MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 37 JUNE 1955 No. 6

MONEY MARKET IN MAY

Money market conditions were tight at the beginning of May, and again at the end of the month, but eased considerably during the intervening period. Average free reserves of member banks, which were close to the zero mark at the beginning of May, rose over the middle of the month to more than 400 million dollars, but declined to less than 150 million by the last statement week. This broad swing in member bank reserve positions was primarily attributable to substantial, and frequently unpredictable, changes in Government receipts and disbursements, but the usual variations in float were also a contributing factor.

To relieve the pressure upon member bank reserve positions early in the month, the Federal Reserve System supplied reserves to the market through outright purchases of Treasury bills as well as temporary purchases of securities from dealers under repurchase agreements. Conversely, as free reserves accumulated at the middle of the month, reductions in the System's security holdings served to take up some of the slack. In the four weeks ended May 25, these operations resulted in a net decline of 91 million dollars in System holdings of Government securities.

Reflecting the swings in member bank reserve positions, the Federal funds rate declined from $1\frac{11}{16}$ per cent at the beginning of May to as low as ½ per cent on May 17 and 18, rising again to the peak rate on May 25. In the Government securities market, prices were steady to firm during the first half of the month. Bond prices were marked up through May 17 as much as ¾ of a point, although they subsequently drifted downward, and by the end of the month had lost ¼ of a point or more of the gain. Due to a heavy demand for short-term investments, reflecting in part reinvestment of funds freed by redemptions of maturing Treasury certificates and Savings notes, Treasury bill yields on both new and outstanding issues showed relatively wider changes. The average rate of discount on the new issues declined from 1.697 per cent for the issue dated April 28 to 1.427 per cent for the May 19 issue and then firmed to 1.471 per cent for the issue of May 26.

The corporate and municipal bond markets were quiet in May, as the volume of new issues in both markets was limited until late in the month. Yields on both outstanding and new issues in the corporate bond market rose somewhat, while municipal issues showed little net change. In the bankers' acceptance market, the supply declined seasonally and, because of net maturities, the volume of acceptances held by the Reserve Bank fell off by 6 million dollars over the month.

According to the latest figures for the weekly reporting member banks, the demand for bank credit continued strong in May. All major classes of loans at these banks, except loans for purchasing or carrying securities, rose during the four weeks ended May 18. Security holdings, however, were down 747 million dollars on balance, despite substantial bank purchases on May 17 of the new 2 per cent fifteen-month Treasury notes. Thus, total loans and investments (other than loans to banks) declined 341 million dollars. In the comparable four-week period last year, when the banks also took a substantial part of a new Treasury offering, loans and investments rose 1,503 million dollars. From the first of the year through May 18, total loans of these banks increased 1,213 million dollars, compared with a 1,551 million decline during the comparable period of 1954. At the same time, however, total investments were reduced 3,196 million dollars this year, compared with an increase of 659 million last year.

MEMBER BANK RESERVE POSITIONS

Treasury operations were the dominant influence in the money market during most of the month. In the first statement week (ended May 4), just prior to the opening of the books for exchange and cash subscriptions to the Treasury's offering of 2 per cent fifteen-month notes, Government

CONTENTS

Money Market in May 65
Monetary Trends and Policies Abroad..... 68
Earnings and Expenses of Commercial Bank Trust Departments in New York and New Jersey 73
Department Store Trade 75
Selected Economic Indicators 76

expenditures dropped well below anticipated levels. Treasury deposits with the Reserve Banks consequently rose rapidly, and member bank reserve positions were put under unexpected pressure. In order to prevent any further tightening of the money market, the Treasury announced on Thursday, April 28, that it would postpone for one day the withdrawal scheduled for Monday, May 2, from the Tax and Loan Accounts of the central reserve city banks. On Friday, April 29, with its balances still rising, the Treasury announced that the withdrawal scheduled for May 2 from the Tax and Loan Accounts of all other depository banks would be canceled, and on May 2 it canceled the withdrawal from the central reserve city banks which had been rescheduled for May 3.

Despite these unusual cancellations of scheduled Treasury calls, member bank reserve positions remained under some pressure, and the rate on Federal funds held at the "ceiling" of 1 11/16 per cent over most of the week. In the middle of the statement week, the Federal Reserve System acquired 118 million dollars of securities from dealers under repurchase agreements and, toward the close of that week and the beginning of the next, purchased a total of 97 million bills outright. These were the first outright purchases by the System Open Market Account since the end of February. For the week, average member bank excess reserves and borrowings from the Reserve Banks just about balanced, as Table I indicates, although the New York City banks still had accumulated reserve deficiencies which were carried over to the next reserve period.

After the beginning of May, Government expenditures began to rise sharply, reducing Treasury balances with the Reserve Banks to a low level where they remained until the latter part of the month. In the week of May 11, member banks on the average gained more than 400 million dollars of reserves from Treasury operations, and free reserves rose to more than 400 million dollars.[1]

Treasury operations had only a small net effect on aggregate bank reserves during the week of May 18, but they caused a considerable redistribution of reserves within the banking system, with the New York City banks the principal beneficiaries. In order to have funds available to meet the redemption of about 1.5 billion dollars of Savings notes on May 16 and the 709 million of 1⅛ per cent certificates not exchanged for the new notes and therefore scheduled for redemption on May 17, the Treasury issued calls on its Tax and Loan Accounts for May 16 and 17 totaling more than 2.5 billion dollars. The New York City institutions' share of these withdrawals amounted to 819 million dollars, but the total amount of securities presented in New York for redemption on those two days totaled more than 1.2 billion. Consequently, despite relatively large transfers of funds to other parts of the country, the New York City banks held substantial amounts of excess reserves during the week ended May 18. In the final statement week of the month, Treasury deposits at the Federal Reserve Banks expanded, thus withdrawing an average of 124 million dollars of funds from the market.

[1] Table I now shows changes in weekly averages instead of the Wednesday levels used in earlier issues of this *Review*.

Table I

Changes in Weekly Averages of Factors Tending to Increase or Decrease Member Bank Reserves, May 1955

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended				Four weeks ended May 25
	May 4	May 11	May 18	May 25	
Operating transactions					
Treasury operations*	−137	+401	− 40	−124	+100
Federal Reserve float	−118	− 47	+192	− 8	+ 19
Currency in circulation	− 78	− 95	− 18	+ 51	−140
Gold and foreign account	+ 7	− 3	− 53	+ 24	− 25
Other deposits, etc	+ 50	+ 4	+ 61	− 57	+ 58
Total†	−276	+261	+141	−114	+ 12
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 9	+ 89	− 38	−151	− 91
Held under repurchase agreements	+ 53	+ 84	−114	− 23	—
Loans, discounts, and advances:					
Member bank borrowing	+ 2	−175	− 53	+117	−109
Other	− 1	+ 4	− 4	− 6	− 7
Bankers' acceptances:					
Bought outright	− 2	− 2	—	− 2	− 6
Under repurchase agreements	− 2	—	—	—	− 2
Total†	+ 58	—	−208	− 66	−216
Total reserves	−218	+261	− 67	−180	−204
Effect of change in required reserves‡	+ 36	− 3	− 7	+ 14	+ 40
Excess reserves‡	−182	+258	− 74	−166	−164
Daily average level of member bank:					
Borrowings from Reserve Banks	464	289	236	353	336
Excess reserves‡	476	734	660	494	591

Note: Beginning in May, this summary of changes in member bank reserves and related items has been revised to indicate changes in weekly averages of daily figures rather than changes in Wednesday levels in the belief that weekly average figures are more significant in analyzing changes in bank reserve positions.

