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MONEY MARKET IN DECEMBER

Although the December rise in demand for credit and currency was greater in 1954 than in 1953, the money market showed fewer signs of strain. The relative ease in the market was maintained with a minimum of Federal Reserve intervention. No outright purchases of securities for the System Open Market Account were undertaken during the month. Federal Reserve credit was released temporarily in limited amounts on several occasions through repurchase agreements, in order to avert any tendency for cumulative tightening influences to develop. Daily average borrowings by member banks from all Reserve Banks, after rising to 326 million for the week ended December 1, declined substantially thereafter, to average only 254 million for the month as compared with 488 million in December 1953.

There was some firming of money market rates, however, as a result of seasonal pressures. Federal funds were quoted generally in the 1¼-1⁷⁄₁₆ per cent range, and the rates charged in New York City and Chicago on loans to Government security dealers were frequently posted as high as 1½-1⅝ per cent. Market yields for long Treasury bills rose briefly to 1.30 per cent, their highest level since last January, but dropped sharply toward the end of the month. In contrast to the apparent immobility of reserves last summer, however, the rise in rates apparently drew a significant volume of funds into the money market. Federal funds were actively traded at most times, and dealers were frequently able to obtain financing at reserve city or country banks and through nonfinancial corporations at rates lower than those charged in the central money market. There was also some evidence of a broadening of the Treasury bill market as yields rose above 1 per cent.

Except for year-end switching, the market for Government securities other than Treasury bills was relatively inactive in December. The impact of the Treasury's refunding offer of November 18 for the three issues maturing or called for payment December 15 had been largely absorbed by the opening of the month, and the year-end calendar was thus free of any major Treasury debt operations other than the weekly roll-over of bills. The swaps centered on the new 2½ per cent bonds of 1963, for which there was a bank demand; however, trading volume subsequently declined in the usual Christmas-to-New Year lull. Led by rising quotations on the new bonds, prices firmed until near the midmonth, but then drifted irregularly lower to the end of the year. Taking the month as a whole, most issues showed moderate declines.

On December 27, the Treasury announced the lifting, as of January 1, of the last remaining restrictions on bank ownership of marketable Government obligations. The two issues affected are the 2½ per cent bonds of June and December 1967-72, which may now be acquired by banks without restriction. The Treasury also announced a relaxation of the regulations governing Series E and H United States Savings bonds to permit their purchase by "personal trust estates", up to an annual purchase limit of $20,000 (maturity value).

The Federal National Mortgage Association (FNMA) on December 30 announced a forthcoming offering of 500 million dollars of short-term notes. The notes are to have a maturity of approximately three years; further details as to maturity of the issue and the interest rate will be announced in the first week of January. Subscription books for the offering will be open January 11, and payment, which will in effect be eligible for credit to the Treasury's Tax and Loan Accounts, is scheduled for January 20. The notes will not be guaranteed by the United States, but the Treasury has formally assured the FNMA that it will advance any amount that may be necessary to meet FNMA obligations. The notes may be purchased and held without limit by national banks, since the law exempts FNMA obligations from the restrictions generally applicable to investment securities.

The weekly reporting member banks increased their loans and investments by 819 million dollars during the five weeks ended December 22. While holdings of Government securities were reduced, this decline was more than offset by substantial rises in security and business loans. The banks apparently further lengthened the average maturity of their Govern-

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

Factor	Statement weeks ended					Five weeks ended Dec. 29
	Dec. 1	Dec. 8	Dec. 15	Dec. 22	Dec. 29	
Operating transactions						
Treasury operations*	−213	+387	+ 27	+ 23	−154	+ 70
Federal Reserve float	+ 63	− 75	+567	+137	−474	+218
Currency in circulation	− 92	−193	− 76	−173	+308	−226
Gold and foreign account	+ 15	+ 29	− 47	− 44	−127	−174
Other deposits, etc	− 25	+ 13	− 43	+ 5	− 51	−101
Total	−250	+160	+427	− 52	−497	−212
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	+335	0	0	0	0	+335
Held under repurchase agreements	0	0	+ 44	− 44	+ 63	+ 63
Loans, discounts, and advances	− 61	− 31	+ 18	− 99	+300	+127
Total	+274	− 31	+ 62	−143	+363	+525
Total reserves	+ 24	+129	+489	−195	−134	+313
Effect of change in required reserves†	+ 58	− 7	−114	− 49	+ 38	− 74
Excess reserves†	+ 82	+122	+375	−244	− 96	+239
Daily average level of member bank:						
Borrowings from Reserve Banks	326	291	263	147	243	254
Excess reserves†	626	765	705	880	657	727

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

ment security portfolios through the acquisition of new Treasury bonds in exchange for maturing securities on December 15.

Member Bank Reserve Positions

Member bank reserve positions in December followed the pattern of recent months. Reserve positions tightened at the beginning of the month, eased over the midmonth, and tightened again at the month end (see Table I). The pattern resulted largely from the movements in float and Treasury balances, which tended to absorb reserves at the beginning and end of the month, and to add to them at other times. These fluctuations were superimposed on a sizable preholiday outflow of currency into circulation, which continued until the last week of the month. Daily average free reserves, at 473 million dollars, were less than in any month since February 1954.

