Monthly Review
Of Credit and Business Conditions
FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN FEBRUARY

Member bank reserve positions remained generally tight throughout most of February, although there were rather wide fluctuations from week to week, primarily attributable to unusually erratic movements in float. Money market conditions were quite stable, but prices of Government securities declined moderately as there was an abatement of the heavy nonbank demands that had depressed yields in January, particularly in the shorter-term area.

During the five statement weeks ended February 29, Federal Reserve System security transactions absorbed part of the reserves released by a decline in member bank required reserves and by a further return flow of currency to the banks, while movements in float and Treasury and other accounts at the Federal Reserve Banks were reflected to a large extent in offsetting changes in member bank discounts at the Reserve Banks. Member bank borrowings from the Federal Reserve Banks averaged 835 million dollars during the five statement weeks, compared with 867 million dollars in the two statement weeks ended January 25 and with 779 million dollars for January as a whole. Net borrowed reserves (member bank borrowings from the Federal Reserve Banks less excess reserves) ranged from a daily average of 555 million dollars in the week ended February 1 to 87 million in the week ended February 22, and averaged 359 million dollars for the five-week period as a whole. Despite the relatively wide week-to-week fluctuations in reserve positions, the effective rate for Federal funds in New York City remained at or close to 2½ per cent throughout the month.

The Federal Reserve System's holdings of Treasury securities declined 25 million dollars over the five-week period as a result of 81 million dollars of net sales and redemptions of Treasury bills, which were only partially offset by the net acquisition of 56 million dollars of short-term Treasury obligations under repurchase agreements. The magnitude of these operations was considerably smaller than the volume of System transactions effected in January, when Federal Reserve holdings of Treasury securities were reduced by 1,300 million dollars to offset the seasonal return flow of currency from circulation and a decline in member bank required reserves.

The buoyancy that had characterized all sectors of the Government securities market throughout most of January diminished during February, as the earlier nonbank demands for short-term Government securities were followed by a lull, and then a resumption of only moderate nonbank buying. In consequence, prices and yields moved within a narrower range than in the previous month. The yield on the longest outstanding issue of Treasury bills fell 15 basis-points early in the month, from a close of 2.37 per cent (bid) on January 31 to 2.22 per cent on February 6, but then turned upward, returning to 2.37 per cent by midmonth. It fluctuated irregularly near that rate during most of the rest of the month, but fell on the last day of the month to close at 2.30 per cent. Meanwhile, prices of most other Treasury issues rose somewhat during the early part of the month and then lost ground as the month progressed. For the month as a whole changes in the prices of Government bonds and notes maturing through 1959 ranged from a decline of ¼ of a point to a gain of ¼, with longer issues varying between 7/16 of a point lower and 1/16 higher.

Yields on outstanding corporate and municipal securities continued the decline that had begun at the end of December, but leveled off late in the month. Despite the increased volume of new offerings, yields offered on new issues were reduced and, partly as a result of the extent of the reductions, new issues met with a generally less favorable reception than in January.

CONTENTS

Member Bank Reserve Positions

In general, pressure on member bank reserve positions during February was maintained at approximately the same level as prevailed during the last half of January. There were wide variations in member bank reserve positions from week to week, however, as swings in some of the factors affecting reserves, particularly float, exceeded recent experience for this time of the year. During the first half of the month float moved erratically, but remained relatively low. Then, due to a combination of factors, including a large volume of checks, the incidence of the two holidays in certain sections of the country, and inclement weather over some areas, float rose sharply during the week ended February 22 to the second highest level ever recorded for this time of the year. Partly as a result of these fluctuations, daily average net borrowed reserves rose to 450 million dollars for the week ended February 15, compared with a daily average of 349 million dollars in the previous week, and then fell temporarily to 87 million dollars in the week ended February 22, when float increased by an average of 501 million dollars. In the last statement week of the month net borrowed reserves returned to 355 million dollars as float declined sharply.

The Treasury used its special call or redeposit facilities with the Class C depositaries on several occasions during the month in order to limit the extent of fluctuations in the Treasury's balance at the Federal Reserve Banks, and thereby reduce the impact of Treasury operations on member bank reserve positions. Nevertheless, the result of Treasury operations over the month as a whole was to drain reserves from the banks. On the other hand, there was some further return flow of currency from circulation, and a decline in bank deposits was accompanied by a corresponding reduction in member bank required reserves. Federal Reserve open market operations absorbed some of these funds, on balance, until the final two weeks of February, when purchases of securities were made to moderate pressures arising out of month-end developments.

Daily average member bank borrowings from the Federal Reserve Banks approached 1 billion dollars in the statement week ended February 1, the largest amount since mid-November. They continued at relatively high levels through the week ended February 15, and in the last statement week of the month averaged 758 million dollars.

Table I

Changes in Factors Tending to Increase or Decrease Member Bank Reserves, February 1956

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

Factor	Daily averages—week ended					Net changes
	Feb. 1	Feb. 8	Feb. 15	Feb. 22	Feb. 29	
Operating transactions						
Treasury operations*	− 83	+ 60	− 26	−122	+ 17	−154
Federal Reserve float	−314	+ 26	− 8	+501	−453	−248
Currency in circulation	+138	+ 4	− 28	+ 37	+ 30	+181
Gold and foreign account	+ 20	+ 4	− 11	+ 15	+ 9	+ 37
Other deposits, etc	− 25	+ 14	− 84	− 60	+ 61	− 94
Total	−265	+109	−158	+371	−335	−278
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	−103	+ 9	− 74	− 16	+ 51	−133
Held under repurchase agreements	+ 2	− 2	—	+ 56	− 5	+ 51
Loans, discounts, and advances:						
Member bank borrowings	+185	−177	+151	−351	+136	− 56
Other	—	—	+ 3	− 3	—	—
Bankers' acceptances:						
Bought outright	− 2	—	− 2	—	− 1	− 5
Under repurchase agreements	—	—	—	—	—	—
Total	+ 82	−170	+ 78	−315	+182	−143
Total reserves	−183	− 61	− 80	+ 56	−153	−421
Effect of change in required reserves†	+139	+ 90	+130	− 44	+ 21	+336
Excess reserves†	− 44	+ 29	+ 50	+ 12	−132	− 85
Daily average level of member bank:						
Borrowings from Reserve Banks	999	822	973	622	758	835‡
Excess reserves†	444	473	523	535	403	476‡

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

* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for five weeks ended February 29.

Government Securities Market

The large nonbank demand for short-term Government securities, which had strongly influenced the market throughout most of January, diminished early in February. Treasury bill rates at first declined, despite the tightness in member bank reserve positions, but then tended to move generally upward over the course of most of the rest of the month. The average issuing rate established at the weekly auction for Treasury bills fell from 2.402 per cent for the issue dated February 2 to 2.271 per cent for that dated February 9. It then rose to 2.388 per cent for the issue dated one week later and to 2.429 per cent for the issue dated February 23. In the last weekly auction of the month, held February 27 for bills dated March 1, the average issuing rate declined slightly to 2.409 per cent.

The remainder of the list of Government securities, stretching from the shorter through the longer maturities, followed a somewhat similar pattern. Prices generally rose slightly early in February, reached their crest by February 7, and then tended to fall gradually throughout most of the rest of the month in an inactive market. On balance, prices of bonds and notes maturing through 1972 changed within a range of plus $\frac{1}{4}$ of a point to minus $\frac{7}{16}$ of a point for the month as a whole. The 3's of 1995 moved downward $\frac{1}{8}$ of a point to close the month at $100\frac{9}{16}$ (bid).

The volume of trading was generally light as most investors cautiously stayed on the sidelines awaiting some clarification of uncertainties with respect to both the economic outlook and the President's decision as to whether he would seek a second term. Conflicting comments in the market regarding the direction of future Federal Reserve policy also added a note of uncertainty to market expectations.

Other Security Markets

Continued demand for corporate bonds and relatively strong interest in municipal bonds throughout the early part of the month brought about further advances in prices. Average market yields on Moody's Aaa corporate bonds declined slightly further to 3.07 per cent during the first part of February and then showed little change for the rest of the month. Average market yields on similarly rated municipal issues, however, moved down more sharply than in the previous month, falling about 10 basis-points to 2.17 per cent, but tending to level off toward the end of the month. In each case, the declines continued a trend that had begun toward the end of December and by the end of February yields had returned close to the levels prevailing in mid-November 1955. As compared with the 1955 peaks, yields on high-grade bonds at the end of February were 11 basis-points lower on corporate bonds and 17 basis-points lower on municipal bonds.

