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MONEY MARKET IN FEBRUARY

In the money market, attention during the past month was focused largely on the huge Treasury refunding operation and related adjustments in the security portfolios of banks, savings institutions, and others. The large-scale shifts in security holdings were accompanied by large movements of funds, but the reserve positions of the banks generally were not subject to any pronounced stresses. Excess reserves of member banks on the whole were somewhat smaller in the four weeks ended February 23 than in the preceding month, but member bank borrowings from the Reserve Banks did not increase materially. With the end of the major seasonal return flow of currency, Federal Reserve open market operations were reduced in volume and total Reserve Bank holdings of Government securities showed a small net increase for the four-week period.

Despite the fairly stable reserve position of the banks, interest rates tended to rise during February. Upward adjustments in yields on the longer-term Government bonds accompanied and followed the Treasury exchange offering of forty-year 3 per cent bonds. Yields on Treasury bills declined in the first part of February but rose rapidly later. Yields on securities of intermediate maturity also rose. The rise in interest rates apparently reflected not only the influence of the Treasury's large refinancing, but also the relatively strong demand for commercial loans, and the effects on investors and dealers of discussions of the possibility that demand for long-term funds may outrun the supply this year, and of rumors that the Federal Reserve System might take steps toward credit restraint in the months ahead. Much of the discussion of prospective demands for long-term funds centered around the continued high level of building activity and the heavy demand for mortgage money.

Activity in the Government securities market during February consisted mainly of transactions motivated by the Treasury's refunding offer. During the three-day period in which the books on the exchange offering were open (February 1-3), the market had the task of facilitating the transfer of a large volume of the called 2 $\frac{7}{8}$ per cent bonds from the commercial banks and other short-term holders into the hands of other

investors who found the Treasury's offering of forty-year 3 per cent bonds more suitable to their investment needs, and, concurrently, of redistributing some of the two other "rights" being exchanged for the new Treasury notes. The task was performed well and the refunding was highly successful. Of the 7.0 billion dollars of the February certificates outstanding, roughly 5.7 billion were exchanged for the new thirteen-month 1 $\frac{5}{8}$ per cent notes maturing March 15, 1956 and 1.2 billion for the 2 $\frac{1}{2}$ -year 2 per cent notes of August 15, 1957; 102 million dollars of the certificates were redeemed for cash. Of the 5.4 billion March 15 notes, 2.4 billion were exchanged for the short notes, 2.6 billion for the longer notes, and 338 million were unexchanged. Of the 2.6 billion partially tax-exempt 2 $\frac{7}{8}$ per cent bonds, 1.9 billion were exchanged for the new 3 per cent bonds of 1995, 323 million for the short notes, and 365 million were unexchanged. The relatively high proportion of the bonds that were unexchanged reflects the fact that the issue had been outstanding for twenty years, was much more widely held than the notes and certificates, and had been broken down into a large number of small denominations.

Trading interest in February was centered in the "rights" and the new long-term 3's, and yields on the rest of the Government bond list adjusted to the terms of the long-term offering. Demands for the new bonds on the part of institutional investors and public and private pension funds were substantial. The price of the 3's held relatively stable, while sales of other issues to raise funds for the purchase of the new 3's tended to push down the prices of outstanding issues.

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In the early part of the month, yields on short-term Government securities temporarily deviated from the general upward trend of interest rates in February, as the result of insistent demands on the part of nonbank investors. The demand absorbed virtually all of the floating supply of such issues in the market and pushed yields down. In the second half of the month, the balance of supply and demand in this sector of the market was reversed and yields again moved up. This pattern was reflected in the average issuing rates for new Treasury bills, which declined from 1.134 per cent for the issue of February 3 to 1.088 per cent for the issue of February 10 (the lowest since January 6) and then rose to 1.355 per cent for the final February issue.

Demands for bank credit in recent weeks have continued to be significantly stronger than they were in the comparable weeks of 1954. During the four weeks ended February 16 all major loan classifications except those for purchasing and carrying securities showed larger increases than a year ago. Total loans of the weekly reporting banks (exclusive of interbank loans), as a result, were up 416 million dollars in these four weeks, compared with a rise of 47 million a year ago. Total earning assets, however, dropped by 746 million, owing to a reduction of 1,526 million dollars in Government security portfolios, reflecting largely sales to nonbank investors.

MEMBER BANK RESERVE POSITIONS

The average volume of uncommitted reserves held by the banking system in February was somewhat smaller than in January, but there was no sustained pressure on the money market. Increases in reserve funds brought about through purchases of securities by the Federal Reserve Bank of New York under repurchase agreements, and an increase in member bank borrowings early in the month for the purpose of assisting the dealers in carrying "rights", helped to avert any money market strains that might have developed. There was also a net inflow of funds to New York from other parts of the country through Treasury operations. Average excess reserves held by all member banks in the aggregate during the four statement weeks ended February 23, according to preliminary data, were about 100 million dollars below the preceding four weeks or approximately 600 million dollars, while average borrowings from the Federal Reserve Banks increased 32 million to 344 million dollars.

The fluctuations in excess reserves from week to week in February were relatively small (see Table I). Unlike the experience of recent months, the movements in the most volatile operating factors—Treasury operations and float—tended to balance, rather than reinforce each other. System Open Market Account operations also helped to minimize reserve fluctuations. During the week ended February 2, the collection of January personal income tax checks built up the Treasury's balance at the Reserve Banks, but the reserve drain was offset by System open market operations. In the following

week, the Treasury's balance declined, releasing reserves, but the gains were largely offset by a contraction in float. Float expanded rapidly in the week ended February 16, but reserve losses resulting from Treasury and Federal Reserve operations were more than counterbalancing. In the last week of the month, while float and Treasury operations both withdrew reserves, gains from foreign account operations and a decline in required reserves provided a partial offset.

The only factor to move in the same direction each week of the month was the level of required reserves, which declined by 344 million dollars over the four weeks, adding correspondingly to member bank excess reserves. The decline reflected the large-scale purchases of bank-held securities by nonbank investors and the resulting decline in private deposits.

The relatively comfortable reserve position of New York City banks in February was the result of Treasury operations and, to a lesser extent, of foreign account operations. Member banks in the aggregate lost about 150 million dollars of reserves through Treasury operations in the four weeks ended February 23, but despite this the New York banks gained roughly 400 million net during this period, primarily because Treasury disbursements, including interest payments and the redemption of matured securities, were concentrated in the New York market. Foreign accounts, through security operations and transfers of funds from the Reserve Bank to commercial banks in the City, put into the New York market more than the 107 million gain in total reserves from gold and foreign account operations indicated in Table I. Although banks outside the City subsequently withdrew funds from New York to replenish their reserve balances, the initial flow

Table I
Weekly Changes in Factors Tending To Increase or Decrease
Member Bank Reserves, February 1955
(In millions of dollars; (+) denotes increase,
(-) decrease in excess reserves)

Factor	Statement weeks ended				Four weeks ended Feb. 23
	Feb. 2	Feb. 9	Feb. 16	Feb. 23	
<i>Operating transactions</i>					
Treasury operations*	-104	+201	-188	-54	-145
Federal Reserve float	+48	-133	+281	-259	-63
Currency in circulation	-6	-21	+36	-50	-41
Gold and foreign account	+15	-51	+43	+100	+107
Other deposits, etc.	-232	+1	-25	-15	-271
Total	-278	-6	+149	-280	-415
<i>Direct Federal Reserve credit transactions</i>					
Government securities:					
Direct market purchases or sales	+231	—	-170	—	+61
Held under repurchase agreements	+21	+90	-114	—	-3
Loans, discounts, and advances	+235	-345	+200	-144	-54
Total	+487	-255	-84	-144	+4
<i>Total reserves</i>	+209	-261	+65	-424	-411
<i>Effect of change in required reserves†</i>	+42	+113	+41	+148	+344
<i>Excess reserves†</i>	+251	-148	+106	-276	-67
<i>Daily average level of member bank:</i>					
Borrowings from Reserve Banks	401	435	267	273	344
Excess reserves†	555	664	529	565	578

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

of reserves to New York contributed to the stability and lack of pressure in the money market in the face of the reduction in excess reserves in the country as a whole.

