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MONEY MARKET IN MARCH

The month of March is usually a period when both the money market and the Government securities market are under some strain, directly or indirectly as the result of quarterly tax collections and other large-scale Treasury operations. This year, however, March was distinguished by the fact that no pronounced stresses appeared in either market. The relatively smooth adjustment of the markets over the past month may be attributed to several factors. Corporate taxpayers seem to have made more diversified advance preparation for their tax payments than in other recent years; sales of securities to raise funds for taxes were not large, and dealers consequently were under less pressure to finance increased portfolios. Although there were wide fluctuations in the available supply of reserves in the banking system, dealers were generally able to get the funds needed to finance their inventories without difficulty. In addition, the impact of Treasury operations on the money market was much less disturbing than the scale of its cash receipts and disbursements might have suggested. Finally, business borrowing from the banks during the tax period was less than in either of the two preceding years.

As a result, there were only limited needs for Federal Reserve assistance to moderate reserve pressures during the month. The System Open Market Account reduced its Treasury bill portfolio by 128 million dollars in the week ended March 2, but made no further purchases or sales during March. The Federal Reserve Bank of New York, as authorized by the Federal Open Market Committee, was prepared to supply funds to the market through repurchase agreements with Government security dealers in the event that undue pressure developed, but general market needs for reserves were relatively small and of brief duration.

The actual volume of reserves held by the banking system in March fluctuated widely from day to day and from one statement date to another, but on a weekly average basis the fluctuations were less pronounced. For the five weeks ended March 30, the average amount of excess reserves held by the banking system was approximately the same as in the four statement weeks of February. On the other hand, the average amount of member bank borrowings from the Reserve Banks rose by 118 million dollars during the five statement weeks ended March 30 to 462 million. On a daily basis, borrowing increased from 275 million to 598 million between February 23 and March 30 but declined sharply on March 31.

Price movements of intermediate and long-term Government securities were mixed during March, and trading activity was relatively light. During the period from February 25 through March 31, the longer bonds made net gains of about 1/8 to 5/8 of a point, while the intermediates generally declined somewhat. Short-term issues showed little net change. Treasury bill yields declined during the first half of March, reflecting the continued pressure of demand against a limited supply, but rose again subsequently. The average bill yield at the last two weekly auctions in March was approximately 1 3/8 per cent. At the end of the month, commercial paper rates were increased 1/8 of 1 per cent to 1 3/4-1 7/8 per cent for prime 4-to-6 months' paper and 1 7/8-2 per cent for less well-known concerns.

On Friday, March 18, the Treasury announced that it would offer on the following Tuesday 3 billion dollars of 1 3/8 per cent tax anticipation certificates to be dated April 1 and to mature on June 22. They may, however, be turned in with interest to maturity in payment of income taxes on June 15,

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thus giving them a yield to June 15 of close to 1½ per cent. Payment for the issue through credits to Tax and Loan Accounts in depositary banks was authorized. As subscriptions for the new issue totaled about 7.9 billion dollars, the Treasury announced a 40 per cent allotment, except that subscriptions for $50,000 or less were allotted in full and not less than $50,000 was allotted on larger subscriptions. The total allotment was 3,210 million dollars, of which commercial banks took slightly more than 1.9 billion and nonbank sources the remainder.

A rising demand on the part of both business and consumers for bank credit was evident in the changes in the loans and investments of the weekly reporting member banks for the five weeks ended March 23. In that period all classifications of loans were up on balance, the total increase amounting to 735 million dollars. The Government security holdings of these banks, however, declined further during the five weeks, the total reduction amounting to 1,548 million dollars.

Member Bank Reserve Positions

The flow of funds through the money market during March was heavy, and member banks experienced wide day-to-day swings in their reserve positions. The market, however, was able to balance out these flows with only minor assistance from the Federal Reserve System in the form of loans to member banks or security transactions. The daily volume of excess reserves held by the banks ranged from a low of 362 million dollars on March 2 to a high of 1,022 million on March 22. On a weekly average basis, the shifts in reserve positions were not so marked; average excess reserves ranged between 658 million for the week of March 23 and 417 million for the final week of the month, as Table I indicates.

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

Factor	Statement weeks ended					Five weeks ended Mar. 30
	Mar. 2	Mar. 9	Mar. 16	Mar. 23	Mar. 30	
Operating transactions						
Treasury operations*	− 39	+ 97	+320	−581	− 90	−293
Federal Reserve float	+279	−202	+407	−265	−211	+ 8
Currency in circulation	+ 17	− 40	+ 15	+ 82	− 19	+ 55
Gold and foreign account	0	− 62	+ 56	− 14	− 4	− 24
Other deposits, etc.	− 49	+ 71	+159	−159	− 31	− 9
Total	+210	−136	+958	−939	−356	−263
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	−128	0	0	0	0	−128
Held under repurchase agreements	0	0	0	0	0	0
Loans, discounts, and advances	− 6	+102	−119	+167	+156	+300
Total	−134	+102	−119	+167	+156	+172
Total reserves	+ 76	− 34	+839	−772	−200	− 91
Effect of change in required reserves†	− 85	+127	−288	+234	+157	+145
Excess reserves†	− 9	+ 93	+551	−538	− 43	+ 54
Daily average level of member bank:						
Borrowings from Reserve Banks	383	371	375	527	652	462
Excess reserves†	483	529	619	658	417	541

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

For the past five weeks taken together, bank reserves declined moderately on balance. Treasury operations, float, and required reserves all fluctuated sharply within the month, but with the exception of Treasury transactions and required reserves none of the regular market factors showed any important change for the period as a whole. The Treasury took 293 million dollars out of the market on balance, and this loss, combined with the decline in the System Account's bill holdings early in the period, was only partly offset by the 145 million decline in required reserves.

The rates on Federal funds in New York mirrored the principal swings in reserves during the month. These rates stayed close to the 1⁷⁄₁₆ per cent "ceiling" during most of the month, but the quotation moved down to a low of ¼ per cent on March 16 and to ⅝ per cent on March 23 after the Treasury had put funds into the market in volume through the regular quarterly interest payments on March 15 and through the redemption of matured and called securities on that date and March 22. Low preferential rates for dealers on loans secured by Treasury bills were also available on several days in the middle and latter part of the month.