* Includes changes in Treasury currency and cash.

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

‡ These figures are estimated.

On balance, over the four statement weeks ended in May, losses of funds through the various factors affecting member bank reserves were small. Treasury operations, which supplied about 100 million dollars of reserves to the banks, were the principal source of funds during the period as a whole. Float, which had expanded sharply in the third week thus helping to maintain free reserves at a high level over the middle of the month, also supplied a small net amount of reserves, as did declines in nonmember bank deposits and a moderate decline in required reserves. These gains were, however, more than offset by an increased demand for currency, which amounted to 140 million dollars, and by net sales and redemptions of securities by the Federal Reserve System.

Over the four statement weeks as a whole, average excess reserves held by member banks declined by about 26 million dollars from the April level. Average borrowings, however, were reduced by a larger amount, 158 million, indicating a moderate increase in free reserves. Most of the reduction in borrowing occurred at the larger city banks and probably reflected, at least in some degree, the reserve shifts occasioned by Treasury operations. The average amount of borrowings of the central reserve city banks from their Reserve Banks

in the last statement week of April was 109 million dollars; by the final week of May, it had been reduced to 20 million. The reserve city banks reduced their average borrowings by 30 million net over the same period, while the country banks increased theirs by 9 million.

The Market for Government Securities

At the beginning of May, the Government securities market was largely occupied with the Treasury cash and refunding offer of 2 per cent fifteen-month notes. Many of the holders of the maturing certificates were corporations or other investors who elected to sell the "rights" or to hold the certificates for cash redemption, partly because of current cash commitments and partly because of a preference for securities with a term of shorter than fifteen months. The absence of a premium above par in the market price for the new notes was a contributing factor. Initially, a bid quotation of 99 63/64 was posted for the notes on a "when-issued" basis, but some trading took place at par. On the day of issue (May 17) the new notes moved up to a par bid, and then by the end of the month to a slight premium.

The subscription books for the new 2 per cent notes were open on May 3 for the cash offering and May 3-5, inclusive, for the refunding. Cash subscriptions amounted to 4.2 billion dollars, and allotments were made at 62 per cent; subscriptions for $100,000 or less were allotted in full. Final figures on the combined operation indicated that 3.2 billion dollars of the 1⅛ per cent certificates (including Federal Reserve holdings) had been exchanged for the new notes, and that 709 million, fully 32 per cent of the amount held by the public, would be redeemed for cash.

Once the books on the offering were closed, however, prices of Government obligations generally began to rise. While market sentiment regarding the interest rate outlook had not changed, reinvestment of funds acquired from the cash redemptions of Savings notes and unexchanged 1⅛ per cent certificates, as well as the temporary easing of bank reserve positions over the middle of the month, brought a substantial demand into the various sectors of the market—mainly the short-term area—while the supply remained limited. Under the impact of these influences, price quotations generally rose (rates declined).

Aside from this special reinvestment demand, activity in the Government securities market during May followed much the same pattern as in other recent months. Commercial banks as a group continued to liquidate short and intermediate-term Government obligations in order to raise funds to meet loan demands, but this selling subsided in the latter part of the month. Current figures for all commercial banks are not available, but data for the weekly reporting banks indicate that for the four weeks ended May 18, despite purchases of the new 2 per cent fifteen-month notes during the final week, their holdings of Government securities declined by 464 million dollars, or 14 per cent. The principal buyers for the issues sold by the banks continued to be corporations and various public funds. Buying interest was centered primarily in Treasury bills, but a significant demand spilled over into other short-term issues, owing partly to the limited supply of bills in the market. In addition, there was at times a demand for intermediate obligations, particularly issues in the 1961-63 maturity range, and there also continued to be a small but reasonably steady volume of trading in the Treasury's longest bonds, the 3's of 1995.

The rise in prices of Treasury notes and bonds reached its peak on May 17. At that time, issues first callable from 1964 through 1967 were ⅝ to ¾ of a point above their levels at the end of April; shorter issues were up by smaller amounts. In the week that followed, the better part of these gains were lost, and for the period as a whole from April 29 through May 27 Treasury note and bond prices were unchanged to about ⅜ of a point higher. The two longest Treasury bonds outstanding, the 3¼'s of 1978-83 and the 3's of 1995, showed a narrower range of fluctuation during the month than the longer intermediates and closed about ¼ of a point above the end-of-April levels, or at a yield basis of 2.85 per cent and 2.97 per cent, respectively, to nearest call date.

Yields on Treasury bills moved down from an end-of-April range of 1.50 per cent for the shortest issue to 1.59 per cent for the longest, to a range of 1.12-1.41 per cent (bid) on May 27. The spill-over of demand for short issues into the certificate market was reflected in a small rise in certificate prices over the month.

The Market for Other Securities

Activity in the municipal bond market was moderate in the early part of May, and the relatively small actual or prospective volume of new issues encouraged dealers to mark up prices on their inventories. The announcement on May 11, however, that the legal obstacles to the offering of two turnpike issues which had been delayed for some time had been removed, combined with the scheduling of an offering of a fair-sized issue of revenue bonds for the latter part of the month, exerted a depressing effect on prices of outstanding revenue bonds. Total offerings of new municipal bonds for the month are estimated at about 270 million dollars, the smallest monthly total since August 1953.

The corporate bond market in May was marked by a growing investor resistance to current offering levels for public utility issues. The syndicates for some of the larger recent offerings were terminated during May, and yields on the affected issues rose 5 to 8 basis-points before the securities could be moved out of underwriters' accounts. These increases in yields on new issues were reflected in a minor degree in the composite yields of outstanding issues. Total corporate bond offerings in May are estimated at about 500 million dollars, compared with about 300 million in April.

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 May 18, 1955*p*
	April 27	May 4	May 11	May 18*p*	
Assets					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans	+ 15	+ 62	+114	+ 22	+ 320
Security loans	− 73	+ 62	−126	+ 58	− 39
Real estate loans	+ 28	+ 20	+ 43	+ 14	+ 471
All other loans (largely consumer)	+ 62	+ 49	+ 38	+ 21	+ 520
Total loans adjusted*	+ 31	+192	+ 68	+115	+1,213
Investments:					
U.S. Government securities:					
Treasury bills	+ 19	−233	−140	− 95	−1,261
Other	− 99	−179	− 36	+299	−2,042
Total	− 80	−412	−176	+204	−3,303
Other securities	− 37	− 94	−142	− 10	+ 117
Total investments	−117	−506	−318	+194	−3,196
Total loans and investments adjusted*	− 86	−314	−250	+309	−1,983
Loans to banks	+139	−196	+ 58	+161	+ 310
Loans adjusted* and "other" securities	− 6	+ 98	− 74	+105	+1,320
Liabilities					
Demand deposits adjusted	+356	−988	+253	+ 28	−2,183
Time deposits except Government	− 6	− 13	− 14	+ 4	+ 59
U. S. Government deposits	− 26	+405	−243	+442	+1,111
Interbank demand deposits:					
Domestic	−361	+166	+ 46	−124	−1,096
Foreign	− 4	+ 13	− 31	+ 23	− 27

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 totals shown.

Member Bank Credit

According to the latest figures available for the weekly reporting member banks, the demand for bank credit is continuing strong with no signs of an early slackening yet apparent. Total loans of these banks, other than loans to banks, rose an additional 406 million dollars during the four weeks ended May 18, bringing the total increase since the beginning of the year to 1,213 million. The magnitude of this expansion is more clearly appreciated if it is contrasted with the experience of 1954 and 1953. In the comparable four-week period of 1954, total loans of these banks, other than loans to banks, increased only 56 million dollars, while in the first four and a half months of that year they declined 1,551 million. In 1953, the comparable periods showed declines of 80 million and 149 million, respectively.