THE GOVERNMENT SECURITIES MARKET

Trading in Government securities was extremely heavy during the opening days of the month while the books were open on the Treasury's exchange offer. A vast amount of swaps and outright purchases or sales involving securities in all sectors of the market was necessary to lodge the new issues offered in the 15 billion dollar February 15 refunding in the hands of investors and to substitute other issues in the portfolios of those investors who held the "rights" but found the new issues unsuited to their needs. After the closing of the books the volume of activity was reduced, but it continued above the usual level until after the delivery of the new securities on February 15.

Price trends generally were down in all sectors of the market, continuing the adjustment to higher levels of yields begun in January. The price of the new 3's, however, as a result of the substantial market demand for them, showed a narrower range of fluctuation and a smaller relative loss than other issues. Trading in these bonds commenced on a "when-issued" basis at about $100\frac{3}{8}$ (bid) and then fell quickly to $100\frac{1}{2}$. The price rose as high as $100\frac{18}{32}$ in the middle of the month, but in the latter half drifted down to a trading level as low as $100\frac{1}{8}$, closing on the 25th at $100\frac{1}{4}$. Between the close of business on January 28 and February 25 price declines on other issues of bonds and notes were about as large as those that had occurred in January prior to the refunding announcement. Quotations on most issues due or first callable after 1955 were off approximately $\frac{1}{2}$ to a full point, and the 3 $\frac{1}{4}$'s of 1978-83, which were in the most direct competition with the new 3 per cent bonds, dropped $1\frac{5}{8}$ points to close at $106\frac{2}{32}$. The closing bid quotations on February 25 on the two new note issues, which had initially traded at a price of $100\frac{4}{32}$, were $99\frac{29}{32}$ for the thirteen-month $1\frac{5}{8}$ per cent issue and $99\frac{21}{32}$ for the 2 $\frac{1}{2}$ -year 2 per cent notes. All but the shortest Treasury bill yields also closed the month above their end-of-January levels, more than reversing the sharp but short-lived dip in the early part of February. Bid prices on the 25th ranged from 1.05 per cent for the shortest bills to 1.37 per cent for the longest maturity.

After the refunding offer was announced at the close of business January 27, those investors who wished to sell "rights" appeared in the market more quickly than those interested in purchasing the new issues, and the quotation on the $2\frac{7}{8}$ per cent bonds, which initially advanced from $100\frac{3}{8}$ to $100\frac{5}{8}$, quickly fell to about $100\frac{1}{4}$. Other quotations rose briefly at this time as the sellers of the "rights" reinvested in a number of intermediate issues. Following the closing of the books on February 3, this pattern was reversed. Institutional investors switched out of a wide range of other maturities into the "when-issued" 3's, which were in supply mainly as a result of

commercial bank selling, and there was also some outright selling of long-term 2 $\frac{1}{2}$'s and of the 3 $\frac{1}{4}$'s, partly to raise funds against earlier "when-issued" purchases of the new bonds. The result was a general deterioration of prices, which carried over in limited degree to the new 3's as well. As the quotations on the 3's declined to the vicinity of $100\frac{1}{8}$, however, demand was stimulated and the premium began to climb. This demand continued to reflect mainly switches from other issues (including some corporate bonds), and prices in the remainder of the list fell almost uninterruptedly to the month end.

While the refunding was in progress, yields in the short-term area dropped rapidly, as an increasing volume of Treasury bills and certificates was absorbed by nonfinancial corporations, partly against sales of the "rights". Buyer preference was concentrated largely in the shorter bill maturities, which were suitable for the temporary investment of funds accumulated for March tax and dividend payment purposes. As the demand persisted and dealers' holdings became depleted, yields on all but the longest maturities of Treasury bills (where some buyer resistance to the rate level was encountered) declined below 1 per cent, without evoking any significant increase in market supply or materially constricting demand. On February 9 and 10, market yields dropped to a range of 0.80-1.07 per cent, with actual trading levels at times even lower. Yields on all but the longest maturities were at their lowest levels since late November. It was not until the midmonth, when some institutional investors liquidated bills to take up the new 3's and the System Account sold 170 million dollars of bills in order to absorb additions to bank reserves, that the thinness of the market was partially relieved. The firming of the money market also led to some bank selling of bills and thus contributed to the resumption of a two-way market.

The relatively smooth handling of the vast shifts of "rights", "when-issued" securities, and already outstanding issues that accompanied the refunding operation was facilitated by two technical innovations. The first was a departure from previous practice regarding "when-issued" obligations; trading in the new 3 per cent bonds began in the first market session after the announcement of the refunding terms, rather than waiting upon the opening of the exchange subscription books. A large number of holders of the partially tax-exempt "rights" generally wished to retain the benefit of the tax exemption for as long as possible and consequently preferred to sell "when-issued" securities rather than "rights". The earlier beginning of the "when-issued" trading enabled holders of these "rights" and prospective buyers of the new forty-year 3 per cent bonds to value immediately in terms of market prices any portfolio adjustments they planned to undertake, thus speeding up market action in clearing through the numerous transactions related to the refunding. The second innovation was the dealers' readiness to sell the "when-issued" 3's on a forward-delivery basis. Institutions having regular accruals of funds, such as insurance companies and pension funds, were thus

enabled to commit funds not yet in hand for the purchase of the new 3's, on a payment schedule spaced out in accord with the expected accruals. While the total amount of such contracts actually written was moderate, they helped to broaden the market for the new bonds, and they provided a flexible arrangement for this purpose in lieu of a formal deferred payment program in the Treasury offering.

MEMBER BANK CREDIT

The weekly reporting banks' earning assets declined by 746 million dollars during the four weeks ended February 16. Although total loans rose 416 million and "other" securities 364 million (reflecting mainly the purchase of Federal National Mortgage Association notes in the week ended January 26), this gain was more than offset by the drop in Government securities holdings which totaled more than 1.5 billion. While the bulk of this reduction probably resulted from the net shift of securities from the banks to institutional investors induced by the Treasury's exchange offer, a significant part came from the banks' Treasury bill portfolios. Responding apparently to the combined effect of tighter reserve positions and to the strong nonbank demand, the reporting banks sold or redeemed almost 500 million of bills. At the close of the period the banks' holdings of bills were at their lowest level since May 1953, despite purchases of 260 million in the week of February 16 apparently designed to rebuild short-term portfolios.

Loan demand continued to run well ahead of a year ago. During the four weeks covered in Table II, business loans showed a small net increase, against a 131 million contraction a year ago (even after including purchases of about 150 million of Commodity Credit Corporation certificates of interest in the week ended February 3, 1954). Real estate loans rose 87 million, compared with a 16 million rise last year, and "other" (mainly consumer) loans increased 135 million, compared with a 159 million drop in the corresponding year-ago period. The improved showing in business loans, while shared

in to some extent by virtually all industrial classifications for which separate breakdowns are available, resulted largely from increases in borrowings by the petroleum industry and by sales finance companies this year, compared with net repayments in 1954.

