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MONEY MARKET IN OCTOBER

Conditions in the money market during October continued tight. An increase in the earning assets and deposits of member banks, associated in large part with substantial commercial bank purchases of a new Treasury issue of tax anticipation certificates, had the effect of increasing reserve needs sharply. Sizable purchases of Government securities by the Federal Reserve System helped to relieve the resulting pressures on the banking system, and the customary midmonth expansion in float temporarily supplied a large amount of funds to the market. Nonetheless, member banks, in meeting their residual needs for funds, became somewhat more heavily indebted to the Federal Reserve Banks than in any previous month this year. Indicative of the continuing tightness in the market, the rate for Federal funds remained at 2¼ per cent, equivalent to the Federal Reserve discount rate, for almost the entire month. Moreover, the volume of funds available at that rate frequently fell well short of the demand.

In response to the sustained reserve pressures and further heavy demands for bank credit, key short-term rates of interest moved upward during much of October after a period of comparative stability in September. The most notable rate change during the month was a ¼ per cent increase in the prime loan rate of commercial banks, first announced by the major New York City banks on October 14. This increase, the second this year, brought the charge for loans to customers with the best credit rating to 3½ per cent, the highest level prevailing since the early 1930's.

Treasury bill yields rose sharply over the first half of October. While this increase was erased by the end of the month, the relative attractiveness of the rising bill rates probably contributed to a series of upward adjustments in the rates for other types of short-term paper. Dealers in commercial paper and bankers' acceptances both raised their quotations by ⅛ per cent (the rate for bankers' acceptances, however, was reduced by a similar amount at the end of the month). The major finance companies placing their paper directly with investors announced increases of either ⅛ or ¼ per cent, thus bringing uniformity among the rates of the various companies after some differences had developed late in September.

In contrast to the generally higher structure of short-term rates, yields for longer-term debt instruments declined moderately. The downtrend in yields, which first developed in the various markets during August or September, was most apparent in the Government securities market. In terms of price, the longer 2½ per cent Treasury issues gained about ½ of a point or more over the month as a whole, and by the end of October had recovered between one third and one half of the losses recorded during the first seven months of the year. Similarly, the 3 per cent bonds of 1995 traded around par during most of the month and at the close rose as high as 100 7/16 (bid), after having dipped almost to 98 on August 3. The price increases for outstanding issues of corporate and municipal bonds have been somewhat less striking, but the pricing and reception of new issues during October reflected widespread confidence in the present level of long-term yields.

Member Bank Reserve Positions

The reserve positions of member banks were under somewhat greater pressure in October than in any previous month this year. Aggregate borrowings from the Federal Reserve Banks rose to an average of 878 million dollars, about 40 million dollars greater than in September and larger than in any month since May 1953. Meanwhile, excess reserves fell slightly to an average of 544 million dollars, compared with about 560 million in September.

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Table I

Changes in Factors Tending to Increase or Decrease Member Bank Reserves, October 1955

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

Factor	Daily averages—week ended				Net changes
	Oct. 5	Oct. 12	Oct. 19	Oct. 26	
Operating transactions					
Treasury operations*	+165	+ 14	− 9	+ 39	+209
Federal Reserve float	−144	+ 58	+214	−103	+ 25
Currency in circulation	−105	−124	− 69	+123	−175
Gold and foreign account	− 10	− 2	− 7	+ 10	− 9
Other deposits, etc	− 13	− 51	+ 21	+ 22	− 21
Total	−109	−103	+150	+ 91	+ 29
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+140	+ 65	+124	+ 57	+386
Held under repurchase agreements	+106	+ 2	− 14	−105	− 11
Loans, discounts, and advances:					
Member bank borrowing	− 59	+ 64	+135	−267	−127
Other	—	+ 2	− 2	− 4	− 4
Bankers' acceptances:					
Bought outright	− 1	+ 1	—	—	—
Under repurchase agreements	+ 2	− 2	—	− 1	− 1
Total	+191	+131	+241	−319	+244
Total reserves	+ 82	+ 28	+391	−228	+273
Effect of change in required reserves†	− 81	+ 6	−310	+ 48	−337
Excess reserves†	+ 1	+ 34	+ 81	−180	− 64
Daily average level of member bank:					
Borrowings from Reserve Banks	829	893	1,028	761	878‡
Excess reserves†	523	557	638	458	544‡

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

* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for four weeks ended October 26.

Each of the major factors affecting member bank reserve positions, except for gold and foreign account operations, fluctuated widely during the month. Nevertheless, the actual swings in net reserve positions from week to week were relatively small, and in fact the degree of pressure did not vary significantly from that reached during the latter part of September. Borrowings remained roughly 300 to 400 million dollars above excess reserves in each of the four statement weeks ended in October, while during the second half of September the comparable average had been 312 million dollars.

The over-all stability of reserve positions reflected both the security transactions of the Federal Reserve System and the fact that changes in other factors were frequently counterbalancing within fairly short periods. Over the first two statement weeks of the month, as indicated in Table I, a decline in float and an increase in the amount of currency in circulation on balance absorbed a substantial volume of funds from member banks. On the other hand, a sharp reduction in the Treasury's working balances at the Federal Reserve Banks, which had been built up to fairly high levels late in September as a result of heavy quarterly tax collections, offset a large part of these losses. However, the uncertainties and caution in the market arising from the Treasury's new offering of tax anticipation certificates, for which banks were expected to subscribe in large volume, tended to accentuate the pressures during that period. Consequently, the Federal Reserve supplied funds both through outright purchases of Treasury bills and, on a more temporary basis, through repurchase agreements against Government securities and bankers' acceptances.

Immediately following the October 11 payment date for the new 2,970 million dollar Treasury issue, required reserves rose sharply, increasing by over 300 million dollars on an average basis during the statement week ended October 19. The immediate pressures arising in the market were relieved by further outright purchases of Treasury bills by the Federal Reserve System, as well as by additional use of the facilities for repurchase agreements.

Shortly thereafter, float rose sharply, the usual midmonth rise being augmented by the delays in check collections resulting from the storm conditions in the Northeastern States at that time. Consequently, the pressures on reserve positions relaxed somewhat toward the end of the October 19 statement week, although some funds were absorbed by the runoff of repurchase agreements previously extended by the Federal Reserve System. During the final statement week of the month, market conditions remained steady without any Federal Reserve intervention, as a decline in float from its earlier peak was more than offset by a reduction in the volume of currency in circulation and by small gains of funds from other factors.

Government Securities Market

The Government securities market during much of October was characterized by contrasting price movements. Prices of most intermediate and long-term issues rose almost steadily from the end of September through October 10, and then moved within a narrow range through the remainder of the month. Despite the tapering-off of the upward movement, the longer 2½ per cent issues gained ½ to ¾ of a point over the month as a whole, while most intermediate issues rose by similar amounts. On the other hand, prices of short-term securities, particularly Treasury bills, declined (yields rose) during the first half of the month, but subsequently rose to or above their end-of-September levels.

The firmness of the Government bond market apparently reflected most fundamentally the growing feeling among many traders and investors that long-term interest rates might have passed their peak, and that the next significant changes in yield might be downward rather than upward. This belief was encouraged in some part by speculation related to the long-range impact of President Eisenhower's illness on economic and political developments. In addition, a note of caution was introduced by the decline in stock prices over the first half of the month, and some observers occasionally expressed uncertainty over the prospects for further expansion of the economy in general and capital spending in particular during

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the coming year. As a result of these factors, the opinion developed in some quarters that the degree of restraint imposed by Federal Reserve policy would not be increased, and might even be relaxed somewhat over coming months. In this context, the rise in the prime loan rate met with little immediate reaction in the capital markets.

Switching by commercial banks accounted for a considerable part of the expanded activity in the bond market over the first half of the month. The swaps, some of which were made for tax purposes, increasingly seemed to take the form of some lengthening of portfolios, and may have been responsible in some degree for the strength of prices at that time. A sizable demand for longer-term issues at the outer end of the commercial bank range of the market developed, while the steady supply of notes and shorter-term bonds was readily absorbed by nonbank investors, primarily large corporations or public authorities investing the proceeds of recent market financings. These switches diminished in volume toward the end of the month, partly because rising prices had reduced the profitability of the operations.