While all types of loans on the books of the weekly reporting banks, except security loans, increased during the four weeks ended May 18, as Table II indicates, the strong demand for commercial and industrial loans was the principal factor accounting for the difference in the trend of the total this year in comparison with the two preceding years. In the first four and one half months of 1955, the commercial, industrial, and agricultural loans of these banks increased 320 million dollars on balance. During the same period in 1953, when private demands for credit were strong, commercial loans declined 425 million, and in 1954, a year of liquidation, they declined 1,405 million. Judging from the data supplied by the group of reporting banks that classify the changes in their loans by type of industry, the major new borrowers this year have been the sales finance companies and the petroleum, coal, chemical, and rubber group of industries.

The expansion of loans this year has, in large part, been made possible by the fact that the banks have been able to sell securities to nonbank investors. In the four weeks ended May 18, Government obligations held by the reporting banks declined 464 million dollars, bringing the total reduction in Government portfolios since the beginning of the year to 3,303 million. Total holdings of securities other than Government obligations were also off for the four weeks (283 million), but holdings of these issues have risen on balance (117 million) since the beginning of the year. In 1954, Government portfolios were up 1,506 million dollars during the comparable four weeks and 158 million in the first four and one half months; in 1953, these portfolios were down 562 million for the four weeks and 4,145 million for the equivalent December-May period.

MONETARY TRENDS AND POLICIES ABROAD

Since the closing months of 1954, there has been a significant tightening of money and credit conditions in many financial centers abroad. In the United Kingdom and in the Scandinavian countries, firmly restrictive action has been taken by the monetary authorities concerned, while monetary policy in many other countries has, in varying degree, also shifted from ease to restraint. Such extensive recourse to monetary restraint has been called forth by the re-emergence, in a number of countries, of excessive internal demand, which has in turn tended to produce balance-of-payments strains. Monetary policy in these countries has thus been assigned a crucial role in preserving a workable economic balance, internationally as well as domestically.

The Economic Background

The recent shift from monetary ease to restraint abroad[1] is, of course, best understood against the background of the prevailing economic conditions. The rapid economic expansion in many foreign countries during the past two years has continued in 1955. However, toward the end of last year, indications of stress appeared in the economies of some of the Western European countries. Money incomes in certain of these countries appeared to be rising more rapidly than aggregate physical output. With productive capacity almost fully

[1] For a discussion of earlier monetary conditions and policies abroad, see this Bank's *Monthly Review* of March 1951, July 1952, and October 1954.

utilized, and with unemployment in some countries down to as low as 1 per cent of the labor force, additional consumer and investment demand could not be met as easily as in 1953 and 1954 when considerable new capacity came into operation as the result of the large investment undertaken in previous years. Bank credit to business, which up to mid-1954 was not, on the whole, an important factor in the expansion of the money supply, subsequently rose more rapidly in many countries, particularly in the United Kingdom; in certain countries, consumer credit likewise expanded markedly. For these and other reasons, it appeared that the over-all price stability that had at first accompanied the output expansion might not be maintained. Furthermore, some of the special factors that had helped Europe to maintain price stability weakened in the latter part of 1954; in particular, last year's harvests were not in most countries so exceptionally good as in 1953, while around the year end the prices of some imported commodities increased significantly.

These developments were reflected in a deterioration in the balances of payments of a number of Western European countries. Expanding domestic demand tended both to slow down the rise of exports and to increase imports further; in particular, growing industrial output required increased supplies of imported raw materials. The consequent weakening in the international position was noticeable in Denmark, Norway, and Sweden, whose current balance-of-payments deficits increased, and in Austria and the United Kingdom, whose surpluses disappeared; in addition, the Netherlands' surplus was greatly reduced.

The seriousness of these strains, however, must not be exaggerated. The Western European countries are today in an inherently much stronger economic and financial position, externally as well as internally, than at any time since the war. Indeed, it is largely because of this underlying strength that so much reliance can now be placed on monetary measures as a principal means for bringing about a better internal balance and for relieving the external payments difficulties.

In Canada, recent economic trends have differed noticeably from those in Western Europe. In the latter part of 1953 and the first half of 1954, business activity slowed down moderately, and a revival appeared only toward the year end. Furthermore, in large part as a result of lower imports and a continued inflow of capital, the Canadian dollar remained strong throughout 1954, and official gold and United States dollar holdings rose markedly. In the first months of 1955, the improvement in the country's foreign trade position continued, but the Canadian dollar declined somewhat, partly because of a reduced net capital inflow.

Among the countries producing primary commodities for export, continued inflationary pressures and marketing difficulties have persisted in many cases, even though in others both domestic financial conditions and the balance of payments have remained reasonably stable. In Australia, rising domestic demand has led to considerably higher imports, while wool export prices have fallen, with the result that the country's foreign exchange holdings have declined significantly. In New Zealand, recent trends have been similar, although much milder, while Burma's external position has deteriorated in large measure owing to lower rice exports. In a number of other countries, including certain Latin American countries, domestic prices have continued to rise quite sharply and the money supply has expanded far more than production and trade; the main factors behind this monetary expansion have been the financing, through bank credit, of governmental economic development and other programs, and the maintenance of relatively easy credit conditions. These difficulties have been accentuated in some of these countries, such as Brazil, by export marketing problems.

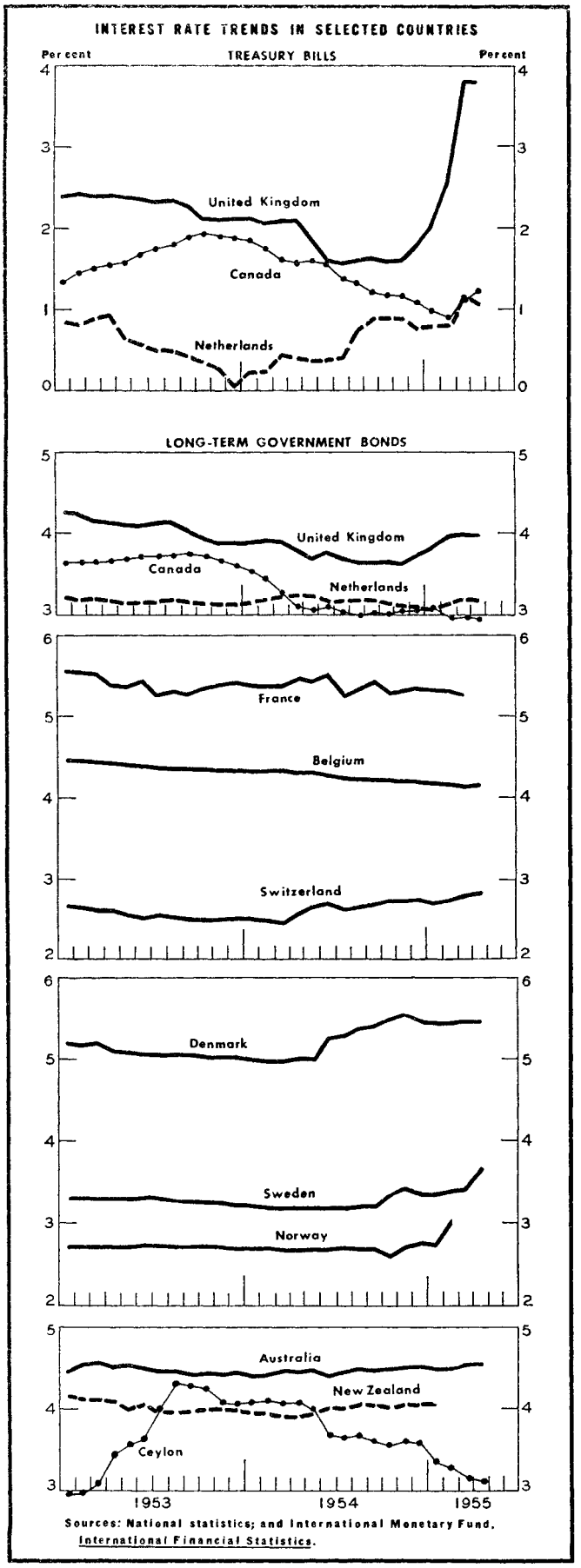
Changes in Central Bank Discount Rates Since July 1953
(In per cent)