Fluctuations in the Treasury's deposits at the Reserve Banks were responsible for a considerable part of the changes in free reserves in the first two weeks of the month and again at the month end. These deposits unexpectedly increased by 204 million dollars, to 742 million, during the week ended December 1, as the Treasury's outlays fell short of anticipations. By the close of the next statement week, however, the balance had dropped back to 350 million, releasing 392 million dollars of reserves, and further slight declines took place in the following two weeks. In the last week of the month replenishing the balance absorbed 155 million dollars. On December 15, the last 5 per cent of the corporate income tax on 1953 income was payable, but quarterly interest payments by the Treasury and the cash redemption of the 345 million of unexchanged Government obligations maturing December 15 absorbed most of the receipts. The rebuilding of the Treasury's balance in the last week of the month was accomplished largely by means of calls on the Tax and Loan Accounts.

Variations in the volume of float during December were another major influence on the banks' reserve positions. On the whole, these variations were rather close to seasonal expectations. Float usually increases rapidly in mid-December, when processing is often delayed by the heavy volume of checks and slower mail service. In 1954, float expanded from 624 million on December 8 to nearly 1.5 billion early in the statement week ended December 22. The peak of float roughly coincided with the trough in the Treasury balance; between December 1 and December 22, these two factors combined supplied the member banks with more than a billion dollars in reserves. In the last week of the month, the combined reserve absorption from float contraction and Treasury operations came to 628 million.

As is normal for December, there was a sizable drain on bank reserves as a result of the seasonal demand for currency. The increase in currency circulation for the four weeks ended December 22, 1954 was, in fact, somewhat larger than the corresponding 1953 increase (534 million in 1954, compared with 465 million in 1953). Nevertheless, at its seasonal high immediately prior to the close of the Christmas shopping season, the amount of currency in circulation was about 200 million dollars less than its high for December 1953.

Federal Reserve Treasury bill purchases of 335 million during the last week of November moderated the reserve losses incurred by the banks at that time. Thereafter, the System Account remained inactive to the end of the year. Repurchase agreements were extended from time to time by this Bank to help overcome temporary stresses in the New York money market, but the volume of such contracts outstanding at most times did not add substantially to the total quantity of reserves.

The Goverment Securities Market

The Government securities market (except for Treasury bills) was relatively quiet in December in relation to other recent year-end periods, and while prices fluctuated rather widely at times, this largely reflected "professional" rather than investor influences. For much of the month, the tone of the market was set by the new 2½'s of 1963, and prices for the list as a whole rose or fell with the quotation on the new issue. The premium on the new bond had narrowed to $\frac{1}{32}$ on November 30, following the Treasury's announcement that exchange subscriptions for the bond totaled 6.7 billion dollars, a much larger amount than the market had anticipated, but again widened to $\frac{7}{32}$ the next day (December 1). A fairly strong bank demand developed for the new securities, partly on outright buying but mainly on switches from both longer and shorter maturities, until quotations reached a high of $100\frac{15}{32}$ on December 10. Prices of most other intermediate and long-term Governments rose sympathetically, although not so strongly, during this period.

Following the 10th of the month, the demand for the new bond tapered off, and at the same time the New York money market temporarily tightened somewhat. In this climate, press reports of a shift toward a less actively easy System credit policy touched off a general, though moderate, price decline. Prices drifted irregularly lower in very light trading until about December 20, at which time the premium on the new bond had shrunk to $\frac{3}{32}$. Shortly afterward there was a brief but sharp recovery, since it appeared to the market that the peak of the seasonal pressure in the money market (measured by the issuing rate of 1.333 per cent on the December 23 Treasury bills) had passed without any exceptional strain on either the banks or the Government securities market. Following Christmas, however, a downtrend again set in, and on December 31 the new 2½'s of 1963, which had rebounded to an $\frac{11}{32}$ premium on December 23, were quoted at 100¼. Activity continued to reflect switching for year-end purposes, accompanied by occasional bank liquidation of selected bonds and notes.

For the month as a whole, prices of most intermediate and long-term obligations showed net declines. The longest-term issues were off about $\frac{6}{32}$ of a point, except for the 3¼'s of 1978-83 which advanced $\frac{13}{32}$ to $110\frac{2}{32}$, while intermediates were lower by fractions ranging to $\frac{11}{32}$ of a point.

In the short-term area, yields rose rather abruptly until the week before Christmas, as seasonal needs for cash led banks as well as corporations to liquidate part of their holdings. The average issue rate for bills rose week by week, from 0.897 per cent for the last November bill to 1.333 per cent for the issue dated December 23. Market yields on three-month bills also rose, but not so sharply. On the other hand, yields on short bills climbed at one point as high as 1.50 per cent. The rise in bill yields partly reflected anticipation of somewhat tighter money market conditions than actually developed.