The market impact of income tax collections (before giving effect to the partial offsets achieved through the Treasury's arrangement of its resulting cash balances) was swifter and sharper this March than it had been for some time, partly as a result of the shift in the payment date for individual income taxes from March 15 to April 15 under the provisions of the Revenue Act of 1954. Because of the shift of the payment date on individual returns, the Internal Revenue Service had fewer pieces of mail to handle, and the processing of corporate returns and the collection of checks were accordingly much more rapid this year than in the past. The shift also meant that the total volume of March tax receipts during the month was smaller than in previous years and that the Treasury had to begin to use the proceeds of corporate income tax payments almost immediately, instead of leaving the larger payments with the banks in "X" Tax and Loan Accounts for an appreciable period of time. Since the Treasury knew it would need these funds quickly, it permitted only 25 per cent (compared with 50 per cent in March 1954 and 100 per cent in March 1953) of each tax check of $10,000 or more to be redeposited in the special "X" accounts.

As Table I indicates, the Treasury put nearly 420 million dollars into the market during the two weeks ended March 16, as it let its deposits with the Reserve Banks decline in preparation for the inflow of taxes after the middle of the month. Most of the reduction occurred in the week ended March 16, when the Treasury redeemed (on March 15) the unexchanged portion of the 2⅞ per cent bonds of 1955-60 and the 1½ per cent March 1955 notes and also made quarterly interest payments. In the first five days of the following statement week the Treasury took over a billion dollars out of the market, but on March 22 it put about 600 million net back into the market, mainly owing to the cash redemption of the portion of the 1 per cent tax anticipation certificates (maturing on that date) that had not been turned in for taxes. For the week as a whole, the net increase in Treasury deposit balances at the Reserve Banks amounted to 570 million dollars. In the final week of the month the Treasury balance again rose somewhat, and at the end of the month stood at 851 million dollars.

All of the 118 million increase in average member bank borrowings during the five weeks ended in March occurred outside New York City. A substantial part of the increase reflected a rise in Chicago, where the banks were under pressure apparently because they were carrying and probably accumulating relatively large amounts of Treasury bills to sell to their customers at the end of the month. The first Treasury bill maturing in April is always in particular demand in Chicago, since the Cook County personal property tax is levied against bank deposits of record on April 1 and local depositors normally invest substantial amounts of their deposits temporarily in Treasury bills to avoid the tax.

The Government Securities Market

Activity in the Government securities market during March was relatively light in all but short-term issues. The general trend of prices was upward until the latter part of the month. In the short-term area of the market the price rise in the first half of the month reflected a sustained demand and a limited supply, but in the longer-term market investor interest was reported to be light and the initial price rise was believed to have been largely attributable to "professional" action, including some buying to cover short positions. Another influence may have been the subsidence early in the month of market comments concerning a possible rise in the Reserve Bank discount rate.

Although the demand for Treasury bills eased and the supply increased somewhat before the March 15 tax date, the net buying by nonbank investors continued to be substantial until the latter part of the month, when some funds were diverted to the new tax anticipation certificates. The supply of bills in the market was seldom sufficient to meet the full demand in the early part of the month, so that some investors turned to certificates and the new 1⅝ per cent notes of March 1956.

Partly reflecting dealer caution as the March tax period approached, the average issuing rate for the March 3 issue of Treasury bills rose to 1.417 per cent, the highest rate since the end of 1953. But when demand continued to exceed the supply, the average yield on the subsequent two issues dropped back to 1.231 per cent and 1.286 per cent, respectively. The auction for the fourth issue of the month, the one dated March 24, fell between the preliminary announcement and the formal offering of the 3 billion dollars of June 1⅜ per cent tax anticipation certificates, and as a result the average yield moved up to 1.366 per cent to bring it more nearly into line with the new certificates. (The new certificates will mature on June 22 and the March 24 bills on June 23.) On the March 31 issue, the average yield rose somewhat further to 1.374 per cent, but yet was still in line with the new certificates which were available in the secondary market at or very close to par. Yields on outstanding issues of bills fluctuated within a fairly narrow range during the month, and at the close of business on March 31 market bid rates ranged from 1.25 per cent for the shortest issue to 1.41 per cent for the longest issue, compared with a range on the bid side of 1.05-1.37 per cent from the shortest to the longest bills on February 25.

What activity there was in the long bond market during March was largely centered in the new 3's of 1995. Banks continued to sell moderate amounts of these bonds which in turn the market placed with pension funds and other investors. Some insurance companies and savings banks were reported to have continued to liquidate small amounts of other long-term issues, principally the longest 2½'s on balance. Since the market was unusually thin, short covering and small interdealer transactions had a more marked effect on prices than they might have had in a broader market. Trading in the intermediate bonds broadened somewhat during the month, although a large part of the expanded activity reflected switching transactions.

The new 3's of 1995 broke into new high ground on March 23 when trading took place at $100^{28}/_{32}$. Subsequently, however, prices declined somewhat again and for the period as a whole the 3's were up only about ⅛ of a point, closing on the 31st at a price of $100^{13}/_{32}$ and a yield of 2.98 per cent. The 3¼'s of 1978-83, which showed the most strength pricewise over the month, rose $^{23}/_{32}$ to close at $106^{24}/_{32}$, 13 basis-points lower in yield than the 3's.

Member Bank Credit

The weekly reporting banks' loan portfolios (exclusive of interbank loans) attained their highest levels in history on March 16, although corporate tax borrowing in the weeks of March 9 and 16 was apparently smaller than last year. Despite a decline in the following week, the rise in the five-week period ended March 23 amounted to 496 million dollars. In addition, the banks increased their corporate and municipal securities by 136 million. To place these assets in their portfolios during a period when their reserve positions were under some pressure, the banks found it necessary to sell or redeem more than a billion and a half of Government securities. Thus, their total loans and investments, again excluding loans to banks, declined by 677 million dollars over the period, as Table II indicates.

During the first quarter of 1955 (December 29, 1954-March 23, 1955) total loans, adjusted, have risen by 449 million dollars, compared with the decline of 1,221 million in the comparable 1954 interval. Commercial, industrial, and agricultural loans have increased by 261 million in contrast to last year's experience when they declined by 559 million. A large part of the difference may be attributed to the effect of loan repayments associated with the expiration of the excess profits tax on December 31, 1953. However, broader influences have also been at work. Virtually all classes of borrowers, but especially the petroleum industry and the sales finance companies, have been borrowing more or making smaller repayments than in 1954. The borrowings by the sales finance companies probably reflect the rapid pace of automobile sales, and these sales are also playing an important role in the rise in direct consumer borrowing from banks. "All other" (largely consumer) loans increased 195 million dollars during the first quarter; in 1954, they had dropped 219 million. Real estate loans were up 256 million, compared with the 36 million increase last year, reflecting the accelerated rate of residential building. On the other hand, the reporting banks, in response to the increase in credit demands of the private sector and in reflection of the temporary decline in outstanding Treasury short-term debt, reduced their holdings of Government securities by more than 3 billion dollars during the first quarter this year, far more than last year's reduction of 1.2 billion dollars.

