

# MONTHLY REVIEW

## *Of Credit and Business Conditions*

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 37

JULY 1955

No. 7

### MONEY MARKET IN JUNE

Although the degree of pressure varied from time to time, the money market was moderately tight during almost all of June. Neither serious strains nor appreciable ease developed, despite wide fluctuations in the reserve positions of member banks and large movements of funds through the market in connection with cash redemptions of maturing Treasury debt and heavy corporate tax payments on June 15. For the five statement weeks ended June 29 as a whole, excess reserves averaged about 130 million dollars above borrowings from the Federal Reserve Banks, but borrowings expanded at the beginning of the month to levels somewhat above excess reserves, dropped well below them over the midmonth period, and subsequently again expanded close to the level of excess reserves. The supply of funds in the central money markets, however, tended to remain limited throughout June. Consequently, immediately available (Federal) funds were quoted at, or close to, the "ceiling" level of  $1\frac{11}{16}$  per cent on all but a very few days during the month and were never available in any volume below  $1\frac{3}{8}$  per cent.

The relative stability of the money market apparently resulted from the interaction of a number of factors. Federal Reserve open market operations—through a series of purchases near the end of May and modest sales during the first half of June—helped to keep the market on an even keel by moderating the impact on the reserve base of the wide fluctuations in the regular market factors. In addition, the more extreme swings in reserve positions occurred largely among banks outside the central money markets, and were reflected more in changes in the level of member bank borrowing than in marked changes in the availability of funds to the market. Finally, a sharp increase in business demand for bank loans at the midmonth period (apparently largely to provide funds for tax payments), and uncertainties surrounding the timing of the collection of tax checks by the Treasury after June 15, tended to temper the reactions of the market to the transitory easing of reserve positions during the first part of the statement week following the tax date.

As during other recent months, the activity and rates in the Treasury bill market were largely independent of short-run developments in the money market generally. Banks continued

to liquidate a moderate volume of bills and other short-term Treasury issues in order to provide for the enlarged demands for bank credit from the private sector of the economy, but a fairly steady demand for bills from nonbank investors kept yields for outstanding issues at or below the  $1\frac{1}{2}$  per cent level over the entire month. The average issuing rate for Treasury bills rose from a low for the month of 1.390 per cent on the issue dated June 9 to a high of 1.514 per cent the following week, the latter rate reflecting primarily a temporary slackening of corporate demand as tax and dividend dates approached. Subsequently, the reappearance of heavy nonbank demand, stimulated in part by the desire to reinvest the proceeds of cash redemptions of Savings notes maturing June 15 and tax anticipation certificates maturing June 22 that were not used for tax payments, resulted in a decline in the average issuing rate to 1.420 per cent for the issue dated June 23 and 1.401 per cent for the issue dated June 30. On June 27, before tenders for the latter issue were submitted, the Treasury announced that the regular weekly issue of 91-day Treasury bills to be dated July 7 would be increased by about 100 million dollars to 1,600 million; because the Fourth of July holiday falls on Monday, tenders for the enlarged issue will be submitted on Friday, July 1.

Interest in the long-term Government securities market during most of June was centered in the longest-term issue outstanding, the 3 per cent bonds of 1995. The price of this issue reached a new peak of  $101\frac{13}{32}$  (bid) at the close on June 3, and again on June 8, under the impact of a limited, but insistent, investment demand. Later in the month, the quotation fell sharply in reaction to intensified market discussion of the possibility that this issue might be reopened in a

#### CONTENTS

Money Market in June .....	77
International Monetary Developments .....	81
Recent Shifts in the United States Balance of Payments .....	82
Department Store Trade .....	87
Selected Economic Indicators .....	88

forthcoming Treasury financing operation. Prices of other long-term Government bonds tended to move in sympathy with the 3 per cent bonds in generally quiet trading, although sporadic liquidation during the latter part of the month by banks and institutional investors was an additional factor in the market. Over the month as a whole, long-term bonds recorded losses ranging up to a point.

A relatively light financing schedule and the strength of the Government bond market at the start of the month contributed to an improved reception of new corporate bond offerings, especially during the early part of June. Later in the month, activity in corporate bonds tapered off and net changes in yields on outstanding issues were minor. An enlarged volume of offerings of municipal bonds met with varying response from investors, and in some instances yields had to be marked upward to move unsold bonds.

With an unprecedented demand for loans from businesses over the June 15 tax date superimposed upon unabated demands for consumer and mortgage credit, the volume of loans by weekly reporting member banks continued to expand at a rapid pace during late May and the first half of June. In order to make room in their portfolios for the increase in loans, which aggregated 1,203 million dollars between May 18 and June 22, the reporting banks chose to liquidate 1,440 million of Government securities during the same period. These banks have shown a decline in holdings of Government obligations in nearly every statement week since late in 1954; over the seven-month period between November 17 (when holdings were at a peak) and June 22, total portfolios of Government securities declined by 5,374 million dollars, or 14 per cent.

#### MEMBER BANK RESERVE POSITIONS

Wide swings in the Treasury's balance at the Federal Reserve Banks accounted for a major portion of the fluctuations in the reserve positions of member banks during the five statement weeks ended in June, but increases in the volume of currency in circulation at the beginning and end of the month, and an expansion in float at the middle, tended to accentuate the varying effects of the Treasury's operations. As a consequence, despite partially offsetting sales and purchases of Government securities by the Federal Reserve System, excess reserves and borrowings from the Reserve Banks varied over a considerable range. For the five weeks as a whole, member bank borrowings averaged 436 million dollars, about 130 million dollars less than excess reserves, but they ranged from a high of 545 million during the first statement week to a low of 283 million during the week ended June 22.

As shown by Table I, an outflow of currency around the Memorial Day holiday and a contraction in float, combined with a sharp and partly unexpected build-up in Treasury deposits, placed reserve positions under a considerable degree

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

Factor	Daily averages—week ended					Net changes
	June 1	June 8	June 15	June 22	June 29	
<i>Operating transactions</i>						
Treasury operations*	-148	+131	+138	+105	-106	+120
Federal Reserve float	-108	+40	-19	+344	-348	-91
Currency in circulation	-135	-98	+1	+23	+14	-195
Gold and foreign account	-5	+15	-46	+26	-16	-26
Other deposits, etc.	-56	+63	+24	+68	+3	+102
Total	-452	+149	+99	+565	-453	-92
<i>Direct Federal Reserve credit transactions</i>						
Government securities:						
Direct market purchases or sales	+87	+83	-95	-34	0	+41
Held under repurchase agreements	+3	-3	0	0	0	0
Loans, discounts, and advances:						
Member bank borrowing	+192	-82	+26	-206	+119	+49
Other	-8	+3	0	-5	-11	-21
Bankers' acceptances:						
Bought outright	0	+3	0	-1	+1	+3
Under repurchase agreements	0	0	0	0	0	0
Total	+275	+3	-69	-245	+108	+72
Total reserves	-177	+152	+30	+320	-345	-20
Effect of change in required reserves†	+111	+40	-63	-198	+130	+20
Excess reserves†	-66	+192	-33	+122	-215	0
<i>Daily average level of member bank:</i>						
Borrowings from Reserve Banks	545	463	489	283	402	436
Excess reserves†	428	620	587	709	494	568

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

\* Includes changes in Treasury currency and cash.