Following the 20th of the month, bill yields turned rapidly downward, influenced by expectations of a seasonal easing of the money market in January as well as by a revival in nonbank demand. The average issue rate fell to 1.175 per cent for the bill dated December 30 (for which bidding occurred on December 27), and market yields on the longer bills, which had been quoted as high as 1.30 per cent, declined by the year end to 1.02 per cent. Rates on certificates and other short-term, interest-bearing issues moved in rough conformity to bill yields.

Member Bank Credit

Member bank loans and investments expanded by 819 million dollars during the five weeks ended December 22, as shown in Table II. The gain stemmed largely from increases in business, real estate, and "all other" (largely consumer) loans, which together rose by 637 million. The banks' holdings of Government and other securities dropped 429 million, but this decline was more than matched by a 608 million dollar increase in loans extended for the purpose of purchasing or carrying Government and other securities. Although holdings of Government securities other than Treasury bills were reduced 363 million, there was nevertheless a further lengthening of the banks' security portfolios, since a large share of the 6.7 billion dollars of subscriptions for the 8⅔-year bond offered in the Treasury's recent exchange offer was presumably entered by commercial banks.

The 637 million increase in business, real estate, and "all other" loans contrasts strikingly with the comparable 1953 figures. In the corresponding period of 1953, these types of loans showed a combined increase of only 18 million. Moreover, the 1953 figures included more than 225 million dollars of Commodity Credit Corporation certificates of interest purchased by the weekly reporting banks in the week ended December 23, 1953; no similar purchases occurred in December 1954. All industrial groups except public utilities showed larger borrowings, or smaller repayments, in the five weeks of 1954 under review than in the corresponding period of 1953. The largest net borrowers in the 1954 period were the food, liquor and tobacco industries, and the sales finance companies.

New York City banks shared only to a small extent in the loan rise. Business loans in the City increased only 20 million against a country-wide rise of 316 million; real estate loans, 17 million against the country-wide rise of 105 million; and "all other" loans, 74 million against the country-wide rise of 216 million. The relatively small expansion in business loans in New York City mainly reflected the fact that virtually all the net borrowing by sales finance companies occurred outside the City, while all of the net repayments by public utilities were made in New York City.

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

Item	Statement weeks ended: Nov. 24	Dec. 1	Dec. 8	Dec. 15	Dec. 22	Change from Dec. 30, 1953 to Dec. 22, 1954
Assets						
Loans and investments:						
Loans:						
Commercial, industrial, and agricultural loans	+ 30	+ 77	+ 41	+ 104	+ 64	− 957
Security loans	+ 329	+ 39	+ 20	+ 304	− 84	+ 528
Real estate loans	+ 26	+ 6	+ 5	+ 48	+ 20	+ 675
All other loans (largely consumer)	+ 64	+ 40	+ 3	+ 47	+ 62	+ 168
Total loans adjusted*	+ 449	+162	+ 67	+ 509	+ 61	+ 377
Investments:						
U. S. Government securities:						
Treasury bills	− 197	−227	−153	+ 390	+ 78	+ 124
Other	− 69	− 78	−201	+ 32	− 47	+4,281
Total	− 266	−305	−354	+ 422	+ 31	+4,405
Other securities	− 31	+ 29	+ 87	− 44	+ 2	+1,126
Total investments	− 297	−276	−267	+ 378	+ 33	+5,531
Total loans and investments adjusted*	+ 152	−114	−200	+ 887	+ 94	+5,908
Loans to banks	+ 40	+144	+ 23	− 63	+154	+ 238
Loans adjusted* and "other" securities	+ 418	+191	+154	+ 465	+ 63	+1,503
Liabilities						
Demand deposits adjusted	+ 572	+160	+169	+1,343	+ 99	+1,808
Time deposits except Government	− 7	− 16	+ 64	+ 34	+ 77	+1,841
U. S. Government deposits	− 220	−299	−516	− 474	− 42	+ 610
Interbank demand deposits:						
Domestic	−1,003	+187	+123	+ 527	−216	+ 169
Foreign	+ 27	+ 20	+ 26	+ 13	+ 32	+ 133

* 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 totals shown.

THE RECONSTRUCTION OF JAPAN'S FOREIGN TRADE

Japan has made some impressive economic gains during the last five years. Between 1950 and 1954, industrial production more than doubled, the physical volume of exports increased by more than 40 per cent, and per capita consumption rose by one third in the cities and one half in the rural areas. These improvements were, to a large extent, made possible by direct United States aid of over 2 billion dollars during the early postwar years and, since 1950, by the receipt of dollar payments totaling close to 3 billion from the so-called "special procurements" associated with United States and United Nations activities in Japan and the near-by areas.[1] But a decline in these procurements in 1954, coupled with a fall in export receipts in 1952 and 1953 and an unceasing rise in import expenditures until early 1954, exposed certain of the weaknesses of the Japanese economy—the continuous large deficits in Japan's foreign trade and the pronounced inflation.