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 Mar. 23, 1955
	Feb. 23	Mar. 2	Mar. 9	Mar. 16	Mar. 23	
Assets						
Loans and investments:						
Loans:						
Commercial, industrial, and agricultural loans	− 15	+115	+ 24	+ 319	+ 53	+ 261
Security loans	−119	+ 36	+ 73	+ 272	− 208	− 210
Real estate loans	+ 16	+ 17	+ 14	+ 29	+ 30	+ 256
All other loans (largely consumer)	+ 10	+ 48	+ 36	− 72	+ 63	+ 195
Total loans adjusted*	−109	+213	+147	+ 546	− 62	+ 449
Investments:						
U. S. Government securities:						
Treasury bills	− 60	− 5	−139	+ 272	− 253	− 847
Other	−247	−146	−283	− 75	− 612	−2,546
Total	−307	−151	−422	+ 197	− 865	−3,393
Other securities	+ 77	+ 20	+101	− 67	+ 5	+ 406
Total investments	−230	−131	−321	+ 130	− 860	−2,987
Total loans and investments adjusted*	−339	+ 82	−174	+ 676	− 922	−2,538
Loans to banks	+202	− 89	+ 59	+ 62	− 85	+ 172
Loans adjusted* and "other" securities	− 32	+233	+248	+ 479	− 57	+ 855
Liabilities						
Demand deposits adjusted	+146	−474	+499	+1,092	−1,579	−2,163
Time deposits except Government	+ 5	+ 23	+ 47	− 12	+ 28	+ 149
U. S. Government deposits	− 16	−131	−555	+ 420	+ 118	+ 15
Interbank demand deposits:						
Domestic	−591	+500	−298	+ 443	− 628	−1,232
Foreign	+ 20	− 19	− 13	+ 12	+ 42	− 52

* 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.

NATIONAL ECONOMIC INDEPENDENCE IN CAMBODIA, LAOS, AND SOUTH VIETNAM

Although military and political developments in the Indochinese states of Cambodia, Laos, and South Vietnam[1] have long dominated the news from that distant region of the world, less striking but nonetheless important changes have recently been taking place in the economic status of these three countries.

At the beginning of January 1955, the monetary and customs union which had previously existed in Indochina, and in the management of which France had had an important voice, was formally dissolved, and in its place were established, under the exclusive jurisdiction of each government concerned, three separate national central banks, monetary systems, and exchange and import control mechanisms. These and related institutional changes introduced at the same time have resulted in a full national economic independence for each of the three Indochinese states that complements the political independence which they had already achieved somewhat earlier.

Symbolizing this shift to national economic independence is the fact that at the beginning of this year the United States Government, which had previously channeled the great bulk of its extensive aid to Indochina through France, initiated a program of aid directly to each of the three states. This program is designed to bolster these countries against the threats of Communist aggression from without and subversion from within. Coupled with the breakup of the monetary and customs union, this shift in the direction of United States aid is likely to have significant effects on the pattern of the external trade and finances of the three states and to cast many of their economic problems in a new form.

[1] The term "South Vietnam" will be used in this article to denote that part of Vietnam which is south of the 17th Parallel and under the government headed by Ngo Dinh Diem. The truce agreements of July 1954, which brought the war in Indochina to an end, formally divided Vietnam into two parts, the part north of the 17th Parallel being placed under the jurisdiction of the Communist (Viet-Minh) Government headed by Ho Chi Minh. Most of the north, however, had already been under Communist control.

Historical Background

From 1887 to 1949 Indochina, organized as a federation of the protectorates and colonies of Annam, Cambodia, Cochinchina, Laos, and Tonkin, had been under the complete political and economic control of France, except for several years during World War II when the area was controlled by the Japanese. During this period the French had steadily developed the economy and the foreign trade of Indochina and had built up a large investment stake in the area. Rice, formerly grown only for local consumption, became an important export crop; and by the outbreak of World War II Indochina had achieved the position of the world's third largest exporter of rice. Rubber cultivation was introduced, and the area became the world's fourth largest natural rubber producer. Roads, railways, and canals were built, ports were modernized, irrigation and power projects were constructed, and various industries, mainly of the processing sort, were developed. But at the outbreak of World War II Indochina remained, and still remains today, an underdeveloped and predominantly agricultural economy geared to the production and export of rice and rubber and such other primary products as maize, pepper, sugar, and tea. Large mineral deposits, notably coal and iron, which the French had only partly exploited, also exist, but these are heavily concentrated in North Vietnam, now under Communist control.

Following the re-establishment of French control after the disruption caused by World War II, hostilities broke out in December 1946 between the French and the Communist forces of the Viet-Minh. Mindful of the nationalist sentiments of the Indochinese people, and of the need for more effectively mobilizing their support in the common war against the Communists, France agreed on March 8, 1949 to the union of Annam, Cochinchina, and Tonkin as the State of Vietnam and granted the new state internal sovereignty and membership in the French Union. Similar agreements were concluded on July 19 and November 8, 1949, with the Kingdom of Laos and the Kingdom of Cambodia, respectively.

In order, however, to preserve the benefits of the economic unity that had been built up in Indochina over a period of eighty years, the decision was reached at a quadripartite conference held at Pau, France, from June to November 1950, to establish a monetary and customs union in Indochina. Moreover, to give France a voice in the administration of that union and of certain other common services, to the extent that the interests of France and of the French Union were involved, a system of quadripartite supervision and control in these various fields by France and the three states was agreed upon.

Thus, for example, a quadripartite-controlled bank of issue—the Institute of Issue, which took over the note-issuing function formerly exercised by the Bank of Indochina—was set up on January 1, 1952; in addition to issuing a common currency, it was to perform certain other central banking functions on a limited scale for the area as a whole. A customs union, also under quadripartite supervision, was likewise set up; trade between the three Indochinese states was to be completely free, and customs receipts collected on imports from outside the area were to be divided among them in specified ratios. Although it was provided that the administration of exchange and import controls would be taken over by the Institute of Issue, it actually remained in the hands of the French-controlled Indochinese Foreign Exchange Control Office. (Since the three states remained in the French franc monetary zone, these controls continued to be closely harmonized with those of France and other members of that zone.) The Pau Accords also provided for quadripartite control in the administration of certain other common services, such as communications and the Port of Saigon, and in the fields of import programming and immigration. Each of the three states, however, established its own national treasury; and the former common Indochinese Treasury was abolished.

