the value of farmers' accumulated capital stock (including buildings) at an all-time high, depreciation and maintenance outlays have continued at the record level of 5 billion dollars reached last year. The stability of this item of expenditure, which amounts to nearly one fourth of total expenses, helps to account for the relative inflexibility of the farmer's expenditures compared with his gross income.

Outlays for fertilizer and lime have also grown rapidly in recent years, with 1954 expenditures for these items nearly 75 per cent greater than in 1946 and more than 25 per cent greater than in 1950. Higher prices account for part of the increase, but the major portion reflects increases in physical consumption, because of far more intensive use of fertilizer than in the past. In 1954, spending for this item appears to have remained steady, despite slightly lower prices and a smaller farm output.

Although the large-scale adoption of machinery has greatly accelerated the substitution of engine power for human power, aggregate farm expenditures for wages increased in nearly every postwar year. The estimated number of man-hours worked on farms has indeed fallen sharply—by about 20 per cent since the end of the war—but a major portion of the decline appears to have resulted from smaller employment of unpaid family workers; employment of hired hands declined by only 10 per cent, while the number of family workers fell by 20 per cent. Farm wage rates, moreover, are now about one-third higher than in 1946, and the total wage bill for hired farm labor has increased by one fifth. In 1954, farm operators probably spent a slightly smaller amount than last year for hired labor, as wage rates dipped about 1 per cent and employment of hired help apparently showed little change.

Outlays for feed during the postwar period appear to have responded largely to price changes and cycles of heavy livestock production and slaughter. Feed expenditures reached

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

a high in 1952, when record prices coincided with a large inventory of livestock, but declined sharply in 1953 and, along with prices, have remained fairly steady in 1954. The general shift toward livestock production during the postwar period has, of course, contributed to the relatively rapid expansion of feed purchases.

The growth in livestock holdings, along with investments in farm machinery and buildings, has also helped boost the amount of property taxes paid by farmers. This item of expense has increased in each postwar year, rising by about 80 per cent since 1946 to well over 1 billion dollars.

Trends in Second District Agriculture

The farm products that are of major importance in this area—milk, eggs, and poultry—experienced sharper price declines during 1954 than many other agricultural commodities, with the result that farm income fell somewhat more in the Second District than in the country at large. The average of all prices received by farmers in this District in the first nine months of 1954 fell by 6 per cent from 1953, compared with a 3 per cent decline for the United States as a whole; prices of eggs and poultry averaged 16 and 14 per cent lower, respectively.

With over-all marketings about the same as last year, gross cash receipts from farm products for the first nine months of 1954 were also about 6 per cent less than during the corresponding period a year earlier. Receipts from livestock and livestock products were down slightly more than the average, while receipts from crops declined by a little less than 6 per cent.

Fluid milk, the District's most important single farm product, has fared somewhat better than other items, since lower prices were partially offset by larger marketings, and gross income has fallen only by an estimated 4 per cent in the first nine months of this year. The decline in milk prices partly reflected the reduction in support prices from 90 to 75 per cent of parity last April. More recently, milk prices have risen more than seasonally, reaching a level in October that was only 1 per cent below a year ago.

Egg prices, on the other hand, have recently been about 30 per cent under a year ago and poultry prices more than 20 per cent lower. Potatoes, another product of some importance in the District, staged a partial price recovery in the third quarter of this year after a sharp drop in the second half of 1953 and early 1954. However, a renewed weakening in prices has developed recently since the crop appears to be larger than expected earlier, despite some damage from heavy rainfall.

Farm Outlook

The prospect for 1955, according to the United States Department of Agriculture, is that gross farm income in the United States will again decline somewhat, with prices remaining fairly stable and output slightly lower than in 1954. The reduced output appears likely primarily as a result of restricted wheat and cotton acreage, with the output of other major crops and of livestock and livestock products continuing at about the same level as this year. Somewhat lower spending for hired labor is anticipated for 1955, and this development, along with probable reductions in outlays for depreciation, rent, and other items, is expected to lower total production costs. The decline seems unlikely to offset all of the drop in gross income, however; thus net income may be slightly lower also.