Direct aid and special procurements by the United States had enabled Japan, despite continuous trade deficits, to build up her foreign exchange holdings, as reported by the International Monetary Fund, from the equivalent of 225 million dollars at the beginning of 1950 to 1,192 million at the end of May 1952. By May 1954, however, the holdings had dropped almost one third to a post-Korea low of 820 million. The constellation of events that produced this rapid fall had led the government in the autumn of 1953 to initiate a program of general monetary restraint with the dual aim of contracting the inflated domestic demand and reducing export prices, and also to discontinue certain special credit facilities that had been made available for import financing. During 1954, credit was tightened further and exchange allocations for imports curtailed. These policies helped raise foreign exchange holdings to the equivalent of 976 million dollars by the end of October 1954.

Some Basic Problems

The problem for Japan is not, of course, simply the restoration of a certain prewar relationship among domestic consumption, imports, and exports. Japan's difficulties are far more deep-seated. First, while Japan's natural resources are very limited, her population has increased more than one fourth since the mid-thirties; hence, the production and importation of food and other goods for domestic consumption must be expanded commensurately if the prewar standards of living are to prevail. Industrial production is indeed about 60 per cent greater than prewar, and per capita consumption is on the average slightly above prewar. However, during the first eight months of 1954, the physical volume of total imports both for domestic consumption and for use in manufactured exports was equal to just 73 per cent of the 1937 rate, and the volume of exports to a mere 36 per cent.

Secondly, in the mid-thirties about 20 per cent of Japan's imports came from Korea and Formosa, which were then Japanese colonies, and about another 10 per cent from China; about 25 per cent of her exports went to Korea and Formosa and about 20 per cent to China. Now political and economic changes have reduced imports from those areas to only about 4 per cent of Japan's total and exports to only about 10 per cent of the total.

Thirdly, Japan faces the difficult task of adjusting the composition of her exports to a new pattern of foreign demand. Silk and silk products were the most important of all Japan's prewar exports, comprising one fourth of the total. Now, however, the competition of synthetics has reduced, probably permanently, the demand for such products. While cotton goods, her other major class of prewar exports, today lead all exports, they are confronted by the rapid expansion of cotton textile industries in countries that have heretofore been important markets for Japan. On the other hand, the industrialization programs of the underdeveloped countries have led to an increased demand for machinery and metal products. However, much of the existing Japanese equipment for manufacturing these products was installed in the thirties or early forties, and its obsolescence is contributing to high costs and uncompetitive prices.

Trade with the Sterling Area

The largest group of markets for Japan's exports in the early fifties was the sterling area, which took between 40 and 45 per cent of the total as compared with only about 20 per cent in the mid-thirties; the Far Eastern sterling countries alone absorbed about a quarter of Japan's exports, compared with 10 per cent before the war. Imports from the sterling area also increased relative to other sources, but only slightly, and Japan consequently piled up large sterling holdings. However, in 1953 Japan's exports to the sterling area fell by about 40 per cent (see table), mainly because of the trade barriers erected by the sterling countries to help redress their own payments imbalances, and Japan's sterling trade deficit in that one year was approximately 50 per cent greater than the combined surpluses of the two preceding years.

In early 1954 some of the restrictions on Japanese exports to the sterling area were lifted, and as the year progressed such exports rose rapidly. Almost 60 per cent of the Japanese exports to the area in January-September 1954 were textiles and fiber products, constituting fully one fifth of aggregate Japanese exports. Following in importance were exports of machinery, metals, and metal products, which together amounted in value to one third the textile exports to the area.

Japan is also an important market for certain sterling area countries. During the three years 1951-53, Japan took an average of 8 per cent of Australia's total exports (mainly

[1] "Special procurements" constitute a variety of commodity and service transactions. They have arisen specifically in connection with United Nations military operations in Korea; with rehabilitation and reconstruction in Korea; with American military needs in Japan itself; with mutual defense in, and economic assistance to, Asian and Pacific areas; and with the demand for goods and services by members of the armed forces who are stationed in Japan or who go there on leave.

wool), 13 per cent of Burma's (mainly rice), and 15 per cent of Pakistan's (mainly cotton). For the sterling area as a whole, Japan in 1952 was the fifth-ranking market, taking 3 per cent of the entire area's exports and 7 per cent of the exports of the Far Eastern members of the area.

In agreeing last January to an expansion in sterling area imports from Japan, the British Government, as was pointed out by an official spokesman, saw advantages for both Britain and the Commonwealth that would outweigh Japan's increased competition with certain British industries. Although some Japanese products may not be comparable in quality to those of Western countries, their very cheapness may make them the preferred alternative for a poor country which must husband its resources. This is particularly true for consumer goods. Secondly, certain lines of Japan's capital goods are less complex and less automatic in operation than comparable equipment offered for sale by Western countries and, consequently, may be better adapted to the technical needs of the underdeveloped countries as well as to their purses. Thirdly, as Japan's population and production expand, the country will probably grow as a market for sterling area products, including manufactured goods from the United Kingdom, since Japan has so few natural resources within her own boundaries.