The market for Treasury bills over the first half of the month reflected the impact of the Treasury's financing operation as well as the continuing pressures in the money market. The sale of 2,970 million dollars of new 2¼ per cent tax anticipation certificates, maturing June 22, 1956, pre-empted a large part of the corporate funds immediately available for investment in bills or outstanding certificates. Moreover, the market exhibited some apprehension that the increased supply of short-term issues would divert demand from bills for some time. As a result, although moderate liquidation of Treasury bills by banks or corporations preparing to take up allotments of the new issue on October 11 was absorbed by other investors, bidding for the successive weekly issues tended to be cautious. The average issuing rate rose steadily to a post-1953 peak of 2.333 per cent in the auction on Monday, October 17. After the middle of the month, however, a brisk corporate demand reappeared in the market but met with only a limited supply. Consequently, the average issuing rate fell to 2.231 per cent in the auction on October 24 and to 2.179 per cent the following week. Quotations for outstanding Treasury bills paralleled the movements in the rates established in the weekly auctions. After closing September at a bid quotation of 2.15 per cent, the longest-term issue outstanding rose irregularly to 2.30 per cent on October 18. By the close on October 31, however, the bid quotation was again 2.15 per cent, the same as that on September 30.

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 Oct. 19, 1955*
	Sept. 28	Oct. 5*	Oct. 12	Oct. 19	
Assets					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans	+ 90	+ 32	+ 104	− 32	+2,341
Security loans	+ 3	+146	+ 149	− 77	+ 17
Real estate loans	+ 41	+ 9	+ 29	+ 39	+1,158
All other loans (largely consumer)	+ 74	+ 6	+ 114	+ 7	+1,556
Total loans adjusted†	+208	+195	+ 394	− 61	+4,997
Investments:					
U.S. Government securities:					
Treasury bills	− 15	− 5	+ 152	−106	−1,508
Other	−184	− 60	+ 985	−372	−4,453
Total	−199	− 65	+1,137	−478	−5,961
Other securities	− 32	− 7	− 45	− 21	0
Total investments	−231	− 72	+1,092	−499	−5,961
Total loans and investments adjusted†	− 23	+123	+1,486	−560	− 964
Loans to banks	+104	− 20	− 53	+134	+ 224
Loans adjusted† and "other" securities	+176	+188	+ 349	− 82	+4,997
Liabilities					
Demand deposits adjusted	+ 43	−446	− 242	+675	−2,152
Time deposits except Government	− 9	+ 41	+ 38	− 34	+ 269
U. S. Government deposits	+416	−272	+1,630	−712	+ 677
Interbank demand deposits:					
Domestic	−336	+675	+ 20	−269	− 745
Foreign	+ 28	+ 26	− 38	+ 22	+ 4

* In order to minimize the distortions resulting from a reclassification of certain loans on October 5, the immediate effects of this revision have been eliminated from the data for the week ended October 5 and for the cumulative changes since the end of 1954.

† 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.

Other Securities Markets

Prices of most outstanding corporate and municipal bonds firmed somewhat during October in quiet trading, further extending the recovery which first developed during September. Moreover, the bulk of the large volume of new issues was distributed to investors relatively quickly, in most cases at a yield basis comparable to, or below, those prevailing for similar issues this summer. Exceptions to the general rise in prices among longer-term issues were confined largely to convertible debentures, which fell over the first half of the month in sympathy with stock prices. Prices of turnpike bonds also declined somewhat prior to the scheduled offering date for a very large new issue, but subsequently recovered.

A useful measure of the improved response of the municipal market to new offerings over the past several months was provided by the pricing and reception of two sizable new issues for financing highway construction. These issues, both of which were well received by investors, were sold to underwriters at a net interest cost about ⅛ and ¼ per cent, respectively, below the best bids received by the same issuing authorities for comparable (but in one case larger) issues during the summer. The earlier bids had been rejected as entailing excessive interest costs.

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The largest single offering of municipal bonds ever undertaken, a 415 million dollar issue of Illinois turnpike bonds which had been long postponed by pending litigation, came late in the month. The bonds, maturing in 1995, were considered to be attractively priced, and rapid progress was made in disposing of the issue largely to a variety of institutional investors. Immediately following this financing, another large issue, 122 million dollars of New Housing Authority bonds, reached the market.

For the month as a whole, new public offerings of municipal bonds totaled an estimated 820 million dollars, more than twice the monthly average for the first nine months of 1955 and close to the all-time record for any single month. Publicly offered corporate bonds for new capital purposes, estimated at over 800 million, were the largest for any month in almost two years. The total was swelled, however, by the inclusion of a 637 million dollar issue of convertible debentures originally offered to stockholders by a large utility company in August, for which the rights expired on October 13.

Member Bank Credit

Reflecting both a further rapid expansion in loans and the impact of the Treasury's financing operation, total loans and investments of the weekly reporting member banks (exclusive of loans to banks) increased by 1,026 million dollars over the four weeks ended October 19. Despite this sharp increase, total earning assets of the reporting banks remained nearly 1 billion dollars below the peak levels reached at the end of 1954 (see Table II). Over the first 9½ months of 1955 as a whole, with the availability of reserves increasingly restricted, these banks have provided for a record expansion in loans only by liquidating a more-than-equivalent amount of Government securities. Over the same period of the previous year, by way of contrast, the ease of monetary conditions permitted these banks to expand their earning assets by over 4 billion dollars, although total loans actually declined.

Net purchases of Treasury certificates during the week ended October 12, which included the payment date for the new issue of tax anticipation certificates, were more than double the total 395 million dollar rise in holdings of Government securities during the last week of September and the first three weeks of October. Holdings of Treasury bills also rose during the week ended October 12, reflecting some absorption by the reporting banks of bills sold by other investors preparing to take up allotments of the new certificate. However, Government securities were liquidated during each of the other weeks, and holdings of notes and bonds fell almost steadily throughout the period.

A further expansion in real estate and "other" loans (the latter representing for the most part credit extended directly to consumers) accounted for roughly half of the 736 million dollar increase in total loans over the four weeks. The aggregate rise of 194 million in business loans reflected principally a seasonal increase in loans to commodity dealers; food, liquor, and tobacco concerns; and wholesale and retail distributors. In fact, all other types of businesses taken together actually reduced their indebtedness to the reporting banks, largely because of sizable repayments by sales finance companies which retired loans with the proceeds of recent market financings. The sharp rise in security loans of 221 million dollars resulted in large part from the need of brokers and dealers to finance temporarily the expanded volume of new corporate or municipal issues in the process of distribution to investors. During the period of the Treasury's financing operation early in October, loans by reporting banks in New York and Chicago secured by United States Government issues had expanded sharply, but this increase had been almost erased by October 19.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

During October, further monetary restraint measures were taken in Canada and New Zealand, while in many other foreign countries the existing ones were continued. The Bank of Canada raised its discount rate from 2 to 2¼ per cent as of the close of business October 12; the change followed a ½ per cent increase in early August and a ½ per cent reduction in mid-February. This action came against the background of a continuing growth in domestic business activity. The rise in commercial bank loans, which had begun in March and had slowed down somewhat in August, accelerated in September (see chart); by the end of September these loans were 11 per cent higher than at the end of February, compared with a 4 per cent fall in the corresponding period last year. At the same time, the average cash ratio of the commercial banks declined further in September to a point only slightly above the legal minimum, and Bank of Canada advances to the commercial and savings banks rose to 26 million dollars on October 12, compared with a previous high of 15 million last reached in September. Market interest rates continued to rise in October; the three months' Treasury bill tender rate, which had exceeded the Bank of Canada discount rate before the August increase, remained below the discount rate in October, but nevertheless rose to a postwar high of 2.20 per cent on October 27. The entire offering of Treasury bills on that date consisted of three months' bills; the offering of nine months' bills had already been reduced at the two previous tenders.