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. 29, 1954 to Feb. 16, 1955 ^p
	Jan. 26	Feb. 2	Feb. 9	Feb. 16 ^p	
<i>Assets</i>					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans.....	- 89	- 20	+ 42	+127	- 263
Security loans.....	+100	+ 134	+ 14	-111	- 260
Real estate loans.....	+ 25	+ 16	+ 15	+ 31	+ 149
All other loans (largely consumer).....	+ 32	+ 71	+ 3	+ 29	+ 138
Total loans adjusted*.....	+ 68	+ 199	+ 77	+ 72	- 283
Investments:					
U. S. Government securities:					
Treasury bills.....	- 63	- 369	-318	+260	- 536
Other.....	- 98	- 273	-201	-464	-1,290
Total.....	-161	- 642	-519	-204	-1,826
Other securities.....	+373	+ 73	- 58	- 24	+ 278
Total investments.....	+212	- 569	-577	-228	-1,548
Total loans and investments adjusted*.....	+280	- 370	-500	-156	-1,831
Loans to banks.....	+ 63	+ 4	+ 5	+ 29	+ 89
Loans adjusted* and "other" securities.....	+441	+ 272	+ 19	+ 48	- 5
<i>Liabilities</i>					
Demand deposits adjusted.....	+348	-1,077	-245	-729	-1,780
Time deposits except Government.....	+ 11	+ 4	- 7	-	+ 57
U. S. Government deposits.....	+472	+ 370	+ 12	+435	+ 169
Interbank demand deposits:					
Domestic.....	-807	+ 126	-188	+ 77	- 649
Foreign.....	- 25	+ 5	- 26	+ 37	- 107

^p Preliminary.
* 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.

ECONOMIC STABILIZATION IN PERU

The Peruvian economy has in recent months achieved a remarkable recovery from the balance-of-payments crisis that had developed in 1953 and early 1954 and had temporarily slowed down Peru's rapid economic growth. Exports have increased, imports have declined substantially, gold and foreign exchange reserves have risen, the excessive expansion of the money supply has been halted, and exchange rates have for many months been stable. This significant improvement in Peru's economic position is in large part the result of a well-

defined, coordinated program designed to correct some of the major causes of the exchange crisis—a program that has been executed with a minimum of government interference with the free play of market forces.

THE EXCHANGE CRISIS

The 1953 exchange crisis was marked by a depreciation of the country's exchange rates¹ that began slowly but soon became very rapid indeed. After two years of virtual stability,

¹ Peru maintains two foreign exchange markets—a "certificate" and a "draft" market. Exporters are required to sell up to 100 per cent of their exchange earnings, depending upon the currency earned, to commercial banks for exchange certificates, which they are free to sell on the certificate market. Certificates currently have a validity of ten days, at the expiration of which unsold certificates are bought by the central bank at a small discount. All other receipts, including those from invisible (i.e., service) transactions, capital, and some export earnings, may be freely sold in the draft market. Importers may use

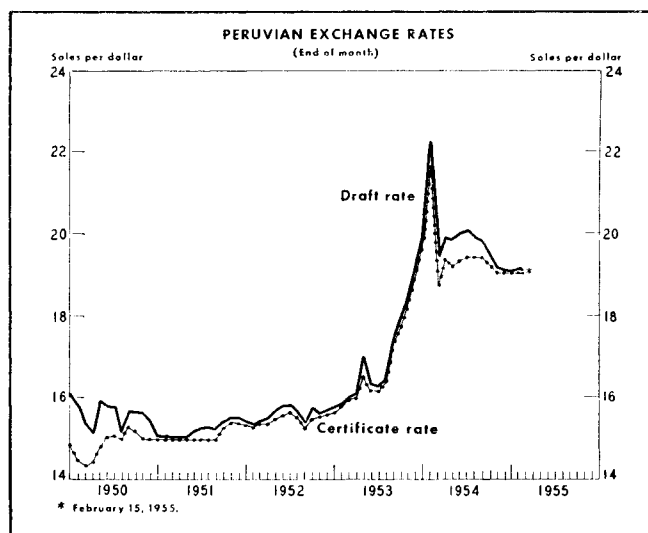
either market to purchase the exchange needed to pay for imports. Exchange for specified types of invisible transactions may be obtained in the certificate market, while that for other types must be obtained in the draft market. Exchange rates fluctuate freely in the two markets, although on occasion the central bank appears to have attempted to prevent excessive fluctuations. The two markets generally move closely together, with a slightly higher sol rate, in terms of dollars, on the draft market. The exchange rate quotations in the text refer to the certificate rate.

the so-called certificate rate began to depreciate in early 1953, and by April 30 stood at 16.47 soles per dollar as against 15.60 four months earlier (see chart). The rate then hovered near 16.25 during May to July, but in August it began to weaken again at an alarming pace, and by the end of January 1954 stood at 21.63 per dollar, a depreciation of nearly 40 per cent from the December 1952 level.

While the very rapid depreciation after August 1953 was probably attributable in large part to speculative activity, a more basic factor behind the general weakening that began early in the year was the deterioration in the country's trade position after the collapse of the post-Korea export boom in 1952. Following the Korean outbreak, Peru had enjoyed a vigorous export boom marked by substantial increases in the prices of its principal exports. During 1952-53, however, the prices of Peru's major exports fell sharply, and as a result, the country's export receipts also declined (see table). However, the fall in export receipts was considerably more moderate than might have been expected from the decline in export prices alone, for the volume of Peru's major exports rose very substantially during those two years.

Imports, meanwhile, increased slightly during 1950, and then very sharply during the following year; during 1952-53 they went up still further. However, a part of the rise in imports since 1950 represented increases in direct foreign investment, and hence did not require any expenditure of exchange resources. Nevertheless, much the greater part of the increase in imports between 1950 and 1953 was comprised of "ordinary" imports, i.e., imports constituting a charge upon the country's exchange resources.

Two basic factors—the export boom and the passage of new legislation that offered highly favorable terms to foreign investors—accounted for the growth in "ordinary" imports during 1950-53. First, a part of the increased incomes generated by the export boom was spent directly upon imports that would not otherwise have been purchased. Secondly, the whole pace of Peruvian business activity quickened noticeably after 1950—partly as a result of the export boom, which acted as a catalyst upon the country's development program; and partly as a result of the passage during 1950-52 of liberal foreign-investment legislation that elicited an immediate and vigorous response from foreign investors. New enterprises were established, new jobs were created, the competition for resources grew more keen, and the money supply



increased rapidly. In short, the export boom directly and indirectly was transmitted to the domestic economy, and its impact was strongly reinforced by the substantial inflow of capital that followed the passage of the new foreign-investment legislation. Once under way, the upswing in the domestic sector provided its own stimulus to further growth, feeding upon itself and generating in the process a demand for imports that increased in intensity as the upswing proceeded. As indicated earlier, however, the principal factor capable of sustaining the growth of imports over an extended period—a rising level of export receipts—abruptly disappeared in 1952; further, the inflow of foreign capital, which could have supported the new and higher levels of imports for a time at least, was not sufficient to fill the gap between Peru's export receipts and its exchange requirements at the inflated import levels. As a result, the country's gold and foreign exchange reserves declined during 1952-53 for the first time since 1947.