The monetary and customs union and the system of quadripartite control set up by the Pau Accords did not work out smoothly. Frictions and obstacles developed because of differences in economic interest; and various retaliatory measures, which ran counter to the letter and spirit of the arrangement, were taken by the three states. Besides, there was a natural desire on the part of each state to assume full charge of its own financial and economic affairs. The unilateral action by France in devaluing the Indochinese piaster in May 1953, and the sharp rise in prices that it provoked, served further to undermine the basis of an already fragile arrangement. So long as the war with the Viet-Minh continued, however, the mechanism held together.

Breakup of Quadripartite System

Following the truce agreements of last July, there was an obvious strengthening of existing pressures to liquidate the monetary and customs union and to remove the remaining vestiges of formal French control. These objectives were finally realized at the beginning of 1955, as the result of a series of interstate conventions signed in Paris late in December 1954 following a conference between the three states and France.

Briefly, these conventions abrogated the Pau Accords of 1950, provided for the liquidation of the various mechanisms and organs that had been established under these accords, and transferred to each of the three states full control of those aspects of its monetary, trade, exchange, and other affairs that had previously been under quadripartite control. Pending the negotiation of more detailed bilateral agreements at a later date, moreover, certain of the conventions also defined in provisional terms the future relations of the various parties with each other in the financial, customs, and other fields.

With the breakup of the quadripartite-controlled monetary and customs union, each of the three Indochinese states will henceforth be free to issue and control its own money, to fix its own rate of exchange, and to determine its own exchange and import controls and its commercial policy (including the right to impose customs duties and import and payments restrictions against each other). The Institute of Issue ceased to function on January 1, 1955, and its assets and liabilities are being distributed among three new national central banks, which commenced operations at the same time.[2] The Indochinese Foreign Exchange Control Office was likewise abolished on January 1, and its functions were assumed by national exchange offices attached to each of the three central banks. Provisionally, at least, the three new currencies—designated the riel, the kip, and the piaster in Cambodia, Laos, and South Vietnam, respectively—have each been fixed at a parity of ten French francs to one unit of the local currency, or at the same parity that had existed between the franc and the Indochinese piaster.

Each of the three states is initially maintaining a tie with the franc monetary area and presumably patterning its exchange and import controls along the general lines of those previously prevailing for Indochina as a whole. South Vietnam, in fact, has formally committed itself for at least a year to membership in the franc area, with its trade and payments to continue to be relatively free with other members of the area. South Vietnam has also agreed to turn its foreign exchange receipts over to the central reserve pool in Paris, but with the stipulation that it can at any time fully withdraw any exchange so ceded which it has acquired through foreign aid or loans. Laos and Cambodia have not as yet, however, formally committed themselves to continued adherence to the franc area.

Although three new currency units have formally been established, the three states are continuing provisionally to use the currency already in circulation, namely, the notes of the liquidated Institute of Issue (which had been printed in three national types but which had circulated freely as full legal tender in all three states) and the notes which the Bank of Indochina had issued before January 1952, the liability for which had been assumed by the Institute. (Each of the three new central banks is currently issuing, however, only Institute notes of the national type peculiar to its country.) Presumably both categories of notes will be replaced before long by new and distinctive national central bank notes. But so long as common currencies continue to circulate in the three states, it will be necessary for payments to continue to remain completely free among the three states, for their currency units to be kept at parity with each other, and for their national exchange and import controls with regard to the outside world to be closely harmonized.

[2] The three new central banks are equipped with considerably wider functions and powers than the Institute of Issue which they replaced, especially as regards credit control, credit operations with banking institutions, and foreign exchange transactions.

Shift in United States Aid Program

Until the beginning of 1955, the extensive aid which the United States Government had given to Indochina had been funneled predominantly through the French. Shipments of military supplies and equipment, the largest component of that aid, had been made directly to the French forces in Indochina. Dollar payments had also been made directly to France to reimburse it in part for the francs which it had used to buy the piasters needed for the support of the French and the national armies in Indochina. A small amount of United States economic and technical aid had, however, been extended directly to the Indochinese states themselves.

In keeping with the new economic status of Cambodia, Laos, and South Vietnam, United States aid since January 1, 1955 is now being channeled directly to each of these states. The composition of our aid to Indochina has likewise undergone some transformation. The bulk of our aid is now going to finance the feeding, clothing, and pay of the armed forces of the three states. At the same time, we are continuing to provide these states with economic and technical assistance designed to raise their levels of production and exports, both of which are still far below 1938 levels, and to prop up governments that are administratively very weak. In the case of South Vietnam, aid is also being given to care for more than 600,000 refugees who have fled from the north since last July and to help integrate them into the economy. Obviously, these various requirements cannot be met without United States aid in view of the low income levels and limited budgetary and foreign exchange resources of the three states, accentuated by the severe damage and economic dislocation caused by eight years of war.

The basic purpose of this program is of course to bolster the three states militarily, economically, and politically, and thus to strengthen their ability and will to resist Communist subversion or aggression. The three national armies, which are being financed predominantly by our aid, are designed to support the authority of the three governments throughout their respective territories and to fight initial defensive actions should there be an attack from without. Our economic and technical aid program, by helping to raise real national income, standards of health and literacy, and the efficiency of government administration, will tend to strengthen the position of the three governments, to help them carry out needed economic and social reforms, and to win for them a wider degree of public support.

Most pressing is the task in South Vietnam. In addition to the difficulties already mentioned, that state is faced with a number of special problems of its own. It has suffered much more extensively from war damage and economic dislocation than Cambodia or Laos; and it has lost control over the rich Red River delta in the north which, along with the rest of North Vietnam, has formally passed to the Communists. The present government has not as yet fully established its authority over the various influential and semiautonomous political-religious sects that exist in the country. A number of regions in South Vietnam are still "insecure" because the Communists, while having formally withdrawn their armed forces as they were obligated to, have left behind them many guerrillas and agents who still exercise control at various local levels. Finally, a special urgency is lent to the problem in South Vietnam by the fact that the truce arrangements require an election be held in all of Vietnam in July 1956 in order to unify the country under a single government.