In New Zealand, the central bank discount rate was increased from 6 to 7 per cent, effective October 19; this increase was the third since the midyear and the fifth since the spring

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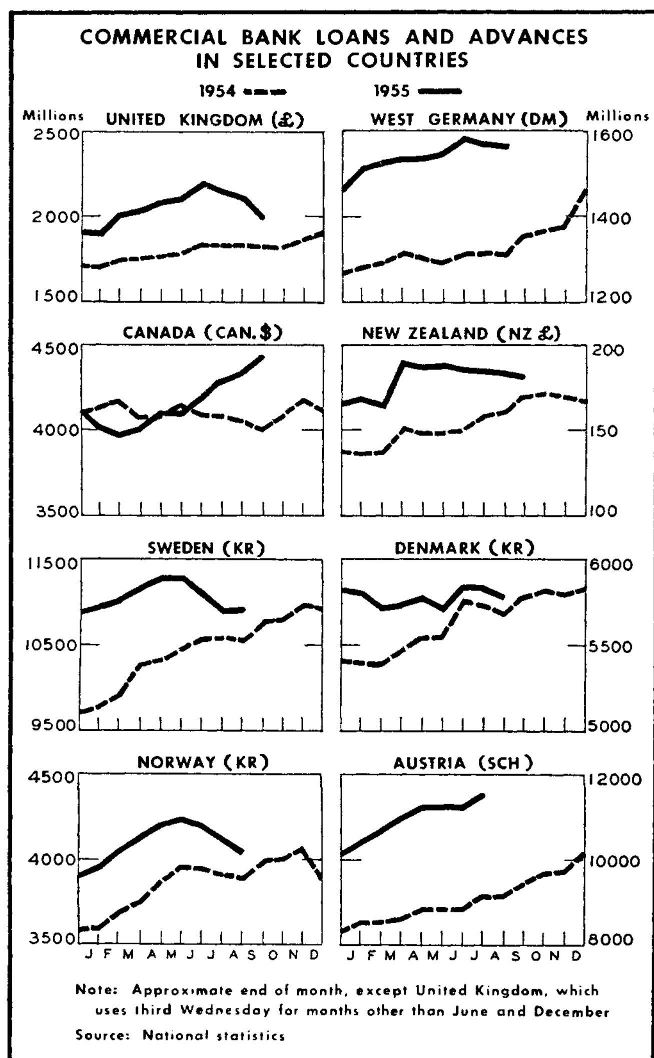

Note: Approximate end of month, except United Kingdom, which uses third Wednesday for months other than June and December
Source: National statistics

of 1954, and brought the rate above the levels reached in most countries since the early thirties. The cash reserve requirements of the commercial banks were raised earlier in October, for the fourth time this year; this move was intended to maintain the existing degree of restraint on bank credit, and the effect expected was to "restore the banks' net indebtedness" to the central bank. The current cost of such borrowing is especially high in view of the maximum rate of 5 per cent that the banks may charge on their advances. Even before the latest monetary measures, bank advances had stopped expanding and during the third quarter had declined by 2½ per cent, as against an increase of 13 per cent in July-September 1954 (see chart). During recent months the partly seasonal fall in the country's net foreign exchange assets has been smaller than a year ago, although it was still larger than in 1953.

In the United Kingdom, where a policy of monetary restraint was introduced earlier this year, the government presented a supplementary budget on October 26, intended to curb domestic spending further. The purchase tax and the distributed profits tax were increased by 20 and by 22 per cent, while housing subsidies and other government expenditures are to be reduced. In addition, the Chancellor of the Exchequer announced that the Treasury would limit its advances to local governments, who would henceforth have to rely to a greater extent on direct borrowing from the market. The long-awaited conversion of the 524 million pound 3 per cent Serial Funding Stock, which matures November 14, was announced on October 11, when holders were offered in exchange a 4 per cent bond, issued at 99½, maturing June 15, 1958, and callable on or after June 15, 1957. Holders of 425 million of the maturing issue accepted the offer, while a 250 million pound cash issue of the same bonds was oversubscribed, according to an official statement; market reports indicated that perhaps as much as 100 million of the cash subscriptions came from the public and the remainder from government departments. At the end of September, the Treasury increased by ½ per cent to 4 per cent the interest rate of Defense bonds, effective November 1, bringing the yield of this security, which is intended mainly for small savers, more in line with yields of marketable government bonds. Yields of the latter, which had reached new highs for the year in early September but had then declined, fell further in October; the yield of 2½ per cent Consols fell as low as 4.16 per cent on October 10, compared with 4.44 per cent at the end of September, and after a slight rise stood at 4.31 per cent on October 28. The average Treasury bill tender rate remained at 4.07 per cent, where it had been throughout September. During October bank advances apparently continued their earlier decline, which by mid-September had brought their total (including advances to the nationalized industries) down 9 per cent from the end of June, compared with a 1 per cent fall in the corresponding period of last year (see chart).

Commercial bank loans have also been declining in certain other countries, following the shift to monetary restraint policies, as may be seen from the chart. In Sweden and Norway, such loans have declined appreciably in the last few months; in the corresponding months of 1954, they increased in Sweden and fell considerably less in Norway. In Denmark, which had instituted a tighter money policy as early as mid-1954, bank loans at the end of August were 1 per cent lower than at the end of 1954, as against a 5 per cent increase in the corresponding period last year. In Austria, the rise in commercial bank loans has slowed down. The external position of these countries, which had prompted monetary and other anti-inflationary measures, has also begun to improve. The more recent monetary restrictions in West Germany have not yet been reflected in bank loans; in July and August their decrease was mainly seasonal, but the reduced bank liquidity has already lessened bank security purchases, leading to lower bond prices.

In Switzerland, where official policy since last year had aimed at reducing the liquidity of the money and capital

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markets, the government announced that a part of maturing government security issues would be repaid in cash, in contrast to its earlier policy of refunding maturing issues in their entirety despite continuing budget surpluses. In addition, the central bank ceased its sales of old Swiss gold coins, which are no longer legal tender; these sales had been begun at the beginning of the year to absorb funds from the market. The average yield of government bonds had risen to a 6½-year peak of 3.20 per cent at the end of September from a low of 2.45 per cent reached in March 1954; subsequently, it declined to 3.18 on October 14.

Exchange Rates

During October, the New York foreign exchange market was noticeably more active than in other recent months. A noteworthy improvement in the demand for the pound sterling on the part of commercial interests strengthened sterling rates throughout the month, while the Canadian dollar gradually weakened, with quotations declining for a short time to just below parity with the United States dollar.

The loss in Britain's gold and dollar reserves announced at the beginning of October contributed to sterling's weakening tendency in the opening days of the month; thereafter, sterling tended to firm, strengthening most noticeably after it was announced that the British authorities were preparing an interim budget. Thus American Account sterling, quoted at $2.78⅝ on September 30, rose as high as $2.79¾ on October 28 and remained at about that level through the rest of the month. The discounts on sterling for forward delivery, which had narrowed in mid-October to less than 1 cent discount, widened as spot sterling improved to about 1⁵⁄₁₆ cents discount. A fair amount of commercial demand together with continued shortcovering appeared to be the major factors in bringing about an improvement in the sterling rates, with oil interests perhaps the most important buyers of sterling both spot and forward.

Both transferable and securities sterling improved during the month, with transferable sterling reaching $2.77¼ and securities sterling $2.76⅜. The demand for transferable sterling was rather sporadic, with activity generally remaining at a modest level.

The Canadian dollar attracted a great deal of attention during the month, as it moved down from the September 30 quotation of $1.01¹⁄₁₆ to parity with the United States dollar on October 19; on the latter date, in fact, the Canadian dollar sold for a short time at slightly below parity and reached the lowest level since February 1952. The demand for United States dollars on the part of Canadian importers, together with a persistent movement of investment funds from Canada to New York, contributed considerably to the drop in the rate. In the closing days of the month the Canadian dollar tended to improve somewhat, owing in part to shortcovering, with the rate remaining close to $1.00¼ in a much quieter market than was evident when the rate was declining.