† These figures are estimated.

of pressure at the start of the month. These pressures were slow to be transmitted to the money market, however, in part because much of the reserve drain was concentrated at reserve city and country banks, which increased their borrowings substantially to compensate for the loss of reserves. In order to forestall the development of more serious strains, 180 million dollars of Government securities was purchased by the System Open Market Account and a small amount of funds was provided temporarily through repurchase agreements with Government security dealers.

The effect of these System operations in moderating the pressures arising from the reserve drains was supplemented by the postponement of scheduled Treasury calls on Tax and Loan Accounts at commercial banks, a technique recently introduced by the Treasury to minimize unexpected fluctuations in its deposit balances at the Reserve Banks. When it appeared on Tuesday, May 31, that the Treasury's balances would rise well beyond normal levels over the following few days, calls on central reserve city banks totaling 224 million dollars, already scheduled for June 1 and 2, were postponed until June 6, thus enabling the market to retain the use of these funds for an additional four to five days.

Principally because of a decline in the Treasury's working balances and a temporary bulge in float, the pressures upon aggregate member bank reserve positions were eased over the following two statement weeks. Member bank borrowings, which averaged 476 million dollars over the two weeks,

declined only moderately, however. Part of the large volume of excess reserves was absorbed by a 140 million dollar reduction in the portfolio of the Federal Reserve System, and by an increase of 63 million in average required reserves during the week ended June 15 (associated with heavy borrowings by corporations preparing for the June tax payments). Furthermore, the larger part of the net reserve gains accrued to banks outside the money centers where they were less readily available for use in the money market. Consequently, the demand for Federal funds remained active, and most trading was done at  $1\frac{1}{16}$  per cent. As a further indication of the persistent tightness, both central reserve and reserve city banks found it necessary to increase their borrowings sharply at the close of the reserve period ended June 15 to cover reserve deficiencies that accumulated earlier in the week.

Tax receipts during the latter part of June were high; 50 per cent of the corporate tax liability on 1954 profits and, in addition, second-quarter payments of nonwithheld individual income taxes for 1955 were payable on June 15. While the Treasury arranged that part of these receipts would remain temporarily in the hands of depository banks through 50 per cent credits to "X" balances for tax checks in excess of \$10,000, the Treasury's working balances at the Federal Reserve Banks were nonetheless expected to rise rapidly as the tax checks were collected. In anticipation of these receipts, large Treasury disbursements, particularly on June 15 in connection with interest payments and the cash redemption of about 500 million of maturing Savings notes, were not fully covered by calls on Tax and Loan Accounts, and the Treasury's balance declined to minimum working levels over the statement week ended June 22. The Treasury, however, did not find it necessary to alter the provision for 50 per cent credits to "X" balances, although for the first time the depository banks had been put on notice in the initial announcement that such a change might be made (either up or down) if such action was required to prevent undue fluctuations in the working balances.

Simultaneously with the decline in the Treasury's balance, float climbed rapidly to its midmonth peak, and reserve positions eased substantially. Although the collection of tax checks seemed to proceed somewhat more slowly than in the March tax period and the Treasury had to redeem about 1.3 billion of maturing tax anticipation certificates for cash on June 22, the expansion in the reserve base was short-lived. The accompanying degree of ease in the money market was limited, and the prevailing rate for Federal funds dropped below  $1\frac{3}{8}$  per cent on only two days.

Over the last statement week of the month, reductions in the average level of float and a rebuilding of the Treasury's balances in the Reserve Banks combined to absorb over 450 million dollars of reserves. While these reserve losses were partially offset by a decline of 130 million dollars in required reserves, an outflow of currency associated with the Fourth of July holiday week end and the usual month-end influences,

as well as advance preparations for the June 30 statement date, added to the pressures in the market toward the end of the week. These growing pressures resulted in heavy recourse to the discount window by member banks late in the week, and borrowings rose to an average of 402 million dollars for the week as a whole.

#### THE GOVERNMENT SECURITIES MARKET

Investor interest in the Government securities market during June continued to be centered in the short-term issues. The persistent demand for Treasury bills and other short-dated maturities by nonbank investors, which has been a major characteristic of the market in recent months, remained an important factor. As was the case in May, a considerable portion of the demand arose in connection with the cash redemption of other Treasury securities. The principal source of supply continued to be commercial bank liquidation of a variety of short and intermediate-term issues as a means of adjusting reserve positions, but some bills also appeared in the market prior to June 15 from corporations seeking funds for quarterly tax and dividend payments. In the longer-term area of the market, trading activity was confined largely to interdealer transactions, the principal exceptions being some interest by a few investors in the 3's of 1995 during the early part of the month and moderate bank and institutional liquidation of bonds during the second half of the month.

Net changes in yields on outstanding Treasury bills were limited over the month as a whole, the market quotation for the longest-term issue outstanding rising by only 4 basis points between May 31 and June 30. During the month, however, the range of fluctuation was considerably wider, reflecting largely the influence of the tax date and the cash redemptions of Savings notes and tax anticipation certificates on the timing of the investment demand.

Federal Reserve System purchases of bills at the end of May supplemented an active demand from nonbank investors, and, with the supply in dealers' hands limited, yields fell rapidly to a range of 1.05 to 1.32 per cent (bid) for the shortest and longest-dated issues, respectively, at the close on June 3. Although the average issuing rate of 1.390 per cent established in the regular auction for Treasury bills on Monday, June 6, was the lowest since March, decidedly cautious bidding in that auction presaged a period of rising market yields through June 16, when the longest-term issue outstanding reached a high of 1.50 per cent (bid). A tapering-off of corporate demand with the approach of the quarterly tax and dividend dates was partly responsible for the rising yield structure, but the persistent tightness in the money market was also a factor. Subsequently, bill yields again lost touch with immediate developments in the money market and declined steadily until June 24 when the bid quotation for the longest-dated issue stood at 1.33 per cent. Over the final four trading days of the month, yields again rose, and market quotations ranged between 1.25 and 1.47 per cent (bid) at the close on June 30.

A substantial part of the nonbank demand for short-term Government securities, particularly that associated with the reinvestment of the proceeds of the maturing Treasury obligations, was channeled into certificates and notes and bonds maturing or first callable through 1959. On the other hand, commercial banks apparently because of reduced holdings of Treasury bills were liquidating these issues as a means of adjusting reserve positions, and prices declined almost steadily over the second half of the month. Nevertheless, bid quotations for the new 2 per cent notes maturing August 15, 1956, which were issued during May, remained above par for the entire month and reached a peak of  $100\frac{7}{64}$  on June 14.

Prices and trading in the long-term area of the market were strongly influenced during the middle and latter part of the month by the active circulation of rumors in the market that the Treasury would reopen the 3 per cent bonds of 1995 in its summer financing program. As a result of these reports, the steady trickle of demand for the 3's dried up and the price fell by over one point between June 8 and the close on June 30, when the issue was quoted at  $100\frac{7}{32}$  (bid). Prices of other long-term issues declined in the wake of the 3's, but late in the month some pressure on prices of intermediate and long-term issues also resulted from sales by both banks and nonbank investors.

#### OTHER SECURITIES MARKETS

The corporate bond market was firm over the early part of June in response to both a lightened calendar for new offerings and the rise in price of the longest-term Treasury issues, which served to increase the relative attractiveness to investors of high-grade corporate bonds. Underwriters were able at the start of the month to dispose readily of several utility issues that had moved slowly when first offered during May, and similar issues offered at various times during June tended to be well received on a slightly lower yield basis. The investment demand was largely confined to recently offered issues, however, and price movements among outstanding bonds showed no marked trend. For the month as a whole, new public offerings of corporate bonds are estimated to have totaled only about 200 million dollars, the lowest total for any month since February and considerably under the May figure of 460 million.