THE STABILIZATION PROGRAM

The realities of Peru's economic situation made it imperative that the attack upon the problem of external imbalance be aimed primarily at halting, and indeed reversing, the upward trend in imports. However, in keeping with their policy of promoting a high degree of economic freedom, the Peruvian authorities did not impose a broad array of import and exchange restrictions; instead, they placed principal reliance upon general monetary and fiscal policies, which they supplemented with certain selective measures.

The first important monetary measure was imposed in April 1953, when the authorities introduced supplementary commercial bank reserve requirements of 50 and 25 per cent, respectively, against *new* sight and time deposits (the basic reserve requirements of 20 and 10 per cent against *existing* sight and time deposits, respectively, remained unchanged). The rate of increase of commercial bank credit fell perceptibly

Peruvian Foreign Trade
(In millions of dollar equivalent)

Year	Exports	Imports	Trade balance
1949.....	150.6	167.1	-16.5
1950.....	189.4	175.6	+13.8
1951.....	248.2	261.7	-13.5
1952.....	234.1	287.5	-53.4
1953.....	218.6	294.1	-75.5
1954.....	247.6	249.7	-2.1

following this move; indeed, during the six months from May to October 1953 such credit rose by less than 2 per cent, compared with an increase of 11 per cent during the previous half year and 15 per cent during May-October 1952. The burden of the new credit restrictions fell primarily upon the private sector. In particular, the measure reportedly slowed down considerably the previous rapid rate of inventory accumulation.

However, the over-all money supply continued to rise, for commercial bank credit constituted only one of several channels through which the money supply could be increased, and another important channel—central bank credit to the government (including official institutions)—had not been closed. Largely in response to the government's need for funds to pursue its public works programs, central bank credit to the government had risen by nearly 20 per cent in 1952 and by another 13 per cent during January-August 1953. Such credit, it should be noted, increased the money supply not only directly, but indirectly as well, for it provided liquidity to the entire banking system and thus gave rise to a secondary expansion of commercial bank credit or, at the least, tended to offset any contraction in commercial bank credit that might otherwise have occurred. Accordingly, beginning in September 1953, steps were taken to bring under tight control the expansion of central bank credit to the government. The authorities at that time revised the public works budget downward; in November, further cuts in government spending were ordered and work on some public construction projects was actually suspended. These measures effectively halted the rise of central bank credit to the government; indeed, during September-December 1953 such credit declined slightly, after the previously noted increase of 13 per cent during January-August.

Further steps to avert a rapid expansion of commercial bank credit were taken in November 1953. At that time the authorities raised the basic reserve requirements from 20 to 22 per cent against sight deposits, and from 10 to 11 per cent against time deposits.

While the general monetary and fiscal measures employed by Peru during 1953 did not result in any absolute decrease in the money supply, they did bring the monetary expansion under control by considerably reducing its rate of increase, thus helping to relieve the upward pressure that was being exerted upon prices and import demand. Important as the monetary and fiscal policies were, however, they could not alone correct Peru's balance-of-payments difficulties. It was necessary to supplement those policies, whose impact was general, with more specific measures that could be applied selectively to deal with individual trouble spots. Thus, restrictions upon the extension of consumer credit for certain types of goods were imposed in May 1953 and were later strengthened; the banks, furthermore, were instructed to refuse loan applications for funds to be used for certain types of construction projects. Also, the 1951 regulations under which importers of certain commodities were required to make advance deposits

against letters of credit were broadened; and a ban was imposed upon the importation of automobiles. These selective measures, as well as the more general monetary and fiscal policies already discussed, helped to contain the upward pressure upon import demand, as of course did the higher cost of imports implicit in the depreciation of the exchange rates.

While the remedial measures described above—along with the previously noted rise in export volume—contributed greatly to the correction of some of the major difficulties underlying Peru's balance-of-payments problems, they did not perceptibly reduce the speculative pressure upon Peru's exchange rates that developed in August 1953. At that time, it will be recalled, credit to the private, but not to the governmental, sector had been restricted. As long as the latter avenue of inflation remained open, the chances for any basic improvement in the country's external position were quite limited. This fact was well-known to those who were disposed to speculate in the currency, and they were also aware that Peru's gold and foreign exchange reserves were inadequate for effective defense of the currency if the sol should come under strong pressure.

Under the weight of increased speculative pressure the external value of the sol declined considerably more rapidly than seemed to be warranted by Peru's underlying balance-of-payments position. The authorities relieved some of the pressure on the currency by reducing the validity period of exchange certificates from fifteen to five days, thus shortening the period during which certificates could be held off the market in anticipation of a higher sol price. More far-reaching measures were essential, however, if the rapid depreciation of the sol was to be halted. Accordingly, negotiations were entered into for outside financial aid, culminating in the receipt, in February 1954, of 30 million dollars in stabilization credits from the International Monetary Fund (12.5 million), the United States Exchange Stabilization Fund (12.5 million), and a New York commercial bank (5 million); the stabilization credits were for one year and were recently extended to February 1956. The currency began to recover as rumors of the negotiations were circulated, and when the conclusion of the agreements was announced, the sol recovered further to reach 18.73 soles per dollar at the end of February. The rate then fluctuated narrowly around 19.30 for several months, and has since been stable at 19.00 (see chart).

DEVELOPMENTS IN 1954 AND THE OUTLOOK

The Peruvian authorities were understandably anxious to avoid the imposition during 1954 of new restrictive measures, for if the stabilization program were to be overly severe, it could well precipitate a cumulative downturn in business activity. On the other hand, the country could hardly risk any substantial relaxation of the measures imposed in 1953. Thus, it was the policy of the authorities last year to exercise continuing restraint, but within the framework of the corrective measures already adopted.

To carry out such a policy, however, was not always easy, for during the year conflicting pressures developed, some tending toward a resurgence of inflation and external imbalance and others toward deflation. The latter consisted in the development of a mild recession in domestic business activity, partly associated with the monetary and fiscal restrictions, but mainly, it would appear, as a result of the liquidation of the high inventories that had been accumulated during the upswing. The pressure toward another round of inflation, on the other hand, was reflected in a further rise in the money supply, and also in prices, in spite of the continuation of the restraints imposed earlier. However, this rise in the money supply was relatively modest in scope, and served, not as a spark for a new inflation, but rather as a reminder that the danger of inflation still existed and that the time for substantial relaxation of the 1953 restrictions had not arrived.

Meanwhile, Peru's trade position improved greatly. During 1954 the trade deficit amounted to only 2.1 million dollars' equivalent (see table), as against a deficit of 75.5 million in 1953. This change in the trade position reflected both a rise in exports and a fall in imports. The increase in exports resulted from a rise in export volume accompanied by some recovery in export prices, notably metal prices. The fall in imports, as already indicated, may in large part be attributed to the measures initiated under Peru's stabilization program, together with the higher cost of imports implicit in the depreciation of the exchange rates, and in part also to the inventory liquidation that occurred during the year. These favorable developments were instrumental in leading the authorities to replace with a quota system the ban on automobile imports. More recently, the validity period of exchange certificates was raised from five to ten days, and the regulation under which importers must make advance deposits against letters of credit was relaxed.

Chiefly as a result of the improvement in its trade position, Peru's gold and foreign exchange reserves increased during the latter part of 1954. By the end of October (the latest date available) such reserves stood at 45 million dollars' equivalent, almost 5 million above the July low point. Moreover, there are indications that reserves have since continued to increase. It thus appears that the primary objective of Peru's stabilization program—the strengthening of the country's external position—has been largely achieved.