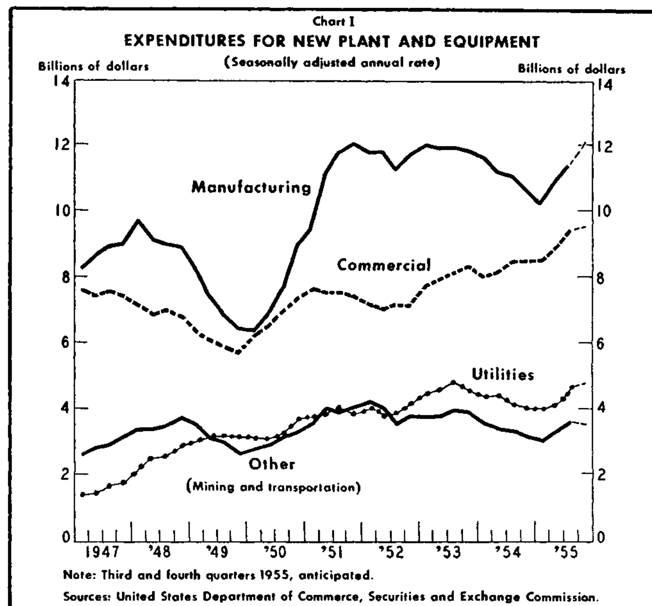
PLANT AND EQUIPMENT EXPENDITURES OVER THE CYCLE

Business expenditures for new plant and equipment typically fluctuate more widely than most other forms of spending. As a result, changes in these outlays may play an important role in the expansion and contraction of total economic activity, even though such expenditures normally account for less than 10 per cent of the gross national product (GNP). Some students of the business cycle have considered this form of spending the major determinant of over-all economic fluctuation. Others, while unwilling to single out any one factor, nevertheless do give to long-run business investment a prominent place in the explanation of business cycles, along with other influences such as changes in the level of inventories.

To some extent, the recession of 1953-54 followed the typical pattern, as total business investment—both in inventories and in new plant and equipment—fell at a greater rate than did GNP. The decline in fixed investment alone, however, was quite moderate by historical standards. More recently, these expenditures, as estimated by the Department of Commerce and the Securities and Exchange Commission (SEC), have been an important element in the expansion. They have moved up more rapidly than GNP as a whole, and since the first quarter of 1955 they have more than regained all the ground lost in the preceding year and a half.

The mildness of the recession, particularly the strength in personal consumption expenditures, was in itself a sustaining influence on business investment. But the moderate character of the recession was, in turn, partly a result of the relative

Chart I
EXPENDITURES FOR NEW PLANT AND EQUIPMENT
(Seasonally adjusted annual rate)



Note: Third and fourth quarters 1955, anticipated.
Sources: United States Department of Commerce, Securities and Exchange Commission.

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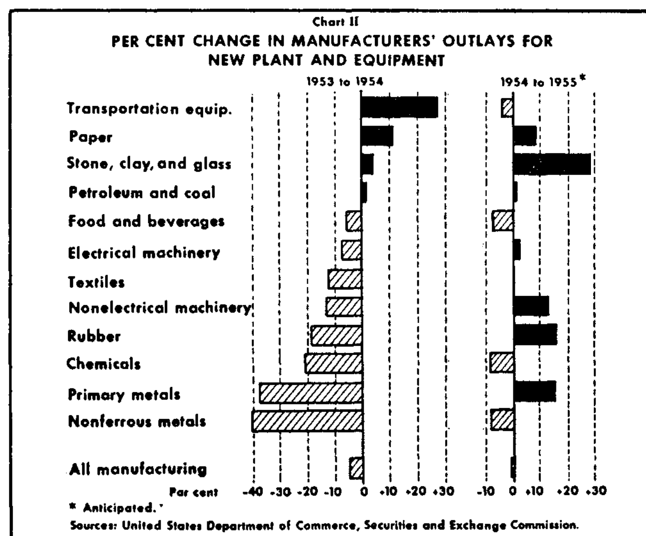
stability of capital expenditures. The strength in investment appears to have stemmed in part from the increasing use of long-term capital budgeting in recent years. Plans for buying new plant and equipment are now made further in advance and carried through with little change in the face of minor business downturns. In addition, the expanded defense program led to the development of a large backlog of unfinished work on projects for defense production, which were encouraged by the privilege of "writing off" for tax purposes a large part of the cost of the investment within five years. Moreover, the large additions to the stock of capital since World War II have resulted in recent years in a rising volume of replacement demand for industrial equipment, while large-scale research has created additional impetus for the modernization of capital stock. Ample funds have been available to finance plant and equipment outlays, both from internal sources and in the securities market.



Recent Investment Patterns

Expenditures for new plant and equipment reached a record annual rate of 28.8 billion dollars (after seasonal adjustment) in the third quarter of 1953. Capital outlays then receded to 25.7 billion in the first quarter of 1955, a decline of about 11 per cent. Plant and equipment purchases have risen since early this year to an estimated annual rate of 29.0 billion in the third quarter, a gain of about 13 per cent over the first-quarter rate. For the final three months of 1955, total outlays are expected, according to the Commerce-SEC survey taken in August, to move up still higher to 29.7 billion. With relatively stable price levels, much the largest part of the movement in expenditures since 1953 has represented changes in "real" purchases, although costs have apparently moved up in recent months for both plant and equipment.

The mildness of the decline in capital outlays during the 1953-54 recession may be traced largely to the behavior of commercial firms.[1] During most of the recession, these companies—which account for almost one third of total investment in new plant and equipment—actually increased their capital expenditures. Moreover, as may be seen from Chart I, the outlays of this group have continued to climb during the period of recovery, thus bolstering the expansion currently under way. Investment by commercial firms in the third quarter of this year is thus estimated to have been 1.5 billion dollars higher, at a seasonally adjusted annual rate, than in the first quarter of 1954. In this advance, firms engaged in retail trade have been particularly important, spending large sums both for the construction of new suburban shopping centers and for the modernization of existing facilities in downtown areas. In addition, outlays for the construction of new office buildings have risen steadily.

[1] This category of investors includes trade, service, finance, communication, and construction companies.

As might be expected, the greater part of the increase in capital outlays by companies in the commercial firms category appears to have gone into new plant rather than new equipment. Estimates made by the United States Departments of Labor and Commerce indicate that the annual rate of outlays on construction by these firms in the third quarter of 1955 was 1.2 billion dollars higher after seasonal adjustment than in early 1954, an increase of 66 per cent in less than two years. While these data do not lend themselves to direct comparison with the series on plant and equipment expenditures, they do suggest that new construction has accounted for a large part of the recent growth in the capital outlays of these firms. They also suggest that the sharp advance in commercial construction during the 1953-54 recession accounted for much of the increase in all business outlays for new construction in that period.

Manufacturing firms, on the other hand, apparently reduced investment spending in both plant and equipment during most of 1953 and throughout 1954. Since this group accounted for more than 40 per cent of business outlays for new capital before the recession, a large part of the over-all decline in fixed investment expenditures was attributable to cutbacks by manufacturing companies. Even so, the 15 per cent reduction in manufacturing outlays was only about half as sharp as the decline in 1948-49, and the subsequent recovery has been quite vigorous.

At their peak in the first quarter of 1953, capital expenditures of manufacturing companies were running at an annual rate of 12.0 billion dollars. Thereafter they turned down and fell for two years, touching bottom in the first three months of 1955 at 10.2 billion dollars. The recovery since then has still not carried the level of these expenditures back to the earlier peak, but the rate of increase has been rapid and out-

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lays in the fourth quarter are now expected to rise slightly above the record rate set in the first quarter of 1953.

Within the manufacturing group, the investment outlays of durable goods producers have been the most unstable over the last business cycle. The downturn in these expenditures came after the first quarter of 1953, well ahead of the decline in the investment of nondurable goods manufacturers, and the decline was greater, both relatively and absolutely. Since early 1955, on the other hand, there has been a much more striking revival of capital investment by durable goods producers than by the nondurable goods group. Outlays of durable goods manufacturers in the final quarter of 1955 are now expected to be about 25 per cent greater than in the first three months of the year, and about 3 per cent above the previous peak in the first quarter 1953. While expenditures by the nondurable group have also shown some expansion and in the fourth quarter are expected to be 13 per cent above the low point reached in the first quarter of 1955, this level will still fall somewhat short of previous peaks.

As may be seen in Chart II, however, capital outlays were increased during the recession by some manufacturing industries; the most striking advances were made by producers of transportation equipment, particularly automobile companies. Manufacturers of petroleum and coal products—which are in the nondurable goods group and which account for the largest flow of capital expenditures of any one manufacturing industry—also increased their outlays. Altogether, this pattern contrasted sharply with the experience of 1948-49, when expenditures for new plant and equipment were cut back in every industry, whether durable or nondurable.