Date of change		Country	New rate	Amount of	
				Increase	Decrease
1953:	July 23	Ceylon	3	½	
	Sept. 13	United Kingdom	3½		½
	Sept. 17	France	3½		½
	Sept. 23	Denmark	4½		½
	Sept. 24	Austria	4		1
	Oct. 29	Belgium	2¾		¼
	Nov. 20	Sweden	2¾		¼
1954:	Jan. 1	Greece	10		2
	Jan. 1	Guatemala	6	2	
	Feb. 3	Philippines	1½		½
	Feb. 4	France	3¼		¼
	Apr. 12	New Zealand	3½	2	
	May 13	United Kingdom	3		½
	May 20	West Germany	3		½
	June 3	Austria	3½		½
	June 11	Ceylon	2½		½
	June 23	Denmark	5½	1	
	July 1	Spain	3¾		¼
	Nov. 26	New Zealand	4	½	
	Dec. 3	France	3		¼
1955:	Jan. 1	Greece	9		1
	Jan. 27	United Kingdom	3½	½	
	Feb. 14	Norway	3½	1	
	Feb. 15	Canada	1½		½
	Feb. 24	United Kingdom	4½	1	
	Apr. 19	Sweden	3¾	1	
	May 20	Austria	4½	1	

Discount Rate Changes and Interest Rate Trends

The recent general shift from monetary ease to monetary restraint is best revealed in the changes in central bank discount rates (see table). Since mid-June 1954 there have been seven increases, six in Europe—in Austria, Denmark, Norway, Sweden, and two in the United Kingdom—and one in New Zealand; of these seven increases, five have taken place since the beginning of 1955. In Sweden and the United Kingdom, the central bank discount rates are now the highest since the early thirties; in Denmark, New Zealand, and Norway they stand at their postwar peaks. There have also been four discount rate reductions since mid-June 1954—in Canada, France, Greece, and Spain. In contrast, there were thirteen discount rate reductions during the preceding twelve months, and only three increases (one in the second half of 1953 and two in the first half of 1954).

The more frequent recourse to discount rate variations that has been made during recent years is thus continuing. In some countries where, for various reasons, central bank dis-



count operations remain relatively unimportant, discount rate changes still have mainly a psychological impact; but in other countries they seem to have ceased to be a mere symbol and have become an increasingly effective tool of monetary policy. During recent months, too, the Scandinavian countries have abandoned the policy of supporting government bonds at fixed prices; and other countries where the existence of a money market makes possible the use of open market operations have placed increased reliance on a flexible application of this instrument. In conjunction with open market operations, official discount rate variations have thus more and more become a spearhead of changes in the whole structure of interest rates.

As a result of the resort to monetary restraint, and more generally because of the interplay of basic economic forces such as the flow of savings and the need for capital, interest rates since mid-1954 have tended to rise in many foreign countries (see chart). This trend has been particularly noticeable in many countries of Western Europe. The largest increases in short and long-term rates have taken place in the United Kingdom, while long-term government bond yields have also risen markedly in Denmark, Norway, Sweden, and Switzerland. In the Netherlands, short-term rates have increased sharply since mid-1954 and long-term rates have stiffened somewhat since the beginning of 1955. In Italy, interest rates have averaged slightly higher than a year ago, while the decline that had been under way in West Germany was arrested before the end of last year. Long-term interest rates, however, have continued their slow downward trend in Belgium and Portugal; but medium-term rates in Belgium rose perceptibly at the turn of the year. In France, interest rates have fallen moderately in 1955.

In Canada, the decline in interest rates, which had begun in the latter part of 1953, came to a halt in the second half of 1954 in the case of long-term rates, while in February 1955 short-term rates turned upward. In the primary-producing countries, interest rate trends have been more diverse, but among these countries increases, even though small, have predominated. These have been most noteworthy in Australia and New Zealand, but some stiffening of rates or a halt to earlier declines has taken place in a number of other countries. Long-term interest rates have continued to fall in Ceylon and have moved somewhat lower in Colombia and the Union of South Africa.

Monetary Restraint in the United Kingdom

Of the recent moves to tighten credit availability, the most significant have been in the United Kingdom. Even before the end of 1954, short-term interest rates had begun to rise, and when the Bank of England discount rate was raised by ½ per cent to 3½ in late January, the Treasury bill tender rate as well as other short-term rates rose further. After mid-February, money market conditions tightened still more, and on February 24 the Bank of England discount rate was again increased, this time by a full 1 per cent to 4½, the highest since March 1932. Short-term money rates as well as the rates

on commercial bank advances were again adjusted upward. Despite increased demand for Treasury bills from investors both at home and abroad, the Treasury bill tender rate has remained close to 4 per cent, and toward the end of May it was some 2⅓ per cent above the level of last November. The spread between the discount rate and the Treasury bill rate (as well as certain other short-term rates) has consequently narrowed markedly. Government bond yields have increased for all maturities; the rise in the short-term sector, however, has been considerably larger than for medium and long-term maturities. The rates charged by the important Public Works Loan Board, through which the government channels funds to local governments for municipal housing and other capital projects, have been brought into line with other interest rates.

The current money market tightness in Britain is also evident in recent commercial banking trends. Bank deposits declined sharply during the first four months of 1955, reflecting primarily a reduction in the banks' liquid assets—cash, call money, and bills—that was only partly offset by a rise in advances, which continued to increase despite the deterrent of higher interest rates charged to borrowers. Commercial banks were able to maintain their liquidity ratios at the conventional minimum only through substantial sales of government bonds, mainly of short-term maturities; bank holdings of certain of these issues, however, are now reportedly running low and the banks may well find it more costly henceforth to maintain their liquidity in this manner. Initially, this reduction in the banks' liquidity was primarily due to the government's cash surplus, derived from seasonally large tax receipts and official sales of foreign exchange. Even after the return to seasonal Treasury deficits, however, the banks' liquidity ratios remained close to the customary minimum, mainly as a direct result of the restraint exercised by the monetary authorities and because of switching by large nonbank investors from bank deposits into Treasury bills. General credit restraint was supplemented in February by the reimposing of the modest restrictions on instalment buying that had been lifted in July 1954.[2]

Monetary Policy Reversals in Scandinavia

Monetary restraint of a general character has also been applied in the Scandinavian countries. The National Bank of Denmark raised its discount rate in June 1954 by 1 per cent to 5½ and withdrew its support of government securities. In the fall, it discontinued the rediscounting of mortgage paper from building contractors, which had been an important source of earlier credit expansion. At the same time, the government abolished interest subsidies on loans for new housing while introducing a system of direct payments based on individual needs. In addition, consumer credit regulations were tightened toward the year end. Legislation is now under consideration to strengthen the existing structure of variable commercial bank cash-reserve requirements.