Some Implications of the New System

The recent shift from indirect United States aid to Indochina via France to direct aid to the three states is likely, in time, to have important repercussions on the orientation of their foreign trade and external financial relations. Until the beginning of 1955 the great bulk of Indochina's foreign exchange receipts had taken the form of French francs, which had largely represented the counterpart of the heavy French outlays in support of the French and national armies in Indochina. These francs were available predominantly for expenditures only in the franc zone; and in recent years some 80 per cent of Indochinese imports have come from that zone. Henceforth, however, franc receipts will tend to fall off markedly, not only because French outlays in the three states on France's own forces will decline as these forces are withdrawn, but also because direct United States aid will replace francs as the external counterpart of the local-currency outlays in support of the three national armies. This change need not necessarily cause any shifting-away by the three states from French to American goods, since United States aid to the three states can be used to procure goods anywhere in the world, including France, provided only that certain procurement standards of the Foreign Operations Administration (e.g., competitive pricing) are met. A substantial part of United States aid is in fact likely to be used by the three states to finance the purchase of goods in France, especially since established trade channels cannot easily be altered. But some relative shifting away from France to the United States, Japan, and other sources of supply will undoubtedly occur, especially over a longer period. The direction and speed of this trade reorientation will of course be intimately related to the types of import and exchange control systems which the three states adopt and to whether or not and to what degree they maintain a continued tie with the franc zone. These matters, as intimated above, are still in a state of flux.

The new program of direct United States aid, coupled with the breakup of the former monetary and customs union, may also have repercussions on internal monetary developments in the three states. In recent years, Indochina has been spared any marked inflation such as might have been expected in view of the heavy military outlays and the general economic dislocation.[3] This experience, all the more remarkable because of the virtual absence of any fiscal, monetary, or direct controls, has been basically attributable to the fact that the dominant income-generating outlays, namely, piaster expenditures in support of the French and the national armies in Indochina, were financed by France and currently yielded the Indochinese authorities an equivalent amount of French francs; and, given the relative freedom of trade and payments within the franc zone, the incomes so generated and the francs so acquired were, in the main, drained away through heavy merchandise imports from, and remittances and capital transfers to, the franc zone. A fair degree of financial equilibrium, largely of a fortuitous sort, was thereby maintained. Under the new framework, however, this balance may be upset. For one thing, the change-over from indirect to direct United States aid may cause a retardation, in the short run, in the flow of imports into the three states because of various restrictions imposed on procurement of goods financed by United States aid and because of the temporary dislocations and time lags involved in shifting over to new sources of supply, to the extent that such shifting takes place. Secondly, the three states, with their newly won economic sovereignty, may want to impose certain additional restrictions on remittances and capital transfers to France in order to add to their reserves. Either or both of these results or actions, by clogging the safety valves that have in the past served to drain off the excess money incomes created by internal military expenditures, would tend to provoke inflationary pressures.

Conclusion

National economic independence has imposed new responsibilities on Cambodia, Laos, and South Vietnam at a time when these three states, still struggling with the administrative burdens implicit in the political independence achieved somewhat earlier, are faced with the threats of Communist subversion and aggression, with serious economic problems, and with a marked lack of experienced and skilled indigenous administrators and technicians. The new aid program by the United States, as well as aid from France and other friendly nations, will undoubtedly go a long way in helping these fledgling states to meet many of the difficult problems with which they are currently grappling. But there will inevitably remain a hard core of problems that can only be resolved, if they are to be resolved at all, by the efforts of the three states themselves.

[3] However, there was a relatively sharp rise in prices in the last six months of 1953 which largely represented an internal adjustment to the devaluation of the piaster in May of that year.

DEPARTMENT STORE TRADE

Department store sales in the Second District during March were nearly 8 per cent higher than in March last year, according to preliminary estimates. About half of this year's higher March level of sales seems attributable to the fact that Easter will fall about one week earlier this year than last (April 10, 1955 as compared with April 18, 1954); consequently, one more week of the Easter shopping season fell in March this year than in 1954.

On a seasonally adjusted, daily average basis, and after adjustment for the shifting date of Easter, Second District department store sales in March are estimated to have risen 3 per cent over February and 4 per cent over March a year ago. For 1955's first three months, department store sales in the District were almost 4 per cent higher than in the first quarter of last year.

"Downtown" and Suburban Department Store Sales

The shift of population away from cities and toward suburban areas has been one of the striking developments of the postwar period. Among its results has been a marked decentralization of department store activity in the major metropolitan areas of the nation. As increasing numbers of department store customers have moved to outlying sections of large cities and to the suburban areas surrounding such cities, department stores, which traditionally have been located in "downtown" shopping districts, have followed the trend toward suburbanization by establishing branches in the growing suburbs.

Sales at these branches, and at independent and chain department stores likewise located in the suburbs, have increased rapidly in the postwar period, and part of this sales growth appears to have been at the expense of "downtown" department stores. This trend toward the greater dispersion of department store sales, and toward the growing importance of suburban sales as compared with "downtown" sales within metropolitan areas, has been strikingly evident in the two most important trading areas of the Second Federal Reserve District —the New York-Northeastern New Jersey metropolitan area and the Buffalo metropolitan area. This article considers postwar department store sales developments in each of these two areas.

New York-Northeastern New Jersey Metropolitan Area

Although department stores in "downtown" New York City and in Newark still account for the bulk of department store sales in the New York-Northeastern New Jersey metropolitan area, sales at these stores have been declining in relative importance since 1946; also, the dollar volume of their sales has fallen off moderately from the high levels reached in early postwar years. In "downtown" Manhattan and Brooklyn, department store sales in 1954 were 15 per cent below the record peak attained in 1948 and 6 per cent under the level of 1946, the first postwar year. The sales performance of Newark stores was of similar nature, though the sales decreases there were somewhat smaller in magnitude—8 per cent since 1948 and 1 per cent since 1946. Three large "downtown" New York City department stores and a medium-sized store in Newark have closed their doors since 1950.

In contrast, department store sales in the outlying sections of New York City and in the surrounding suburban areas have grown rapidly in the postwar period. Sales in these areas have risen steadily and substantially each year since 1946, reflecting mainly the continued opening of branches in the suburbs by "downtown" stores and the expansion of existing branches. Between 1946 and 1954, the over-all gain in department store sales in the suburban part of the metropolitan area (including the outlying sections of Brooklyn, and Bronx, Queens, Nassau, Suffolk, and Westchester Counties in New York State, as well as the eight northernmost counties of New Jersey, but excluding Newark) was about 160 per cent.

Most of this rise is, of course, attributable to the growth of branch operations of "downtown" New York City and Newark department stores that arose from a policy of following the population migration to the suburbs. The number of branch department stores in the suburban portion of the metropolitan area has more than tripled in the postwar period, and aggregate sales at these stores have expanded at such an accelerated rate that their 1954 dollar volume of sales was more than seven times that of 1946. Moreover, independent and chain department stores located in these suburban areas (all of which were in business during the entire postwar period) also showed a substantial sales gain, of almost 40 per cent.