One of the chief influences on the course of capital outlays by manufacturing firms during the 1953-54 recession appears to have been the unusual stability of investment by large firms. (This contrasts somewhat with the pattern of expenditures in the commercial sector, an area in which small firms as well as large ones have contributed extensively to the advance in capital investment during the last two years.) During the recession of 1948-49, data gathered in the Commerce-SEC survey suggested that manufacturing firms with assets of more than 100 million dollars cut back their investments by more than 20 per cent, or at about the same rate as smaller firms. In 1954, the investment outlays of smaller companies again fell sharply, but the large firms cut back scarcely at all. Since firms with assets of more than 100 million dollars account for about half of all purchases of new plant and equipment, the continuing high level of outlays by these firms was another influence making the over-all decline in 1954 much milder than it might otherwise have been.

Of the nonmanufacturing industries other than the commercial group, both utility companies and railroads have shown wide swings in investment. Both cut outlays sharply after mid-1953, and both have planned sharp increases this year. Since the investments of electric power companies have continued at the same high level for the last three years, most of the movement in the utilities group has been in the expenditures of gas companies. The marked expansion of utility outlays in the third quarter of this year, for example, stemmed mainly from large investments by natural gas companies in new pipelines.

The sharp contraction in railroad expenditures in 1954 reflected chiefly a drop in equipment purchases and accounted, in fact, for about a sixth of the decline in total business outlays for new equipment. Expenditures for new locomotives fell off markedly; in this connection, it may be noted that the "dieselization" of the industry was virtually completed just prior to the recession. Freight car purchases were also reduced sharply—to the lowest point since 1939—but they have recovered strongly in recent months and should be primarily responsible for the anticipated rise of rail outlays in the fourth quarter of this year to a level about 50 per cent above those of the first quarter.

The capital expenditures of farm operators are not included in the series on business outlays for new plant and equipment, but some idea of their behavior may be gained from annual estimates made by the Department of Agriculture. According to these data, farm investment reached a peak of about 6.2 billion dollars in 1951 and fell thereafter to about 5.0 billion in 1954, a decline of almost 20 per cent. Expenditures for construction, including repairs and maintenance, fell through most of the period and apparently are continuing to decline in 1955. On the other hand, machinery purchases, which were at least a fourth lower in 1954 than in 1951, have shown considerable improvement during 1955. In the first six months of this year, manufacturers' shipments of tractors were about 30 per cent greater than in the same period a year earlier, while shipments of other farm machinery were about 15 per cent higher.

Stabilizing Factors

One reason for the relative mildness of the decline in business investment during the recession was the mildness of the recession itself. The continued expansion of outlays for commercial construction, for example, was undoubtedly related to the almost unbroken advance of personal consumption expenditures. To be sure, retail construction has been stimulated for several years now by the rapid spread of new merchandising techniques, such as the supermarket and the suburban shopping center. In a similar fashion, large expenditures for new office buildings have been encouraged by the migration to the suburbs and the growth of smaller cities to greater size and importance, and by urban redevelopment projects. There may also have been some "pent-up" demand left from 1951 and 1952, when commercial construction was reduced by restrictions on materials and credit during the

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Korean war. Despite all these influences, however, the strong underlying force appears to have been the steady rise in consumer outlays for goods and services.

The sustained level of retail sales also was influential in sustaining investment spending by manufacturers, as was the large backlog of unfilled orders existing immediately prior to the recession, particularly orders for durable goods. On the other hand, the very fact of weaker markets last year—"buyers" markets—may in some instances have encouraged large capital outlays as a means of reducing costs and thereby of improving competitive positions. The increased investment of automobile companies in automation probably resulted in part from this influence, and some expenditures by the petroleum industry may also have been made for this reason.

From all indications, the mildness of the recession also meant that the margin of excess productive capacity was not large when revival began last year. As a result, the strong recovery has required many producers to expand capacity in 1955 to keep pace with demand for their products. Information collected by the McGraw-Hill Publishing Company from a group of manufacturers suggests that by the end of 1954 many manufacturers were already producing at levels which, while somewhat below capacity ceilings, were nevertheless close to the rates of output at which they would prefer to operate. Since then, capital outlays have been increased substantially in several of the industries in which output was at that time pressing against the preferred rates; these include manufacturers of building materials, rubber products, paper products, and electrical machinery.

It cannot be argued convincingly, however, that the moderate character of the 1953-54 recession accounts entirely for the correspondingly mild decline in capital outlays. Indeed, it is equally likely that the moderation of the general decline was to some extent a *result* of the stability in investment expenditures. In any case, there is evidence to suggest that capital expenditures are now planned further ahead than was once the case, and have thus become less subject to short-term fluctuations in the economy as a whole. A number of large corporations polled by the Department of Commerce in 1952 indicated that their investment plans for 1953 and 1954 would not be much affected by "moderate" downturns, and McGraw-Hill surveys over the past several years suggest that this tendency toward longer-run planning is becoming more widespread. The trend is understandably more evident among large firms than among small ones, and helps to explain the fact that outlays of larger companies were better maintained in 1954 than in 1949, while those of smaller firms were cut sharply in both periods. The greater financial strength of the large corporations enables them to ignore minor swings in economic conditions and to plan their output potential to take advantage of the longer-term growth that is characteristic of the United States economy.

Part of the increased tendency toward long-range planning of capital outlays has been made necessary by the need to schedule replacements for the constantly expanding stock of machinery and equipment employed in modern industry. Estimates made by the National Industrial Conference Board indicate that replacement purchases in 1953 and 1954 constituted a much larger proportion of total expenditures for new equipment than they did just a few years earlier.

The drive to modernize existing plant and equipment also has been important. Indeed, outlays for modernization are often very closely related to both replacement and expansion. Funds spent to install a new kind of machine may be viewed first as an outlay for modernization, to replace an existing piece of equipment that is now outmoded, but if successful the result may be, initially, larger output than before at lower costs and lower selling price and, later, a need for more equipment to meet the larger market. This whole process has been given great impetus by the striking postwar rise of expenditures for research and development. By 1953, the total of such outlays had reached 4 billion dollars, about 70 per cent of which either was financed by private businesses or was spent for work done in their laboratories. Both the expenditures and the number of research scientists and engineers employed were about 50 per cent higher in 1953 than in 1948. It seems likely that this development has also tended to be concentrated in large manufacturing firms.

Another impetus to long-range capital planning—and to the maintenance of investment at high levels—has been the Federal program allowing the rapid amortization of plant and equipment used in defense production. Under this program (which was set up in 1950) corporations are granted the privilege, for tax purposes, of "writing off" certain forms of fixed investment in five years instead of over a longer period. Plant and equipment put in place under the program reached a peak of 7 billion dollars in 1952 and have declined since then, but in 1954 these expenditures totaled more than 4 billion dollars. Since the greater part of the 1954 outlays had been planned in earlier years, this segment of expenditures for new plant and equipment was to some degree insulated from cyclical fluctuations. It might also be noted that the program has been largely concentrated in industries that are characterized by large firms —for example, chemicals and steel. The stability of capital outlays by large firms during the recession may be partly a reflection of this fact.

Finally, ample internal funds were available for capital expansion during the period of recession in 1953-54. Depreciation accruals were very substantial, reflecting the large additions to capital stock since World War II. In addition, retained profits of all corporations fell only moderately in 1954, partly because of the mildness of the recession and partly because of the expiration of the excess profits tax. As a result, depreciation accruals and retained profits combined were actually some-

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what higher in 1954 than in the previous year, and were equivalent to 90 per cent of corporate outlays for new plant and equipment. Funds were also more readily obtainable from outside sources, as evidenced by the steadily rising prices on equity shares and the decline in long-term interest rates in 1954.

Conclusion

Business cycles in the past have usually been characterized by great instability in business spending for new plant and equipment. In the recession of 1953-54, however, the cutback in fixed investment was surprisingly moderate, and thus helped to account for the mildness of the general economic decline.

The continuing strength in capital expenditures—all the more impressive for having followed almost a decade of high level investment—has been noted by some observers as evidence of a trend toward greater stability which might help to make future recessions more moderate. In support of this position, there does seem to be an increasing tendency on the part of businessmen to take the longer view, to base more capital planning on the long-term growth of the economy. There has also been a rising investment in research to develop new techniques and new products which may contribute to long-run growth.