In Sweden, an important move was made last October away from the cheap money policy that had been followed during almost the entire postwar period—a policy that had been adopted largely in order to facilitate the financing of housing construction and municipal public works at low interest rates. In that month, the central bank announced that it would no longer support government securities at certain fixed levels, while the government issued a sixteen-year loan at 4 per cent, a rate significantly higher than on earlier issues. The central bank discount rate, however, was kept unchanged, and interest rates on bank loans and advances did not in general increase. Finally, in April 1955 the discount rate was raised by 1 per cent to 3¾, the highest since 1932, and the entire pattern of commercial bank lending rates was adjusted accordingly—the first substantial change in the postwar years. Concurrently, the government issued a 24-year 4½ per cent loan, and bond prices thereafter declined markedly. The government also stated that it might invoke its legal authority to enforce certain fixed cash-and-security reserve requirements for the commercial banks, instead of relying on informal arrangements, as it had done since 1952.

In Norway, the trend toward a more flexible monetary policy began in the fall of 1954, when the government issued a new long-term loan at 3½ per cent, compared with 2½ on earlier postwar issues. Bond yields on existing issues rose in response. In February 1955, cash reserve requirements, in the form of deposits with the central bank, were established, and the central bank changed its discount rate for the first time since 1946, raising it 1 per cent to 3½. In March, long-term government bond yields rose further, following the issue of the first 4 per cent long-term government loan since the war.

Developments in Other Industrial Countries

In the rest of Western Europe, steps have been taken, or are being prepared, in three countries—West Germany, the Netherlands, and Switzerland—to strengthen the central bank's monetary powers. In the Netherlands, the central bank is now able to operate more effectively in the money market as a result of the establishment, early in 1954, of variable cash-reserve requirements for commercial and other banks. In Switzerland, where the central bank lacks a government security portfolio large enough for effective open market sales, the authorities have endeavored to absorb some funds by selling to the public limited amounts of old Swiss gold coins, which are no longer legal tender; in addition, the central bank has reportedly reached a gentlemen's agreement with the commercial banks, under which the latter would keep a specified percentage of their sight liabilities on deposit with it. In Germany, steps are under consideration to transform a portion of the central bank's special claims on the government arising from the 1948 currency reform into marketable government securities that the bank will be able to sell whenever desirable.

[2] For a broader discussion of recent British developments, see "Expansion and Adjustment in Great Britain", *Monthly Review*, May 1955.

In Belgium and France, on the other hand, the easier money policies initiated in 1953 have remained in force. In France, the authorities have reduced the interest rates of public lending agencies and have endeavored, within the framework of the existing credit controls, to bring about a reduction in the commercial banks' lending rates to business by lowering once more the official discount rate.

In Canada, the central bank likewise reduced its discount rate by ½ per cent to 1½ in mid-February. This change, the third one since the bank commenced operations in 1935, was intended, according to an official statement, to bring the rate into line with market rates and thus permit a more flexible use of discount rate variations in the future.[3]

The Primary-Producing Countries

In the primary-producing countries, the scope of monetary action is often considered limited because of the less developed state of the money market and of financial mechanisms generally. Nevertheless, in certain of these countries monetary policy has been fairly active in recent months. In New Zealand, the discount rate was increased to 4 per cent from 3½ at the end of November, along with a rise in the commercial banks' cash reserve requirements to the level from which they had been lowered in September. In February 1955, these requirements were temporarily reduced in connection with the seasonal income tax payments, but according to an official comment this step denoted no change in the tighter-money policy. In Australia, some decline in bank liquidity occurred because of foreign exchange losses; this decline seems to have been somewhat accentuated early this year as a result of a reduction in the central bank's government security portfolio. In the Union of South Africa, where internal conditions remained generally stable, short-term interest rates were increased by ½ per cent in March following the rise in London rates, in order to reduce the possible adverse effects of a disparity of rates on the flow of funds between the two countries.

In Latin America, there have been important changes in monetary policies in a number of countries. In Colombia, primary cash-reserve requirements for commercial banks were increased in April 1955; in addition, supplementary requirements against increases in bank deposits after a specified date were reinstated, after having been initially established in early 1954 and then temporarily removed later in the year. Chile once more attempted to slow down monetary expansion by reimposing a limit on the rate of increase in the loans of individual commercial banks. In Brazil, however, commercial bank reserve requirements, tightened in the fall of 1954, were relaxed in May 1955; at the same time, the rediscount rates of the Bank of Brazil were reduced to the level of early 1954. Credit controls were also variously tightened in Honduras and Mexico and eased in Bolivia and Peru. In Syria, certain restraining measures were taken in April 1955, while in Egypt, cash reserve requirements of commercial banks were reduced in September 1954.

[3] For recent trends toward the development of a money market, see "The Canadian Banking System", *Monthly Review,* December 1954.

Conclusion

The recent course of monetary developments and policies abroad thus differs in many respects from the earlier postwar phases of monetary restraint. First, monetary restrictions have been imposed not after the development of a crisis, but rather at a relatively early stage of economic and financial strain in order to forestall a possibly serious weakening, domestically as well as internationally. The recourse to monetary restraint thus reflects recognition by the countries concerned that a further unchecked expansion of home demand cannot safely be allowed.

Furthermore, the principal emphasis has recently been placed on general quantitative restraints. Not only have official discount rates been raised in a number of centers abroad to the highest levels since the war and, in certain cases, to the highest levels since the early thirties, but they also have been made more effective. Rigid central bank support of government bonds has been abandoned; much less reliance has been placed on directives, selective credit controls, and direct controls over interest rates, as many countries had done during earlier phases of restrictive monetary policies; and, in preference to commercial bank reserve requirements combining cash and government security holdings, cash reserve requirements have been strengthened or newly provided for. This change to monetary restraint of a general character is a measure of the firmness of the new monetary policy.

Finally, in contrast to the earlier postwar years, monetary restraints during recent months have not been accompanied by a strengthening of direct controls over prices, the allocation of materials, and other physical controls. Nor has there been, with one or two exceptions, any relapse into more stringent import controls or foreign exchange restrictions. The fact that, on the whole, there has been no retreat from trade liberalization is particularly encouraging.

Recent stresses brought about by excessive demand in certain European countries are mild by any comparison with the earlier postwar years. It therefore may prove less difficult to restrain, where necessary, a too rapid expansion in the flow of spending and thereby contribute to the strengthening of the balances of payments. In many primary-producing countries, on the other hand, where inflationary pressure has been chronic, the lack of economic balance continues to give rise to difficult problems of adjustment. Nevertheless, certain of the less developed economies have recently made notable strides toward a balanced economic expansion, with much emphasis upon enlarging the usefulness and effectiveness of monetary controls. Altogether, therefore, monetary policy is now working more effectively throughout much of the world than at any time during the postwar years.

EARNINGS AND EXPENSES OF COMMERCIAL BANK TRUST DEPARTMENTS IN NEW YORK AND NEW JERSEY

Operations of commercial bank trust departments in New York and New Jersey were 14 per cent more profitable in 1954 than in 1953, according to the second annual survey of trust department earnings and expenses recently completed by the Federal Reserve Bank of New York. The survey covered 83 commercial banks operating trust departments in New York, New Jersey, and Fairfield County, Connecticut,[1] with annual commissions and fees in excess of $10,000. The banks included in the survey earned aggregate trust department commissions and fees of 79 million dollars, about five sixths of the total commissions and fees earned in 1954 by all commercial bank trust departments in the area surveyed. At the end of 1954, these 83 banks were servicing 115,000 personal trust accounts having 48 billion dollars of assets, and 3,900 corporate trust accounts with outstanding bonds of 27 billion dollars; they also handled some 20,000 corporate agency accounts.