The lower level of output may well mean that the Federal Government will acquire a smaller volume of commodities next year, since over-all private domestic demand and exports are expected to be at least as large as during 1954. The firmness of consumption demand at home is predicated upon the expectation that general economic activity is likely to continue at least at the fairly high levels maintained during 1954, although perhaps not regaining the record 1953 levels. Farm exports, moreover, may increase next year, according to the Department of Agriculture, especially if substantial shipments are made under the Government's surplus disposal programs.

The Agricultural Act of 1954 is expected to have very little influence on farm income in 1955, its first year of operation. Although price supports for basic crops may be set anywhere between 82½ and 90 per cent of parity in 1955, depending on supply conditions, it appears that, for all supported commodities except wheat, support prices will be close to the maximum. For next year's wheat crop, the support level has already been set at 82½ per cent of parity, the minimum level allowed. Tobacco price supports, on the other hand, must under the law remain at 90 per cent of parity provided farmers agree to the continuation of marketing quotas, and Secretary of Agriculture Benson has said that cotton and peanuts probably will be supported at 90 per cent of parity and corn at about 88 per cent. The support level for rice, according to Department of Agriculture spokesmen, is also likely to be set above the minimum.

In 1956, however, price supports under the new act could be set as low as 75 per cent of parity if supplies are deemed sufficiently large. For the same year, the beginning of a gradual transition to the so-called "modernized" parity formula has been scheduled. Eventually, this would lower the full parity price for cotton by 4 per cent, for corn 11 per cent, for wheat 15 per cent, and for peanuts 20 per cent; support levels short of full parity would be cut correspondingly. Reductions are, however, to be limited to 5 per cent in a single year.

While it is still far too early to say what effects the new agricultural program might have after coming into full force, the fact that Federal price-support loan and purchase activities have been on a large scale this year suggests that adjustments in agriculture still have a considerable distance to go. A high level of activity in the economy generally, offering the farmer a steady market for his output and providing an outlet for the excess labor supply in farming areas, is of course essential in making this process of adjustment as smooth a possible.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

DEPARTMENT STORE TRADE

Sales at Second District department stores, on a seasonally adjusted, daily-average basis, declined 2 per cent in November but were 1 per cent higher than November a year ago, according to preliminary estimates. This November's sales index of 103 thus nearly matched the all-time high of 104 for the month recorded in November 1951.

This year's fall shopping season thus far (August through November) has shown seasonally adjusted, daily-average sales 2 per cent higher than in the comparable period of 1953 and approximately equal to the sales peak for these four months that occurred in 1950. For the year to date, Second District department store sales are 1 per cent higher than in the first eleven months of 1953.

Retail Sales and Department Store Sales

Department stores represent a significant segment of total retail trade, but their sales, particularly since World War II, have not kept pace with those of other kinds of retail business. Estimated total sales (on a seasonally adjusted basis) at retail stores throughout the country rose from 6.5 billion dollars in August 1945 to 14.2 billion in September 1954, a gain of 120 per cent. In the same period, department store sales increased from about 530 million dollars to 850 million, or but 60 per cent. This contrast in growth rates of department store sales and of total retail sales measures in part the marked extent to which, in the postwar period, consumers have chosen to spend increasing proportions of their high and rising incomes at retail outlets other than department stores, and in part a rapid growth in sales of goods (such as building materials) that reflect consumer spending only indirectly, if at all.

Increases since the end of the war have, of course, been especially large in retail sales of automobiles and other goods that were unavailable during the war and that are sold only to a limited extent, or not at all, by department stores. Similarly, the accumulated need for housing, which had its origin not only in the war period but even before, has led to large increases in retail sales of lumber and other building materials. In view of these accumulated demands, which have affected largely the volume of sales of retail outlets other than department stores and their direct competitors, it is not surprising that the growth in sales of department and other stores, a major part of whose business is in "soft goods", should have been considerably less than in total retail sales.