It should also be noted, however, that the relative stability of fixed investment in 1953 and 1954 appears to have flowed in part from influences that may prove only temporary. For example, the striking increases in commercial construction over the past several years have stemmed in part from the rapid spread of new merchandising techniques, and their continued adoption on a large scale during the 1953-54 recession was partly fortuitous. In other sectors, the special tax inducements of the defense mobilization program probably have had their greatest impact. Similarly, the demand for replacement may become less important than it has recently been. Indeed, in the face of serious economic weakness, the presence of a large existing stock of capital goods might add greatly to the instability of the economy, since the large volume of replacement outlays that is normally stimulated by such a stock could easily be postponed in times of uncertain outlook.

In general, it seems reasonable to conclude that the forces making for relative stability of investment in 1953-54 were partly the outgrowth of longer-run influences that promise to exert a stabilizing force in future business cycles as well. But these influences cannot be counted on to prevent the recurrence of business cycles, nor even to serve under all circumstances as an important restraint on future declines.

RECENT TRENDS IN PRIVATE INTERNATIONAL LENDING

Since 1953 there has been a noticeable increase in foreign bond issues in the principal capital markets, particularly in those of Western Europe. The amounts involved do not, it is true, compare in volume with private international lending in the decade following World War I; and loans by governments and international institutions continue to account for most of the current international long-term lending. Nevertheless, the expanded volume of foreign capital flotations, as well as the recent increase in the amount of private capital mobilized by the International Bank for Reconstruction and Development, may well indicate a greater willingness on the part of private investors to enter the field of international lending. These developments seem to be related, in part at least, to the continued improvement in world economic conditions, including an enlarged flow of investable funds and freer international trade and payments.

Switzerland

There has been a marked rise in Swiss foreign lending in the last two years. Switzerland's currency, traditionally one of the "hardest" in Europe, has been bolstered by the country's general stability, ample savings, and a favorable external trade and payments position—the latter resulting in part because Switzerland has been a depository for funds from other countries during the past two unsettled decades. These factors have brought about a relative abundance of funds available for investment. At the same time, foreign lending has increasingly become an important outlet for these funds, since the total borrowing by Swiss industries and government bodies has not been large enough to absorb existing investable funds. The average yield on government bonds had fallen in 1953 and remained below 3 per cent until mid-1955, and foreign borrowers increasingly entered the Swiss market. In 1954 total foreign bond issues floated in Switzerland rose to 395 million francs (92.2 million dollars), compared with 224 million (52.3 million dollars) in 1953 and only 50 million (11.7 million dollars) in 1951. Last year's total represented about 38 per cent of total bond issues (domestic and foreign) floated in the country,[1] compared with 22 per cent in 1953 and only about 4 per cent in 1951, and included loans for both foreign governments and foreign private concerns (among others, a United States electrical company) as well as for the International Bank.

The relatively favorable terms available to foreign borrowers in the Swiss market led to a continued high level of foreign bond flotations in 1955. By the end of August, eight bond issues totaling about 289 million francs (67.4 million dollars) had been floated in the Swiss market—equal to about 73 per cent of the total for the previous year and nearly 29 per cent more than in 1953. Borrowers in the Swiss market this year have included the Government of Australia, the Municipality

[1] Including conversion issues.

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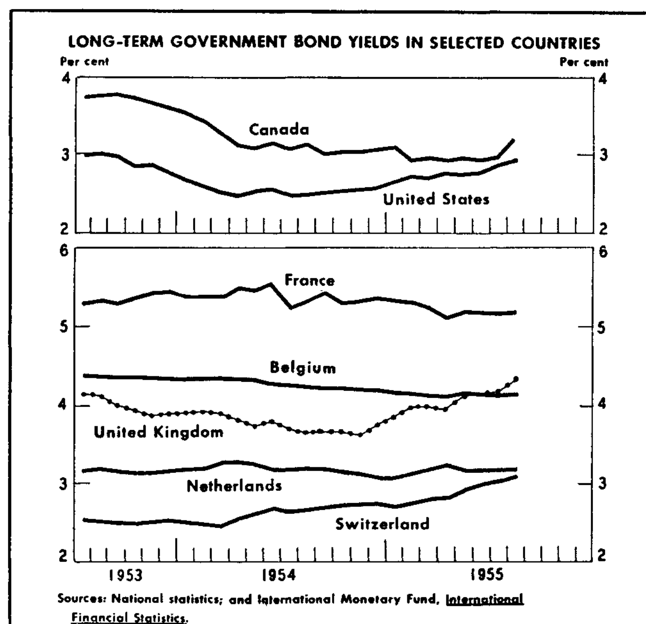
of Oslo, Norway, and private concerns in Canada, France, Italy, South Africa, and the United States.

The Netherlands

The Netherlands reappeared as a market for international long-term borrowers in mid-1954. In recent years, the improved balance-of-payments position and the rise in income had resulted in an increased supply of investable funds, which was further enlarged by considerable sales abroad of Dutch-owned securities. Moreover, the traditional export of Dutch capital to Indonesia largely subsided, and the Netherlands had to seek alternative investment outlets. Under these conditions, the authorities gradually took measures to facilitate portfolio investment abroad. In July 1954, agreement was reached with Belgium-Luxembourg to facilitate capital transfers within the Benelux area, and the Netherlands Bank began authorizing the issue of Belgian bonds denominated in guilders in the Dutch market. Earlier measures, including the ending of the obligation to keep foreign securities with authorized depositories, had already prepared the way for such issues. The immediate effect of these various developments was to create a freer capital market, and, with the low level of Dutch long-term interest rates then prevailing, foreign borrowers were quick to seize the opportunity. While there had been no foreign bond issues in the Netherlands market prior to July 1954 when Benelux capital movements were liberalized, the nominal value of foreign borrowing during the last 5½ months of 1954 totaled 192.5 million guilders (50.6 million dollars), of which 117 million was raised by public bond flotations and the remainder by private placements. Apart from the International Bank, the principal borrowers in the Netherlands in 1954 were the Belgian Government and municipalities.

The rise of Amsterdam as a foreign-lending center has continued in 1955. Foreign bond issues in the first eight months of 1955 were considerably above the total foreign lending in 1954. By August 1955 foreign long-term borrowers, including the International Bank, had tapped the Netherlands market with bond issues having a nominal value of 250 million guilders (65.8 million dollars). In addition, in August the first sterling issue in the Netherlands since the war was floated by a Rhodesian development finance company.[2]

The rise in foreign issues was in part the outcome of authorizations in the first half of 1955 that in effect allowed borrowers, not only from Belgium but also from the other EPU countries, to have access to the Dutch capital market. The Netherlands Bank sanctioned the issue of Belgian, French, Norwegian, and South African bonds denominated in guilders. Such issues were floated at effective interest rates that in most cases were lower than those in the borrowing countries or in other principal capital markets.[3]



United Kingdom

The United Kingdom has remained during recent years an important center for portfolio lending. British lending, however, has been confined almost entirely to sterling Commonwealth countries. For the most part the failure of London to recover its prewar position has followed inevitably from Britain's economic problems during and since the war. The international payments difficulties encountered by the sterling area and the heavy domestic demand for investment funds, together with the obligation of London to provide for the capital requirements of the Commonwealth, have necessarily limited British foreign portfolio lending mainly to the sterling Commonwealth countries. There has accordingly been little relaxation of the existing restraint on new foreign bond issues in London; the only significant exceptions to this policy seem to have been two International Bank flotations of 5 million pounds each in 1951 and in 1954, and some 5 million raised by other non-Commonwealth borrowers in 1951.

Overseas portfolio borrowing in London for use within the sterling area, however, has been substantial and has been increasing. In 1954 alone, sterling Commonwealth and colonial

[2] The nominal value of the fifteen-year bonds was 2.5 million pounds (7 million dollars); the bonds, issued at 98¼, carried a 4½ per cent coupon and had a yield of 4.64 per cent if held to maturity.

[3] Among such issues (at par) were the following: thirty-year 3¾ per cent bonds totaling 100 million guilders (26.3 million dollars), by Belgium; fifteen-year 4½ per cent bonds totaling 15 million guilders (3.9 million dollars), by a French private concern; twenty-year 4¼ per cent bonds totaling 35 million guilders (9.2 million dollars), by Norway; and twenty-year 4 per cent bonds totaling 50 million guilders (13.1 million dollars), by the Union of South Africa.