Data for 79 of the 83 reporting banks are included in Table I,[2] in which the banks are divided into two groups—those with profitable trust department operations in 1954 and those with net losses on trust operations during the year. The 16 New York City banks and the 63 banks outside New York City are also each arranged into two classifications by size of trust department income. In addition, Table I includes a section showing income and expense by type of trust account—personal and corporate[3]—for 20 banks located in the large cities of the Second Federal Reserve District.

The ratios shown in Table I are not averages of individual bank ratios but are derived from aggregate dollar totals. This method of ratio derivation was used because the extreme range of some of the ratios would have biased average ratios unduly, especially those for the smaller trust departments.

About two fifths of the banks included in Table I incurred net losses in 1954, after income tax adjustments, in servicing their trust accounts. However, after trust department net earnings were adjusted for "allowed credit for deposits" (income credited to the trust department at rates that vary from time to time and from bank to bank as earnings on uninvested trust balances deposited with the commercial banking department), only 11 banks—14 per cent of the number surveyed—showed net losses.

Of the 83 banks in the current survey, 56 banks (9 in New York City and 47 outside) were also included in the

[1] Banks in Fairfield County, Connecticut, that operate trust departments and submitted data were grouped with banks in the State of New York in Table I. Similarly, two mutual savings banks in New Jersey that operate trust departments were grouped with commercial banks in Table I.

[2] Four banks did not report data in a form suitable for inclusion in Table I. Data for these banks are included in Table II, however.

[3] Personal accounts include such accounts as estates, testamentary and living trusts, guardianships, pension and profit-sharing trusts, and agency and custody accounts. Corporate accounts include bond trusteeships and agency functions, such as acting as registrar, transfer agent, coupon and bond-paying agent, and dividend-disbursing agent for corporate security issues.

Table I
Percentage Distribution of Income and Expense for Commercial Bank Trust Departments in New York State and New Jersey, 1954

Item	63 banks in New Jersey and New York State outside New York City with total commissions and fees of:				16 New York City banks with total commissions and fees of:		20 banks reporting income and expense by type of account	
	Under $50,000		Over $50,000					
	Trust departments with:		Trust departments with:		Under $400,000	$1 million and over		
	Net profits	Net losses*	Net profits	Net losses*			Corporate	Personal
Number of banks	16	20	20	7	7	9	20	20
	Per cent of total commissions and fees							
Commissions and fees from:								
Estates	46.9	29.8	30.6	24.2	5.5	9.4	—	17.9
Pension and profit-sharing trusts	3.8	1.9	2.5	3.5	2.5	4.9	—	8.5
Personal trusts	35.8	45.8	38.4	41.6	8.3	19.9	—	35.5
Personal agencies	9.9	19.3	20.4	22.2	27.5	23.5	—	38.1
Corporate trusts	0.1	1.6	0.7	2.7	10.4	5.9	14.1	—
Corporate agencies	3.5	1.6	7.4	5.8	45.8	36.4	85.9	—
Total income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total expense	66.6	135.4	88.8	129.4	125.5	90.0	88.4	94.2
Net earnings before income taxes	33.4	− 35.4	11.2	− 29.4	− 25.5	10.0	11.6	5.8
Income tax charges (−) or credits (+)	− 13.4	+ 19.0	− 5.2	+ 15.6	+ 14.2	− 5.4	− 6.4	− 3.1
Trust department net earnings	20.0	− 16.4	6.0	− 13.8	− 11.3	4.6	5.2	2.7
Allowed credit for deposits	9.9	13.3	12.4	22.3	13.2	9.1	9.2	10.1
Trust department net earnings (adjusted for deposit credits)	29.9	− 3.1	18.4	8.5	1.9	13.7	14.4	12.8

* Before adjustment for deposit credits.

first survey, covering 1953 operations. The 9 New York City banks handled approximately four fifths of the City's trust business in 1954. Year-to-year comparisons of income and expense by type of trust account for these banks are shown in Table II.

The net earnings (after adjustment for deposit credit) of these New York City banks from trust operations in 1954 amounted to 8½ million dollars, 11 per cent more than in 1953. Each of the various types of trust business conducted by these banks except personal trusts showed gains in net earnings (after adjustment for deposit credit) from 1953 to 1954. Although the largest rise in dollar earnings occurred in corporate trust and agency accounts, which provide between 40 and 50 per cent of trust department earnings for the City banks, the largest year-to-year percentage gains in earnings came from estates, and pension and profit-sharing trusts. Expenses also rose in estates, and pension and profit-sharing trusts, but the increases absorbed only a small part of the enlarged income. As a result, estate administration, which showed a minor loss (before adjustment for deposit credits) in 1953, became relatively profitable in 1954, and the substantial loss incurred in handling pension and profit-sharing trusts in 1953 was reduced to a minor amount in the past year.

Expenses incurred in handling various types of trust accounts are shown only in total in Table II, which indicates, however, that the expenses of servicing pension and profit-sharing trusts in 1954, stated as a percentage of total commissions and fees, were larger than for any other type of trust. Of the 9 New York City banks included in the table, 5 submitted a breakdown of expenses by type of trust account, and this breakdown shows that the high expenses of servicing pension and profit-sharing trusts resulted mainly from larger salary expense and expenses related to salaries, such as pensions and retirements, personnel insurance, and Federal social security payments. These absorbed nearly 80 per cent of the commissions and fees received from pension and profit-sharing trusts. However, the high expense ratio in pension and profit-sharing trusts may indicate that the level of income from such trusts is low. Gross commissions and fees from them rose sharply (23 per cent) in the past year, but nevertheless still accounted for the smallest part of the total commissions and fees generated by the various trust operations.

As a percentage of commissions and fees, total expenses were lowest for estate accounts, and the distribution of expenses submitted by 5 of the reporting banks indicates that employee salary expense and expenses related to salaries were smaller for these accounts than for any other type of trust. In fact, before allowed credits for deposits, estates were the most profitable branch of the trust business, with net earnings equal to 12.4 per cent of total commissions and fees. After the addition of allowed deposit credit (an important factor in the profitability of corporate trusts), however, corporate trusts were substantially more profitable than estates.

Year-to-year comparisons of trust department income and expense data for the 47 banks outside New York City that reported these data for both 1953 and 1954 are shown in

Table II

Income and Expense by Type of Trust Account for Nine New York City Commercial Banks,* 1954 and 1953

(Dollar amounts in thousands)