The volume of municipal flotations, on the other hand, rose considerably from the reduced May total of 280 million dollars to an estimated volume of over 575 million. The tone of the municipal bond market was considerably less firm than that of the corporate market, and prices for outstanding issues drifted downward. At times during the month, some relatively large new issues received a good reception from investors, but other issues which appeared to be priced less favorably moved very slowly out of underwriters' accounts. In several instances, underwriting syndicates were terminated while a substantial portion of the offering remained to be placed with investors, and the quoted prices for these issues subsequently fell moderately from their original offering prices. A notable feature

of developments in the market was the offering of two comparatively large issues for financing toll-road construction, one of which had previously been postponed for technical reasons. Offerings of that type had been small earlier this year, but a number of other large turnpike issues are expected over the next several months.

On June 7, one of the large sales finance companies announced a reduction of  $\frac{1}{8}$  per cent in the interest rates on its paper placed directly with investors. According to market reports, this action, which followed a series of increases in rates earlier in 1955, was taken in view of the comparatively low yields prevailing in the Treasury bill market. Contrary to usual practice in the market for finance paper, the reduction in the rate was not followed by similar adjustments in rates by the other large finance companies.

In the market for bankers' acceptances, the volume of activity continued to decline moderately, reflecting largely seasonal influences. The supply of acceptances available for purchase in the market was sufficient, however, to enable the Federal Reserve System to replace all the maturing bills in its portfolio and to increase its holdings somewhat over the month.

#### MEMBER BANK CREDIT

All the major categories of loans shared in the increase of 1,203 million dollars in total loans of weekly reporting member banks (exclusive of interbank loans) over the five weeks

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 June 22, 1955
	May 25	June 1	June 8	June 15	June 22	
<i>Assets</i>						
Loans and investments:						
Loans:						
Commercial, industrial, and agricultural loans.....	- 96	- 5	- 13	+ 732	+ 78	+1,010
Security loans.....	+ 47	+ 80	- 24	+ 135	-168	+ 39
Real estate loans.....	+ 29	+ 33	+ 37	+ 41	+ 31	+ 652
All other loans (largely consumer)	+ 77	+ 70	+ 26	+ 52	+ 41	+ 789
Total loans adjusted*.....	+ 57	+177	+ 24	+ 961	- 16	+2,429
Investments:						
U. S. Government securities:						
Treasury bills.....	- 93	- 95	- 21	+ 195	-171	-1,459
Other.....	-354	-175	-174	- 184	-368	-3,140
Total.....	-447	-270	-195	+ 11	-539	-4,599
Other securities.....	- 7	- 23	+ 19	+ 25	- 5	+ 113
Total investments.....	-454	-293	-176	+ 36	-544	-4,486
Total loans and investments adjusted*	-397	-116	-152	+ 997	-560	-2,057
Loans to banks.....	- 52	+ 64	-120	- 144	+256	+ 363
Loans adjusted* and "other" securities.....	+ 50	+154	+ 43	+ 986	- 21	+2,542
<i>Liabilities</i>						
Demand deposits adjusted.....	+143	-426	+363	+1,352	-599	-1,318
Time deposits except Government.....	+ 16	+ 15	+ 72	+ 1	+ 29	+ 222
U. S. Government deposits.....	-474	-215	-939	+ 3	+471	+ 91
Interbank demand deposits:						
Domestic.....	-629	+469	+260	+ 283	-496	-1,218
Foreign.....	+ 78	- 7	- 77	+ 20	+ 37	+ 15

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

ended June 22. As indicated by Table II, real estate loans, which rose by 171 million, and all other loans (largely consumer), which increased by 266 million, maintained the rapid rate of growth that had been evident earlier in 1955. The absolute increase in security loans over the five weeks, amounting to 70 million, was somewhat smaller, but on June 15 these loans stood at a high for the year.

The largest portion of the total increase in loans, however, was accounted for by a rise of 732 million dollars in business loans during the single week ended on the June 15 tax date. A substantial expansion in business loans over a corporate tax date is not unusual, but an increase of the size recorded this year has no parallel during the years for which comparable figures for weekly reporting banks have been collected.

The contrast with other recent March or June tax dates is less marked when other asset items of the reporting banks are considered. Corporations frequently choose to meet their tax liabilities through the temporary liquidation of Treasury bills or other short-term issues instead of through direct bank loans. This liquidation is often reflected in an increase in Treasury bill holdings by commercial banks, or by increased loans to brokers and dealers in Government securities. During the week ended June 15, 1955, these three items—business

loans, loans to brokers and dealers, and Treasury bill holdings—registered a net increase of 1,051 million dollars. In the comparable weeks of the March and June tax periods in 1954 and in March 1955, when corporate tax liabilities were roughly the same, the net increase in these items ranged between 816 million and 1,214 million dollars.

Despite the sharp increases in loans, the total earning assets of the weekly reporting member banks declined by 228 million over the five weeks ended June 22 as a result of continued large net sales or redemptions of Government securities. About half of the total liquidation, which aggregated 1,440 million dollars, was concentrated in Treasury bills or certificates, thus reducing further the secondary reserves of the banks. At the end of 1954, the weekly reporting banks held a total of 5,311 million dollars of these two types of short-term issues. By June 22, partly as a result of exchanges of certificates for notes or bonds during Treasury exchange operations in February and May, but primarily through redemptions or sales in the market, these holdings were reduced to only 1,844 million dollars. Perhaps in reflection of this decline in liquidity, an unusually large part of the reporting banks' sales of Government securities during late May and June seems to have been concentrated among intermediate-term notes and bonds.

## INTERNATIONAL MONETARY DEVELOPMENTS

### MONETARY TRENDS AND POLICIES

The shift toward policies of monetary restraint abroad, which began in the closing months of 1954 and was discussed in the previous issue of the *Monthly Review*, has since continued. The Central Bank of the Republic of Turkey raised its discount rate by 1½ per cent to 4½ on June 28, and the Reserve Bank of New Zealand by 1 per cent to 5 on July 1, thus bringing to six the number of foreign central banks that have raised their rates this year. In New Zealand, cash reserve requirements of the commercial banks had been increased several weeks previously, following their temporary reduction last February because of seasonally large income tax payments. In addition, during recent weeks a number of other countries have broadened the central bank's credit-control powers or further tightened existing monetary policies. In West Germany, the central bank reached an agreement with the Ministry of Finance under which part of its special claims on the government resulting from the 1948 currency reform may be converted into marketable government securities whenever necessary; the central bank subsequently sold small amounts of such securities to the banks to reduce the banks' liquidity. In Switzerland, a gentlemen's agreement became effective between the central bank and the commercial and other banks, under which the latter are to keep funds equal to a specified percentage of their short-term liabilities on deposit with the central bank; statutory reserve requirements already exist in Switzerland, but these are designed primarily to maintain bank liquidity for the protection of depositors and are not intended as a tool of monetary policy.