By far the largest expansion in department store sales occurred on Long Island, and particularly in rapidly developing Nassau County. In the four counties which comprise Long Island—Kings (excluding "downtown" Brooklyn), Queens, Nassau, and Suffolk—department store sales rose about 235 per cent between 1946 and 1954. Sales in Westchester County also increased, by over 200 per cent, in the same period, and the suburban part of Northern New Jersey had 1954 sales that were almost twice those of eight years earlier.

The marked expansion in suburban department store sales, and the consequent increased importance of suburban sales as a proportion of total metropolitan-area sales, are shown in

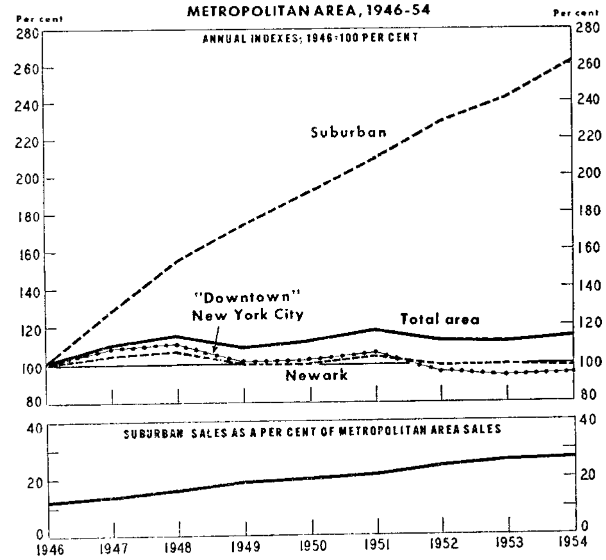
Chart I. Suburban sales rose from 12 per cent of metropolitan-area sales in 1946 to 27 per cent in 1954. Also, the increase in sales at suburban stores since 1946 has been so much larger than the sales declines at "downtown" department stores in New York City and Newark that department store sales for the metropolitan area as a whole have risen 14 per cent in the postwar period. As the chart indicates, however, the pattern of total-area sales continues to be heavily influenced by the relatively more important "downtown" shopping centers.

Underlying the divergent trends in "downtown" and suburban department store sales have been, of course, the large variations in the rates of population growth of the cities and the surrounding suburban areas. The movement of population out of New York City has exceeded migration into the City since 1940, with the result that such population expansion as has occurred reflects only natural population increase—the excess of births over deaths. New York City population estimates for 1954 made by the Regional Plan Association indicate that the rise in the City's population since 1940 amounted to 9 per cent, and that more than four fifths of this gain occurred in the three less-densely populated of the City's five boroughs: the Bronx, Queens, and Richmond. In suburban Nassau, Suffolk, and Westchester Counties, on the other hand, the population has increased since 1940 by 138 per cent, 93 per cent, and 19 per cent, respectively. Similarly, while the population of the city of Newark is estimated to have increased only 3 per cent between 1940 and 1954, the suburban New Jersey portion of the New York-Northeastern New Jersey metropolitan area registered a population gain of 28 per cent in the same period.

This shift of population away from New York City and Newark and toward the suburbs may have also involved a shift

Chart I

DEPARTMENT STORE SALES: NEW YORK-NORTHEASTERN NEW JERSEY METROPOLITAN AREA, 1946-54



in income distribution, in favor of the suburbs. In general, the "migrants" from the cities since the war have been middle or upper-income families, while those coming into the cities have frequently had a lower-income status. As a result, not only the number of city residents who regularly patronize "downtown" department stores but also the income at the disposal of those residents has probably been reduced somewhat. By way of contrast, aggregate consumer purchasing power has expanded considerably in the surrounding suburbs, coincident with the great influx of middle and upper-income homeowners into those areas.

Greater traffic congestion and lack of parking facilities in "downtown" areas, as well as other transportation problems—factors which have had their strongest impact on suburban customers—have also contributed to the relative decline in "downtown" department store sales. The stores have put considerable effort into expanding their advertising and improving their telephone and mail-order facilities; nevertheless, suburban customers have increasingly shown their preference for the suburban branches of the "downtown" stores, for the independent and chain department stores located in the suburbs, and for the integrated shopping centers that have developed there. These can be more conveniently reached by car than the "downtown" areas of the central cities, they offer more parking space, and, during the summer, they may remain open on Saturdays when the "downtown" stores are closed.

Buffalo Metropolitan Area

Department store sales in "downtown" Buffalo have also been declining in relation to total sales in the Buffalo metropolitan area. As in New York City and Newark, the trend in "downtown" sales has been a declining one since the sales peak reached in 1948; by 1954, sales of "downtown" stores had fallen 12 per cent below the 1948 level. In comparison with 1946, the decline—6 per cent—equaled that for "downtown" New York City. In the last five years, moreover, two department stores in "downtown" Buffalo have closed.

Meanwhile, department store sales in the suburban portion of the metropolitan area (including Niagara Falls) have expanded considerably. Their growth has been continuous throughout the postwar period, and of such magnitude that in 1954 the dollar volume of suburban sales was more than double that of 1946.

In Niagara Falls, sales increased between 1946 and 1954 by 45 per cent. And the growth of department store trade has been even more rapid in the eastern and southern sections of the city of Buffalo and at shopping plazas in the surrounding suburban communities. Branch operations of "downtown" department stores were started somewhat later than in the New York-Northeastern New Jersey metropolitan area; in fact, the first department store branch in the suburbs adjacent to

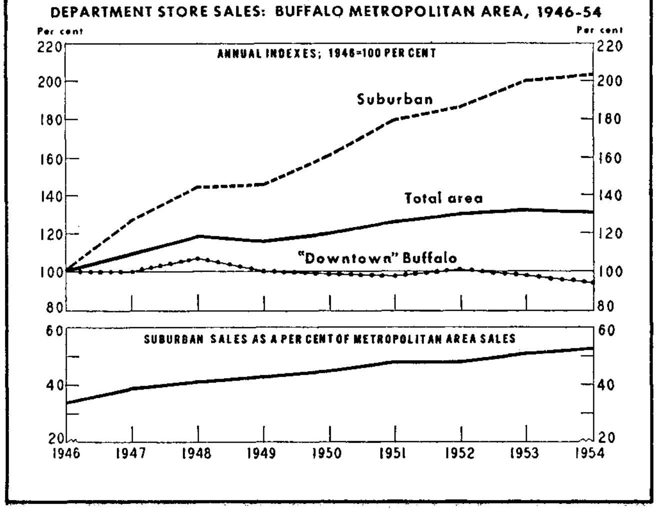
Buffalo was not opened until mid-1947. At least one suburban branch has been added in most years since then, however. And suburban department store sales in the Buffalo area have gained in importance from year to year, until they accounted for 53 per cent of the metropolitan area's department store sales in 1954, as compared with 34 per cent in 1946. The dollar volume of suburban sales exceeded that of "downtown" Buffalo sales in both 1953 and 1954. Chart II shows the distribution of total department store sales in the Buffalo metropolitan area, by years since 1946, between "downtown" and suburban sales, and indicates the steady growth of suburban sales as a proportion of total sales in the area.