Trade with the "Nonsterling" Far East

Far Eastern countries other than those belonging to the sterling area provided markets almost equal in size, during the early fifties, to that of the "sterling" Far East, the two areas together taking almost half of Japan's exports. However, as the table shows, in the past two years exports to the "nonsterling" countries rose, offsetting to a large extent the decline in exports to the "sterling" countries. Whereas before the war Japan's most important export markets in this group were China and Korea, now Indonesia is foremost. The commodity composition of Japan's exports to the "nonsterling" Far East has also changed. In the mid-thirties, about three fourths consisted of textiles; now textiles account for only one third to one half; and machinery, metals, and metal products, previously comprising little more than 10 per cent, are almost equal in value to textiles. This trend, evident also in the trade with the "sterling" countries of the Far East, is a reflection of the development programs in Japan's export markets.

The Direction of Japanese Trade

Country or area	Millions of dollar equivalent				Per cent of total			
	1937	1952	1953	Jan.-Aug. 1954	1937	1952	1953	Jan.-Aug. 1954
Exports								
Total	1,209	1,273	1,275	1,003	100.0	100.0	100.0	100.0
United States	188	234	234	167	15.6	18.4	18.4	16.7
Canada	6	15	15	11	0.5	1.2	1.2	1.1
Sterling area	251	539	316	281	20.8	42.3	24.8	28.0
Australia, New Zealand	26	36	36	16	2.2	2.8	2.8	1.6
Far East only	127	338	191	168	10.5	26.5	15.0	16.7
"Nonsterling" Far East[1]	613	293	420	296	50.7	23.0	32.9	29.5
Middle East[2]	30	15	26	35	2.5	1.2	2.0	3.5
Africa[2]	19	25	71	13	1.6	2.0	5.6	1.3
Latin American Republics	42	50	104	132	3.5	3.9	8.2	13.2
Continental Western Europe	48	101	80	51	4.0	7.9	6.3	5.1
Other[3]	12	1	9	17	1.0	0.1	0.7	1.7
Imports								
Total	1,375	2,028	2,410	1,763	100.0	100.0	100.0	100.0
United States	366	768	758	672	26.6	37.9	31.5	38.1
Canada	30	110	128	101	2.2	5.4	5.3	5.7
Sterling area	302	500	603	319	22.0	24.7	25.0	18.1
Australia, New Zealand	62	142	182	93	4.5	7.0	7.6	5.3
Far East only	171	273	328	177	12.4	13.5	13.6	10.0
"Nonsterling" Far East[1]	480	262	335	231	34.9	12.9	13.9	13.1
Middle East[2]	28	113	123	115	2.0	5.6	5.1	6.5
Africa[2]	2	2	7	3	0.1	0.1	0.3	0.2
Latin American Republics	52	168	265	192	3.8	8.3	11.0	10.9
Continental Western Europe	106	99	149	116	7.7	4.9	6.2	6.6
Other[3]	9	6	42	14	0.7	0.3	1.7	0.8

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

[1] Includes continental China.

[2] Excludes sterling area countries. Egypt, the Anglo-Egyptian Sudan, and Ethiopia are included under Middle East.

[3] Mainly USSR and Eastern Europe.

Sources: *Direction of International Trade*, joint publication of the Statistical Office of the United Nations, International Monetary Fund, and International Bank for Reconstruction and Development; *Financial and Economic Annual of Japan*, 1938, The Department of Finance, Japan.

Japan has been trying to meet these changes in demand both by a shift in her own pattern of production and by vigorous sales efforts. The latter have included the stationing of technical missions and the establishing of trade fairs in potential markets, and the so-called "economic cooperation" contracts to provide financial assistance and/or technical know-how along with the export of machinery and equipment. The Japanese hope such contracts not only will expand their Far Eastern markets, but also will open up new sources of raw materials to replace prewar sources.

One impediment to more rapid progress in the expansion of Japan's economic relations with other Far Eastern countries has been the question of reparations. The impasse may have been broken with the recent signing of a reparations and economic cooperation agreement with Burma, which provides for reparations of 200 million dollars' equivalent and investments of 50 million. Japan is putting great stress upon reparations in the form of services, since this type of reparations has the advantage for Japan of requiring a relatively small expansion of imports. Whether in the form of goods or technical services, reparations payments, if properly handled, may well prove a positive advantage for Japan in the long run. Not only could they give rise almost automatically to further exports because of the usual need for servicing equipment, but acquaintance with certain Japanese products might pave the way for other types of exports as well.

Trade with the China Mainland

Before the war, China (including Manchuria) was the largest single export market for Japan, taking mostly consumer goods; and it also provided practically all of Japan's legume and edible-oil imports, three quarters of her coal imports, and almost half of her pig iron imports. Trade with northern Korea also was important, as Japan obtained large quantities of minerals from that region. Today, Japan's trade with these areas, and with the Soviet Union and the Eastern European countries, is together hardly more than 1 or 2 per cent of her total trade.