Sales of other retail outlets that handle department-store-type merchandise (apparel stores, furniture and appliance stores, drug and liquor stores, variety stores, etc.) rose somewhat more percentagewise (from 2.5 billion dollars to 4.3 billion, or 73 per cent) between August 1945 and September 1954 than did sales of department stores, but much less than the 120 per cent increase recorded for total retail sales. The major part of the increase in sales thus accrued to retail outlets handling goods not customarily stocked by department stores. Estimated sales of these "all other" outlets rose from 3.5 billion dollars to 9.1 billion, or 162 per cent, between August 1945 and September 1954.

The comparative postwar growth in the volume of business done by department stores, other stores handling department-store-type merchandise, and "all other" retail outlets is indicated in the accompanying table, which shows the proportion of total retail sales accruing to each of these groups of stores. As these data indicate, department stores have been accounting for a gradually declining share of total retail purchases in the postwar years, their portion having edged continuously downward from 8 per cent in 1946 to 6 per cent in 1953. Other stores selling department-store-type merchandise had a somewhat more favorable sales experience, but they also lost ground relative to total retail sales. The third, "all other" group of retail outlets, which includes automobile sales agencies, lumber and building materials dealers, gasoline service stations, hardware stores, food markets, and eating and drinking places, made striking sales gains. Their proportion of total retail sales rose quite steadily, from 56 per cent in 1946 to 63 per cent in 1953.

The competitive position of department stores in relation to other stores carrying the same types of merchandise has been affected to some extent in recent years by shifts of population away from "downtown" and toward suburban areas. To meet these shifts, department stores have established suburban branches, and improved their telephone order and mail order facilities. In spite of these and other efforts by department stores, however, sales of other retail stores handling department-store-type merchandise have expanded at a faster rate than department store sales.

There have been marked variations in the sales experience of the various kinds of stores in this group, however. Furniture and appliance stores have made by far the best showing for the postwar period as a whole. Since the sharp upsurge in consumer purchases of durable household goods in the years

Postwar Distribution of Retail Sales
(In percentages of total retail sales)

Year	Department stores	Other stores selling department-store-type merchandise*	All other retail sales†
1946	8.0	36.2	55.8
1947	7.4	34.6	58.0
1948	7.2	33.8	59.0
1949	6.8	32.3	60.9
1950	6.5	31.3	62.2
1951	6.4	32.1	61.5
1952	6.3	32.2	61.5
1953	6.1	30.6	63.3

* Apparel stores, furniture and appliance stores, drug and liquor stores, variety and other general merchandise stores, book and stationery stores, jewelry, luggage, and camera stores, etc.
† Auto sales, food store sales, lumber, building materials, and hardware sales, and sales of eating and drinking establishments and of gasoline service stations.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

immediately following the war, the sales gains of these stores have corresponded closely with those of all retail stores. The sharp rise in residential construction in the postwar period greatly stimulated the demand for homefurnishings and home appliances and must, in considerable part, have been responsible for these stores' relatively favorable performance.

In contrast, sales of specialty stores handling nondurable department-store-type merchandise have not increased nearly so much. The sales experience of apparel stores, for example, has not been so good as that of department stores. And other stores handling department-store-type goods, such as variety and other general merchandise stores and drug stores, have had a sales experience not substantially better than department stores.

The marked shift in consumer expenditures to other types of merchandise apparently reflected not only accumulated backlogs of demand, but also the high and rising postwar levels of disposable personal income. Consumer spending for automobiles and auto accessories, for example, and for the ingredients of more and better housing (lumber, building materials, hardware) rose sharply. Demand for nondurable nondepartment-store-type products also increased substantially. Part of this increase was "derived" from the increase in durable goods sales (a sharp increase in gasoline and oil sales accompanied the rise in auto sales), but a larger part appears to have been a direct reflection of high and rising levels of consumer income. Thus retail food store sales, for example, grew substantially.

By way of contrast, eating and drinking establishments have received a substantially smaller, rather than larger, proportion of consumer incomes in recent years. Consumers now spend far more on food and beverages than in earlier postwar years, but to a much greater extent than formerly they seem to do their eating and drinking at home.