In Denmark, the central bank eliminated the privilege, enjoyed by commercial banks since 1939, of rediscounting commercial paper at ½ per cent below the discount rate, and invited the banks to place surplus funds with it, at one month's notice and 1½ per cent interest. In Norway, the Ministry of

### MONEY: MASTER OR SERVANT?

A new booklet, *Money: Master or Servant?*, is now available from this Bank free of charge. A brief, nontechnical statement of the role of money and banking in our economy, the text was prepared under the auspices of the Federal Reserve System's Committee on Education and Publications at the request of the Joint Council on Economic Education, an organization devoted to furthering high school students' understanding of our economy. Illustrated in four colors, the booklet discusses the structure of our money economy, commercial bank creation of deposits, the relation of bank reserves to the supply of money, and the methods available to the Federal Reserve System to influence the supply, availability, and cost of bank reserves. After an explanation in layman's language of the mechanism of credit control, the booklet describes briefly how the Federal Reserve, through its influence on the money market, carries out its central function of helping to maintain stability and balanced growth in our economy at high levels of employment. Requests for copies should be addressed to the Public Information Division, Federal Reserve Bank of New York, New York 45, N. Y.

Finance increased the issue rate of Treasury bills, which will now be only of three months' maturity, and will be offered not only to financial institutions as in the past, but to all investors; in expectation of this step, the commercial banks raised their time deposit rates. In the Union of South Africa, too, the Treasury raised slightly the issue rates of Treasury bills; the rates had already been increased in March, following the rise in short-term rates in London, in order to reduce, according to an official statement, the possible adverse effects of a disparity of rates on the flow of funds between the two countries. On the other hand, in Japan the commercial banks, at the suggestion of the Ministry of Finance, lowered their discount rates for commercial bills other than those receiving preferential treatment.

In Britain the average Treasury bill tender rate, which had been stable in May, rose in the first part of June to reach 3.98 per cent on June 10, after which the rise leveled off; the rate had stood at 1.58 per cent in mid-November 1954, just before short-term rates began to move up. The government bond market was generally dull; in the latter part of June, yields of most longer-dated and irredeemable bonds increased somewhat. In Canada, the average tender rate for three months' Treasury bills reached a 1955 high of 1.44 per cent on June 29 after an eight weeks' continuous rise, while in the Netherlands the market rate for Treasury bills with three months to maturity fell in the first half of June to  $\frac{3}{4}$  per cent, after having stood at  $1\frac{1}{2}$  during most of May. In Switzerland, long-term government bond yields, after easing slightly in the first part of June, resumed their earlier rise; their average yield reached 3.06 per cent on June 24, the highest since October 1949.

#### EXCHANGE RATES

American account sterling during June reflected in part the uncertainties associated with the rail and dock strikes. Until June 14, the spot rate fluctuated within the limits of  $\$2.79\frac{1}{8}$

and  $\$2.79\frac{1}{2}$ . Subsequently, the rate began a slow but rather steady decline, reached  $\$2.78\frac{1}{4}$  on June 24, and closed on June 30 at  $\$2.78\frac{5}{8}$ .

Sterling for three months' forward delivery weakened more than spot sterling as the discount, on a per annum basis, on forward sterling increased from about  $1\frac{3}{4}$  per cent on June 1 to about  $2\frac{1}{8}$  on June 10; the discount then narrowed but continued through the rest of the month at slightly more than 2 per cent. With an average yield of nearly 4 per cent on British Treasury bills at tender, and of  $1\frac{3}{8}$  to  $1\frac{1}{2}$  per cent on United States Treasury bills, shifts of funds from New York to London covered by forward sales of sterling would have yielded net additional earnings of less than  $\frac{1}{2}$  per cent per annum.

Despite the tendency of American account sterling to weaken, transferable sterling continued until late in the month to be quoted at about  $\$2.77\frac{1}{4}$ , a discount of  $\frac{3}{4}$  per cent or less from the spot rate. On June 24, however, the rate declined and remained for the rest of the month at  $\$2.76\frac{3}{4}$ . Securities sterling, which had fallen to  $\$2.73\frac{3}{4}$  on May 11 and had then risen to  $\$2.77$  at the month end, continued to show strength during June. With the elections over, securities sterling was quoted during most of June at about  $\$2.78$ , with a high of  $\$2.78\frac{3}{8}$  on June 3.

The Canadian dollar was quoted throughout June at close to  $\$1.01\frac{5}{8}$ . The auction of more than 20 million dollars' worth of oil leases in Canada in mid-June helped to strengthen the Canadian dollar as successful American bidders at the auction purchased their currency requirements.

During June, the West German authorities further liberalized the use of capital account marks to include investment in noncorporate enterprises, and granted nonresidents the right to export securities. The rate during June was as high as 23.73 cents, only a slight discount from the 23.74 cent rate for freely convertible marks.

## RECENT SHIFTS IN THE UNITED STATES BALANCE OF PAYMENTS

Although the pattern of international transactions of the United States since the world-wide payments crisis of 1951-52 has shown a persistent movement toward international balance and a continuous improvement in the gold and dollar position of foreign countries, there have nevertheless been noticeable shifts in the behavior of major components of our balance of payments. These shifts are briefly summarized in the following article.

While foreign countries as a group have been able throughout this period to add to their gold and dollar assets as a result of their over-all transactions with the United States, in 1954 these gains were somewhat smaller than in the preceding year and in early 1955 they decreased sharply. (See Table I.) This trend toward lower foreign gold and dollar gains has been

accompanied by, and is in large part attributable to, a substantial expansion of the United States surplus on merchandise and service account (excluding military aid). This expansion has been in sharp contrast to the contraction of the surplus that took place in 1952 and most of 1953.

Another notable development in the United States balance of payments throughout the past three years has been the sharp increase in the expenditures by the United States Government and American military personnel on local goods and services in Western Europe. In several countries, in fact, dollar earnings from this source have exceeded or come close to those derived from the export of merchandise to the United States.

**Table I**  
**Balance of Payments of the United States**  
(In millions of dollars)

Item	Quarterly averages				1954				1955
	1951	1952	1953	1954	I	II	III	IV	1p
<b>Exports of goods and services:</b>									
Military transfers under grants.....	368	651	1,063	783	817	1,002	706	607	452
Merchandise.....	3,531	3,330	3,109	3,222	2,868	3,520	2,959	3,539	3,489
Services.....	1,172	1,185	1,132	1,219	1,086	1,166	1,189	1,437	1,157
<b>Total.....</b>	<b>5,071</b>	<b>5,166</b>	<b>5,304</b>	<b>5,224</b>	<b>4,771</b>	<b>5,688</b>	<b>4,854</b>	<b>5,583</b>	<b>5,098</b>
<b>Imports of goods and services:</b>									
Merchandise, excluding military expenditures.....	2,800	2,710	2,738	2,576	2,518	2,754	2,457	2,575	2,759
Military expenditures abroad.....	318	489	628	649	622	685	637	651	643
Services.....	649	723	750	743	610	781	914	668	675
<b>Total.....</b>	<b>3,767</b>	<b>3,922</b>	<b>4,116</b>	<b>3,968</b>	<b>3,750</b>	<b>4,220</b>	<b>4,008</b>	<b>3,894</b>	<b>4,077</b>
<b>Current account surplus.....</b>	<b>+1,304</b>	<b>+1,244</b>	<b>+1,188</b>	<b>+1,256</b>	<b>+1,021</b>	<b>+1,468</b>	<b>+846</b>	<b>+1,689</b>	<b>+1,021</b>
Surplus excluding military transfers.....	+ 936	+ 693	+ 125	+ 473	+ 204	+ 466	+ 140	+1,082	+ 569
Unilateral transfers, net, to foreign countries (-)*.....	-1,247	-1,284	-1,675	-1,322	-1,358	-1,494	-1,222	-1,216	-1,191
United States capital, net outflow (-).....	- 306	- 395	- 147	- 382	- 187	- 399	- 302	- 640	- 20
Foreign capital, net inflow.....	144	403	276	365	443	253	439	324	102
Foreign gold purchases, sales (-).....	- 13	- 95	290	74	56	8	164	70	30
Errors and omissions.....	+ 118	+ 127	+ 68	+ 9	+ 25	+ 164	+ 75	- 227	+ 58

p Preliminary.  
\* Unilateral transfers comprise all transfers, in the form of goods and services or money and other capital assets, not accompanied by a *quid pro quo*.  
Source: United States Department of Commerce.