The memory of the previous substantial trade with China causes many Japanese to continue to believe that the present insignificant exchange of goods between the two countries must be capable of expansion. However, Japan desires products from China that China appears reluctant to export. Intent upon her own industrial development, China seems unwilling to share her resources of high-quality coking coal and iron ore, and will probably export such items only in exchange for goods that occupy a high place on her list of development imports. In addition, there are the restrictions imposed on Japanese exports to China as a result of the Battle Act, which denies United States assistance to countries supplying strategic goods to the Communist bloc.

Similar considerations have also affected trade with the Soviet Union, and provisional barter contracts arranged by five Japanese trading firms with the Russian Government last May have so far resulted in agreements for only a fraction of the original amount. As of now, it appears as if the constraints of state-monopoly bargaining and state-determined priorities will result in a much lower level of trade with both China and the Soviet Union than the Japanese firms originally anticipated.

Trade with the United States

In the last three years, Japan's exports to the United States have comprised between one fifth and one sixth of her total exports, considerably less than her exports either to the sterling area or to the "nonsterling" Far East, as may be seen from the table. Furthermore, while the United States share in Japan's total exports is slightly larger than before the war, the volume it represents is much less, since, as already noted, Japan's total exports are at present under 40 per cent of the prewar volume. The United States is, however, the largest supplier of Japanese imports—a role that in prewar years belonged to the "nonsterling" Far East—and is providing between 30 and 40 per cent of the total, compared with about 25 per cent in the thirties. The same pattern of a slight percentage increase in exports but a larger increase in imports is visible in Japan's trade with Canada. The ensuing deficit in Japan's dollar trade is consequently much greater than it was before the war. At that time, Japan's very large dollar deficits were usually covered by trade surpluses with the rest of the world and/or by net receipts from shipping and other services. During the fifties, however, the greatly increased dollar deficits have normally been accompanied by only relatively small surpluses with the rest of the world and by deficits on service account; hence Japan's present dependence upon the dollar receipts from special procurements.

In the mid-thirties, raw silk comprised more than half of Japan's total exports to us, and raw cotton about one third of our exports to Japan. Now our imports are much more diversified. Japan's imports from us are also more varied, since the prewar sources for many of Japan's imports are now closed to her. While raw cotton remains the leading import, Japan also has turned to us for large supplies of wheat and other foodstuffs, and for coal, petroleum, and iron ore, as well as for the traditional machinery.

Since Japan's imports from us are largely basic necessities, they cannot be easily curtailed unless substitute sources are found. Nor would Japanese earnings of sterling surpluses provide an automatic offset to dollar deficits so long as sterling is not fully convertible. Tariff reductions by the United States and a reduction in Japanese export prices would presumably permit Japan to narrow the dollar gap somewhat. However, it seems essential that Japan not only increase her total exports but also find substitute sources for a portion of those goods now obtained from the United States.

Trade Promotion Policies

The Japanese Government has shown its concern over this problem by formulating a three-year trade plan that aims at a sizable increase in imports from Southeast Asia within a reduced import total. While the 1954 trade figures will probably be close to those in the plan, this does not mean that the 1957 goals of exports of 1.74 billion dollars' equivalent and of imports of about 2 billion will be easy to achieve, for the methods by which much of the 1954 results was accomplished—the pricing of exports below domestic levels and the running-down of inventories—can hardly be continued much longer.

The government has been attempting to improve Japan's trade position in several ways. One has been the policy of monetary restraint mentioned earlier, to curb excessive domestic demand and reduce export prices. Another has been the provision of special facilities for extending credit to exporters and export industries. Thus, the government has expanded the powers of the Japanese Export-Import Bank, which may make loans to exporters as well as to foreigners wishing to purchase Japanese goods, and also may provide loans for investments by Japanese corporations abroad if such loans are expected to contribute to the promotion of Japanese exports or to an advantageous shifting of the sources of imports. Furthermore, it has been channeling funds to the private sector, through the Japan Development Bank and other institutions, for the modernization of important export industries. Assistance has also been made available to various export industries through direct and indirect subsidies, although the government is now planning to curtail or eliminate some of these aids. Finally, since last July the authorities have made provision for preferential credit treatment for export financing through regular banking channels. In another sphere, the government recently decided to set up an Export Council at the cabinet level, to meet once a month to discuss basic government policies in the context of export promotion. Working with the council will be export councils for various industries, and one council to consider ways of expanding receipts from "invisible exports"—including shipping, air transportation, and tourism.

Concluding Remarks

Japan, like West Germany, has in recent years shown great recuperative powers. Unlike West Germany, however, Japan has not matched increased domestic output with a corresponding expansion of exports. Yet, Japan is vitally dependent on export earnings to pay for imports indispensable to her economy. In her efforts to reconstruct her export trade, Japan has encountered many obstacles. Some of these are the usual difficulties arising from protracted inflationary pressures, which tend to increase the demand for imports and hamper exports through continually rising costs and preclusive claims of domestic consumption on resources. But other difficulties are of a structural character—the rapidly expanding population, the scarcity of domestic resources, and the obsolescence of industrial equipment. There has been a growing awareness in Japan that effective monetary restraint designed to combat inflationary pressures is a prerequisite to the required expansion of exports. At the same time, policies are being implemented to develop industrial resources, expand food production, and improve the productivity of Japan's economy. The restoration of her productive strength and the attainment of a better balanced internal economy will also be greatly helped by such financial assistance from abroad as she can use effectively; furthermore, Japan may benefit from foreign assistance received by her trade partners in South and Southeast Asia.