Although the divergence in the growth rates of department store sales and other retail sales has been especially pronounced in the postwar period, it has been in evidence since 1935 (when monthly data on total retail sales first became available). Thus the historical record, as well as more recent evidence, suggests that department-store-sales movements cannot be taken as accurate indicators of movements in total retail sales.

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

Item	1954			1953
	Oct.	Sept.	Aug.	Oct.
Sales (average daily), unadjusted	110	106	80	111r
Sales (average daily), seasonally adjusted	105	102	105	106r
Stocks, unadjusted	130	120	111	132r
Stocks, seasonally adjusted	116	115	115	118r

Revised.

Yet department-store-sales data have achieved wide usage, and considerable status, as business indicators.

One reason for this is that department-store-sales data have been collected and published by the Federal Reserve System since 1919, while the Department of Commerce monthly series on total retail sales dates back only to 1935. From 1919 to 1935, then, department store sales were the best available measure of retail trade, and the habit of using them has to some extent "carried over" into more recent times.

Second, department-store-sales data are available more quickly; monthly figures are published somewhat earlier than are monthly data on total retail sales, and weekly sales data are also available for department store sales but not for total retail sales.

Finally, and of greatest importance for some purposes, department-store-sales data are compiled and published on a regional (Federal Reserve District) basis, and for a large number of metropolitan areas, cities, and localities within Federal Reserve Districts as well. Data on total retail sales are not available in any such detail. Consequently, at the regional and locality levels, department-store-trade statistics are still one of the few regularly available, if not the only, indicators of retail trade activity.

Although department-store-sales data are not adequate indicators of developments in total retail sales, their advantages of earlier availability and availability on regional and locality bases are good reasons for their continued use as business indicators. Such use is entirely appropriate, provided the users keep the fundamental limitations of the data clearly in mind. The data reflect only changes in one segment of total retail

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

Area	Net sales			Stocks on hand Oct. 31, 1954
	Oct. 1954	Jan. through Oct. 1954	Feb. through Oct. 1954	
Department stores, Second District	− 5	0	0	− 2
New York—Northeastern New Jersey Metropolitan Area	− 5	0	+1	− 2
New York City	− 6	0	0	− 3
Nassau County	—	—	—	—
Westchester County	− 2	+4	+4	+ 2
Northern New Jersey	− 4	−1	−1	0
Newark	− 4	−1	−1	0
Fairfield County	− 6	−5	−5	− 4
Bridgeport	−10	−7	−6	—
Lower Hudson River Valley	− 1	+2	+2	+ 1
Poughkeepsie	− 3	+1	+1	+ 3
Upper Hudson River Valley	− 6	−3	−2	− 6
Albany-Schenectady-Troy Metropolitan Area	− 6	−2	−1	− 6
Albany	− 3	−2	−1	− 9
Schenectady	−11	−3	−2	− 2
Central New York State	− 3	−2	−2	− 1
Utica-Rome Metropolitan Area	− 4	−4	−4	0
Utica	− 1	0	0	+ 3
Syracuse Metropolitan Area	− 3	−1	−1	− 2
Northern New York State	− 7	−6	−6	0
Southern New York State	− 4	−2	−2	− 3
Binghamton Metropolitan Area	− 3	−2	−1	− 4
Elmira	− 2	−6	−6	−12
Western New York State	− 5	−1	−1	0
Buffalo Metropolitan Area	− 7	−3	−3	− 3
Buffalo	− 7	−3	−3	− 3
Niagara Falls	− 3	+2	+3	—
Rochester Metropolitan Area	− 2	+3	+3	+ 6
Apparel stores (chiefly New York City)	− 3	+1	+2	− 2