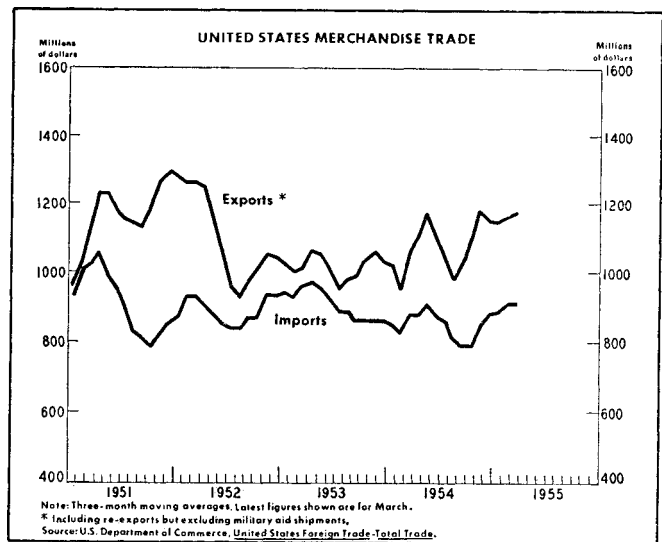
Significant changes have also occurred recently in the nature, purposes, and geographical distribution of our foreign aid. Military aid has declined both in absolute terms and relative to our total aid. A comparatively recent innovation in the aid program—the so-called “direct forces support”—has become an important source of dollar exchange, especially for France. Our agricultural surplus disposal program is also playing a larger role in our foreign aid. Another significant change in our international transactions has been the rapid growth in the past year of commercial credits extended by United States banks to financial institutions abroad.

There has also been a marked tendency in recent years for foreign central banks to invest most of their dollar gains in United States Government securities and time deposits, rather than converting them largely into gold, as in some earlier years. Finally, participation of private foreign investors in trading in United States stock markets has also tended to increase substantially, especially in 1954.

**CHANGES IN THE TRADE BALANCE**

In the approximately three years that have elapsed since the end of the 1951-52 crisis in international payments, this country's merchandise trade surplus has passed through two distinct phases. In the first of these—from April 1952 to September 1953—our export surplus (excluding military aid) fell off sharply, as is evident in the accompanying chart. Since our merchandise imports moved within a narrow range, the contraction of the surplus was largely attributable to the falling-off in foreign demand from its unusually high levels in 1951 and early 1952. United States merchandise exports (excluding military aid shipments) declined from a quarterly average of 3.7 billion dollars during the nine months beginning July 1951

to 3.2 billion in April-December 1952. In 1953 a further, though less substantial, decline occurred. These declines may be primarily explained by the tightened exchange restrictions and, in some cases, by the disinflationary policies adopted in response to severe gold and dollar losses in the sterling area and certain Latin American countries during the period July 1951 to March 1952. The impact of these restrictive policies coincided with fundamental changes in the world supply-demand situation toward greater international balance and larger availabilities of a broad range of raw materials and manufactures, resulting in a distinct lessening of demand for United States products. For example, there was a substantial decline in our grain and cotton exports in 1952 and 1953. Likewise, increased coal production abroad led to a sizable decline in our coal exports.



The rise in our export surplus during the October 1953-March 1955 period—the second phase of the period under review—was the combined result of a sharp expansion of our exports and of a decline in our imports toward the end of 1953 and in early 1954 that primarily reflected the mild recession in the United States economy. Our commercial exports began to rise early in 1954 and toward the close of the year recorded considerable gains. The increase was featured by an impressive recovery in our exports of cotton and of semi-manufactures, especially nonferrous metals and alloys, and of chemicals and related products. On the other hand, exports of foodstuffs and finished manufactures decreased in 1954.

Western Europe in particular bought in that year unusually large quantities of American semimanufactured products such as copper and steel, and agricultural commodities such as cotton, fats, and oilseeds. The over-all rise in shipments primarily reflected increased purchases by three countries, the Netherlands, the United Kingdom, and West Germany, in part as a result of the liberalization of dollar imports. Europe's extraordinary prosperity in 1954 exerted a sustaining influence on the demand for United States products elsewhere in the world, since it tended to stabilize prices for many raw materials and thus to maintain income in primary-producing countries. Our exports to Latin America benefited temporarily from last year's coffee boom, but as coffee prices collapsed in the second part of the year, a rising share of our sales to several Latin American countries, particularly to Brazil, had to be financed on a credit basis, and commercial arrears, especially in the case of Colombia, increased substantially. It is also noteworthy that our exports to Canada fell sharply in 1954 as Canada's economy experienced a decline in activity.

The recent decline in the rate of gold and dollar gains of certain foreign countries, and actual losses in a few others, such as Colombia, caused governments and monetary authorities abroad to take vigorous countermeasures. While governments in a few countries of Latin America and elsewhere resorted to a tightening of import controls, the main instruments employed have been discount rate increases and other measures of monetary policy.<sup>1</sup> There are many signs that these monetary restraints are proving their worth. Recent preliminary data for many countries show a much more favorable trend in their dollar position than in the first quarter.

#### THE UPSURGE OF MILITARY EXPENDITURES

One of the most significant developments in the current account of the United States during the past few years has been the rapid expansion since 1950 in the outlays shown in the balance of payments under the category of military expenditures. These comprise a large variety of distinctly different types of dollar spending abroad, including outlays for supplies and equipment needed by our military organizations for their own operations, such as foodstuffs, fuels, and Post Exchange supplies; disbursements by these organizations for

<sup>1</sup> For a discussion of monetary measures abroad, see "Monetary Trends and Policies Abroad", *Monthly Review*, June 1955.

various services, such as transportation, the construction of troop housing, airfields, and other installations, and the repair of equipment; purchases of military "end-items", such as tanks and airplanes, for transfer either to the producing countries or to third countries under our aid programs (the so-called offshore procurement); and purchases by United States military personnel on local markets abroad. These military expenditures increased from 576 million dollars in 1950 to more than 2.5 billion in 1953 and 1954, paralleling the expansion of this country's global defense commitments and our efforts to promote the development and maintenance of military production in friendly countries.

After the end of the Korean conflict in 1953, expenditures for supplies and services purchased for the direct use of the United States armed forces in the Far East fell off, the decline being particularly pronounced in 1954. But a rise of more than 200 million dollars in spending in Europe for the procurement of military equipment for retransfer under military aid programs more than offset the decline. In fact, military expenditures in that year accounted for almost 30 per cent of Western Europe's dollar earnings from the sale of goods and services to the United States, as against only 7 per cent in 1950. In Germany, France, and several other countries, our military expenditures came close to, or exceeded, these countries' earnings from merchandise exports to the United States.