While Japan's first need is to establish an efficient domestic economy, it is also essential that Japan secure the opportunity to increase her exports, all the more so because of the decline in United States outlays resulting from the reduction of United Nations forces in Korea. Japan is seeking accession to the General Agreement on Tariffs and Trade (GATT), which the nations of the free world have adopted as a means of stimulating world trade by lowering tariffs, relaxing trade restrictions, and eliminating objectionable trade practices. In accordance with a proposal made by the United States, negotiations will open in Geneva early this year with the primary purpose of expanding Japan's trading opportunities with the United States and other GATT members and thereby reintegrating the Japanese economy into the free world trading community.

DEPARTMENT STORE TRADE

Total dollar sales at Second District department stores during the 1954 Christmas shopping season were the highest ever, according to preliminary information from a representative group of reporting stores. District sales during the preholiday period, December 1-24, which included the same number of shopping days as the corresponding period of 1953, were approximately 2½ per cent higher than in that year. For the entire month of December 1954, sales are estimated to have reached an all-time high at 186 per cent of the 1947-49 average, 2 points above the previous high reached in December 1952. The preliminary data indicate that the increase in sales over November may have been slightly (about 1 per cent) less than usual, but November sales were at an all-time peak for that month. On a daily-average basis, however, the rate of sales appears to have been slightly under that of December 1950, when the month included one less business day than December 1954.

New York City sales showed a 4 per cent gain over a year ago for the preholiday period, and this gain was chiefly responsible for the rise in total District sales. Buying at the City's department stores was stimulated by the more seasonable weather that prevailed during most of December, as well as by the more intense promotional efforts of the stores. (Newspaper advertising was limited in December 1953 by an eleven-day photoengravers' strike, with consequent unfavorable effects on telephone and mail-order sales.)

In the rest of the New York-Northeastern New Jersey metropolitan area, the preholiday shopping experience was mixed. Stores in Newark had sales declines averaging 4 per cent; sales in the metropolitan area excluding New York

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

Item	1954			1953
	Nov.	Oct.	Sept.	Nov.
Sales (average daily), unadjusted	132	110	106	129
Sales (average daily), seasonally adjusted	105	105	102	102
Stocks, unadjusted	129	130	120	132
Stocks, seasonally adjusted	113	116	115	115

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

Area	Net sales			Stocks on hand Nov. 30, 1954
	Nov. 1954	Jan. through Nov. 1954	Feb. through Nov. 1954	
Department stores, Second District	+ 7	+ 1	+ 1	− 2
New York—Northeastern New Jersey Metropolitan Area	+ 9	+ 1	+ 2	− 2
New York City	+10	+ 1	+ 2	− 1
Nassau County	—	—	—	—
Westchester County	+11	+ 5	+ 5	+ 6
Northern New Jersey	+ 2	− 1	0	+ 1
Newark	+ 1	− 1	− 1	− 1
Fairfield County	+ 3	− 4	− 4	+ 3
Bridgeport	+ 3	− 6	− 5	—
Lower Hudson River Valley	+ 9	+ 3	+ 3	0
Poughkeepsie	+ 7	+ 2	+ 2	− 2
Upper Hudson River Valley	+ 2	− 2	− 1	− 4
Albany-Schenectady-Troy Metropolitan Area	+ 2	− 2	− 1	− 4
Albany	+ 5	− 1	0	− 7
Schenectady	− 2	− 3	− 2	− 2
Central New York State	− 1	− 2	− 2	− 2
Utica-Rome Metropolitan Area	+ 2	− 3	− 3	+ 1
Utica	+ 6	0	+ 1	+ 4
Syracuse Metropolitan Area	− 2	− 1	− 1	− 3
Northern New York State	+ 9	− 5	− 5	− 1
Southern New York State	+ 1	− 2	− 1	− 5
Binghamton Metropolitan Area	+ 2	− 1	− 1	− 5
Elmira	− 6	− 6	− 6	−12
Western New York State	+ 4	0	0	+ 1
Buffalo Metropolitan Area	0	− 3	− 2	0
Buffalo	0	− 3	− 3	0
Niagara Falls	− 4	+ 1	+ 2	—
Rochester Metropolitan Area	+11	+ 4	+ 4	+ 3
Apparel stores (chiefly New York City)	+10	+ 2	+ 3	+ 5

City and Newark, however, increased somewhat more than New York City sales. In other major trading areas of the District, sales were 1 per cent higher than 1953's preholiday experience in the Syracuse metropolitan area, and equaled it in the Buffalo metropolitan area. However, sales declined somewhat in the Rochester metropolitan area, where they were down 2 per cent from 1953.