Prospective developments in the external sector indicate a continuation of the rising level of export receipts enjoyed by Peru in 1954. The current cotton crop is reportedly a record one and the sugar crop may also reach an all-time high. The volume of metal exports is generally expanding, and this trend should continue as the fruits of existing and planned investments are realized; furthermore, the prices of some of Peru's major exports are firm or are rising on world markets. In addition, the inflow of foreign capital, which reportedly receded somewhat last year, is expected to rise again. Indeed, quite apart from the inflow of private capital, there will prob-

ably soon occur a substantial inflow of official capital, for the United States Export-Import Bank has agreed in principle to extend 100 million dollars of credits to aid in the financing of a 200 million dollar project designed to greatly increase Peru's copper output.

Should the prospective rise in activity in the external sector in fact occur, it would in all likelihood be transmitted to the domestic sector, and could well initiate a higher rate of economic growth than Peru felt itself able to afford last year. The task would then become one of insuring that this growth does not again generate an excessive rise in imports—a task that would be all the more difficult because of the necessity of replenishing depleted inventories. Peru's budget for 1955 suggests that the authorities may be anticipating this problem and that they are already taking steps to prevent any such rise in imports. For while the current budget provides for higher expenditures than in 1954, the increase reportedly does not reflect prospective expenditures on new, but rather the higher costs of completing or continuing existing, projects and services. It thus appears that the government is anxious to continue to exercise budgetary prudence despite the recovery now evident in the external sector and the prospects for further improvement.

CONCLUDING REMARKS

The situation in which Peru found itself in 1953 was in some respects similar to that faced by many other primary-producing countries. At that time the post-Korea export boom had collapsed and exchange receipts had fallen, while on the other hand exchange requirements had increased substantially as a result of inflationary pressure generated by the export boom itself and by ambitious development programs to which the boom had given impetus.

The character of the corrective techniques that were applied to the resulting exchange crises varied, of course, from country to country. Peru's program for dealing with the problem was distinguished by the placing of primary reliance upon monetary and fiscal measures rather than upon an array of direct import and exchange restrictions. Such monetary and fiscal measures, supplemented by a few selective controls and by the *de facto* devaluation of the sol, operated to reverse the strong upward trend in imports that had begun in 1951. At the same time Peru's own investment efforts, supplemented by an impressive inflow of foreign capital, contributed much to the rise in export volume that limited the severity of the exchange crisis.

Problems of both a short and a long-run nature of course remain. An immediate difficulty is that gold and foreign exchange reserves, although rising, are still uncomfortably low and must be brought up to a point where a temporary balance-of-payments disequilibrium can be viewed with some equanimity. Inflation, too, remains a problem that will require constant vigilance. For high and rising levels of exports

and capital inflow, together with heavy domestic investment, may well impose a serious strain upon Peru's resources.

Special emphasis is currently being given to efforts to increase agricultural production. The pursuit of this aim became a vital necessity as the growth of the Peruvian economy gained momentum and generated new and pressing demands upon the country's agricultural capacity. Some successes, it may be noted, have already been reported; e.g., while Peru had formerly imported rice, in 1953 the crop was sufficiently large to permit some exports. Further gains in agricultural output may be expected when irrigation and other projects currently under way or planned are completed. Finally, Peru is faced, as are so many other countries, with the problem of continu-

ing to diversify its economy so as to reduce its heavy dependence upon a few major exports. Progress along these lines is being made, and with the aid of additional capital brought in under Peru's liberal foreign investment legislation, such progress may be expected to continue.

In formulating and executing policies to deal with the foregoing problems, Peru is aided by the fact that it possesses natural resources in abundance and variety. Furthermore, the forthright and effective manner in which Peru dealt with its recent exchange crisis suggests that the country also possesses the resolution and fortitude required to achieve, within a climate of economic freedom, a substantial measure of stable and balanced growth.

EARNINGS AND EXPENSES OF SECOND DISTRICT MEMBER BANKS IN 1954

Net profits of member banks in the Second Federal Reserve District, after all charges but before dividend payments, increased by 65 million dollars, or 29 per cent, in 1954 and reached an all-time high of 286 million dollars. The increase over 1953 was almost entirely attributable to the replacement of losses on security transactions in that year with profits in 1954; net current operating earnings were slightly lower in 1954 than in 1953 in the central reserve New York City banks and modestly higher than a year ago in the reserve city and country banks. Second District member banks' net profits amounted to 8.4 per cent of capital funds in 1954, compared with 6.7 per cent in 1953, but remained below the ratio for the country as a whole, which in 1954 was 9.6 per cent of capital funds.¹

Net profits of the 21 central reserve New York City banks in 1954 totaled 213 million dollars, an increase of 52 million dollars or 32 per cent over 1953. This represented a return of 8.3 per cent on capital funds, compared with 6.4 per cent in 1953 and, as the accompanying chart shows, was only slightly less than the all-time high of 214 million dollars attained in 1945. The District's reserve city and country banks showed a profits rise of 13 million dollars (22 per cent), lifting their 1954 net profits to a new all-time high of 73 million dollars and exceeding the previous peak reached in 1946 by 10 million dollars. On the average, these banks earned 8.8 per cent on capital funds in 1954, the best they have done since 1946 (when they earned 11.4 per cent) and substantially better than the 7.6 per cent they earned in 1953.

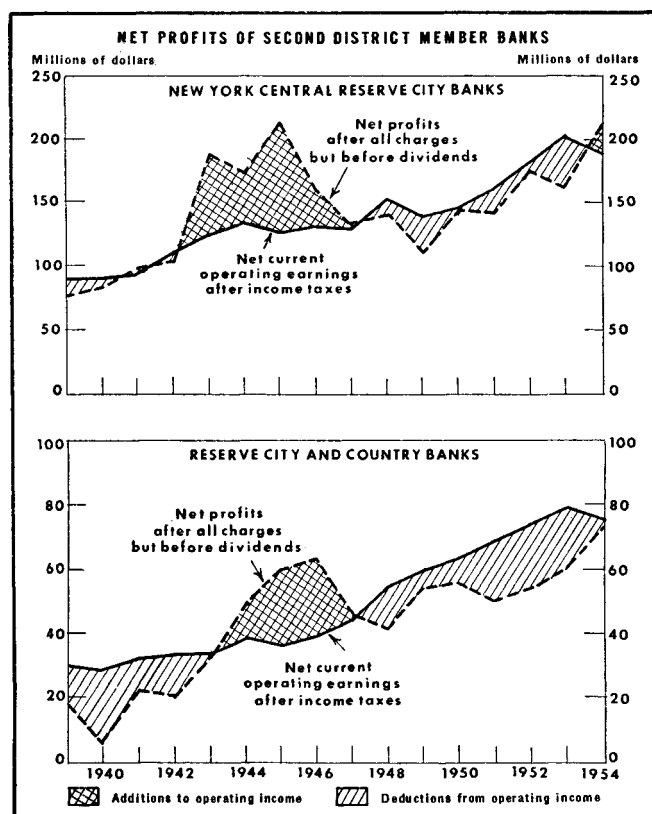
Profits taken on securities were the principal factor accounting for the increase in net profits of Second District member banks in 1954. The banks sustained sizable losses on sales of Government securities in 1953, but were able to take substantial capital gains in 1954. This conversion of security losses to profits was made possible by the higher levels of Government and municipal security prices that prevailed in 1954. It was accentuated, however, by the "switching operations" that were

¹ Rates of return were computed on capital funds on hand at the beginning of each year.

conducted by many banks in 1953 for tax purposes; these operations involved the sale of some issues of securities for the purpose of taking losses and the simultaneous purchase of other issues at correspondingly low prices.