The rapid rise of military expenditures has had important effects on the economic positions of the recipient countries. It has helped to sustain employment in many countries, especially in Japan and Italy, and it has played a major role in the easing of the international dollar problem and the relaxation of import and exchange controls. In the absence of the marked rise in these expenditures, several Western European nations would have found it extremely difficult, particularly during 1954, to add to their gold and dollar holdings or even to avoid a decline in such holdings.

#### CHANGES IN UNITED STATES FOREIGN AID

The composition and geographical distribution of United States aid have undergone significant shifts in response to changes in the international political and economic climate.<sup>2</sup> Military and economic grant assistance to foreign countries reached its postwar peak in 1953 and has fallen substantially since then. There has also been a decided shift in emphasis from that of the early postwar years. Until 1951, our aid program was principally of an economic nature and was directed largely to Western Europe to help it recover from the damages wrought by the war. With the launching of the Mutual Security Program in 1951, however, an increasing part of our aid appropriations was used to supply military weapons and other equipment essential for expediting the build-up of the defense forces of our allies. At the same time, economic

<sup>2</sup> For a discussion of shifts in the United States foreign aid program, see "The Changing Pattern of United States Foreign Aid" in the July 1954 issue of this *Review*.



aid, under its new label of "mutual defense support", was continued in order to help provide a sound economic base for rearmament and to consolidate the recovery gains of the earlier period. This shift in emphasis is readily apparent from United States balance-of-payments data, which reveal that in 1952 military aid to the member countries of the North Atlantic Treaty Organization (NATO) and other friendly nations amounted to 2.6 billion dollars, or to more than half of the total United States assistance abroad. Military aid rose to 4.2 billion dollars in 1953, or to 70 per cent of our total aid, but it declined in 1954 to 3.1 billion dollars, or to 66 per cent of the total. Nonmilitary aid, largely in the form of "mutual defense support" and of development and technical assistance, which as late as 1951 had represented more than two thirds of our aid, declined sharply in 1952 to some 2 billion dollars and decreased further to 1.8 billion in 1953 and to 1.6 billion in 1954. The Administration's foreign aid program for fiscal year 1956 does not include any new economic aid authorizations for the original Marshall Plan countries of Europe, but such assistance is to be provided for Spain and Yugoslavia and for countries in Latin America, the Middle East, and Asia.

The geographical distribution of our foreign aid has also shifted. Western Europe has continued to receive the largest share of the total aid, but there has been a noticeable increase in the volume of assistance, both military and nonmilitary, going to the countries of Southeast Asia and the Far East. The bulk of the aid to be expended in fiscal 1956 is earmarked for that area.

A novel type of aid first authorized for the fiscal year 1954—the so-called "direct forces support", consisting of contributions to the defense budgets of certain countries in the form either of dollar payments for expenditures for military "end-items" manufactured in these countries or of shipments of civilian-type materials to foreign military establishments—has recently assumed considerable importance. Although conceptually different, this type of aid, at least to the extent that it consists of cash contributions, resembles offshore procurement in its effect on the recipient, since it results in a straight acquisition of so-called "free" dollars that need not be spent for United States goods. France has been the chief beneficiary of these disbursements, receiving 321 million dollars during 1954 and 152 million dollars in the first quarter of 1955 to help defray the expenses of the war in Indochina. These payments have been a sizable element in the improved French dollar position.

Another feature of recent changes in our foreign aid is the increasing role of agricultural surplus disposal. The Mutual Security Acts of both 1953 and 1954 specified that substantial amounts of the total aid appropriation be used to finance the export, and sale for foreign currencies, of surplus farm products. Furthermore, under the Agricultural Trade Development

and Assistance Act of 1954, the Government was authorized to dispose of one billion dollars' worth of commodities abroad, of which 700 million are to be sold for local currencies and 300 million are to be disposed of on a grant basis to meet famine and relief requirements.

#### CAPITAL MOVEMENTS PATTERNS

One of the outstanding features of the balance of payments in 1954 was a substantial increase in foreign loans of United States banks and in their holdings of deposits and securities abroad. As shown in Table II, such claims increased by 521 million dollars, reflecting the fact that, as international financial conditions and especially foreign dollar availabilities improved, banks in this country have been willing to extend new and increased credit lines to foreign banks and to add to their other assets abroad. This expansion of foreign credits has contributed to the increase in our exports during the past year and enabled some countries to maintain their dollar reserves at a satisfactory level despite larger purchases in the United States. To some extent, on the other hand, the increase in bank loans abroad reflects foreign borrowing in response to the difficulties that certain countries, notably in Latin America, have encountered in meeting their current dollar requirements for imports from the United States. The rise in deposits and other assets abroad in 1954 is almost entirely the result of a sharp increase in the holdings by United States banks of sterling and British Treasury bills; sterling deposits, however, dropped sharply in the first four months of this year.

A notable expansion has also occurred in the flotation of foreign bonds in the United States capital market. Recently, Belgium, Norway, and Australia have taken advantage of the improved international financial climate to place bonds in the United States market. Heretofore, interest in foreign and international securities had been largely confined to the issues of the International Bank and to Canadian securities. In fact, United States net purchases of Canadian securities during the 1952-54 period supplied Canada with more than 130 million dollars annually.

In contrast to earlier periods of rapid foreign dollar gains, foreign official institutions are now investing most of their

**Table II**  
**United States Banking Claims on Foreigners**  
(Position at end of month in millions of dollars)

Type of claim	December 1953	December 1954	Increase
Short-term claims payable in dollars:*			
Loans to foreign banks and official institutions	241.6	452.0	210.4
Loans to others	109.8	144.3	34.5
Bankers' acceptances and other items	207.4	280.3	72.9
Long-term claims payable in dollars	324.9	423.1	98.2
Total	883.7	1,299.7	416.0
Short-term claims payable in foreign currencies:			
Deposits and other†	101.6	206.8	105.2

\* Excluding drafts held for collection.

† "Other" consists primarily of United Kingdom Treasury bills.

dollar accruals in the New York money market rather than converting them into gold. During the three years April 1952-March 1955, net purchases of gold by foreign countries from the United States Treasury amounted to 1,691 million dollars, but dollar holdings of foreign official institutions increased by approximately 2.7 billion. In 1954, less than 25 per cent of official short-term dollar gains were employed for the purchase of gold from the United States Treasury. In recent years, most of the newly acquired dollars of foreign central banks have been invested in United States Treasury securities or put in time deposits with United States commercial banks. Indicative of the growing interest of foreign central banks in the United States Government securities market is the fact that the Federal Reserve Banks at the end of last March held more than 3 billion dollars of such securities for the account of their foreign correspondents, compared with about 1.5 billion three years earlier. Time deposits held for foreign banks (including nonofficial institutions) in member banks of the Federal Reserve System were in excess of 1.4 billion dollars at the end of 1954, an increase of about 850 million over the end of 1952. Almost all of these deposits are believed to be held for the account of foreign central banks.

Nonofficial dollar holdings increased by only about 250 million dollars during the three-year period under review, reflecting the fact that in most foreign countries the commercial banks and other private interests either have not been permitted to add further to their operating balances here or have not been interested in doing so. However, acquisitions of long-term assets for private account, reflecting primarily purchases by foreigners in the United States securities market and investments of foreign corporations in United States subsidiaries, amounted to 620 million dollars during the three-year period. In 1954, foreign investors stepped up their purchases in the United States stock market, adding 141 million dollars' worth of United States corporate securities to their holdings as a net result of purchases in our stock market totaling some 1.4 billion dollars and sales of slightly less than 1.3 billion dollars. This net addition, while small in terms of the turnover in the United States stock exchanges, is the largest since the end of the war, considerably exceeding the previous postwar high of some 99 million dollars in 1951. Most of the additions occurred during the sharp upswing of stock prices in the last half of the past year, when foreign interests made net purchases of some 113 million dollars of corporate securities.