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governments and private concerns were authorized to borrow 89 million pounds (249.2 million dollars) in the London market,[4] an increase of 6 million over 1953; of the total, 41 million was authorized for governments and 48 million for private concerns. Britain's support of Commonwealth and colonial development through long-term lending has thus resulted in substantial authorizations for loans in the London market—during 1951-54 Commonwealth and colonial governments alone raised an estimated 157 million pounds in this manner.

However, the recurrence of inflationary pressures followed by monetary stringency in Britain this year may tend to dampen this activity. During most of 1954, the cost of borrowing at long-term in the London market was appreciably lower than at present. For example, the average yield on Consols remained generally below 3.9 per cent (see chart), and London afforded overseas borrowers a relatively cheap source of funds, compared with the more recent period. With the implementation of a policy of monetary restraint to counter the inflationary strains and balance-of-payments difficulties that have developed since late 1954, long-term rates have risen appreciably, thus widening the interest rate differentials between London and the main Continental centers. Presumably in part because of these differentials, certain Commonwealth borrowers have turned elsewhere for loans: in early 1954 South Africa had already tapped the Swiss market for 60 million Swiss francs (14 million dollars) on a fifteen-year loan at 4 per cent;[5] and in February 1955, Australia also floated in the Swiss market a fifteen-year 3.75 per cent bond issue for 60 million francs (14 million dollars).[6] In addition, South Africa in June floated another loan on the Continent, this time in the Netherlands; the twenty-year 4 per cent bonds were issued at par and totaled 50 million guilders (13.1 million dollars).

United States

There have recently been several new issues by foreign governments in the United States. The Australian Government in December 1954 floated a fifteen-year 25 million dollar bond issue carrying a coupon of 3¾ per cent.[7] Certain other government issues, as noted below, were floated in conjunction with the loans by the International Bank for Reconstruction and Development. Two weeks after the Australian bond issue in December 1954, the Belgian Government floated bonds totaling 30 million dollars, with maturities ranging from three to ten years, and carrying coupons of from 3⅜ to 4 per cent.[8] In April, the Norwegian Government issued, at par, bonds amounting to 15 million dollars; their maturities also ranged from three to ten years and carried coupons of from 3⅝ to 4¼ per cent. These various issues thus carried effective interest rates somewhat above the available yields on United States Government long-term bonds (see chart); apart from Israeli and Canadian issues, they were the first new dollar issues of foreign governments floated in the United States since 1947. It may be noted that all three issues were oversubscribed.

United States Holdings of Foreign Dollar Bonds
(In millions of dollars)

End of	Par value		Market value	
	All bonds	Excluding Germany and the IBRD*	All bonds	Excluding Germany and the IBRD*
1952	2,620	2,097	2,244	1,844
1953	2,751	2,205	2,383	1,958
1954	2,916p	2,305	2,720p	2,132

p Preliminary.
* International Bank for Reconstruction and Development.
Source: United States Department of Commerce, *Survey of Current Business*, August 1955.

The amounts involved in these issues in the United States market, as well as in those of other foreign borrowers, are still relatively small. According to United States balance-of-payments data, gross new issues in the United States for foreign account[9] amounted to only 77 million dollars during the first six months of 1955; they had totaled 309 million in 1954, 270 million in 1953, 286 million in 1952, and 491 million in 1951.

The decline in new issues since 1951 is mainly explained by changes in issues for Canadian account. Since 1951 new Canadian borrowing in the United States market has declined in part because of the gradual convergence of the Canadian and United States long-term interest rates (see chart), which has reduced the inducement both for Canadians to tap the United States market and for United States investors to acquire Canadian bonds. New Canadian issues in the United States market declined considerably during 1954, totaling only 167 million dollars compared with about 203 million in 1953. Canada in fact has itself become a market for foreign bond issues: in October 1955 the Australian Government floated in Canada a fifteen-year 15 million Canadian dollar loan at 4 per cent,[10] the first loan of its kind ever made in Canada.

Available data for United States holdings of all foreign dollar bonds, as shown in the accompanying table, indicate that the increase in their par value, which may be regarded as a measure of net bond acquisitions, was about 165 million dollars in 1954. These data include the bonds both of the

[4] Available British data on foreign borrowing give authorizations rather than actual sales of securities. Moreover, smaller loans of less than £50,000 do not require official sanction and are not included in the data; the total of such issues is believed to be considerable.

[5] Offered at a price to yield 4.09 per cent if held to maturity.

[6] Offered at a price to yield 3.79 per cent if held to maturity.

[7] Offered at a price to yield 3.86 per cent if held to maturity.

[8] Of the total, 15 million consisted of ten-year bonds offered at a price to yield 4.06 per cent if held to maturity.

[9] Mainly bonds, including refunding issues.

[10] Offered at a price to yield 4.13 per cent if held to maturity.

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International Bank and of Germany. However, the former have certain characteristics for which they may not be regarded as foreign bonds, while the figures for the latter were raised in 1954 by the amount of the bonds validated under the terms of the London Debt Agreement of 1953. Yet even if both these classes of bonds are excluded, as is done separately in the table, net United States acquisitions of foreign dollar bonds rose by some 100 million dollars in 1954. The market value of United States holdings of foreign dollar bonds (excluding those of the International Bank and Germany), also given in the table, likewise showed a rise.

The International Bank

The activities of the International Bank for Reconstruction and Development, too, have had a marked bearing on private investment abroad. Its lending has been world-wide, and has been mainly associated with large-scale basic development projects. During the year ended June 1955, the Bank's loans were the largest of any year since it began operations; nearly 410 million dollars were committed for projects in fourteen countries, compared with a total of 324 million in 1953-54 and 179 million in 1952-53.

The example of the Bank's lending has stimulated the interest of private portfolio investors outside the United States to the extent that in the 1954-55 year the Bank found it possible to sell all its new bond issues (88 million dollars' equivalent) in other countries, more than half in Western Europe.

Furthermore, in recent years investors have been increasingly attracted to purchases from the Bank's own portfolio of loans already made; a total of 70 million dollars of such loans, carrying the Bank's guarantee, were sold by the Bank to private investors during the two years ended June 1955.

Another way in which the Bank has influenced the flow of international lending has been through the participation, without the Bank's guarantee, of private concerns in the Bank's loans. In the year ended June 1955, commercial and other banks took up some 29 million dollars of the Bank's shorter-maturity portions of the loans, thus freeing an equivalent amount of the Bank's own resources for other purposes. For example, a consortium of eleven American private banks participated to the extent of 10.4 million in the recent 54.5 million International Bank loan to Australia. Such participations, it should be noted, have been on an international scale—a consortium of British Commonwealth banks took up some 2 million dollars' equivalent of the 13.8 million dollar loan made to Pakistan in June 1955, while Dutch, Belgian, French and other banks also have participated in the Bank's lending operations.

During 1954-55, the Bank thus tapped private sources, either from sales of paper out of its own portfolio or through private participation in new loans, to the amount of nearly 100 million additional dollars. This total was nearly three times that of any previous year, and marked the first year in which the Bank was able to raise more from sales of its debtors' obligations than from issues of its own bonds.

Finally, as already noted, bond issues have been floated in the New York market by foreign governments in conjunction with loans from the International Bank. In December 1954 Belgium floated bonds through a group of New York underwriters simultaneously with the granting of a 20 million dollar International Bank loan. Again, in April 1955 a syndicate of New York underwriters floated a dollar loan for Norway at the same time that a 25 million dollar loan was negotiated with the Bank.

The development of private lending associated with the International Bank's own loans thus has been a notable feature of the Bank's recent activities—a feature that has been in full accord with the Bank's stated policy of promoting private investment.

Concluding Remarks

Certain aspects of these recent trends in private international lending deserve further comment. The public offering of bonds concurrently with the granting of International Bank loans has been an interesting development in the field of international long-term credit; and further joint operations of this kind are anticipated, according to a statement made by the International Bank's president last September. In addition, the increasing sales of International Bank bonds in the principal markets outside the United States have effected a rechanneling of private savings into foreign lending that might not otherwise have taken place.