OPERATING INCOME

The banks were able to make modest additions to their earning assets, largely as a result of the reductions in reserve requirements in June and July 1954. The central reserve New York City banks used the reserve funds thus made available to increase their holdings of Government and municipal securities. A moderate reduction in their total loans also led



them to expand their security portfolios somewhat further. In fact, their average holdings of Government securities rose 19.8 per cent over 1953. Their income from Government securities rose slightly less—17.6 per cent—indicating a small reduction in the average yield, compared with 1953. The rise in income from "other securities", which are mostly municipal obligations, also fell somewhat short of the growth in the average volume of such securities held by the central reserve New York City banks.

Commercial and industrial loans of the central reserve New York City banks averaged 10 per cent less in 1954 than in 1953. However, a sizable part of the decrease in commercial loans was offset by a greater demand for credit from other types of borrowers, and especially from brokers, dealers, and others for the purpose of purchasing or carrying securities. In the aggregate, the City banks sustained a net decline in average loan volume of only 1.3 per cent.

The changed loan composition was important from the standpoint of income, however, as was also some slight softening in commercial loan rates during 1954. These two factors together reduced the City banks' effective rate of return on total loans from about 3.50 per cent in 1953 to about 3.35 per cent in 1954. The lower average rate together with the slight decline in loan volume resulted in a decline of 24.2 million dollars, or 5.6 per cent, in total income from loans at the central reserve New York City banks.

The District's reserve city and country banks, like the central reserve city banks, increased the average amount of their

Government security holdings in 1954, by 4.6 per cent; in addition, they lengthened the average maturity of their portfolios appreciably. The net result was a 6.0 per cent increase in interest income from Government securities. These banks were also able to increase their return from "other securities" by 6.8 per cent, largely as a result of a 5.6 per cent increase in their average holdings.

Moreover, in contrast to the situation in the central reserve New York City banks, where total loans declined in 1954, the average outstanding volume of all categories of loans was higher in the reserve city and country banks than in 1953. And, since interest and discount rates received on loans made by these banks remained relatively steady, the growth in their loan income of 7.6 per cent was nearly equal to the expansion of 7.9 per cent in average loan volume.

Income from service charges on deposit accounts continued to increase throughout the District, but the rise in the reserve city and country banks was approximately three times greater, percentagewise, than in the central reserve New York City banks. Gross trust department earnings, and "all other" earnings, expanded moderately in all groups of Second District banks.

Total earnings of the City banks from all sources increased only 2.7 per cent, primarily because of the reduction in loan income referred to previously. This small increase in the gross earnings of the City banks failed for the first time since 1947 to cover the continued rise in operating expenses; as the accompanying table shows, net current operating earnings

Earnings and Expenses of Second District Member Banks, Selected Years
(In millions of dollars)

Item	New York central reserve city banks				Reserve city and country banks			
	1945	1949	1953	1954	1945	1949	1953	1954
Number of banks	37	25	22	21	777	743	678	657
Earnings:								
On United States Government securities	222.1	147.8	136.7	160.9	81.5	75.3	80.5	85.3
On other securities	24.2	25.8	42.9	48.8	10.3	15.0	22.2	23.7
On loans*	105.6	188.8	433.6	409.4	45.2	123.1	218.2	234.8
Service charges on deposit accounts	7.5	14.9	19.6	20.5	9.0	17.9	24.9	28.6
Trust department earnings	40.7	51.9	69.7	77.5	5.3	7.7	9.6	10.8
Other current earnings	32.1	46.9	54.5	60.5	12.9	15.6	19.1	20.6
Total current operating earnings	432.2	476.1	737.0	777.6	164.2	254.6	374.5	403.8
Expenses:								
Salaries and wages—officers and employees	116.8	164.2	228.0	232.5	46.4	80.8	117.5	127.7
Interest on time deposits (including savings deposits)	5.6	7.7	28.2	40.5	23.8	31.3	49.2	56.9
Interest and discount on borrowed money	1.0	1.8	5.4	3.0	0.2	0.2	1.2	0.4
Taxes other than on net income	10.2	9.7	12.7	13.6	6.0	7.3	9.8	10.5
Recurring depreciation on banking house, furniture, and fixtures	4.2	3.4	4.1	4.5	3.7	5.1	7.9	8.9
Other current operating expenses	78.6	95.3	125.7	134.3	32.3	52.7	72.3	78.4
Total current expenses	216.4	282.1	404.1	428.4	112.4	177.4	257.9	282.8
Net current operating earnings before income taxes	215.8	194.0	352.9	349.2	51.8	77.2	116.6	121.0
Net recoveries (+) or charge-offs (-) on loans	+ 1.3†	- 5.7	+ 1.2	+ 1.7	+ 1.2†	- 3.7	- 4.4	- 3.2
Security profits and recoveries (+) or charge-offs (-)	+100.2‡	+ 12.0‡	- 30.1	+ 58.5	+ 26.1‡	+ 8.3‡	- 8.9	+ 19.2
All other net recoveries (+) or charge-offs (-)	- 12.4	- 3.9	- 5.9	- 1.4	- 2.7	+ 0.5	- 1.1	- 3.6
Net additions to (-) or deductions from (+) valuation reserves for:								
Loan losses	—	- 30.1	- 9.5	- 18.4	—	- 11.8	- 5.6	- 11.1
Security losses	—	—	+ 3.9	- 15.6	—	—	+ 1.1	- 3.7
Net profits before income taxes	304.9	166.3	312.5	374.0	76.4	70.5	97.7	118.6
Taxes on net income	90.7	55.0	151.4	160.8	16.0	16.9	37.8	45.7
Net profits after income taxes	214.2	111.3	161.1	213.2	60.4	53.6	59.9	72.9
Cash dividends paid or declared	73.0	82.3	103.2	112.7	13.9	19.4	24.9	26.9
Retained earnings	141.2	29.0	57.9	100.5	46.5	34.2	35.0	46.0

* Includes service charges and other fees on banks' loans.

† Includes transfers to or from valuation reserves for loan losses.

‡ Includes transfers to or from valuation reserves for losses on securities.

Sources: Board of Governors of the Federal Reserve System, 1945-53; 1954 preliminary figures compiled by the Federal Reserve Bank of New York.

before taxes were 3.7 million dollars, or 1.0 per cent, lower than in 1953. In the Second District member banks outside the City, total operating earnings expanded 7.8 per cent. This increase was sufficient not only to offset the rise in their total expenses, but also to permit a continuance of the rise in net current operating earnings before taxes that these banks outside the City have enjoyed since 1945.

OPERATING EXPENSES

Total salaries and wages paid by the central reserve New York City banks increased only 2.0 per cent in 1954, the effect of increased rates of pay being partly offset by a small reduction in the total number of officers and employees. In the reserve city and country banks, however, salary and wage outlays were up 8.7 per cent, as a result both of larger staffs and of higher rates of pay.

Interest payments on time deposits rose substantially—43.6 per cent—in the central reserve New York City banks, and in 1954 were about seven times larger than in 1945. The 1954 increase reflected a 34.0 per cent rise in the average volume of time deposits coupled with an upward adjustment, from 1.12 per cent in 1953 to 1.20 per cent in 1954, in the average rate of interest paid.