European investors were the most important foreign buyers of domestic securities in the United States, adding in 1954 some 142 million dollars to their holdings of shares and corporate bonds. In particular, Swiss investors bought 76 million dollars' worth, and British investors 86 million dollars' worth, of corporate securities. A substantial share of the Swiss purchases is believed to have been for the account of nationals of other countries.

#### CONCLUDING REMARKS

The United States balance of payments is at present subject to a variety of forces that are pulling in different directions. Our imports in early 1955 did not yet fully reflect the upsurge of industrial activity since last fall, and forthcoming foreign trade statistics may well reveal substantially larger purchases of raw materials and semiprocessed manufactures than were made in 1954. Any increase in the sales of foreign countries to the United States should stimulate the further removal of import and exchange restrictions in those countries whose governments were hesitant to discard restrictions during a period of declining sales in the United States market. On the other hand, the strong counterinflationary measures taken in several European nations in response to signs of stresses and strains in their balance of payments, and the tightened import restrictions in several countries in Latin America and elsewhere, may well exert a restraining influence on our export trade. Increasing competition in the capital goods sector of our export trade may also tend to retard somewhat the prospective expansion of United States exports.

One of the most important, yet uncertain, elements in our prospective international transactions will be the trend of our military expenditures abroad. At the end of 1954, deliveries yet to be made by European countries under offshore procurement contracts amounted to 1.7 billion dollars, but the rate of new contracts appears to have fallen rapidly in recent months. It is worth mentioning in this connection that the Mutual Security Act of 1954 specifies that offshore procurement orders be placed only after it has been determined that the strategic and logistic advantages involved would override any potentially adverse effects upon the United States economy. In 1955 and most of 1956, however, military expenditures are likely to remain as important a source of dollar income to foreign countries as in the recent past, though the position of individual countries may change substantially as certain defense installations are completed.

On balance, then, it would appear that the major determinants of the foreign dollar position—the demand for United States merchandise abroad, the demand for foreign commodities in the United States, and American military expenditures abroad—are favorable to additional, though moderate, gains of dollars by the rest of the world. At the same time, the bulk of new gold production outside the United States continues to be taken up by foreign central banks and governments rather than disappearing into private hoards, as happened to an important extent in earlier postwar years. Several of the countries whose gold and dollar position still gives cause for concern appear to be taking effective monetary-policy and other measures to correct incipient signs of domestic and international imbalance. There is thus reason to expect further progress toward the convertibility of the world's major currencies and the removal of many of the remaining international trade restrictions.

DEPARTMENT STORE TRADE

Second District department stores sales in June were 3 per cent higher than in May and equaled sales in June of last year, according to preliminary estimates. For the first six months of 1955, sales were up 2 per cent from the first half of 1954; second-quarter sales were only 1 per cent above a year ago, however.

At the end of May, inventories of Second District department stores were 3 per cent lower than at the end of May 1954. Inventories rose above year-earlier levels in the first two months of this year, but have been below 1954 in each of the three months since then.

INSTALMENT SALES AT SECOND DISTRICT DEPARTMENT STORES

Second District department stores have sold an increasing proportion of their goods and services on credit in recent years. Cash sales accounted for 60 per cent of Second District department store sales in 1941 and rose to 72 per cent in 1944 and 1945, but they have declined substantially in importance in the postwar period. By 1952, as the accompanying table indicates, cash sales constituted a smaller proportion of total sales than in 1941, and the proportion has decreased further in each succeeding year; it amounted to 56 per cent in 1954.

Credit sales, which accounted for 44 per cent of total sales in 1954, include both charge account and instalment sales. Of these, charge account sales are larger in dollar volume but instalment sales have exhibited a rapid postwar rate of growth. Indeed, the increased importance of credit sales in the postwar period has resulted primarily from the growth of instalment selling by department stores. Charge account sales were over three times as large as instalment sales in 1941, and accounted then for 31 per cent of total Second District department store sales. By 1954, though charge account sales were still 31 per cent of total sales, they were less than two and a half times as large as instalment sales, which have risen since 1946 from 5 to 13 per cent of total sales.

Traditionally, the bulk of department store instalment sales has been attributed to four departments—major household appliances, radios and (in recent years) television, furniture and bedding, and domestic floor coverings. In the postwar period, however, Second District department stores appear to have broadened considerably the range of goods they sell on the instalment plan. This tendency of department stores to extend instalment credit sales beyond their durable goods and household furnishings departments is reflected in the accompanying chart.

Department Store Sales by Type of Transaction  
Second Federal Reserve District 1941-54  
(Percentage of total sales)

Year	Cash sales	Charge account sales	Instalment sales
1941	60	31	9
1942	66	27	7
1943	70	24	6
1944	72	23	5
1945	72	23	5
1946	70	25	5
1947	67	26	7
1948	65	27	8
1949	63	28	9
1950	61	28	11
1951	61	28	11
1952	59	29	12
1953	57	31	12
1954	56	31	13

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

Area	Net sales			Stocks on hand May 31, 1955
	May 1955	Jan. through May 1955	Feb. through May 1955	
Department stores, Second District	+ 3	+ 2	+ 1	- 3
New York—Northeastern New Jersey				
Metropolitan Area	+ 4	+ 2	+ 1	- 3
New York City	+ 2	0	0	+ 1
Nassau County	—	—	—	—
Westchester County	+19	+16	+15	+11
Northern New Jersey	+ 3	+ 2	+ 1	+ 4
Newark	- 2	- 2	- 2	—
Fairfield County	+ 5	+ 6	+ 6	+30
Bridgenort	+ 4	+ 4	+ 4	—
Lower Hudson River Valley	+11	+11	+10	+ 4
Poughkeepsie	+10	+11	+11	+ 5
Upper Hudson River Valley	+ 2	+ 1	+ 1	- 2
Albany-Schenectady-Troy				
Metropolitan Area	+ 2	+ 1	0	- 2
Albany	+ 5	+ 5	+ 4	- 2
Schenectady	- 3	- 5	- 5	- 3
Central New York State	+ 3	+ 2	+ 2	0
Utica-Rome Metropolitan Area	+ 1	+ 2	+ 1	+ 5
Utica	+ 5	+ 6	+ 5	+11
Syracuse Metropolitan Area	+ 3	+ 3	+ 2	- 1
Northern New York State	+ 6	+13	+13	0
Southern New York State	- 2	0	0	- 6
Binghamton Metropolitan Area	+ 1	+ 2	+ 3	- 4
Western New York State	0	+ 1	+ 2	- 6
Buffalo Metropolitan Area	- 1	+ 2	+ 2	0
Buffalo	0	+ 2	+ 2	0
Niagara Falls	- 1	+ 2	+ 1	—
Rochester Metropolitan Area	+ 2	+ 1	+ 2	n.a.
Apparel stores (chiefly New York City)	+ 8	+ 4	+ 4	+ 6

n.a. Not available.