The shift of department store sales from "downtown" Buffalo to the surrounding suburbs has, as in the New York-Northeastern New Jersey metropolitan area, reflected underlying population shifts. According to New York State Department of Health estimates, the population of the city of Buffalo declined 5 per cent between mid-1946 and mid-1953 (the latest date for which such information is available). But the number of persons residing in the rest of the metropolitan area increased 28 per cent in the same period. And an additional impetus to the growth of the suburban market has resulted from the fact that, again as in the case of New York City and Newark, the families migrating from Buffalo to the suburbs have largely been of middle or upper-income status.

Summary and Conclusions

The large postwar shifts of population away from the center of cities and toward outlying and suburban areas have been clearly reflected in department store trade statistics covering the Second District's two most important metropolitan areas—New York-Northeastern New Jersey and Buffalo. In response to these population shifts, "downtown" department stores in these areas have decentralized their operations by establishing outlying and suburban branches located where the new population growth has been occurring.

Chart II
DEPARTMENT STORE SALES: BUFFALO METROPOLITAN AREA, 1946-54



While much of the growth in suburban department store sales has resulted from generally higher levels of income and economic activity during the period, some part of it appears to have been "borrowed" from the "downtown" stores. The location of potential suburban customers at a distance from the "downtown" area, with consequent transportation problems, and the congestion and other inconveniences associated with shopping in the city have contributed to the lowering of "downtown" sales. Also, the tendency for the "migrants" from the city to the suburbs to have higher incomes than new city residents who replace them has worked toward reducing the sales potential of "downtown" stores.

Nevertheless, a large part of the increase in suburban department store sales has accrued to the suburban branches of the "downtown" stores; and to the extent that this has happened, of course, total sales of "downtown" stores (plus branches) have been unaffected by the population shift toward suburban areas. But the shift has caused a major change in the mer-

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

Area	Net sales			Stocks on hand Feb. 28, 1955
	Feb. 1955	Jan. through Feb. 1955	Feb. 1954 through Jan. 1955	
Department stores, Second District	− 3	+ 1	+ 2	+ 1
New York—Northeastern New Jersey Metropolitan Area	− 3	+ 1	+ 2	+ 1
New York City	− 4	0	+ 2	+ 4
Nassau County	—	—	—	—
Westchester County	+11	+16	+ 6	+21
Northern New Jersey	− 5	− 1	0	+10
Newark	− 7	− 2	− 1	—
Fairfield County	− 1	+ 4	− 2	+11
Bridgeport	− 3	+ 1	− 4	—
Lower Hudson River Valley	+ 5	+ 9	+ 4	+ 1
Poughkeepsie	+ 4	+ 9	+ 3	− 3
Upper Hudson River Valley	− 5	− 1	− 1	− 4
Albany-Schenectady-Troy Metropolitan Area	− 6	− 2	0	− 4
Albany	− 3	+ 2	+ 1	− 6
Schenectady	− 8	− 7	− 2	− 3
Central New York State	− 3	+ 1	− 1	− 1
Utica-Rome Metropolitan Area	− 4	+ 1	− 2	+ 6
Utica	0	+ 5	+ 2	+13
Syracuse Metropolitan Area	− 2	+ 2	0	− 4
Northern New York State	+19	+15	− 4	+ 5
Southern New York State	− 4	− 3	− 1	− 2
Binghamton Metropolitan Area	− 3	− 2	− 1	+ 3
Western New York State	0	0	0	+ 1
Buffalo Metropolitan Area	+ 1	0	− 2	− 2
Buffalo	+ 1	0	− 2	− 2
Niagara Falls	− 5	+ 1	+ 3	—
Rochester Metropolitan Area	− 1	− 1	+ 3	+ 6
Apparel stores (chiefly New York City)	− 1	+ 3	+ 4	+ 3

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

Item	1955		1954	
	Feb.	Jan.	Dec.	Feb.
Sales (average daily), unadjusted	81	84	184	83
Sales (average daily), seasonally adjusted	100	106	105	102
Stocks, unadjusted	106	100	103	104
Stocks, seasonally adjusted	109	112	113	107