The growth in the average volume of time deposits in the City banks in 1954 was mainly attributable to larger time balances held for the account of foreign banks. Since the fall of 1953, rates paid on time deposits have usually been higher than those obtainable either on Treasury bills or on bankers' acceptances, the two other principal investment outlets for foreign short-term funds. Short-term foreign dollar balances have accordingly tended to flow into time deposits in the central reserve New York City banks.

In the District's reserve city and country banks, average time deposits increased 7.2 per cent in 1954, reflecting mainly the growth in time deposits of individuals, partnerships, and corporations, and of States and other political subdivisions. Interest paid on this larger time deposit volume increased 15.2 per cent, partly as the result of a further rise, from 1.23 per cent in 1953 to 1.32 per cent in 1954, in the average rate of interest paid.

Interest and discount paid on money borrowed by the member banks decreased sharply from 1953, as shown in the accompanying table. The easier money market conditions that prevailed in 1954 reduced the member banks' need for borrowing from either the Reserve Bank or other banks. In addition, the two $\frac{1}{4}$ per cent reductions in the Reserve Bank discount rate on advances to member banks that took place on February 5 and April 16, 1954 lessened the cost of such borrowing as did occur.

Expenses not discussed above, such as taxes other than income taxes, depreciation on banking house, furniture, and fixtures, and "other current operating expenses" (which mainly include deposit insurance assessments, supplies, and such ex-

penses of maintaining banking premises as the cost of light, heat, power, and rent) all moved moderately higher in 1954.

NONRECURRING ITEMS

Actual net losses on loans were quite small in the Second District in 1954, both absolutely and especially when related to the total volume of outstanding loans. However, charges against earnings to increase reserves for loan losses increased sharply throughout the District, as the member banks took advantage of a 1954 revision in the Internal Revenue Service formula, in effect since 1947, for the calculation of reserves for bad debt losses on loans. The effect of this revision was to permit banks to accumulate additional tax-free reserves for such losses.

Under the 1947 formula, a bank's reserve for bad debt losses on loans could not exceed three times the bank's average yearly loss experience over the most recent twenty years. The 1954 revision of the formula provided that a bank could accumulate a bad debt loss reserve equal to three times its average loan losses over any twenty consecutive years of its experience after 1927. Thus, in the case of many banks, the revision of the formula increased the maximum reserve permitted for tax purposes because under the revised formula banks could include the years of their worst loss experience—the early thirties—in computing their twenty-year average bad debt loan loss. However, charges against earnings to bring the reserve to the new, higher, permissible maximum must be spread over a three-year period. For 1954, an amount equal to one third of the difference between the balance in the reserve for bad debt loan loss account and the new "ceiling" could be transferred to the reserve.

Security profits and recoveries amounted to 59 million dollars in the central reserve New York City banks, compared with a net loss of 30 million dollars in 1953. The District's reserve city and country member banks had profits and recoveries on securities of 19 million dollars, as against a 9 million dollar loss in 1953. In 1953, however, when the banks were sustaining security losses, they used a portion of their accumulated security loss reserves to cushion the impact of the losses. In 1954, on the other hand, they used a substantial part of their security profits to bring their reserves for security losses back to more adequate levels.

TAXES, DIVIDENDS, AND RETAINED EARNINGS

The elimination of the excess profits tax on 1954 income reduced total income tax payments for several of the central reserve New York City banks, and the over-all increase in income taxes reported by this group of banks amounted to only 6.2 per cent, whereas their net profits before taxes were up 19.7 per cent. In the other (reserve city and country) member banks of the District, the elimination of the excess profits tax apparently had a much smaller impact on total tax payments; net profits before income taxes and income tax

liability showed almost parallel increases, of 21.4 and 20.9 per cent respectively.

Dividend payments throughout the District continued the conservative rise that has been in progress since 1943. As percentages of capital funds on hand at the beginning of each year, they increased from 4.1 in 1953 to 4.4 in 1954 in the central reserve New York City banks, and from 3.2 to 3.3 in all other member banks.

Second District member banks retained and added to capital funds the bulk of the year's increase in their net profits. The central reserve New York City banks "ploughed back" 101 million dollars, 47 per cent of the year's net profits. In addition, one central reserve city bank sold an additional 131 mil-

lion dollars' worth of common stock. As a result, capital funds of the central reserve New York City banks combined rose 232 million dollars, or 9.0 per cent, in 1954 to a total of 2,803 million dollars. These substantial additions to capital raised the City banks' average ratio of capital funds to deposits from 9.5 per cent at the end of 1953 to 9.9 per cent at the end of 1954.

In the reserve city and country banks, total capital funds increased 59 million dollars, of which 46 million dollars came from retained earnings and 13 million dollars came from new stock issues. At the end of 1954, capital funds of the reserve city and country banks totaled 885 million dollars, or 7.6 per cent of total deposits, the same ratio as at the end of 1953.

DEPARTMENT STORE TRADE

The bad weather conditions that prevailed during the first week and part of the second week of February had an expected adverse effect on Second District department store sales. Also, Lincoln's Birthday fell on a Saturday this year, instead of Friday, as in 1954, with a consequent loss of some of the "extra" business normally expected from the extensive department store promotions generally staged on this holiday.

On a seasonally adjusted, daily-average basis, February sales are estimated to have dropped 5 per cent below January and 1 per cent below the level of February a year ago. Because of the high level of sales attained in January, however, total department store sales in the District for the year to date were 2 per cent higher than for the first two months of 1954.

SALES BY DEPARTMENTS IN 1954

Sales in major departments of Second District department stores conformed in general to the same pattern of modest improvement in 1954 that was experienced in 1953. Slight declines in sales were reported, however, for women's and misses' accessories, and for piece goods and household textiles; and women's and misses' apparel sales only approximately equaled those of the previous year. Sales increased by 1 per cent over 1953, though, in each of the other important main-store categories, such as men's and boys' wear; "small wares" (notions, silverware and jewelry, toilet articles and drug sundries, and books and stationery); homefurnishings; and miscellaneous merchandise, including toys, sporting goods, luggage, candy, groceries, and liquor.

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

Item	1955		1954	
	Jan.	Dec.	Nov.	Jan.
Sales (average daily), unadjusted	84	184	132	81
Sales (average daily), seasonally adjusted	106	105	105	101
Stocks, unadjusted	100	103	129	98
Stocks, seasonally adjusted	112	113	113	110r

r Revised.

Basement sales made a much more favorable showing than main-store sales. They were 3 per cent higher in 1954, as a result mainly of considerable gains in "downstairs" men's and boys' wear sales, and in homefurnishings sales.