For 1954 as a whole, department store sales in the District were 1 per cent ahead of 1953. In comparison with the previous year, however, all of the improvement in District sales in 1954 came in the latter half of the year, when sales were 2 per cent higher than in the last half of 1953. During the first half of 1954, sales in the District as a whole barely equaled those of the first six months of 1953; of the District's five most important trading areas—New York City, Newark, Buffalo, Rochester, and Syracuse—only the Rochester metropolitan area registered a year-to-year increase in sales (3 per cent). In the last six months of the year, however, sales in New York City rose 3 per cent above the previous year's level, and slightly surpassed the continued favorable sales performance of the Rochester metropolitan area, where sales were up 2 per cent in the last half of 1954.

SELECTED ECONOMIC INDICATORS

A new booklet, *Selected Economic Indicators,* is now available from this Bank free of charge. It contains articles describing the nature and significance of twenty statistical series that reflect economic conditions in the United States. Each month this *Review* reports, in a table of "Selected Economic Indicators", the latest figures available for each of the series. The articles first appeared in this *Review;* they have been revised to bring them up to date. Requests for copies should be addressed to the Public Information Division, Federal Reserve Bank of New York, New York 45, N. Y.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954			1953	Percentage change	
		November	October	September	November	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	129*p*	126	124	129	+ 2	#
Electric power output*	1947-49 = 100	173	174	172	159	− 1	+ 9
Ton-miles of railway freight*	1947-49 = 100	—	94*p*	89	96	+ 6	− 4
Manufacturers' sales*	billions of $	24.6*p*	23.3	23.6	24.3	+ 6	+ 1
Manufacturers' inventories*	billions of $	43.8*p*	43.8	43.7	46.9	#	− 7
Manufacturers' new orders, total*	billions of $	24.5*p*	24.1	24.5	21.6	+ 2	+13
Manufacturers' new orders, durable goods*	billions of $	11.8*p*	11.6	11.7	9.6	+ 2	+23
Retail sales*	billions of $	—	14.1*p*	14.2	14.1	− 1	+ 1
Residential construction contracts*	1947-49 = 100	253*p*	263	253	176	− 4	+44
Nonresidential construction contracts*	1947-49 = 100	241*p*	226	217	255	+ 7	− 5
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	90.8	90.5	90.8	87.4	#	+ 4
Wholesale prices†	1947-49 = 100	109.8*p*	109.7	110.0	109.8	#	#
Consumer prices†	1947-49 = 100	114.6	114.5	114.7	115.0	#	#
Personal income (annual rate)*	billions of $	—	285.9*p*	286.6	287.2	#	− 1
Composite index of wages and salaries*	1939 = 100	—	259*p*	259	253	#	+ 3
Nonagricultural employment*	thousands	48,248*p*	48,167	48,054	49,422	#	− 2
Manufacturing employment*	thousands	15,984*p*	15,878	15,789	16,901	+ 1	− 5
Average hours worked per week, manufacturing†	hours	40.1*p*	39.9	39.7	40.0	+ 1	#
Unemployment‡	thousands	2,893	2,741	3,099	1,428	+ 6	—
Banking and finance							
Total investments of all commercial banks	millions of $	86,410*p*	86,300*p*	83,330*p*	78,280	#	+10
Total loans of all commercial banks	millions of $	69,660*p*	67,790*p*	67,250*p*	67,250	+ 3	+ 4
Total demand deposits adjusted	millions of $	104,240*p*	103,140*p*	101,200*p*	100,220	+ 1	+ 4
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,017*p*	29,958	29,931	30,282	#	− 1
Bank debits (338 centers)*	millions of $	65,826	60,118	62,546	60,046	+ 9	+10
Velocity of demand deposits (338 centers)*	1947-49 = 100	122.5*p*	116.3	119.4	119.4	+ 5	+ 3
Consumer instalment credit outstanding†§	millions of $	—	21,952	21,935	21,907	#	+ 1
United States Government finance (other than borrowing)							
Cash income	millions of $	5,122	2,617	5,280	5,396	+96	− 5
Cash outgo	millions of $	4,385	5,095	5,364	6,248*r*	−14	−30
National defense expenditures	millions of $	3,286	3,343	3,297	3,879	− 2	−15
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	137	136	136	137	#	#
Residential construction contracts*	1947-49 = 100	—	175*p*	160	130	+ 9	+36
Nonresidential construction contracts*	1947-49 = 100	—	195*p*	207	219	− 6	−11
Consumer prices (New York City)†	1947-49 = 100	112.7	112.6	112.7	112.9	#	#
Nonagricultural employment*	thousands	—	7,430.8*p*	7,427.0	7,625.9	#	− 3
Manufacturing employment*	thousands	—	2,539.9*p*	2,544.1	2,736.1	#	− 8
Bank debits (New York City)*	millions of $	63,212	58,210	57,317	54,269	+ 9	+16
Bank debits (Second District excluding New York City)*	millions of $	4,294	3,991	4,278	4,034	+ 8	+ 6
Velocity of demand deposits (New York City)*	1947-49 = 100	162.6	154.6	150.4	148.1	+ 5	+10

Note: Latest data available as of noon, December 31, 1954.

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