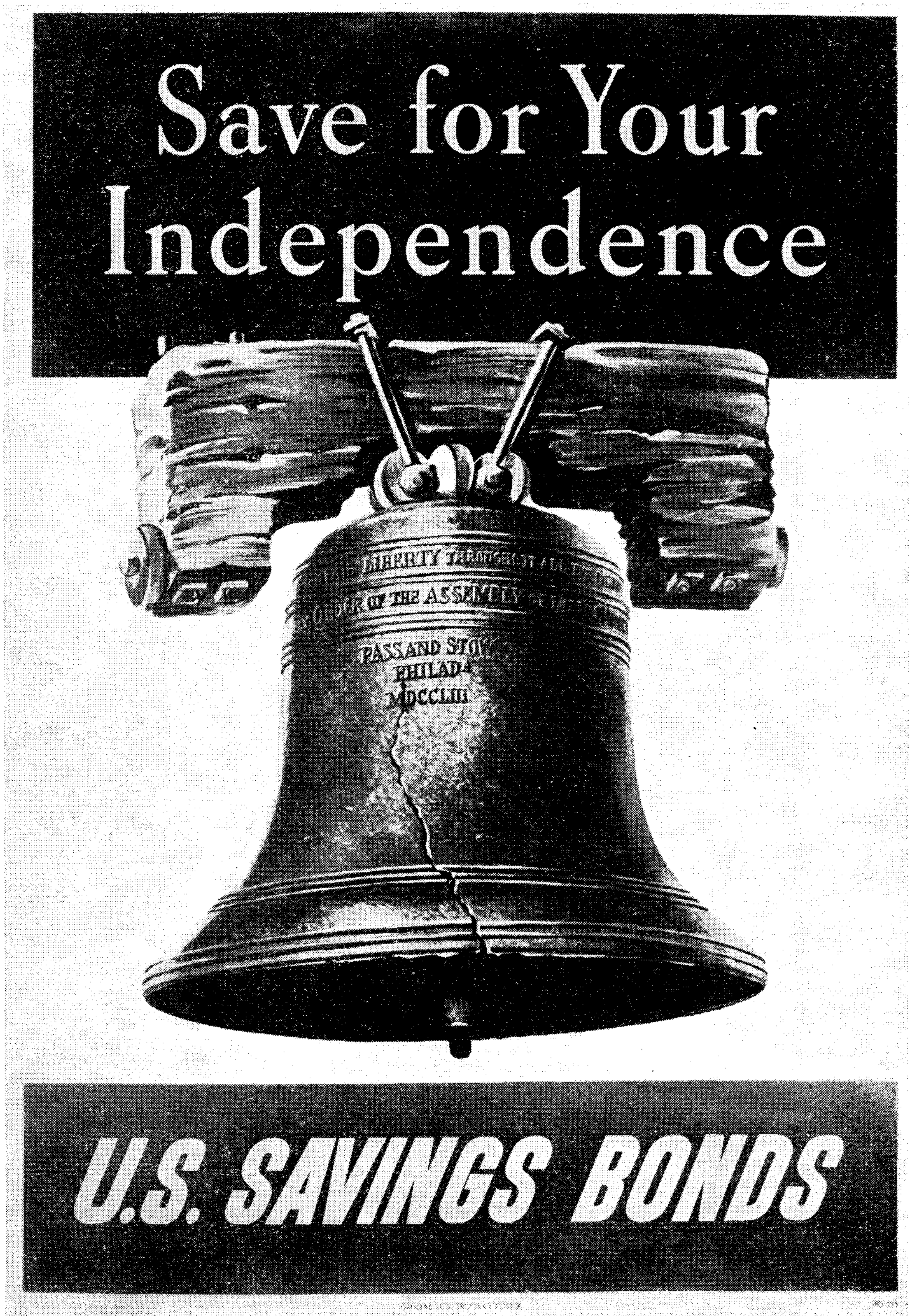
chandising organization of the "downtown" stores, as is evidenced by the impressive branch expansion that they have undertaken.

The shift in the distribution of metropolitan-area population away from the city and toward the suburbs that has been so evident in the postwar period is expected to continue, although at a somewhat slower pace, in future years. Thus the trends in metropolitan-area department store sales that are associated with the shift will doubtless also continue to be evident. Consequently, suburban sales may be expected to go on increasing in relation to "downtown" store sales, and branch sales may become an even more important segment of combined ("downtown" and branch) sales for the large, city department stores. This will undoubtedly further reinforce the already strong trend toward the decentralization of "downtown" department store operations.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1955		1954		Percentage change	
		February	January	December	February	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	133p	131	130	125r	+ 2	+ 6
Electric power output*	1947-49 = 100	186	182	177	162	+ 2	+15
Ton-miles of railway freight*	1947-49 = 100	—	97.3p	93.7	90.3	+ 4	+ 5
Manufacturers' sales*	billions of $	25.2p	24.9	24.8	23.6	+ 1	+ 7
Manufacturers' inventories*	billions of $	43.7p	43.6	43.7	46.1	#	− 5
Manufacturers' new orders, total*	billions of $	25.7p	24.8	25.4	22.0	+ 4	+17
Manufacturers' new orders, durable goods*	billions of $	12.8p	12.1	12.3	9.6	+ 6	+33
Retail sales*	billions of $	14.8p	14.9	15.1	14.0	− 1	+ 6
Residential construction contracts*	1947-49 = 100	286p	288	277	201	− 1	+42
Nonresidential construction contracts*	1947-49 = 100	230p	243	248	192	− 5	+20
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	91.4	91.1	89.9	88.0	#	+ 4
Wholesale prices†	1947-49 = 100	110.4p	110.1	109.5	110.5	#	#
Consumer prices†	1947-49 = 100	114.3	114.3	114.3	115.0	#	− 1
Personal income (annual rate)*	billions of $	—	290.7p	291.4	285.0	#	+ 2
Composite index of wages and salaries*	1939 = 100	—	n.a.	260	253	#	+ 3
Nonagricultural employment*	thousands	48,525p	48,467	48,419r	48,607	#	#
Manufacturing employment*	thousands	16,116p	16,028	16,038r	16,349	+ 1	− 1
Average hours worked per week, manufacturing†	hours	40.5p	40.2	40.6	39.6	+ 1	+ 2
Unemployment	thousands	3,383	3,347	2,838	3,670r	+ 1	− 8
Banking and finance							
Total investments of all commercial banks	millions of $	83,680p	85,740p	85,700p	78,030	− 2	+ 7
Total loans of all commercial banks	millions of $	71,360p	70,720p	71,150p	66,870	+ 1	+ 7
Total demand deposits adjusted	millions of $	104,570p	107,150p	106,850p	99,570	− 2	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,964p	30,050	30,087	30,084	#	#
Bank debits (338 centers)*	millions of $	67,439	65,248	68,149	62,398	+ 3	+ 8
Velocity of demand deposits (338 centers)*	1947-49 = 100	122.5p	121.3	124.4	120.6r	+ 1	+ 2
Consumer instalment credit outstanding†	millions of $	22,508	22,436	22,467	21,582	#	+ 4
United States Government finance (other than borrowing)							
Cash income	millions of $	6,306	4,299	4,617	6,530	+47	− 3
Cash outgo	millions of $	5,481	5,009	6,396	5,296r	+ 9	+ 3
National defense expenditures	millions of $	3,128	3,273	3,568	3,651r	− 4	−14
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	143	142	139	138	+ 1	+ 4
Residential construction contracts*	1947-49 = 100	—	217p	196	197	+11	+17
Nonresidential construction contracts*	1947-49 = 100	—	229p	213	177	+ 8	+ 5
Consumer prices (New York City)†	1947-49 = 100	112.5	112.3	112.2	112.8	#	#
Nonagricultural employment*	thousands	—	7,453.1p	7,439.8	7,544.7	#	− 2
Manufacturing employment*	thousands	—	2,578.1p	2,547.1	2,676.2	+ 1	− 5
Bank debits (New York City)*	millions of $	63,434	60,817	62,557	62,350	+ 4	+ 2
Bank debits (Second District excluding New York City)*	millions of $	4,489	4,341	4,615	4,377	+ 3	+ 3
Velocity of demand deposits (New York City)*	1947-49 = 100	164.1	159.5	162.6	167.2	+ 3	− 2

Note: Latest data available as of noon, March 31, 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.
n.a. Not available.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.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