Up to 1954, women's and misses' apparel and accessories had been accounting for an increasing share of total department store sales in this District. But in 1954, sales of these merchandise lines generally exhibited less strength than did department store sales generally. Nevertheless, the performance of some individual women's wear departments last year was considerably above average. Furs, in particular, made one of the most striking sales gains in the main store—8 per cent—largely because of the reduction in Federal excise taxes last April 1. In previous years, sales of furs had been declining consistently and substantially, and in the three months of

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

Area	Net sales			Stocks on hand Jan. 31, 1955
	Jan. 1955	Jan. through Dec. 1954	Feb. 1954 through Jan. 1955	
Department stores, Second District	+ 5	+ 1	+ 2	+ 2
New York—Northeastern New Jersey Metropolitan Area	+ 6	+ 2	+ 2	+ 1
New York City	+ 4	+ 2	+ 2	+ 3
Nassau County	—	—	—	—
Westchester County	+21	+ 6	+ 6	+19
Northern New Jersey	+ 4	- 1	0	+ 4
Newark	+ 3	- 1	- 1	+ 2
Fairfield County	+ 8	- 3	- 2	+13
Bridgeport	+ 5	- 5	- 4	—
Lower Hudson River Valley	+13	+ 4	+ 4	+ 3
Poughkeepsie	+13	+ 3	+ 3	- 1
Upper Hudson River Valley	+ 2	- 1	- 1	- 3
Albany-Schenectady-Troy Metropolitan Area	+ 2	- 1	0	- 4
Albany	+ 8	0	+ 1	- 7
Schenectady	- 7	- 2	- 2	- 1
Central New York State	+ 5	- 2	- 1	+ 1
Utica-Rome Metropolitan Area	+ 7	- 3	- 2	+ 3
Utica	+10	+ 1	+ 2	+ 6
Syracuse Metropolitan Area	+ 5	- 1	0	0
Northern New York State	+12	- 5	- 4	+ 8
Southern New York State	- 2	- 2	- 1	+ 1
Binghamton Metropolitan Area	- 1	- 1	- 1	+ 6
Elmira	—	- 6	—	—
Western New York State	- 1	0	0	+ 4
Buffalo Metropolitan Area	0	- 2	- 2	+ 1
Buffalo	0	- 3	- 2	+ 1
Niagara Falls	+ 7	+ 2	+ 3	—
Rochester Metropolitan Area	- 1	+ 3	+ 3	+ 9
Apparel stores (chiefly New York City)	+ 5	+ 3	+ 4	0

1954 that preceded the tax reduction they were 21 per cent below those of the corresponding period in 1953. During the remainder of last year, however, fur sales rose 20 per cent above the level of the last nine months of 1953. Similarly, the tax reduction stimulated consumer demand for other taxed items, such as handbags and small leather goods, although the increase for the year in sales of these articles amounted to only slightly more than 2 per cent.

The favorable influences of excise tax reductions were also noted in other departmental groups. Silverware, jewelry, and toilet articles all made greater-than-average sales gains in 1954, which more than offset the decreases that were fairly general among other "small wares". Moreover, sales of luggage showed greater strength than did some other "miscellaneous" departments.

Blouses, skirts, and sportswear also sold well in 1954. But the gain of 4 per cent in sales of these items was in sharp contrast to the experience of departments handling more formal types of women's apparel—a contrast that has become more

evident in recent years as informality in dress has gained in popularity. For example, 1954 sales of women's and misses coats, suits, and dresses were 3 per cent below 1953 levels. And millinery sales also fell off markedly; in fact, the decline of 9 per cent from 1953 for this department was the largest reported in the women's accessories group.

In the homefurnishings group of departments, where sales have been declining in relative importance in recent years, sales in 1954 rose at about the same moderate rate—1 per cent—as did total department store sales. Declines in sales of floor coverings, lamps, and china and glassware were more than offset by increases in sales of furniture, draperies, housewares, radios and records, and major household appliances. The gains registered for major household appliances (3 per cent) and radios, records, and television sets (2 per cent) were the first for any year since 1950. However, in view of the substantial decline in sales of radios and appliances by department stores that has occurred in recent years, the recovery thus far has been very slight.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1955	1954		Percentage change		
			January	December	November	January	Latest month from previous month
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1947-49 = 100	131 _p	130	128	125	+ 1	+ 5
Electric power output*	1947-49 = 100	—	177	173	164	+ 2	+10
Ton-miles of railway freight*	1947-49 = 100	—	93.7 _p	91.7	93.0	+ 2	+ 6
Manufacturers' sales*	billions of \$	—	24.9 _p	24.4	23.9	+ 2	+ 3
Manufacturers' inventories*	billions of \$	—	43.8 _p	43.8	46.4	#	- 6
Manufacturers' new orders, total*	billions of \$	—	25.3 _p	24.4	20.7	+ 4	+15
Manufacturers' new orders, durable goods*	billions of \$	—	12.3 _p	11.5	8.5	+ 7	+28
Retail sales*	billions of \$	—	15.1 _p	14.4	13.6	+ 5	+ 9
Residential construction contracts*	1947-49 = 100	287 _p	277	264	185	+ 4	+55
Nonresidential construction contracts*	1947-49 = 100	239 _p	248	250	202	- 4	+18
<i>Prices, wages, and employment</i>							
Basic commodity prices†	1947-49 = 100	91.1	89.9	90.8	88.1	+ 1	+ 3
Wholesale prices†	1947-49 = 100	110.2 _p	109.5	110.0	110.9	+ 1	- 1
Consumer prices†	1947-49 = 100	114.3	114.3	114.6	115.2	#	- 1
Personal income (annual rate)*	billions of \$	—	291.1 _p	289.3	284.9	+ 1	+ 1
Composite index of wages and salaries*	1939 = 100	—	260 _p	260	253 _r	#	+ 3
Nonagricultural employment*	thousands	48,463 _p	48,390	48,401	48,812	#	- 1
Manufacturing employment*	thousands	15,996 _p	16,034	16,018	16,497	#	- 3
Average hours worked per week, manufacturing†	hours	40.2 _p	40.6	40.2	39.4	- 1	+ 2
Unemployment	thousands	3,347	2,838	2,893	3,087	+18	+ 8
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	—	85,700 _p	86,310 _p	78,870	- 1	+10
Total loans of all commercial banks	millions of \$	—	71,150 _p	69,540 _p	66,460	+ 2	+ 5
Total demand deposits adjusted	millions of \$	—	106,830 _p	104,030 _p	102,300	+ 3	+ 4
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	30,050 _p	30,837	30,017	30,222	#	- 1
Bank debits (338 centers)*	millions of \$	65,248	68,149	65,826	59,388	- 4	+10
Velocity of demand deposits (338 centers)*	1947-49 = 100	120.6	124.4	122.5	115.0	- 3	+ 5
Consumer instalment credit outstanding†§	millions of \$	—	22,467	22,014	21,836	+ 2	+ 1
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	4,299 _p	4,617	5,122	4,617 _r	- 7	- 7
Cash outgo	millions of \$	5,009 _p	6,396	4,385	4,758 _r	-22	+ 5
National defense expenditures	millions of \$	3,295 _p	3,568	3,286	3,633	- 8	- 9
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	—	139	137	144	+ 1	#
Residential construction contracts*	1947-49 = 100	—	194 _p	177	185	+10	+27
Nonresidential construction contracts*	1947-49 = 100	—	213 _p	217	217	- 2	+ 6
Consumer prices (New York City)†	1947-49 = 100	112.3	112.2	112.7	113.0	#	- 1
Nonagricultural employment*	thousands	—	7,439.8 _p	7,434.1	7,569.0	#	- 3
Manufacturing employment*	thousands	—	2,547.1 _p	2,541.6	2,699.9	#	- 7
Bank debits (New York City)*	millions of \$	60,817	62,557	63,212	60,491	- 3	+ 1
Bank debits (Second District excluding New York City)*	millions of \$	4,341	4,615	4,294	4,183	- 4	+ 4
Velocity of demand deposits (New York City)*	1947-49 = 100	159.5	162.6	162.6	162.2	- 2	- 2

Note: Latest data available as of noon, February 28, 1955.

_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.

§ Revised series.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.