Type of trust account	Total commissions and fees	Total expenses	Net earnings before income taxes	Income tax charges (−) or credits (+)	Trust department net earnings	Allowed credit for deposits	Trust department net earnings (adjusted for allowed credit for deposits)
Estates:							
1954	4,782.4	3,988.4	+ 794.0	− 443.2	+ 350.8	+ 289.2	+ 640.0
1953	3,733.1	3,809.0	− 75.9	+ 48.1	− 27.8	+ 438.2	+ 410.4
Dollar change	+ 1,049.3	+ 179.4	+ 869.9	− 491.3	+ 378.6	− 149.0	+ 229.6
Per cent change	+ 28.1	+ 4.7	†	†	†	− 34.0	+ 55.9
Pension and profit-sharing trusts:							
1954	4,211.2	4,292.5	− 81.3	− 1.3	− 82.6	+ 429.9	+ 347.3
1953	3,423.5	4,031.9	− 608.4	+ 297.5	− 310.9	+ 466.2	+ 155.3
Dollar change	+ 787.7	+ 260.6	+ 527.1	− 298.8	+ 228.3	− 36.3	+ 192.0
Per cent change	+ 23.0	+ 6.5	†	†	†	− 7.8	+ 123.6
Personal trusts:							
1954	13,124.6	12,506.4	+ 618.2	− 370.6	+ 247.6	+1,135.7	+1,383.3
1953	13,053.8	12,753.7	+ 300.1	− 138.9	+ 161.2	+1,339.9	+1,501.1
Dollar change	+ 70.8	− 247.3	+ 318.1	− 231.7	+ 86.4	− 204.2	− 117.8
Per cent change	+ 0.5	− 1.9	+ 106.0	†	+ 53.6	− 15.2	− 7.8
Personal agencies:							
1954	15,299.5	14,051.6	+1,247.9	− 601.2	+ 646.7	+1,913.5	+2,560.2
1953	14,074.6	14,014.6	+ 60.0	+ 7.6	+ 67.6	+2,330.0	+2,397.6
Dollar change	+ 1,224.9	+ 37.0	+1,187.9	− 608.8	+ 579.1	− 416.5	+ 162.6
Per cent change	+ 8.7	+ 0.3	†	†	+ 856.7	− 17.9	+ 6.8
Corporate trusts and agencies:							
1954	24,441.9	21,626.2	+2,815.7	−1,410.5	+1,405.2	+2,173.3	+3,578.5
1953	22,791.7	21,242.8	+1,548.9	− 782.7	+ 766.2	+2,457.3	+3,223.5
Dollar change	+ 1,650.2	+ 383.4	+1,266.8	− 627.8	+ 639.0	− 284.0	+ 355.0
Per cent change	+ 7.2	+ 1.8	+ 81.8	†	+ 83.4	− 11.6	+ 11.0
All trust accounts:							
1954	61,859.6	56,465.1	+5,394.5	−2,826.8	+2,567.7	+5,941.6	+8,509.3
1953	57,076.7	55,852.0	+1,224.7	− 568.4	+ 656.3	+7,031.6	+7,687.9
Dollar change	+ 4,782.9	+ 613.1	+4,169.8	−2,258.4	+1,911.4	−1,090.0	+ 821.4
Per cent change	+ 8.4	+ 1.1	+ 340.5	†	+ 291.2	− 15.5	+ 10.7

* This group of banks is not the same group of large New York City banks shown in Table I. It consists of five banks that are included in Table I and four large New York City banks that did not report their data in a form suitable for inclusion in Table I.

† Percentage changes were not shown when year-to-year data changed from a minus to a plus, or vice versa, or if the percentage was considered meaningless.

Table III

Income and Expenses of Trust Departments in 1954 and 1953 for 47 Commercial Banks in New Jersey and in New York State Outside New York City

(Dollar amounts in thousands)

Item	By size of trust department income—total commissions and fees of: Under $50,000 (26 banks)				Over $50,000 (21 banks)				Total (47 banks outside New York City)			
	1954	1953	Dollar change	Per cent change	1954	1953	Dollar change	Per cent change	1954	1953	Dollar change	Per cent change
Commissions and fees from:												
Estates	251.1	198.1	+ 53.0	+26.8	1,344.6	862.6	+482.0	+55.9	1,595.7	1,060.7	+535.0	+50.4
Pension and profit-sharing trusts	15.0	13.2	+ 1.8	+13.6	150.7	110.5	+ 40.2	+36.4	165.7	123.7	+ 42.0	+34.0
Personal trusts	311.4	276.5	+ 34.9	+12.6	1,951.8	1,864.7	+ 87.1	+ 4.7	2,263.2	2,141.2	+122.0	+ 5.7
Personal agencies	117.8	105.0	+ 12.8	+12.2	1,060.3	995.6	+ 64.7	+ 6.5	1,178.1	1,100.6	+ 77.5	+ 7.0
Corporate trusts	6.1	5.4	+ 0.7	+13.0	66.1	45.8	+ 20.3	+44.3	72.2	51.2	+ 21.0	+41.0
Corporate agencies	13.1	9.5	+ 3.6	+37.9	402.0	431.0	− 29.0	− 6.7	415.1	440.5	− 25.4	− 5.8
Total income	714.5	607.7	+106.8	+17.6	4,975.5	4,310.2	+665.3	+15.4	5,690.0	4,917.9	+772.1	+15.7
Total expense	783.3	713.5	+ 69.8	+ 9.8	4,997.0	4,558.6	+438.4	+ 9.6	5,780.3	5,272.1	+508.2	+ 9.6
Net earnings before income taxes	− 68.8	−105.8	+ 37.0	*	− 21.5	− 248.4	+226.9	*	− 90.3	− 354.2	+263.9	*
Income tax charges (−) or credits (+)	+ 39.9	+ 59.3	− 19.4	−32.7	+ 39.3	+ 120.0	− 80.7	−67.3	+ 79.2	+ 179.3	−100.1	−55.8
Trust department net earnings	− 28.9	− 46.5	+ 17.6	*	+ 17.8	− 128.4	+146.2	*	− 11.1	− 174.9	+163.8	*
Allowed credit for deposits	+ 92.9	+ 85.9	+ 7.0	+ 8.1	+ 747.2	+ 627.5	+119.7	+19.1	+ 840.1	+ 713.4	+126.7	+17.8
Trust department net earnings (adjusted for deposit credit)	+ 64.0	+ 39.4	+ 24.6	+62.4	+ 765.0	+ 499.1	+265.9	+53.3	+ 829.0	+ 538.5	+290.5	+53.9

Note: The plus or minus signs in the income and expense columns show additions to or deductions from "Trust department net earnings" in each year. In the columns of change, the signs show the effect of the change in the item upon the year-to-year change in "Trust department net earnings".
* Percentage changes were not shown when year-to-year data changed from a minus to a plus, or vice versa, or if the percentages were considered meaningless.

Table III. These 47 banks, which received an estimated 40 per cent of all trust department income earned in the survey area outside New York City, had net trust department earnings (after adjustment for deposit credit) of $829,000 in 1954, compared with $539,000 in 1953. Before adjustment for deposit credit, however, these banks continued as in 1953 to show net losses from trust operations in 1954, although on a much reduced scale.

Total commissions and fees earned from trust operations by the 47 banks increased $772,000, or 16 per cent, from 1953 to 1954, the increase coming mainly in the form of larger income from handling estates and personal trusts. Increased expenses absorbed $508,000 of the rise in income, however, and total expenses continued to exceed gross receipts from commissions and fees. Income tax credits allocated to the trust function reduced the net losses substantially in both years; in fact, the net loss (before adjustment for deposit credit) was reduced in 1954 to only $11,000, or 2/10 of 1 per cent of total commissions and fees, compared with $175,000, or 3.6 per cent, in 1953. In effect, these banks actually provided trust services in both years at a net loss; and whatever trust department income they had came entirely from earnings on uninvested trust funds deposited with their commercial banking departments. This contrasts sharply with the situation in the large New York City banks, in which the trust operation is generally profitable in its own right.

DEPARTMENT STORE TRADE

The dollar volume of Second District department store sales in May was 3 per cent higher than a year ago. Sales in New York City, particularly of summer apparel and sportswear, were stimulated by the dry, sunny weather that prevailed during the month. According to preliminary estimates, the Bank's index of seasonally adjusted, daily average sales reached 103 for May, 2 per cent higher than in April and equal to May 1953, the second highest May on record.

During the first four months of 1955, Second District department store sales, on a seasonally adjusted, daily average basis, lagged behind sales for the country as a whole and sales in every other Federal Reserve District. In this period, Second District sales rose 2 per cent over 1954, compared with a 7 per cent rise for the country as a whole. Increases in other Reserve Districts ranged from 3 per cent in Boston to 11 per cent in Atlanta and Dallas.