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

trade, a segment that has been declining gradually in importance for a considerable period. They do, however, represent fairly well the changes in sales of the broad range of merchandise carried by department stores, even though in the aggregate such stores have not quite kept pace with other outlets for those types of goods in recent years. Department store sales therefore represent a major, and one of the more stable, segments of total retail trade, and hence do not increase so much as the more volatile elements in periods of expansion, or decline so much in periods of recession.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954			1953	Percentage change	
		October	September	August	October	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	125*p*	124	123	132	+ 1	− 5
Electric power output*	1947-49 = 100	174	172	176	160	+ 1	+ 9
Ton-miles of railway freight*	1947-49 = 100	—	89	89	98	#	− 11
Manufacturers' sales*	billions of $	—	23.7*p*	23.5	25.0	+ 1	− 7
Manufacturers' inventories*	billions of $	—	43.6*p*	43.9	47.0	− 1	− 7
Manufacturers' new orders, total*	billions of $	—	24.2*p*	22.6	22.2	+ 7	+ 7
Manufacturers' new orders, durable goods*	billions of $	—	11.3*p*	10.0	9.7	+13	+ 12
Retail sales*	billions of $	—	14.2*p*	14.2	14.0	#	+ 1
Residential construction contracts*	1947-49 = 100	264*p*	253	244	183	+ 4	+ 44
Nonresidential construction contracts*	1947-49 = 100	233*p*	217	202	262	+ 7	− 11
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	90.5	90.8	91.2	86.4	#	+ 5
Wholesale prices†	1947-49 = 100	109.7*p*	110.0	110.5	110.2	#	#
Consumer prices†	1947-49 = 100	114.5	114.7	115.0	115.4	#	− 1
Personal income (annual rate)*	billions of $	—	287.4*p*	285.4	287.8	+ 1	#
Composite index of wages and salaries*	1939 = 100	—	259*p*	257	252	+ 1	+ 3
Nonagricultural employment*	thousands	48,180*p*	48,055*p*	47,944	49,711	#	− 3
Manufacturing employment*	thousands	15,868*p*	15,793*p*	15,732	17,125	#	− 7
Average hours worked per week, manufacturing†	hours	39.9*p*	39.7	39.7	40.3	+ 1	− 1
Unemployment‡	thousands	2,741	3,099	3,245	1,162	−12	—
Banking and finance							
Total investments of all commercial banks	millions of $	86,300*p*	83,330*p*	83,040*p*	76,850	+ 4	+ 12
Total loans of all commercial banks	millions of $	67,790*p*	67,250*p*	66,450*p*	67,120	+ 1	+ 1
Total demand deposits adjusted	millions of $	103,140*p*	101,200*p*	99,400*p*	100,280	+ 2	+ 3
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,957	29,931	29,986	30,245	#	− 1
Bank debits (338 centers)*	millions of $	60,118	62,546*r*	63,575	60,934	− 4	− 1
Velocity of demand deposits (338 centers)*	1947-49 = 100	116.3*p*	119.4	123.1	115.0	− 3	+ 1
Consumer instalment credit outstanding†	millions of $	—	21,340	21,310	21,486	#	#
United States Government finance (other than borrowing)							
Cash income	millions of $	2,617	5,280	5,376	2,949*r*	−50	− 11
Cash outgo	millions of $	5,095	5,364	7,788	5,748*r*	− 5	− 11
National defense expenditures	millions of $	3,343	3,297	3,761	4,111	+ 1	− 19
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	136	136	137	136*r*	#	#
Residential construction contracts*	1947-49 = 100	—	158*p*	159	128	− 1	+ 17
Nonresidential construction contracts*	1947-49 = 100	—	208*p*	188	220	+11	− 16
Consumer prices (New York City)†	1947-49 = 100	112.6	112.7	113.0	113.3	#	− 1
Nonagricultural employment*	thousands	—	7,426.1*p*	7,435.7	7,629.1*r*	#	− 3
Manufacturing employment*	thousands	—	2,545.1*p*	2,576.0	2,757.0*r*	− 1	− 8
Bank debits (New York City)*	millions of $	58,210	57,317	67,030	53,616	+ 2	+ 9
Bank debits (Second District excluding New York City)*	millions of $	3,991	4,278	4,177	4,295	− 7	− 7
Velocity of demand deposits (New York City)*	1947-49 = 100	154.6	150.4	176.3	140.8	+ 3	+ 10

Note: Latest data available as of noon, Tuesday, November 30, 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 October 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis