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MONEY MARKET IN JANUARY

Conflicting tendencies characterized the money market in January. Prices of Government securities advanced during most of the month even though member bank reserve positions, after easing in the first week of the period, came under renewed pressure in succeeding weeks. Federal Reserve System operations were designed to counteract seasonal influences that normally provide the banking system with substantial reserve funds in January, but there were unusual developments this year that interfered with the smooth adjustment of bank reserve positions. During the four statement weeks ended on January 25, Federal Reserve open market operations resulted in a 1,250 million dollar decrease in System daily average holdings of Treasury securities, 868 million dollars of this decline having been effected through outright sales and redemptions of Treasury bills and 382 million by permitting repurchase agreements carried over from the year end to be withdrawn or to expire without renewal. In consequence, net borrowed reserves (member bank borrowings from the Federal Reserve Banks less excess reserves) rose from a very low daily average of 25 million dollars in the first two statement weeks of the month to 337 million in the last two statement weeks. Despite the rather wide fluctuations in member bank reserve positions, however, the effective rate for Federal funds in New York City remained at the ceiling of 2½ per cent during most of the month.

Notwithstanding the renewal of reserve pressure and the over-all tightness of the money market, virtually all sectors of the Government securities market were buoyant during most of the month. This buoyancy, particularly in the short-term area, reflected to an important degree the reappearance of a strong nonbank demand generated partly by the investment of the proceeds of recent or current offerings of corporate and municipal securities. Security prices were also influenced by the anticipation in some quarters of a possible shift in Federal Reserve policy on the assumption that the current business boom may have about reached its crest. Although bank reserve positions became tighter, the average issuing rate established at the weekly auction for Treasury bills fell to 2.493 per cent for the issue dated January 19 and to 2.245 per cent for the issue dated one week later, after having reached a peak of 2.688 late in December. Meanwhile, prices of longer-term bonds gained as much as 1⅛ points for the month as a whole, while most intermediates rose ⅜ to ¾ of a point.

Yields on outstanding corporate and municipal securities also fell during the month, and dealers in bankers' acceptances cut their rates by ⅛ of 1 per cent on January 19, the first reduction since the end of October. At the end of January the offering rate on unindorsed 90-day acceptances stood at 2⅜ per cent.

MEMBER BANK RESERVE POSITIONS

The pressure on member bank reserve positions eased somewhat in the early part of January, compared with the previous month, but renewed tightness developed during the third statement week. The initial easing reflected not only seasonal factors, such as the post-holiday return flow of currency to the banks and a decrease in outstanding loans, but also abnormal movements in both float and Treasury balances at the Federal Reserve Banks. Although float did decline, it remained at a much higher level than has been usual in the corresponding

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Table I
Changes in Factors Tending to Increase or Decrease Member Bank Reserves, January 1956
(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	Jan. 4	Jan. 11	Jan. 18	Jan. 25	
Operating transactions					
Treasury operations*	+168	+103	−120	− 31	+ 120
Federal Reserve float	−336	−297	−117	+ 3	− 747
Currency in circulation	+263	+238	+282	+271	+1,054
Gold and foreign account	+ 59	+ 16	+ 7	+ 29	+ 111
Other deposits, etc	− 30	+195	+ 16	+ 4	+ 185
Total	+125	+253	+ 69	+276	+ 723
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 6	−200	−389	−285	− 868
Held under repurchase agreements	+ 12	−277	−115	− 2	− 382
Loans, discounts, and advances:					
Member bank borrowings	−170	+216	+121	−106	+ 61
Other	+ 1	—	—	− 1	—
Bankers' acceptances:					
Bought outright	+ 4	− 1	− 2	− 1	—
Under repurchase agreements	− 2	− 2	− 1	—	− 5
Total	−148	−264	−386	−395	−1,193
Total reserves	− 23	− 11	−317	−119	− 470
Effect of change in required reserves†	− 88	+140	+155	+ 43	+ 250
Excess reserves†	−111	+129	−162	− 76	− 220
Daily average level of member bank:					
Borrowings from Reserve Banks	583	799	920	814	779‡
Excess reserves†	601	730	568	492	598‡

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 January 25.

weeks in recent years. The long holiday week end at the beginning of the month retarded the processing of the extraordinarily large volume of checks, and inclement weather over parts of the country subsequently interfered seriously with the physical movement of checks, thus delaying their collection. The daily average level of float was 1,390 million dollars for the first two statement weeks ended in January as compared with a daily average of 820 million dollars a year previous. Mail delays apparently were also responsible in part for unexpected declines in the Treasury's balances at the Federal Reserve banks to relatively low levels. For the week ended January 11, for instance, these balances averaged less than 250 million dollars despite frequent immediate calls by the Treasury on its Class C depositaries.

By the third statement week in the month, however, pressures on member bank reserve positions had again increased substantially, with daily average net borrowed reserves rising to 352 million dollars. This tightening of reserve positions was largely attributable to Federal Reserve security transactions which withdrew funds from the market by sales and redemptions of Treasury bills and by retirement of repurchase agreements carried over from the year end. As a consequence, member bank borrowings from the Federal Reserve Banks rose from a daily average of 583 million dollars in the first statement week in January, the lowest level since the end of July, to a daily average of 920 million dollars by the week ended January 18. In the following week, reserve pressure was maintained as System security transactions withdrew reserves from the banking system and offset the effect of decreased currency in circulation. Although bank borrowing at the Reserve Banks declined somewhat, it still remained well above the early January levels.

Government Securities Market

The market for Government securities was characterized by declining yields during most of the month, despite increasing reserve pressures. The yield on the longest outstanding issue of Treasury bills fell 24 basis-points from 2.50 per cent (bid) on January 3 to 2.26 per cent on January 23, but then turned up somewhat to close the month at 2.37 per cent. By January 23 the persistent strength of demand for certificates, notes, and shorter-term bonds had reduced yields on issues maturing through 1958 by about 20 to 40 basis-points below their levels at the start of the year, and to the lowest levels prevailing since mid-November. In the longer-term markets, yields tended to move in the same direction.

The average issuing rate established at the weekly auction for Treasury bills fell from 2.688 per cent for the issue dated December 29 to 2.489 per cent for the issue dated January 5. It then rose to 2.596 per cent in the auction held Monday, January 9, but in the two succeeding weeks dropped to 2.493 per cent and then 2.245 per cent, the lowest rate since the issue dated November 10. In the last weekly auction of the month, held January 30 for bills dated February 2, the rate rose to 2.402 per cent.

The fall in bill rates reflected primarily a marked expansion in nonbank demand. During much of January the market was strongly influenced by anticipations of a heavy demand for Government securities arising from the investment of proceeds from several corporate and municipal security issues offered or paid for during the month. As these special demands tapered off late in the month, bill rates tended to turn up again. To some degree, the short-term end of the market was also influenced by speculation that the economy might be approaching the crest of the current boom.

Such anticipation of an easing of credit policy exerted an even stronger influence on the long-term market. Prices of most issues increased steadily from January 9 to January 20, with issues maturing after 1968 generally rising about 1⅛ to 1⅜ points. Price increases in the intermediate and long-term areas were occasionally related to small interdealer trading, with investment activity confined mainly to swaps which on balance appeared to involve some lengthening of investor portfolios. The 3's of 1995 tended to lag behind the market as some investors and others undertook to liquidate moderate amounts after their early rise in price.

Other Security Markets

Increased buying interest, together with a light volume of bond offerings, brought about upward adjustments in prices in the corporate and municipal markets during January and a resultant decline in yields on outstanding bonds. Average yields on high-grade corporate bonds were reduced by 6 basis-points to 3.09 per cent during the month, according to Moody's Investors Service, while long-term municipal Aaa bond yields fell off slightly to 2.27 per cent, thus returning to the level of early December.

Public offerings of corporate bonds for new capital amounted to an estimated 150 million dollars in January, the smallest volume since last July, and investors were generally receptive to the issues placed on the market. A 75 million dollar flotation of twenty-year notes by a large finance company on January 20 constituted the largest single offering of the month. Investor interest was strongly attracted to the sale of 658 million dollars of Ford Motor Company common stock in the secondary market on January 18.

The volume of municipal bonds publicly offered in January also declined to the lowest amount in several months, and totaled an estimated 300 million dollars. Among the larger flotations of the month were an issue by a large municipality for 40 million dollars on January 10 and a 20 million dollar issue of expressway bonds on January 17, both of which met with a good response. Strong buying interest on the part of trust funds, casualty companies, and other institutional investors resulted in a rapid distribution of new issues, and attention was increasingly turned to the secondary market in seasoned bonds. Dealers reduced their inventories of recent issues to relatively low levels, and marked up prices on outstanding issues in the face of strong demand. The payment for the 415 million dollar issue of Illinois Toll Highway bonds, which had been offered on October 26 and then delayed by pending litigation, was completed on January 23 when delivery was finally effected.

Member Bank Credit

Total earning assets of weekly reporting member banks decreased by 1,379 million dollars during the period December 21 to January 18, with a decline in investments of 764 million dollars accounting for more than half of the drop. In the four previous weeks total loans and investments had increased by 1,477 million dollars, of which 1,257 million represented increased loans and 220 million the acquisition of investment securities. The drop in earning assets between December 21 and January 18 was somewhat greater than that occurring during comparable weeks a year ago, when total loans and investments fell by 1,160 million dollars. The reduction of 615 million in loans from December 21 to January 18 exceeded the decline of 487 million during a similar period last year but was considerably less than the decrease of more than 1 billion dollars which occurred two years ago.

The decline in business loans was largely attributable to those borrowers who normally repay loans at this time. Wholesale and retail outlets, commodity dealers, and food, liquor, and tobacco firms reduced their bank indebtedness to a noticeable extent. On the other hand, the volume of loans to manufacturers of metals and metal products, and to petroleum, coal, chemical, and rubber products producers increased during this period. Loans to sales finance companies continued to increase through the week ended January 4 but were reduced substantially in the following week. Several of the larger sales finance companies acquired funds totaling over 200 million dollars by private placement of their securities and apparently used most of the proceeds to retire bank loans. The decrease in bank loans to sales finance companies in the week ended January 11 totaled 222 million dollars and was the largest weekly decline in loans to those institutions since the present series of such statistics was inaugurated in the spring of 1951.

Table II

Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks

(In millions of dollars)

Item	Statement weeks ended				Four weeks ended
	Dec. 28, 1955	Jan. 4, 1956	Jan. 11, 1956	Jan. 18, 1956	Jan. 18, 1956
Assets					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans	+ 46	− 30	−247	− 74	− 305
Security loans	− 57	+ 14	−180	− 41	− 264
Real estate loans	− 11	− 12	− 8	+ 23	− 8
All other loans (largely consumer)	+ 57	+ 45	− 32	− 24	+ 46
Total loans adjusted*	+ 32	− 59	−471	−117	− 615
Investments:					
U. S. Government securities:					
Treasury bills	+ 1	—	−140	− 47	− 186
Other	−139	−165	−131	−130	− 565
Total	−138	−165	−271	−177	− 751
Other securities	− 4	+ 1	− 61	+ 51	− 13
Total investments	−142	−164	−332	−126	− 764
Total loans and investments adjusted*	−110	−223	−803	−243	−1,379
Loans to banks	+ 45	+373	−603	+168	− 17
Loans adjusted* and "other" securities	+ 28	− 58	−532	− 66	− 628
Liabilities					
Demand deposits adjusted	+143	−498	+ 37	+151	− 167
Time deposits except Government	+ 25	− 22	− 56	− 39	− 92
U. S. Government deposits	− 91	−135	−966	−257	−1,449
Interbank demand deposits:					
Domestic	+ 22	+646	−566	−165	− 63
Foreign	+ 54	− 5	− 59	+ 42	+ 32

* 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.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

Credit restraint generally continued to dominate the money and capital markets in the principal foreign financial centers during January. In the United Kingdom, the Treasury announced higher interest rates for new loans to local authorities by the Public Works Loan Board, the fifth such increase since February 1955. The rate for loans up to five years was raised from 4½ to 5½ per cent, for five to fifteen-year loans from 5 to 5⅜ per cent, and for loans exceeding fifteen years from 5 to 5¼ per cent; however, the Board's rule is not to make loans for periods of less than seven years. At the same time, the Treasury lifted the restriction on borrowing by local authorities from nongovernment sources for periods shorter than seven years, which had been in force since the war. This is in line with the government policy set forth last October under which the local authorities were to rely more on the capital market for their funds and less on advances from the Public Works Loan Board. The new policy is to be on an experimental basis only, and the local authorities have been urged to keep the volume of short-term mortgage borrowing "within prudent limits".

The year-end statement of the London clearing banks reveals a further cut of 62 million pounds in advances during the six weeks ended December 31, making for a total reduction of 335 million, or 15 per cent, since the end of June. Loans to the private sector accounted for only a part of this fall. The clearing banks' holdings of Treasury bills rose substantially during the second half of 1955, with the result that the banks' average liquidity ratio stood at 37.3 per cent at the year end, compared with 30.2 at the end of June and 34.3 a year previously. Total deposits fell by 5 per cent during 1955. Treasury bill rates remained steady throughout January, with an average tender rate for three months' bills of 4.07 per cent, unchanged from the year-end rate. Government bond yields, on the other hand, rose sharply; the yield of 2½ per cent Consols, which had stood at 4.42 per cent at the end of December, on January 23 reached 4.60, the highest level since December 1931, falling subsequently to 4.51 on January 30.

In Canada, loans by the chartered banks continued the slow decline that had begun in mid-December; the preceding rise had been almost uninterrupted since mid-February 1955. On January 18, total loans had fallen to about the November 30 level, but still were 21 per cent over a year earlier; during the four weeks ended January 25, bank holdings of government securities declined by 2 per cent. During January, the banks' average cash ratio rose somewhat over the level of the previous five months, and no Bank of Canada advances to the chartered and savings banks were outstanding after the first statement week of the month. Interest rates, which had climbed to their 1955 highs in the first half of December and had eased somewhat thereafter, edged upward again during the early part of January, but declined further during the second half of the month; the three months' Treasury bill tender rate on January 26 declined to 2.53 per cent, the lowest level since November 18.

In Brazil, the rise in the Banco do Brasil's rediscount rates that had become effective December 1 (see January *Review*) was revoked; the 8 and 10 per cent rates then introduced for certain types of commercial bills and for promissory notes, respectively, were reduced to the 6 per cent level that had been in force since last May.

Exchange Rates

Sterling was firm during most of January, with fairly good commercial demand. Near the end of the month it tended to ease somewhat in a relatively inactive market.

Following reassuring statements from London that the British Treasury intended to adhere to the exchange policies pursued by former Chancellor of the Exchequer Butler, sterling rose to $2.80 31/32 on January 19, the highest quotation since August 1954. At the month's end, however, the rate was somewhat lower at $2.80 21/32, but still higher than the December close of $2.80⅜. The British authorities reportedly intervened, on a small scale, on both sides of the market during the month.

Commercial demand for forward-delivery sterling early in the month narrowed the discount on three months' sterling to 15/16 cent, but by the month end the quotation had widened to 1⅛ cents as offerings increased.

Activity in transferable sterling during January was on a smaller scale than in previous months. During January, the rate fluctuated between $2.7730 and $2.7790, with the high being quoted near the month's end. Securities sterling declined from $2.74⅝ to $2.73¼ in a dull market.

The Canadian dollar market was less active in January. There was intermittent demand for the Canadian dollar from investment houses, grain dealers, and oil companies, and on several days during the month the Canadian dollar reached $1.00 3/16. At the end of the month it tended to ease, principally in anticipation of a fair supply of Canadian dollars coming into the market as a result of a maturing Canadian bond issue. At the month's end, the Canadian dollar was quoted at $1.00⅛.

THE PRESIDENT'S BUDGET MESSAGE

With the submission of the President's annual Budget Message to the Congress on January 16, the country was given an agenda for meeting national objectives at home and abroad during the fiscal year beginning July 1, 1956. The proposed Budget provides for a modest increase in total Federal spending over the anticipated level for the current fiscal year. With present tax rates, however, the increase will be more than offset, according to the Budget estimates, by the rise in receipts expected to result from growth in the national economy.

The Budget for the fiscal year 1957 is a balanced budget, as is the revised Budget for the current fiscal year. The margin of estimated surplus in the regular budget accounts is 230 million dollars in the current year and 435 million dollars in the new fiscal year starting in July. These estimates, however, do not reflect the accumulations of net receipts in the various trust funds, nor are they adjusted for intragovernmental payments and receipts. The cash accounts, which consolidate the budget and trust fund accounts and measure the actual flow of cash payments and receipts between the public and the Federal Government as a whole, are generally believed to provide a clearer indication of the economic impact of Federal financial operations than is obtained from the regular budget accounts. Summary totals on both a budget and a cash basis are given in Table I.

On a consolidated cash basis, the new estimates project an excess of receipts from the public over payments to the public of 2.4 billion dollars in both fiscal years 1956 and 1957. These cash surpluses compare with cash deficits of 0.2 billion dollars and 2.7 billion dollars in the fiscal years 1954 and 1955, respectively. The changes in the cash surpluses and deficits since the fiscal year 1950 are illustrated in Chart I.

On the basis of the Budget estimates, the public debt will be reduced slightly in the current fiscal year and by 500 million dollars in the fiscal year 1957. The estimated public debt at the end of the latter year is 273.8 billion dollars. Net retirement of debt held by the public will exceed the reduction in the public debt, because of the continued sale of Government securities to the trust funds. After taking into account net sales of Government corporation issues, the amount of net retirement of debt held by the public is estimated at 2.6 billion dollars this fiscal year and 2.5 billion dollars next year.

The indicated redemption of publicly held debt will be concentrated in the January-June periods of each fiscal year. As shown in Table I, the Budget estimates for the fiscal year 1956 imply a cash surplus of 9.4 billion dollars in the current half year, in contrast to a cash deficit of 7.0 billion dollars during July-December 1955. Most of the cash surplus in January-June 1956 will be used for debt retirement. The large seasonal shift from a cash deficit to a surplus during the fiscal year 1956 will be repeated next year.

Cash Expenditures

The President's Budget calls for cash expenditures of 72.9 billion dollars in the fiscal year 1957, compared with an estimated 71.0 billion in the current fiscal year and 70.5 billion in fiscal 1955. The estimated increase of 1.9 billion dollars in 1957 is divided about equally between major national security programs—which include military expenditures of the Defense Department, military assistance under the Mutual Security Program, atomic energy, stockpiling of strategic and critical materials, and defense production expansion—and all other expenditure programs.

Requested new authority to incur obligations is 4.3 billion dollars higher in the 1957 Budget than for the current fiscal year. This increase—considerably larger than the estimated rise in either budget or cash expenditures—is concentrated in national security programs and reflects both the rise in the anticipated rate of spending and the need for additional funding of long lead-time items.

As illustrated by the right-hand panel of Chart II, the increase in estimated national security expenditures between the

Table I
Cash and Budget Receipts and Expenditures of the Federal Government, Fiscal Years 1955-57
(In billions of dollars)

Item	1955 (Actual)	1956			1957 (Est.)
		July-Dec. 1955 (Actual)	Jan.-June 1956 (Est.)	Total (Est.)	
Receipts from the public, total	67.8	29.4*p*	44.1*p*	73.5	75.4
Budget receipts	60.4	25.2	39.3	64.5	66.3
Trust fund receipts	9.5	5.5	6.2	11.6	11.9
Less:					
Intragovernmental transactions and seigniorage	− 2.1	− 1.3*p*	− 1.3*p*	− 2.6	− 2.8
Payments to the public, total	70.5	36.4*p*	34.6*p*	71.0	72.9
Budget expenditures	64.6	33.1	31.1	64.3	65.9
Trust fund expenditures	8.5	4.4	5.2	9.6	10.2
Less:					
Intragovernmental transactions	− 2.1	− 1.3*p*	− 1.3*p*	− 2.6	− 2.8
Net accrued interest and other transactions*	− 0.5	0.2*p*	− 0.4*p*	− 0.2	− 0.3
Cash surplus, or deficit (−)	− 2.7	− 7.0*p*	9.4*p*	2.4	2.4
Budget surplus, or deficit (−)	− 4.2	− 7.9	8.1	0.2	0.4

Note: Details may not add to totals due to rounding.

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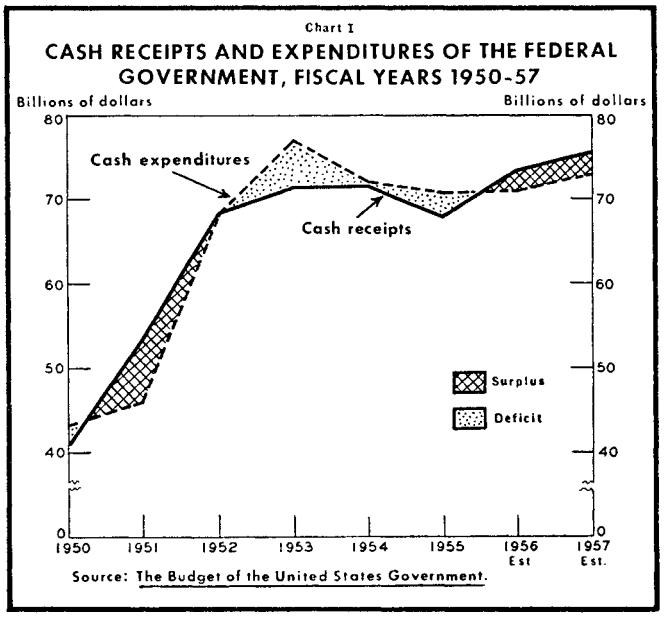
* Other transactions include net receipts of Government-sponsored enterprises, net change in noninterest-bearing notes to the International Bank and International Monetary Fund, the change in the Clearing Account, and the net redemption (−) of Armed Forces leave bonds and adjusted service bonds.

Sources: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1957*, the *Daily Statement of the United States Treasury*, and the *Monthly Statement of Receipts and Expenditures of the United States Government.*



fiscal years 1956 and 1957 represents a reversal of the declining trend of these expenditures since the peak fiscal year 1953, whereas the increase in other expenditures is a continuation of the advance which started after the fiscal year 1954. Expenditures for international affairs and finance, also shown in the chart, moved within the narrow range of 1.6 billion to 2.2 billion dollars during the fiscal years 1953-57.

National security programs account for 56 per cent of total cash expenditures in the 1957 Budget. Inclusion of expenditures for veterans and interest—which comprise, for the most part, "aftermath-of-war" expenditures—raises this figure to 71 per cent of the total. The remaining 29 per cent is divided among international affairs (other than military assistance), labor and welfare, agriculture, natural resources, commerce and housing, and general government (see Table II).

The major changes in national security program expenditures in 1957 include increases of 1.0 billion dollars for military expenditures of the Department of Defense and 200 million dollars for atomic energy, and a decrease of 300 million dollars for stockpiling and defense production expansion. Among the broad categories of the Department of Defense expenditures, the largest increases are for operation and maintenance, guided missiles, and reserve forces. Military personnel costs are expected to be about the same as in the current fiscal year, with the number of military personnel on active duty estimated at 2,814,100 at the end of the current fiscal year and 2,838,400 a year later.

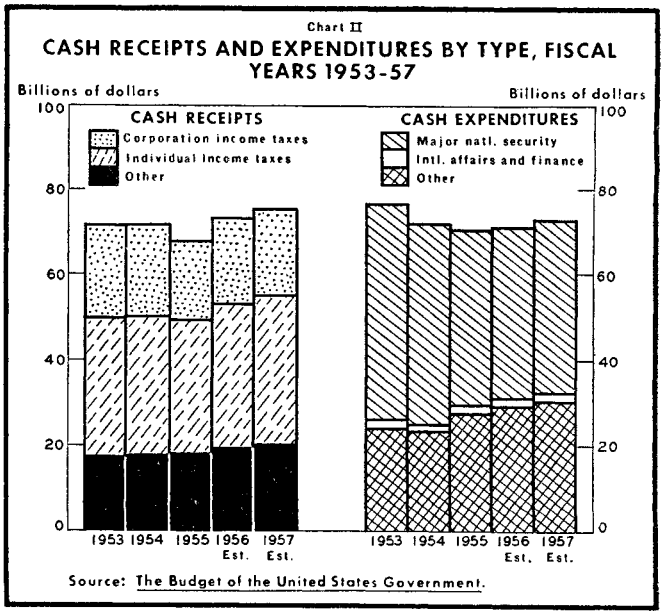
The Defense Department estimates indicate that the gradual shift toward greater emphasis on airpower will continue into 1957 (see Chart III). Over 45 per cent of total Defense Department expenditures will be for the Air Force in that year, in contrast to only 35 per cent in the fiscal year 1953.

Estimated expenditures for military and economic assistance under the Mutual Security Program show a small increase from 1956 to 1957. In this connection, the President recommended that the Mutual Security Act be amended "to assure greater continuity in providing economic assistance for development projects and programs which we approve and which require a period of years for planning and completion".

Outside the national security and international areas, the 1957 Budget includes an increase of 1.2 billion dollars in cash expenditures in the "labor and welfare" category. More than half of this increase represents the growth in payments by the old-age and survivors insurance trust fund. Other portions of the increase are for the aid of school construction and for various public health activities.

Estimated expenditures for agricultural programs show little net change from 1956 to 1957. A "soil bank" plan, under which farmers would be paid in cash or surplus crops for reducing crop acreage, is proposed. This plan, together with some accompanying proposals, would cost an estimated 400 million dollars in fiscal year 1957, but this cost is offset by an estimated reduction in outlays for the price-support operations of the Commodity Credit Corporation.

Pending final determination of the amounts required for a national highway program—potentially a very big program—the 1957 Budget provides only for the maintenance of the present annual authorization. The President observed that any new highway program should "be soundly financed so as not to create budget deficits".



Cash Receipts

Cash receipts in the fiscal year 1957 are estimated at 75.4 billion dollars, 1.9 billion dollars higher than in the current year and 7.6 billion dollars higher than in the fiscal year 1955.

The receipts estimates for 1957 are predicated on the continuation of present tax rates. Under present law, rate reductions are scheduled in various excises and in the corporate income tax as of April 1, 1956. If these reductions were allowed to occur, the estimated revenue loss in the fiscal year 1957 would be 0.9 billion dollars in excises and 1.2 billion in corporate taxes. The President asked Congress for legislation extending the present rates of these taxes.

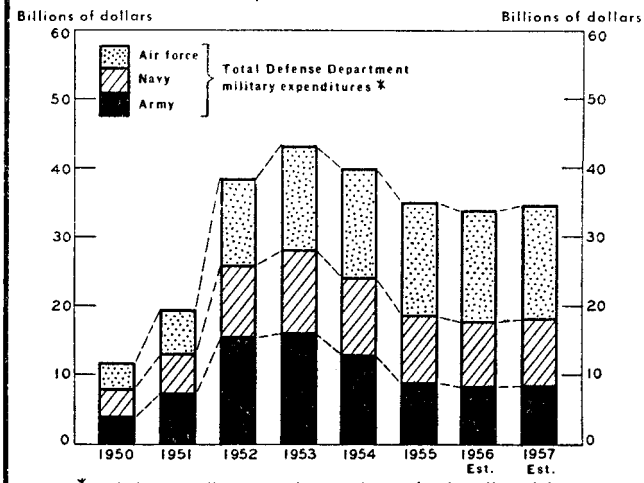
The Treasury Department, which prepared the estimates of tax receipts in the Budget, indicated that the estimates were considered conservative and were based on these economic assumptions: personal income of 312.5 billion dollars in the calendar year 1956 and corporate profits of 43.0 billion dollars. Preliminary data for calendar year 1955 indicate personal income at 303.1 billion dollars, although the seasonally adjusted annual rate for the fourth quarter is estimated at a record 312.2 billion. Estimated corporate profits before taxes were at an annual rate of 42.8 billion dollars for the first three quarters of calendar year 1955, and a somewhat higher figure is indicated for the full year. While the Treasury's assumption with respect to personal income allows for a substantial advance over the 1955 total, it is only a shade higher than the rate reached in the fourth quarter. In the case of corporate profits, the Treasury's assumption allows for the continuance of the profit level of 1955 as a whole, but for some reduction from the high rates in the last two quarters of the year.

Table II
Cash Receipts and Expenditures of the Federal Government, Fiscal Years 1955-57
(In billions of dollars)

Item	1955 (Actual)	1956 (Est.)	1957 (Est.)
Receipts from the public, total	67.8	73.5	75.4
Individual income taxes	31.7	33.6	35.1
Corporation income taxes	18.3	20.3	20.3
Excise taxes	9.2	9.9	9.9
Employment taxes	6.2	7.4	7.6
Unemployment insurance taxes*	1.1	1.3	1.3
Other budget and trust receipts	4.8	4.9	5.2
Refunds (−)	− 3.5	− 3.9	− 4.0
Payments to the public, total	70.5	71.0	72.9
Major national security	40.8	39.6	40.5
International affairs and finance	2.0	2.0	2.0
Veterans' services and benefits	5.1	5.3	5.5
Labor and welfare	9.9	10.7	11.9
Agriculture and agricultural resources	4.4	3.2	3.3
Natural resources	1.1	1.1	1.1
Commerce and housing	1.6	2.5	2.1
Interest	4.7	5.2	5.4
General government	1.4	1.6	1.7
Other cash payments to the public†	− 0.3	− 0.2	− 0.5
Cash surplus, or deficit (−)	− 2.7	2.4	2.4

Note: Details may not add to totals due to rounding.
* Deposits by States only.
† Includes deposit funds (net), deduction (−) from Federal employees' salaries for retirement funds, the change in the Clearing Account, and reserve for contingencies.
Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1957.*

Chart III
MILITARY EXPENDITURES OF THE ARMY, NAVY, AND AIR FORCE, FISCAL YEARS 1950-57



*Excludes a small amount of expenditures for the Office of the Secretary of Defense and other interservice activities.
Source: The Budget of the United States Government.

As shown in Table II, most of the increase in cash receipts from the current fiscal year to next year is expected to occur in individual income taxes. The estimates for both corporation taxes and excises are unchanged in the two years, while small increases are indicated for employment taxes and miscellaneous revenues.

Debt Subject to Statutory Ceiling

During late December 1955 and early January, the Treasury operated within 1 billion dollars of the temporary debt ceiling of 281 billion dollars. Even with a balanced budget in the fiscal year 1957, heavy seasonal borrowing in the first half of the fiscal year will temporarily bring the debt above the permanent ceiling of 275 billion dollars which will again become effective, under present law, after June 30, 1956. The President, therefore, requested an extension of the temporary ceiling for another year.

The Budget estimates place the public debt subject to the ceiling at 273.8 billion dollars on June 30, 1956, and 273.3 billion dollars at the close of the ensuing fiscal year. The public debt includes, in addition, about 500 million dollars of debt not subject to the ceiling.

The Treasurer's balance is estimated at 6.0 billion dollars at the end of both fiscal years 1956 and 1957. This amount is a reduction of about 200 million dollars from the balance at the beginning of the fiscal year 1956 (see Table III).

The 1957 Budget and the National Economy

A central aim of the new Budget is to promote a growth of private spending and national production at faster rates than Government spending. Federal expenditures, according to the Budget Message, "have declined from 20.6 per cent of total national production in the fiscal year 1953 to 17.3 per cent in 1955", and the new Budget "is designed to continue that trend".

In order to gauge the probable impact of the 1957 Budget on the national economy, it is necessary to weigh in balance two sets of opposing effects. On the expenditures side, the Budget is mildly expansionary in that it provides for moderate increases in both national security and civil programs and includes proposals for some new, longer-range programs in such fields as agriculture, highways, and public school construction. On the receipts side, however, the Budget implies a sufficient absorption of private purchasing power through increased tax collections to provide the Treasury with a cash surplus of 2.4 billion dollars, which will be available for retirement of some publicly held debt; this of course assumes Congressional action to implement the President's hold-the-line policy on tax rates.

Should a further expansion of the national economy raise income and profits above the levels assumed for the estimates of tax collections, the increase in Federal receipts would be larger than is anticipated in the Budget, and the resulting surplus would be larger as well. The responsibility of fiscal policy under such circumstances would be to use the surplus in ways most conducive to economic stability and continued growth. Under opposite conditions of seriously lagging business and consumer spending, a change in the direction of fiscal policy would be called for, along with Governmental action on other fronts.

Table III
Factors Accounting for Changes in the Public Debt, Fiscal Years 1955-57
(In billions of dollars)

Item	1955 (Actual)	1956 (Est.)	1957 (Est.)
Cash surplus (−), or deficit	2.7	− 2.4	− 2.4
Change in cash balances and seigniorage*	− 0.9	− 0.2	− †
Cash borrowing from the public, or redemption (−), net‡	1.8	− 2.6	− 2.5
Noncash borrowing	2.2	3.4	2.5
Net sales of Government corporation issues (−)‡	− 0.9	− 0.8	− 0.5
Increase in the gross public debt‡	3.1	− 0.1	− 0.5
Gross public debt at end of year	274.4	274.3	273.8
Treasurer's balance at end of year	6.2	6.0	6.0

Note: Details may not add to totals due to rounding.
* Change in cash balances includes change in Treasurer's balance as well as in Federal cash balances outside the Treasury.
† Less than 50 million dollars.
‡ Cash borrowing from the public includes net sales of Government corporation issues, but only changes in direct Treasury issues affect the gross public debt.
Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1957.*

TRENDS IN INTERNATIONAL RESERVES AND PAYMENTS IN 1955

The gold and dollar holdings of foreign countries continued to grow throughout 1955, although somewhat more slowly than in the two previous years.[1] At the year end, such holdings are estimated to have reached 26.6 billion dollars, or 1.6 billion more than a year previous, compared with gains of 1.9 billion in 1954 and of 2.6 billion in 1953; they thus were 11.8 billion higher than at the time of the currency devaluations in September 1949, and 7.7 billion above the March 1952 low. The 1955 rise in gold and dollar holdings was largely limited, however, to the Continental Western European countries and, to a lesser extent, some of the nonsterling-area countries of Asia. The aggregate holdings of the sterling-area countries fell, although more moderately than during the previous declines in 1949 and 1951. The holdings of Latin American countries rose slightly, while those of Canada declined somewhat.

The Flow of Gold and Dollars

About two fifths of the 1955 rise in gold and dollar holdings abroad, or about 650 million dollars, took the form of gold —about the same proportion as in 1954, but smaller than in 1953 when gold accounted for two thirds of the gain. A notable feature of last year's growth of foreign gold reserves was the fact that only about 10 per cent originated from purchases in the United States, compared with some 35 per cent in 1954 and nearly 75 per cent in 1953. As may be seen from Table I, the United States sold, on balance, only 68 million dollars' worth of gold to foreign countries in 1955, as against 327 million in 1954 and 1,164 million in 1953. These sales, moreover, occurred entirely during the first half of the year; during the second half, the United States was a small net purchaser. The principal buyer was France, which purchased 68

[1] "Dollar holdings", as used in this article, comprise both official and private holdings, and consist primarily of sight and time deposits, short-term United States Government securities, a limited amount of longer-term Government notes and bonds reported as purchased within twenty months of maturity, and bankers' acceptances, as reported by United States banks. "Gold holdings" include reported and estimated official gold reserves. Gold holdings of the USSR are excluded, but dollar holdings of that country are included. Gold and dollar holdings of international institutions other than the Bank for International Settlements and the European Payments Union are excluded. For further details, see footnotes to Table II. Changes in foreign gold and dollar holdings in earlier years were surveyed in the *Monthly Review* for January 1951, February 1952, February 1953, February 1954, and February 1955.

million; Germany bought 10 million and Portugal 5 million. These purchases were partly offset by an 11 million dollar sale by Uruguay to the United States and net sales of 4 million by other countries.

By far the most important factor in the 1955 increase in gold holdings abroad was the accruals from new production, although some gold was reportedly also sold by the USSR in certain gold markets in Western Europe. Gold output abroad (excluding the USSR) rose last year to somewhat over 900 million dollars, or by about 6 per cent, primarily as a result of an expanded South African output. About two thirds of the new production found its way into the official gold reserves of foreign countries, as against three fifths in 1954 and a mere fifth in 1951 at the height of the Korean hostilities. Net additions to private gold hoards, which already were substantially smaller in 1954 than in any year since the end of World War II, probably declined further in 1955.

A large proportion of last year's gold production was sold on the London gold market, which had reopened in March 1954 after having been closed for fifteen years. South Africa and other sterling-area producers sold the bulk of their output in the London market, which also received gold from a number of nonsterling producers. The principal buyers were Western European central banks, but some gold was also sold to private operators, particularly in the Middle and Far East. The dollar equivalent of the London price remained, during the entire year, within the United States buying and selling prices of $34.9125 and $35.0875 ($35 plus or minus ¼ per cent), at which this Bank, acting on behalf of the United States Treasury, deals with foreign monetary authorities. Sellers thus received a higher price in London, and foreign monetary authorities found it cheaper to acquire gold in London rather than here from the United States Treasury. This was an important factor tending to reduce United States gold sales.

Table I

United States Net Gold Sales to Foreign Countries
(Includes transactions with the Bank for International Settlements; (—) = net purchases by the United States)

Period	Millions of dollars
Annual:	
1951	− 75
1952	− 394
1953	1,164
1954	327
1955	68
Quarterly:	
1954— I	63
II	20
III	172
IV	72
1955— I	37
II	42
III	− 9
IV	− 1

Note: Quarterly figures do not necessarily add to yearly figures because of rounding.

As a result of these various gold movements, the United States monetary gold stock declined by 41 million last year,[2] and at the year end the United States held 57 per cent of the world's monetary gold reserves (excluding those of the USSR but including those held by international financial institutions), as against 70 per cent in September 1949 and 60 per cent in December 1945.

Foreign dollar holdings rose by about 1 billion in 1955 to 12.2 billion. A larger proportion of the increase than in previous years went into private foreign dollar holdings; the latter rose about 400 million dollars, as against about 30 million during 1954, while official holdings rose some 600 million, compared with about 1 billion in 1954. Partly because of the increased yields on United States Treasury obligations, the bulk of the rise in foreign official and private dollar holdings last year took the form of purchases of such securities. The amount of United States Government securities held for foreign monetary authorities at the Federal Reserve Banks rose 740 million to 3,648 million during 1955. At the year end, about 80 per cent of the official dollar holdings of foreign monetary authorities was in the form of United States Government securities.

Reserve Positions of Foreign Countries

Last year's growth in the aggregate gold and dollar holdings of foreign countries reflected primarily the continued improvement in the reserve positions of most Continental Western European countries. As is apparent from the chart and Table II, the growth in the gold and dollar holdings of Continental Western Europe during the twelve months ended September 1955 exceeded, for the third consecutive year, the reserve gains of the preceding twelve months. The largest gain was made by France; of the rise of 1,705 million dollars in Continental Western European holdings during this period, 524 million was accounted for by additions to French official and private dollar assets and Bank of France gold holdings. The French Exchange Stabilization Fund also appears to have acquired gold; at the end of the year 286 million dollars of gold was transferred from the fund to the Bank of France. The second largest gain was by West Germany with a 425 million dollar rise, while Italian and Belgian reserves also showed sizable increases. The Continental Western European countries as a group thus continued the building-up of their gold and dollar holdings that had been under way since June 1948; by September 1955 their holdings of 12.5 billion dollars were more than twice as large as at the 1948 low point.

The aggregate gold and dollar holdings of the sterling-area countries declined by 501 million during the year ended September 1955, as against a rise of 347 million dollars during the

[2] The difference between the 41 million dollar decline in the United States gold stock and the United States sales of 68 million noted above is mostly accounted for by net purchases from domestic production.

previous year. However, the area's payments difficulties—a compound of the inflationary rise in demand in the United Kingdom and certain overseas sterling countries and of speculative pressures against the pound—were not so acute as in some earlier years; furthermore, sterling payments were, in effect, freer last year than in any other postwar year. The central gold and dollar reserves held by the United Kingdom,[3] which had declined 417 million during the first three quarters, fell a further 225 million during the last quarter to 2,120 million, but this was attributable to the extent of 188 million dollars to interest and amortization payments under the postwar loan agreements with the United States and Canada. By the year end, the United Kingdom's dollar payments—aside from the service on its foreign indebtedness—appeared in better balance; but stress continued to be laid upon achieving a surplus in order to meet the country's foreign obligations, to invest overseas, and to rebuild its monetary reserves.

The nonsterling countries of Asia as a group increased their gold and dollar holdings by 357 million during the year ended September 1955, compared with a 270 million decline during the previous twelve months. This improvement to a large extent reflected the more favorable balance of payments in Japan and Indonesia, which added 198 million and 48 million, respectively, to their holdings.

Canadian holdings increased by only 80 million dollars during the year ended September 1955, in contrast to a 251

[3] I.e., the central reserves of the sterling area as made public by the Chancellor of the Exchequer.

Table II
Foreign Gold and Dollar Holdings
(In millions of dollars)

Area and country	March 1952			September 1953			September 1954			September 1955*p*		
	Gold	Dollar holdings	Total	Gold	Dollar holdings	Total	Gold	Dollar holdings	Total	Gold	Dollar holdings	Total
Canada	874	1,340	2,214	970	1,322	2,292	1,059	1,484	2,543	1,141	1,482	2,623
United Kingdom and other sterling-area countries	2,134	1,063	3,197	2,791	1,279	4,070	3,236	1,181	4,417	2,945	971	3,916
Continental OEEC countries:												
Austria	52	54	106	47	161	208	53	282	335	61	280	341
Belgium-Luxembourg (and Belgian Congo)	701	202	903	811	270	1,081	872	152	1,024	993	153	1,146
France (and dependencies)	568*	290	858*	596*	407	1,003*	596*	528	1,124*	596*	1,052	1,648*
Germany (Federal Republic)	28	362	390	259	794	1,053	574	1,248	1,822	825	1,422	2,247
Italy	346	292	638	346	368	714	346	528	874	346	769	1,115
Netherlands (and Netherlands West Indies)	364	179	543	747	275	1,022	820	298	1,118	828	281	1,109
Sweden	214	62	276	206	103	309	219	180	399	264	148	412
Switzerland	1,432	545	1,977	1,456	664	2,120	1,503	669	2,172	1,513	683	2,196
Other†	953	368	1,321	1,074	672	1,746	1,240	711	1,951	1,694	616	2,310
Total‡	4,658	2,354	7,012	5,542	3,714	9,256	6,223	4,596	10,819	7,120	5,404	12,524
Other Continental Europe	466	79	545	472	95	567	471	133	604	466	198	664
Latin America:§												
Argentina	268	189	457	371	147	518	371	205	576	371	165	536
Brazil	317	100	417	317	164	481	322	91	413	322	147	469
Mexico	185	172	357	155	170	325	60	255	315	141	340	481
Venezuela	373	67	440	373	198	571	403	211	614	403	259	662
Other	803	891	1,694	711	1,100	1,811	678	1,062	1,740	662	940	1,602
Total	1,946	1,419	3,365	1,927	1,779	3,706	1,834	1,824	3,658	1,899	1,851	3,750
Asia:§												
Indonesia	279	141	420	163	35	198	81	87	168	81	135	216
Japan	133	682	815	123	932	1,055	125	669	794	127	865	992
Philippines	7	332	339	9	309	318	9	309	318	13	253	266
Other	378	328	706	387	459	846	397	470	867	418	612	1,030
Total	797	1,483	2,280	682	1,735	2,417	612	1,535	2,147	639	1,865	2,504
All other	178	173	351	178	103	281	178	111	289	178	141	319
Grand total	11,053	7,911	18,964	12,562	10,027	22,589	13,613	10,864	24,477	14,388	11,912	26,300

Note: In this table, "gold" covers reported and estimated gold reserves of central banks and governments (excluding the USSR) and of the Bank for International Settlements and the European Payments Union (but not other international institutions). "Dollar holdings" consist primarily of sight and time deposits, short-term United States Government securities, a limited amount of longer-term Government notes and bonds reported as purchased within twenty months of maturity, and bankers' acceptances, as reported by United States banks, and comprise official and private holdings in the United States by foreigners, including the USSR, the Bank for International Settlements, and the European Payments Union (but not other international institutions). The excluded gold and dollar holdings of international institutions totaled 3,673 million dollars in September 1955; 3,536 million in September 1954; 3,212 million in September 1953; and 3,094 million in March 1952.

p Preliminary.

* For France, only the gold reserves of the Bank of France are included.

† Including principally the gold and dollar holdings of the Bank for International Settlements, of the European Payments Union, and of Denmark, Greece, Norway, Portugal and its dependencies, and Turkey; and also estimates of unreported gold reserves as well as the gold still to be distributed by the Tripartite Gold Commission.

‡ Including the dollar holdings, but not the gold reserves, of the USSR.

§ Excluding sterling, French-franc, and Dutch-guilder areas.

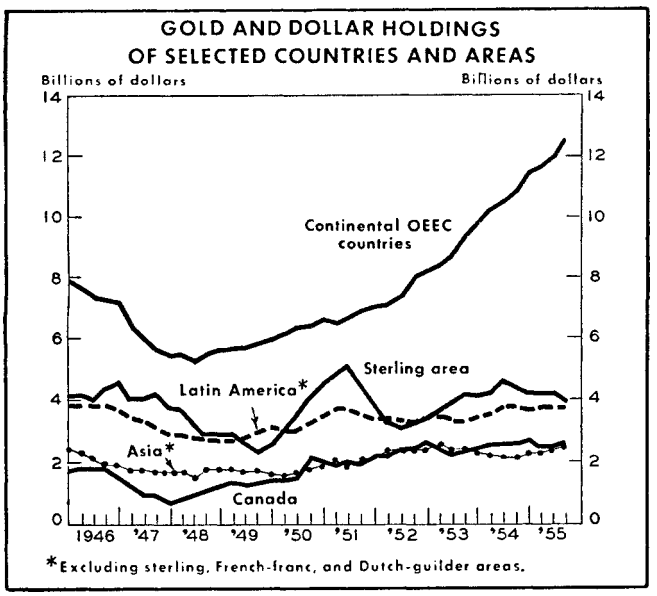
million rise in the previous twelve months; on the basis of preliminary data they showed a moderate decline during 1955 as a whole. As officially stated, some use was made of official reserves to maintain orderly conditions in the exchange market, but not to reverse persistent trends; in fact the premium of the Canadian over the United States dollar, which stood around 3 per cent during most of 1954, fell below 2 per cent in early 1955 and virtually disappeared at the year end.

In Latin America the trends were diverse. Mexican holdings increased by nearly 170 million dollars and those of Brazil and Venezuela by about 50 million, but these increases were partly offset by declines in Argentina, Colombia, and a number of other countries.

The Growth of Foreign Reserves and the United States Balance of Payments

During 1955, as already noted, foreign gold and dollar holdings rose by 1.6 billion dollars, of which nearly two fifths could be accounted for by receipts of gold from new production and other sources outside the United States. The remaining three fifths originated from transactions with the United States, which thus were again the principal factor determining the change in foreign gold and dollar reserves. The gains or losses of reserves by individual countries were also affected by the use of gold and dollars for settling trade and payments balances among themselves and by transactions with international financial institutions.

During the first three quarters of the year, according to preliminary balance-of-payments data, foreign countries received 15.8 billion dollars as the result of United States purchases of imports and services, economic aid and other outlays by this Government, and a net capital outflow on both Government and private account. On the other hand, they spent 14.3 billion dollars for purchases of United States goods and services. Foreign countries thus had a net surplus of 1.5 billion dollars, which they used to increase their short-term dollar holdings, to purchase small amounts of gold from the United States Treasury, to acquire long-term Government and private securities, and for other purposes.



The rapid expansion of United States exports, which was largely due to the record level of business activity in Western Europe, was a striking development in the 1955 balance of payments. Total merchandise exports, excluding those supplied under military grants, rose from 9.2 billion dollars in January-September 1954 to 10.4 billion in January-September 1955. Compared with this 13 per cent over-all increase, there was a 50 per cent rise in exports to the United Kingdom and an increase of 27 per cent in shipments to Continental Western Europe as a whole. The liberalizing of dollar imports in most of these countries undoubtedly contributed to the sharp rise in United States exports, but equally, if not more, important was the upsurge in foreign import demand, which was itself brought about by the tendency of demand for goods in general to exceed available resources. As foreign industrial production reached unprecedented levels, larger imports were required for further output increases, a development that was reflected in heavy shipments of United States coal, steel scrap, and certain other materials to Europe.

Exports to Canada, where the recovery of output followed the United States pattern with a small lag, rose by little more than the over-all increase of 13 per cent in United States exports; a similar rise was discernible in exports to the overseas sterling area. Shipments to Latin America, which account for about one quarter of total United States exports, fell slightly, primarily as the result of balance-of-payments difficulties and continued controls in many countries that depend on their exports of agricultural raw materials.

United States imports also rose substantially—to 8.4 billion dollars in January-September 1955 from 7.7 billion a year earlier—but the 9 per cent rate of growth was below that for exports, and the United States surplus on merchandise trade consequently increased to 2.0 billion from 1.5 billion dollars in 1954. In the earlier part of the year the rise in imports appeared to be lagging behind that experienced during previous periods of rapid economic expansion; this was partly attributable to a lag in inventory accumulation, the competition of European import demand for rubber, tin, copper, and other metals, and reduced coffee imports stemming from importers' expectations of lower prices. Toward the end of the year, however, imports accelerated rapidly, and it appeared that, for the year as a whole, the rate of import growth may have been as large as that for exports.

Income on United States investments abroad also increased substantially, but this was more than offset by record tourist expenditures abroad, by increased expenditures of the United States Government on so-called offshore procurements and on construction activity in foreign countries, and by the local-currency expenditures of the United States defense forces abroad. Such Government expenditures continued to be an important source of dollar income to foreign countries; at slightly over 2 billion dollars in January-September 1955 they were equivalent to 25 per cent of total United States merchandise imports, and for Western Europe they represented an amount equivalent to nearly three quarters of United States imports from that area. They were particularly important in the case of France and Italy, which together received about 70 per cent of offshore procurement disbursements.

On capital account, the outflow of United States capital on both private and Government account was another important factor in the continued rise of foreign gold and dollar reserves. Actually, the outflow of private capital declined during the first nine months of 1955, but this was offset by an increased outflow on Government account. The decline in the private capital outflow, in turn, reflected principally the fact that short-term capital movements were in virtual balance over the period, whereas in January-September 1954 there had been an outflow of 350 million dollars, particularly in the form of bank and commercial credit extension to Latin American countries. There was also in 1955 some reflux of short-term capital which in 1954 had taken advantage of higher yields in the United Kingdom. Rising interest rates and the tightening of the capital market in the United States were important factors in the sharp reduction in new foreign security issues; in fact, redemptions exceeded new issues, in contrast to an excess of new issues amounting to 170 million dollars in January-September 1954, when the International Bank for Reconstruction and Development was a heavy borrower. The reduced capital flow to Canada was of particular importance, and was largely responsible for the decline of the Canadian dollar during the year to a point close to parity with the United States dollar.[4] On the other hand, there was a substantial increase in private direct investment abroad.

Net capital outflow on Government account reached nearly 300 million dollars in January-September 1955, in contrast to a net inflow of 100 million in the comparable period of 1954. A large part of the rise was accounted for by the shipment abroad of surplus agricultural commodities in exchange for local currencies. Foreign countries also received from the United States economic and other aid grants; these rose in January-September 1955 by 300 million dollars, to a total of 1.5 billion, largely because of increased reimbursements to France for expenditures incurred earlier in the war in Indochina. Such reimbursements were an important factor in the increase of French monetary reserves during 1955.

The gold and dollar holdings of individual foreign countries were also considerably affected by transfers among themselves, and with international financial institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development. In Europe the settlement terms of the European Payments Union (EPU) were hardened by requiring that surpluses and deficits be settled in gold and/or dollars to the extent of 75 instead of 50 per cent. A substantial share of the increased gold and dollar reserves of West Germany and Belgium resulted from transactions with the EPU, while the United Kingdom and Italy were required to make the largest gold and dollar payments of any EPU countries. Repurchases of local currency from the International Monetary Fund by France, India, and Mexico, and a Dutch prepayment of 50.5 million to the International Bank were examples of transactions with international institutions that were reflected in the reserve positions of foreign countries.

Continued Advance Toward Freer Trade and Payments

The freer pattern of trade and payments that had emerged in recent years not only was maintained during 1955 but in many countries was actually extended.[5] The advance was more gradual, however, than in either of the two preceding years, in large measure because of the very uneven pattern of reserve changes noted earlier. The fall in the central gold and dollar reserves of the sterling area forced the United Kingdom and other sterling-area countries to give priority to the task of arresting the deterioration in their payments position. They endeavored, however, to do so—with a very few exceptions—by monetary and fiscal measures designed to restore a better balance in their domestic economies, and not by retreating into greater use of the direct and discriminatory controls over trade and payments that characterized the earlier postwar years.

During 1955 Western European countries continued their close cooperation in trade and payment policies. There was some further liberalization of trade, but a particularly significant development was the signing of the European Monetary Agreement, to come into effect after members holding 50 per cent of the EPU quotas have made their currencies convertible. The agreement provides for the liquidation of the EPU, the establishment of a European Fund to make loans to member countries experiencing temporary balance-of-payments diffi-

[4] Cf. "Recent Trends in Private International Lending", *Monthly Review*, November 1955.

[5] Cf. "Recent Developments in Foreign Exchange and Payments Policies", *Monthly Review*, December 1955.

culties, and the setting-up of the technical machinery relating to exchange relationships and transactions after convertibility.

There was also further progress in many countries toward reducing discriminatory controls on dollar imports, although the advance was neither so rapid nor so widespread as in 1953 and 1954. Liberalization in Western Europe, as mentioned earlier, contributed to the rise in United States exports to that area; in Belgium-Luxembourg, the Netherlands, and Switzerland over 85 per cent of dollar imports have already been freed, and in Germany, Sweden, and the United Kingdom over half. In addition, import licenses have been more liberally granted for many dollar imports that are subject to various controls in these and other countries. In Latin America, there is relatively less discrimination against dollar imports; such discrimination has also become less important in many other countries of the world, including among others Indonesia, Pakistan, and the Union of South Africa. The liberalization of dollar imports, which has been concentrated on raw materials and some essential capital goods, has tended to reduce costs and prices in the importing countries, and has thus served to increase their productive efficiency. Progress toward liberalizing foodstuffs and most manufactures has, however, been much slower.

Some progress was also made by many of the underdeveloped countries of Latin America and Asia toward simplification of their trade and payments systems. In Latin America, Argentina, Brazil, Colombia, and Nicaragua appeared to be moving in the direction of a more unified exchange rate structure, while Brazil moved away from bilateral arrangements with several of its European trading partners. Egypt, Indonesia, and Thailand also simplified their exchange rate structures, while Pakistan devalued the rupee in August by 30 per cent, thereby bringing it into line with other sterling-area currencies which had been devalued in 1949. Further relaxation of controls in many of the underdeveloped countries, however, was impeded by continued balance-of-payments difficulties, due in part to inflationary pressures and in part to the uncertain outlook in world markets for agricultural commodities.

Further advance toward freer trade and payments was slowed down, however, by the reappearance of balance-of-payments strains in the sterling area and in certain other countries as increasing demand tended to outstrip available resources. Renewed inflationary strains became a matter of concern in many European countries, and also in Australia and New Zealand; such strains were even more serious in some of the primary-producing countries of Latin America and Asia. Most countries, however, took action to correct or forestall these difficulties, and it was notable that in 1955 corrective measures were usually of a general nature, with monetary policy playing a leading role.

Concluding Remarks

The international trade and payments pattern has thus been recently marked by elements both of strength and of weakness. In 1955, gold and dollar holdings rose in the aggregate for the fourth consecutive year; those of Continental Western Europe, where the increase was most pronounced, have risen without interruption since mid-1948. These increases have occurred despite a sharp rise in dollar imports, as foreign countries removed many discriminatory restrictions against such imports in order to secure from the cheapest available sources the enlarged flow of imports required by their expanding economies. Furthermore, despite the payments difficulties that have developed in certain countries, there has been no relapse into the more stringent direct and discriminatory trade and payments controls that had characterized the earlier postwar years. The freer pattern of trade and payments that had emerged over the past few years has thus remained intact, and when the numerous, even though relatively small, advances made during 1955 by many countries are added to past achievements, the cumulative and self-reinforcing effect on world trade has been significant.

Various strains and stresses have, however, arisen during the last year, and there are still weak spots in the international payments pattern. The rise in reserves has been unevenly distributed—concentrated as it has been in Continental Western Europe, and in certain countries of Asia and Latin America; sterling-area reserves have declined, while those of many other countries remain at low levels. Furthermore, in some countries the rise in reserves has reflected not only a better trade and payments balance, but also—even though not in a simple and direct fashion—receipts of dollars under military and other aid programs of the United States. In addition, the dollar liberalization achieved thus far has been largely confined to certain raw materials and other basic products, and as a result the productive efficiency of many European industries has not as yet been fully tested. Finally, the rapid rise in demand in many countries has led both to increased imports and to smaller exports than might otherwise have been achieved, with the result that balance-of-payments difficulties have reappeared in a number of countries; these inflationary pressures are especially severe in many of the less-developed countries that are facing the task of orderly economic development to meet the needs of rapidly rising population.

Nevertheless, many countries have endeavored to curb inflationary pressures, often at the first sign of re-emerging strains. Furthermore, they are in a fundamentally much stronger position to do so since their output and productive capacity are much higher than even a few years ago. Although much remains to be done in large parts of the world to restore and maintain monetary stability, the ability and willingness with

which many countries have undertaken the task augurs well for the re-establishing of a sustainable balance between demand and available resources. The success of these individual efforts will, to a large extent, determine the scope for further advance toward fuller convertibility of major currencies. This advance will also depend importantly on concerted action by the principal trading nations in progressively reducing the remaining obstacles to the flow of goods within the free world.

DEPARTMENT STORE TRADE

Preliminary estimates of Second District department store sales in the first month of this year show an increase of 5 per cent in dollar volume over January 1955. On a seasonally adjusted, daily-average basis, the District index for January is expected to reach 114 per cent of the 1947-49 average, the highest level since January 1951 and 3 per cent higher than any other month on record.

Final data for department store sales in the Second District in 1955 indicate that consumers spent 4 per cent more money in 1955 in the department stores of the District than in 1954. This increase compares with a 7 per cent gain in department store sales for the country as a whole. In both the District and the nation, department store dollar volume established new records; District volume rose 2 per cent above the previous peak year of 1951 and 5 per cent above 1953, while nation-wide volume rose by 6 per cent over the 1953 peak.

Trends in department store sales in individual localities within the District have varied somewhat from the aggregate District pattern. In the New York-Northeastern New Jersey metropolitan area sales in 1955 were 4 per cent above 1954, but were only equal to 1951, mainly because sales in New York City and Newark failed to show a year-to-year increase. In Newark they were 2 per cent lower during the first half of the year than in 1954, but improved enough during the second half to maintain the dollar volume for the year as a whole. Sales in the New York portion of the metropolitan area outside New York City continued to reflect the growth of suburban area shopping. The increase in department store sales in this area (27 per cent over 1954) was the largest increase of any locality in the District.

In most of the other areas in the District, department store sales were generally higher in 1955 than in 1954, although in Schenectady they were 1 per cent lower. Almost all of the areas recorded larger increases from year-earlier levels in the second half of the year than in the first half. The increases in sales in the last half of 1955 ranged from 1 and 2 per cent in Schenectady and Buffalo, respectively, to 9 and 11 per cent in Albany and Bridgeport.

Department store sales during 1955 in all of the cities and metropolitan areas outside the New York-Northeastern New Jersey metropolitan area for which long-term comparisons are available (the cities of Bridgeport and Buffalo, and the Buffalo, Rochester, and Syracuse metropolitan areas) were at new record levels. In all of these areas except the City of Buffalo, the average index of department store sales for 1955 (1947-49=100 per cent) was equal to or higher than that for the country as a whole.

After remaining almost constant for twenty months (on a seasonally adjusted basis), the dollar volume of inventories held by Second District department stores began to rise in November and the rise continued in December. Outstanding orders also rose during those months. The aggregate of stocks on hand and goods on order increased by only 5 per cent over a year ago—not much more than the recent rate of increase in sales.

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

Area	Net sales			Stocks on hand Dec. 31, 1955
	Dec. 1955	Jan. through Dec. 1955	Feb. through Dec. 1955	
Department stores, Second District	+ 5	+ 4	+ 4	+ 6
New York-Northeastern New Jersey Metropolitan Area	+ 4	+ 4	+ 4	+ 5
New York City	0	0	0	+ 5*
Nassau, Suffolk, Westchester, and Rockland Counties	+31	+27	+27	
Northern New Jersey	+ 2	+ 5	+ 4	+ 6
Newark	− 2	0	− 1	—
Fairfield County	+12	+11	+10	+ 3
Bridgeport	+12	+ 8	+ 8	—
Lower Hudson River Valley	+ 6	+ 7	+ 7	+17
Poughkeepsie	+ 6	+ 7	+ 7	+22
Upper Hudson River Valley	+ 6	+ 4	+ 4	+ 9
Albany-Schenectady-Troy Metropolitan Area	+ 5	+ 3	+ 4	+ 8
Albany	+10	+ 7	+ 7	+12
Schenectady	0	− 1	− 1	+ 3
Central New York State	+ 6	+ 5	+ 5	0
Utica-Rome Metropolitan Area	+ 5	+ 3	+ 3	+ 7
Utica	+ 5	+ 5	+ 4	+ 9
Syracuse Metropolitan Area	+ 6	+ 5	+ 5	− 2
Northern New York State	n.a.	n.a.	n.a.	n.a.
Southern New York State	+ 2	+ 2	+ 2	+ 5
Binghamton Metropolitan Area	+ 3	+ 3	+ 4	+ 7
Western New York State	+ 6	+ 3	+ 3	+ 8
Buffalo Metropolitan Area	+ 6	+ 3	+ 3	+ 7
Buffalo	+ 5	+ 2	+ 2	+ 7
Niagara Falls	+ 2	+ 3	+ 3	—
Rochester Metropolitan Area	+ 6	+ 2	+ 3	+11
Apparel stores (chiefly New York City)	+ 4	+ 3	+ 2	+12

* Separate figures for New York City and other counties are not available.
n.a. Not available.

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

Item	1955			1954
	Dec.	Nov.	Oct.	Dec.
Sales (average daily), unadjusted	194	139	116	188r
Sales (average daily), seasonally adjusted	110	110	109	107r
Stocks, unadjusted	110	136	132	105
Stocks, seasonally adjusted	121	119	117	115

r Revised.

SELECTED ECONOMIC INDICATORS

United States and Second Federal Reserve District

Item	Unit	1955			1954	Percentage change	
		December	November	October	December	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	144p	144	143	130	#	+11
Electric power output*	1947-49 = 100	207p	205	204	177	+ 1	+17
Ton-miles of railway freight*	1947-49 = 100	—	104p	109	94	− 5	+13
Manufacturers' sales*	billions of $	—	27.3p	26.7	24.1	+ 2	+14
Manufacturers' inventories*	billions of $	—	45.6p	45.3	43.3	+ 1	+ 5
Manufacturers' new orders, total*	billions of $	—	28.2p	27.5	24.8	+ 3	+22
Manufacturers' new orders, durable goods*	billions of $	—	14.6p	14.1	12.0	+ 4	+39
Retail sales*	billions of $	—	15.8p	15.8	15.1	#	+10
Residential construction contracts*	1947-49 = 100	274p	252	252	275	+ 9	#
Nonresidential construction contracts*	1947-49 = 100	332p	282	266	248	+18	+34
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	89.7	88.5	89.3	89.9	+ 1	#
Wholesale prices†	1947-49 = 100	111.3p	111.2	111.6	109.5	#	+ 2
Consumer prices†	1947-49 = 100	114.7	115.0	114.9	114.3	#	#
Personal income (annual rate)*	billions of $	—	311.4p	309.2	293.4	+ 1	+ 7
Composite index of wages and salaries*	1947-49 = 100	—	144p	144	139	#	+ 4
Nonagricultural employment*	thousands	50,031p	50,181	49,982	48,380	#	+ 3
Manufacturing employment*	thousands	16,920p	16,987	16,822	15,992	#	+ 6
Average hours worked per week, manufacturing†	hours	41.4p	41.2	41.1	40.5r	#	+ 2
Unemployment	thousands	2,427	2,398	2,131	2,838	+ 1	−14
Banking and finance							
Total investments of all commercial banks	millions of $	78,320p	78,000p	79,650p	85,297	#	− 8
Total loans of all commercial banks	millions of $	82,760p	81,390p	79,210p	70,619	+ 2	+17
Total demand deposits adjusted	millions of $	109,690p	106,920p	106,100p	106,550r	+ 3	+ 3
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,592p	30,516	30,410	30,087	#	+ 2
Bank debits (337 centers)*	millions of $	72,755	72,916	69,318	68,149	#	+ 7
Velocity of demand deposits (337 centers)*	1947-49 = 100	130.0p	130.6	126.9	124.4	#	+ 5
Consumer instalment credit outstanding†	millions of $	—	27,247	26,963	22,467	+ 1	+24
United States Government finance (other than borrowing)							
Cash income	millions of $	5,353	5,934	2,869	4,626r	−10	+16
Cash outgo	millions of $	6,264	5,951	5,659	6,401r	+ 5	− 2
National defense expenditures	millions of $	3,312	3,289	3,281	3,568	+ 1	− 7
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	153p	149	149	139	+ 3	+11
Residential construction contracts*	1947-49 = 100	—	172p	165	196	+ 4	− 3
Nonresidential construction contracts*	1947-49 = 100	—	270p	231	213	+17	+24
Consumer prices (New York City)†	1947-49 = 100	112.0	112.5	112.4	112.2	#	#
Nonagricultural employment*	thousands	—	7,625.5p	7,597.5	7,500.0r	#	+ 2
Manufacturing employment*	thousands	—	2,635.3p	2,632.8	2,604.6r	#	+ 1
Bank debits (New York City)*	millions of $	68,667	68,178	66,899	62,557	+ 1	+10
Bank debits (Second District excluding New York City)*	millions of $	4,773	4,681	4,621	4,615	+ 2	+ 3
Velocity of demand deposits (New York City)*	1947-49 = 100	173.3	175.2	176.0	162.6	− 1	+ 7

Note: Latest data available as of noon, January 30, 1956.

p Preliminary. r Revised. † Seasonal variations believed to be minor; no adjustment made.

* Adjusted for seasonal variation. # Change of less than 0.5 per cent.

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