The International Bank's lending has been important in the less-developed countries by providing finance for basic development during a period when the resources of the private capital markets might not have been available. Other sources for finance outside the private capital markets have also been important; apart from intergovernmental lending, such sources include the United States Export-Import Bank, the Commonwealth Development Finance Company recently established in Britain to make both loans and equity purchases, and the British Commonwealth's Colombo Plan, which has made possible the mobilization of development resources on a substantial scale. Moreover, several new financial institutions, both official and private, have been recently created in the United States and abroad to promote international trade and development through medium-term lending and equity purchases, thus helping further to fill the gap brought about by the inability of the less-developed countries to borrow abroad through bond issues.

In this regard, it is worth noticing that new bond issues of the less-developed countries have been relatively unimportant,

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since almost all foreign bond issues recently floated in the major capital markets other than London have been for the account either of the governments of the more advanced countries or of private concerns located in or closely associated with such countries. Apart from the International Bank's activities, it has thus been mainly within this narrower sphere that private foreign lending through foreign bond purchases has been making a comeback for the first time since the war.

DEPARTMENT STORE TRADE

In the first of the three normally largest dollar-volume months (October-December) in department store sales, Second District department stores rang up sales estimated to have been 5 per cent larger in dollar volume than in October 1954. Daily average sales, adjusted for seasonal variation, were at the same level as in September. For the first ten months of the calendar year, sales were approximately 4 per cent higher than in the corresponding period a year ago.

New Series on Outstanding Orders

This Bank has recently completed the compilation of a new index for outstanding orders of department stores in the Second District, covering the period January 1940 to date (1947-49=100 per cent).[1] This index is based on a constant sample of department store firms which regularly report sales, stocks, and outstanding orders; the large national chains are not included in this sample. In 1954, sales by this reporting group accounted for approximately 65 per cent of this District's estimated department store sales.

Index of Second District Department Store Outstanding Orders*
January-September, 1954 and 1955
(1947-49 average=100 per cent)

End of month	Outstanding orders	
	1954	1955
January	75	71
February	82	79
March	71	72
April	57	59
May	49	54
June	73	82
July	103	117
August	97	114
September	95	108

* Copies of this index from 1940 to date may be obtained from the Financial and Trade Statistics Division, Research Department.

Inventories and Outstanding Orders in 1955

As the accompanying table indicates, end-of-month outstanding orders at Second District department stores began to rise relative to year-ago levels early in 1955 and reached a peak in August, when they were 17 per cent above the August 1954 level. In September, they fell off slightly, but at the end of the month they were still 14 per cent higher than they were a year earlier. The levels of outstanding orders in July and August of this year were the highest for those months since the summer of 1950, immediately following the outbreak of war in Korea. When adjusted for usual seasonal variations, outstanding orders at the end of July and August were at the highest level in almost three years. There has not been, however, any substantial build-up of inventories; despite this rise

[1] The index is computed by the following method: The ratio of outstanding orders to sales for the sample group of stores in a given month is multiplied by the estimated dollar volume of sales of the District for that month to estimate District outstanding orders. From this estimate of outstanding orders and a companion estimate of stocks, it is possible to estimate receipts and new orders data which are particularly useful for merchandising analysis. Data on receipts and new orders are not available for distribution.

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

Item	1955			1954
	Sept.	Aug.	July	Sept.
Sales (average daily), unadjusted	111	81	78	108r
Sales (average daily), seasonally adjusted	108	106r	108	105
Stocks, unadjusted	123	114	106r	122
Stocks, seasonally adjusted	116	117	117r	116

r Revised.

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

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

n.a. Not available.

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in orders, sales have kept pace with merchandise deliveries to the stores. Indeed, the stocks-sales ratio for Second District department stores in September (2.8) was fractionally below that of September 1954 (2.9).

Estimated new orders placed during June and July were also at the highest level for those months since the summer of 1950 and 14 and 7 per cent, respectively, above year-earlier levels. Department store new orders in August were 11 per cent higher than in August 1954, but in September they fell below the year-earlier dollar volume.

Among the factors which were probably responsible for the continued high level of outstanding orders in recent months were increased ordering in the spring for special promotion of summer goods and somewhat earlier orders of fall merchandise. In addition, the higher outstanding orders in August and September may reflect a lengthening of forward buying in response to substantial sales increases in some departments, and a delay in delivery of goods produced in the northeastern area where severe floods in August interrupted the production and flow of goods.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1955			1954	Percentage change	
		September	August	July	September	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	141*p*	140	139	124	+ 1	+14
Electric power output*	1947-49 = 100	202	208	208	172	− 3	+17
Ton-miles of railway freight*	1947-49 = 100	—	—	107*p*	89	+ 4	+20
Manufacturers' sales*	billions of $	27.3*p*	27.2	26.7	23.0	+ 1	+19
Manufacturers' inventories*	billions of $	44.6*p*	44.3	43.9	42.9	+ 1	+ 4
Manufacturers' new orders, total*	billions of $	28.2*p*	28.7	27.0	23.3	− 2	+21
Manufacturers' new orders, durable goods*	billions of $	14.9*p*	15.1	13.6	11.2	− 1	+33
Retail sales*	billions of $	—	15.7*p*	15.5	14.2	+ 1	+11
Residential construction contracts*	1947-49 = 100	252*p*	278	296	253	− 9	#
Nonresidential construction contracts*	1947-49 = 100	253*p*	246	231	217	+ 3	+17
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	89.9	89.5	90.8	90.8	#	− 1
Wholesale prices†	1947-49 = 100	111.6*p*	110.9	110.5	110.0	+ 1	+ 1
Consumer prices†	1947-49 = 100	114.9	114.5	114.7	114.7	#	#
Personal income (annual rate)*	billions of $	—	305.0*p*	305.3	287.9	#	+ 6
Composite index of wages and salaries*§	1947-49 = 100	—	142*p*	142	137	#	+ 4
Nonagricultural employment*	thousands	49,821*p*	49,750*p*	49,640	48,020	#	+ 4
Manufacturing employment*	thousands	16,686*p*	16,682*p*	16,635	15,739	#	+ 6
Average hours worked per week, manufacturing†	hours	41.0*p*	40.6	40.4	39.7	+ 1	+ 3
Unemployment	thousands	2,149	2,237	2,471	3,100	− 4	−31
Banking and finance							
Total investments of all commercial banks	millions of $	78,870*p*	79,340*p*	80,420*p*	83,330	− 1	− 5
Total loans of all commercial banks	millions of $	78,390*p*	77,340*p*	76,570*p*	67,250	+ 1	+17
Total demand deposits adjusted	millions of $	104,850*p*	103,890*p*	103,940*p*	101,200	+ 1	+ 4
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,359*p*	30,380	30,345	29,931	#	+ 1
Bank debits (337 centers)*	millions of $	71,681	74,758	70,116	62,546	− 4	+15
Velocity of demand deposits (337 centers)*	1947-49 = 100	130.0*p*	132.5	129.4	119.4	− 2	+ 9
Consumer instalment credit outstanding†	millions of $	—	26,155	25,476	21,935	+ 3	+19
United States Government finance (other than borrowing)							
Cash income	millions of $	5,988	6,333	2,994	5,280	− 5	+13
Cash outgo	millions of $	5,904	7,256	5,352	5,364	−19	+10
National defense expenditures	millions of $	3,292	3,777	3,350	3,297	−13	#
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	150	158	157	136	− 5	+10
Residential construction contracts*	1947-49 = 100	—	200*p*	211	160	− 5	+26
Nonresidential construction contracts*	1947-49 = 100	—	255*p*	286	207	−11	+36
Consumer prices (New York City)†	1947-49 = 100	112.6	111.9	111.9	112.7	+ 1	#
Nonagricultural employment*	thousands	—	7,523.9*p*	7,528.9	7,452.7	#	+ 1
Manufacturing employment*	thousands	—	2,618.9*p*	2,629.6	2,586.1	#	#
Bank debits (New York City)*	millions of $	63,182	67,793	60,726	57,317	− 7	+10
Bank debits (Second District excluding New York City)*	millions of $	4,810	4,797	4,695	4,278	#	+12
Velocity of demand deposits (New York City)*	1947-49 = 100	161.8	168.7	159.2	150.4	− 4	+ 8

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

p Preliminary. *r* Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
# Change of less than 0.5 per cent.
§ Revised series. Back data available from Financial and Trade Statistics Division, Federal Reserve Bank of New York.

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

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