The lag in Second District sales was more pronounced in March and April, the two months encompassing the Easter season, than in the first two months of the year. For the

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

Item	1955			1954
	Apr.	Mar.	Feb.	Apr.
Sales (average daily), unadjusted	97	91	81	99r
Sales (average daily), seasonally adjusted	101	103	100	100r
Stocks, unadjusted	117	114	106	117r
Stocks, seasonally adjusted	111	110	109	112r

r Revised.

country as a whole, seasonally adjusted, daily average sales for March and April combined were the highest ever recorded, 3 per cent above the previous peak reached in 1953 and up 7 per cent from 1954. In the Second District, however, combined daily average sales for the two months, though they were 2 per cent higher than last year, were lower than in 1948 and 1951, and only approximately reached the level of 1953.

In the New York-Northeastern New Jersey metropolitan area, as the accompanying table indicates, net dollar sales for the January-through-April period were 1 per cent larger this year than last. New York City sales stayed even with last year, and sales in Newark declined 1 per cent; the increase for the area as a whole reflected a substantial (approximately 11 per cent) increase in suburban sales.

Most other reporting areas in the District showed higher increases in net dollar sales for the four-month period than the New York-Northeastern New Jersey area. These increases ranged from 2 per cent in the Buffalo metropolitan area up to 16 per cent in northern New York State, and averaged 3 per cent for the District excluding the New York-Northeastern New Jersey area.

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

Area	Net sales			Stocks on hand Apr. 30, 1955
	Apr. 1955	Jan. through Apr. 1955	Feb. through Apr. 1955	
Department stores, Second District	− 3	+ 2	+ 1	− 1
New York—Northeastern New Jersey Metropolitan Area	− 4	+ 1	0	− 1
New York City	− 6	0	− 1	+ 2
Nassau County	—	—	—	—
Westchester County	+ 9	+15	+13	+14
Northern New Jersey	− 2	+ 1	0	+ 7
Newark	− 7	− 1	− 3	—
Fairfield County	+ 2	+ 6	+ 6	+15
Bridgeport	0	+ 4	+ 4	—
Lower Hudson River Valley	+ 6	+11	+10	0
Poughkeepsie	+ 6	+12	+11	− 3
Upper Hudson River Valley	+ 1	+ 1	0	− 4
Albany-Schenectady-Troy Metropolitan Area	0	0	0	− 4
Albany	+ 5	+ 5	+ 4	− 5
Schenectady	− 7	− 6	− 5	− 4
Central New York State	+ 3	+ 2	+ 1	− 1
Utica-Rome Metropolitan Area	+ 3	+ 2	+ 1	+ 3
Utica	+ 6	+ 6	+ 5	+ 9
Syracuse Metropolitan Area	+ 3	+ 2	+ 1	− 3
Northern New York State	+17	+16	+16	+ 2
Southern New York State	− 1	0	+ 1	− 8
Binghamton Metropolitan Area	+ 1	+ 3	+ 4	− 6
Western New York State	− 2	+ 2	+ 2	− 1
Buffalo Metropolitan Area	− 1	+ 2	+ 3	− 2
Buffalo	− 2	+ 2	+ 3	− 2
Niagara Falls	+ 1	+ 3	+ 2	—
Rochester Metropolitan Area	− 2	+ 1	+ 2	0
Apparel stores (chiefly New York City)	− 3	+ 3	+ 2	+ 6

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1955			1954	Percentage change	
		April	March	February	April	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	136*p*	135	133	123	+ 1	+11
Electric power output*	1947-49 = 100	189	188	186	165	#	+15
Ton-miles of railway freight*	1947-49 = 100	—	96*p*	97	89	− 1	+11
Manufacturers' sales*‡	billions of $	—	26.0*p*	24.6	23.7	+ 6	+10
Manufacturers' inventories*‡	billions of $	—	43.3*p*	43.3	44.5	#	− 4
Manufacturers' new orders, total*	billions of $	—	27.7*p*	25.6	23.0	+ 8	+21
Manufacturers' new orders, durable goods*	billions of $	—	14.0*p*	12.7	10.0	+10	+37
Retail sales*	billions of $	—	15.1*p*	14.8	14.2	+ 2	+ 9
Residential construction contracts*	1947-49 = 100	297*p*	291	297	213	+ 2	+39
Nonresidential construction contracts*	1947-49 = 100	232*p*	239	238	184	− 3	+26
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	90.0	89.2	91.4	92.5	+ 1	− 3
Wholesale prices†	1947-49 = 100	110.5*p*	110.0	110.4	111.0	#	#
Consumer prices†	1947-49 = 100	114.2	114.3	114.3	114.6	#	#
Personal income (annual rate)*	billions of $	—	294.2*p*	292.4	284.4	+ 1	+ 3
Composite index of wages and salaries*	1939 = 100	—	262*p*	262	255	#	+ 3
Nonagricultural employment*§	thousands	48,849*p*	48,762*p*	48,440	48,267	#	+ 1
Manufacturing employment*§	thousands	16,364*p*	16,231*p*	16,091	16,072	+ 1	+ 2
Average hours worked per week, manufacturing†	hours	40.2*p*	40.7	40.4	39.0	− 1	+ 3
Unemployment	thousands	2,962	3,176	3,383	3,465	− 7	−15
Banking and finance							
Total investments of all commercial banks	millions of $	82,570*p*	81,180*p*	83,640*p*	77,360	+ 2	+ 7
Total loans of all commercial banks	millions of $	72,940*p*	72,310*p*	71,180*p*	66,750	+ 1	+ 9
Total demand deposits adjusted	millions of $	104,500*p*	102,400*p*	104,500*p*	98,600	+ 2	+ 6
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,047	30,000	22,964	29,995	#	#
Bank debits (338 centers)*	millions of $	68,207	69,004	67,439	63,019*r*	− 1	+ 8
Velocity of demand deposits (338 centers)*	1947-49 = 100	126.3*p*	125.6	123.1	121.3	+ 1	+ 4
Consumer instalment credit outstanding†	millions of $	—	22,974	22,508	21,426	+ 2	+ 7
United States Government finance (other than borrowing)							
Cash income	millions of $	3,651	10,943	6,306	3,036	−67	+20
Cash outgo	millions of $	5,355	6,932	5,481	5,303	−23	+ 1
National defense expenditures	millions of $	3,177	3,793	3,128	3,619	−16	−12
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	145	144	143	138	#	+ 5
Residential construction contracts*	1947-49 = 100	—	239*p*	242	208	− 1	+23
Nonresidential construction contracts*	1947-49 = 100	—	216*p*	203	216	+ 6	+13
Consumer prices (New York City)†	1947-49 = 100	112.3	112.4	112.5	112.5	#	#
Nonagricultural employment*	thousands	—	7,450.3*p*	7,436.1	7,534.7*r*	#	− 1
Manufacturing employment*	thousands	—	2,585.7*p*	2,568.5	2,666.5*r*	+ 1	− 4
Bank debits (New York City)*	millions of $	57,634	63,436	63,434	60,479	− 9	− 5
Bank debits (Second District excluding New York City)*	millions of $	4,568	4,682	4,489	4,313	− 2	+ 6
Velocity of demand deposits (New York City)*	1947-49 = 100	144.7	155.3	164.1	159.9	− 7	−10

Note: Latest data available as of noon, May 31, 1955.

p Preliminary. *r* Revised. # Change of less than 0.5 per cent.
* Adjusted for seasonal variation. ‡ Revised series. Back data available from U. S. Department of Commerce.
† Seasonal variations believed to be minor; no adjustment made. § Revised series. Back data available from U. S. Bureau of Labor Statistics.

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