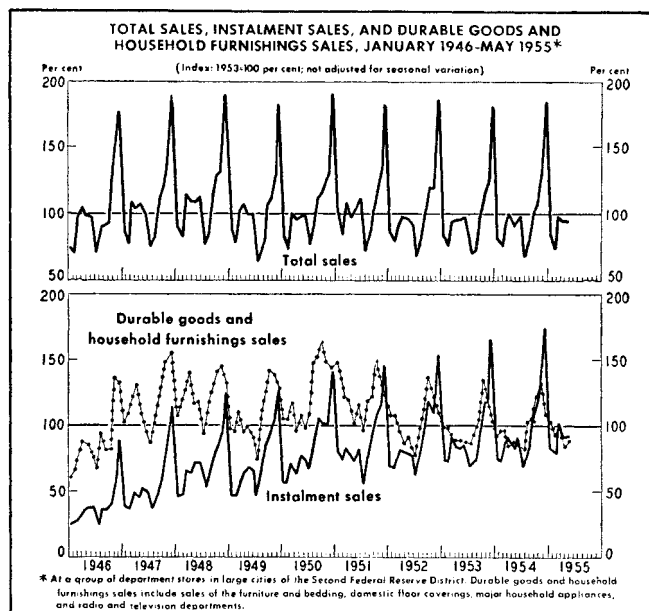
Indexes of Department Store Sales and Stocks  
Second Federal Reserve District  
(1947-49 average=100 per cent)

Item	1955			1954
	May	April	March	May
Sales (average daily), unadjusted	99	97	91	96 <sub>r</sub>
Sales (average daily), seasonally adjusted	101	101	103	98 <sub>r</sub>
Stocks, unadjusted	113	117	114	117 <sub>r</sub>
Stocks, seasonally adjusted	110	111	110	114 <sub>r</sub>

r Revised.

The chart shows total sales, instalment sales, and durable goods and household furnishings sales since 1946 for a group of Second District department stores that account for about two thirds of the District's department store sales. The pattern of monthly sales fluctuations indicates that instalment sales have moved in closer correspondence with total sales than with durable goods and household furnishings sales. Moreover, the trend of instalment sales has been upward since 1946, while that of durable goods sales has been steadily downward since 1950.

Thus the postwar growth in the use of instalment credit to purchase goods at Second District department stores appears to have come largely in nondurable areas of department store merchandise, in apparent contrast to the prewar pattern. This growing use of instalment credit for financing "soft" goods purchases has undoubtedly been stimulated in recent years by the promotion of "budget accounts" and other "revolving" credit arrangements by department stores. In the Federal Reserve department store statistics, all such arrangements are classified as instalment credit.



**SELECTED ECONOMIC INDICATORS**  
United States and Second Federal Reserve District

Item	Unit	1955			1954	Percentage change	
		May	April	March	May	Latest month from previous month	Latest month from year earlier
<b>UNITED STATES</b>							
<i>Production and trade</i>							
Industrial production*	1947-49 = 100	138p	136	135	125r	+ 1	+10
Electric power output*	1947-49 = 100	194	189	188	169	+ 3	+15
Ton-miles of railway freight*	1947-49 = 100	—	101	96	93	+ 5	+14
Manufacturers' sales*†	billions of \$	26.5p	26.0	26.0	23.2	+ 2	+14
Manufacturers' inventories*‡	billions of \$	43.6p	43.3	43.3	44.3	+ 1	- 2
Manufacturers' new orders, total*‡	billions of \$	27.7p	26.1	26.5	21.9	+ 6	+26
Manufacturers' new orders, durable goods*‡	billions of \$	14.4p	12.9	13.4	9.6	+12	+50
Retail sales*	billions of \$	—	15.3p	15.1	14.0	+ 1	+ 8
Residential construction contracts*	1947-49 = 100	275p	286	291	216	- 4	+27
Nonresidential construction contracts*	1947-49 = 100	212p	230	239	178	- 8	+19
<i>Prices, wages, and employment</i>							
Basic commodity prices†	1947-49 = 100	89.2	90.0	89.2	92.8	- 1	- 4
Wholesale prices†	1947-49 = 100	109.9p	110.5	110.0	110.9	- 1	- 1
Consumer prices†	1947-49 = 100	114.2	114.2	114.3	115.0	#	- 1
Personal income (annual rate)*	billions of \$	—	295.6p	294.6	286.2	#	+ 4
Composite index of wages and salaries*	1939 = 100	—	263p	262p	256	#	+ 3
Nonagricultural employment*§	thousands	49,184p	48,878p	48,766	48,183	+ 1	+ 2
Manufacturing employment*§	thousands	16,531p	16,384p	16,299	15,985	+ 1	+ 3
Average hours worked per week, manufacturing†	hours	40.7p	40.2	40.7	39.3	+ 1	+ 4
Unemployment.....	thousands	2,489	2,962	3,176	3,305	-16	-25
<i>Banking and finance</i>							
Total investments of all commercial banks.....	millions of \$	81,620p	82,570p	81,180p	78,570	- 1	+ 4
Total loans of all commercial banks.....	millions of \$	73,900p	72,940p	72,310p	67,120	+ 1	+10
Total demand deposits adjusted.....	millions of \$	103,420p	104,600p	102,400p	98,700	- 1	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	30,102p	30,047	30,000	30,013	#	#
Bank debits (337 centers)*¶	millions of \$	71,060	68,207	69,004	60,946r	+ 4	+17
Velocity of demand deposits (337 centers)*¶	1947-49 = 100	130.6p	123.8	125.6	120.0r	+ 5	+ 9
Consumer instalment credit outstanding†	millions of \$	31,568	30,655	29,948	28,372	+ 3	+11
<i>United States Government finance (other than borrowing)</i>							
Cash income.....	millions of \$	5,547	3,651	10,943	4,882	+52	+14
Cash outgo.....	millions of \$	6,278	5,355	6,932	6,228	+17	+ 1
National defense expenditures.....	millions of \$	3,302	3,177	3,794	3,477	+ 4	- 5
<b>SECOND FEDERAL RESERVE DISTRICT</b>							
Electric power output (New York and New Jersey)*.....	1947-49 = 100	144	145	144	140	#	+ 3
Residential construction contracts*.....	1947-49 = 100	—	223p	239	223	- 7	+ 7
Nonresidential construction contracts*.....	1947-49 = 100	—	216p	216	225	#	#
Consumer prices (New York City)†.....	1947-49 = 100	111.8	112.3	112.4	112.9	#	- 1
Nonagricultural employment*.....	thousands	7,485.1p	7,465.5	7,448.1	7,495.5r	#	#
Manufacturing employment*.....	thousands	2,607.6p	2,588.8	2,585.1	2,651.5r	+ 1	- 2
Bank debits (New York City)*.....	millions of \$	63,481	57,634	63,436	60,750	+10	+ 4
Bank debits (Second District excluding New York City)*.....	millions of \$	4,606	4,568	4,682	4,116r	+ 1	+12
Velocity of demand deposits (New York City)*.....	1947-49 = 100	167.2	144.7	155.3	164.1	+16	+ 2

Note: Latest data available as of noon, June 30, 1955.

p Preliminary.

\* Adjusted for seasonal variation.

† Seasonal variations believed to be minor; no adjustment made.

# Change of less than 0.5 per cent.

‡ Revised series. Back data available from U. S. Department of Commerce.

§ Revised series. Back data available from U. S. Bureau of Labor Statistics.

¶ The number of reporting centers was reduced by one in May when two centers were combined.

Current figures are comparable with those published previously.

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