The firmness of the municipal and corporate markets was reflected in further reductions in the yields at which new securities were offered. There were signs, however, that the lower offering yields were meeting with resistance, since response to new issues tended to become less favorable and dealer inventories of municipals increased sharply toward the end of the month. A substantial increase in new offerings of municipal bonds may also have contributed to the less favorable reception accorded new issues. The volume of municipal issues in February was estimated at 582 million dollars, almost twice as large as in January and more than double the volume in February 1955. Public offerings of corporate bonds for new capital, however, declined to 120 million dollars, the lowest level since July 1955; the February offerings were nevertheless almost 50 per cent larger than a year ago, and there was reported to have been a large volume of private placements of new securities.

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 Dce. 28, 1955 to Feb. 22, 1956p
	Jan. 25	Feb. 1	Feb. 8	Feb. 15	Feb. 22p	
Assets						
Loans and investments:						
Loans:						
Commercial and industrial loans	−114	+ 44	− 85	+102	− 30	− 432
Agricultural loans	+ 3	+ 5	+ 6	− 12	—	
Security loans	− 96	+ 107	−154	− 3	− 78	− 431
Real estate loans	+ 10	− 6	+ 8	+ 35	− 3	+ 47
All other loans (largely consumer)	+ 15	+ 34	+ 2	− 27	+ 3	+ 16
Total loans adjusted*	−180	+ 182	−224	+ 94	−116	− 891
Investments:						
U. S. Government securities:						
Treasury bills	+ 3	− 307	−106	+136	−126	− 587
Other	− 37	− 346	−217	− 93	− 21	−1,140
Total	− 34	− 653	−323	+ 43	−147	−1,727
Other securities	− 44	− 44	− 4	+ 30	+ 26	− 45
Total investments	− 78	− 697	−327	+ 73	−121	−1,772
Total loans and investments adjusted*	−258	− 515	−551	+167	−237	−2,663
Loans to banks	+ 7	− 125	+ 47	+197	− 95	− 31
Loans adjusted* and "other" securities	−224	+ 138	−228	+124	− 90	− 936
Liabilities						
Demand deposits adjusted	+163	−1,128	−559	−657	−285	−2,776
Time deposits except Government	− 51	− 47	+ 14	− 32	+ 24	− 209
U. S. Government deposits	− 9	+ 604	−281	+672	+291	− 81
Interbank demand deposits:						
Domestic	−759	− 48	+ 9	+453	−659	−1,089
Foreign	− 1	+ 55	− 51	+ 18	− 4	− 5

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

Member Bank Credit

Total loans and investments of weekly reporting member banks declined 1,394 million dollars during the period January 18 to February 22, primarily as a result of a decrease of 1,150 million in investments. Total loans declined 244 million dollars, mainly because of a 224 million dollar decrease in security loans and the net repayment of 322 million dollars of loans by sales finance companies. Total commercial and industrial loans fell 83 million dollars, but, if loans to sales finance companies are excluded from this category, they increased 239 million. The net repayment of bank loans by sales finance companies appears to have reflected, in large part, the use of funds raised by these companies through the private placement of their securities and direct sales of their short-term notes to investors, rather than a net reduction in their indebtedness.

For the year thus far, business loans have fallen 432 million dollars, as compared with a decrease of 315 million dollars over the corresponding weeks a year ago. However, commercial loans exclusive of loans to sales finance companies actually increased 64 million dollars this year, compared with a decrease of 323 million dollars during the comparable period in 1955. The borrower categories largely responsible for the increase in commercial loans since the year end were metals and metal products firms, public utilities and transportation, and petroleum, coal, chemicals, and rubber producers. Loans to textile, apparel, and leather manufacturers also increased, but not so much as a year ago. Commodity dealers and wholesale and retail trade concerns reduced their borrowings less than last year.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

The credit restraint policies to which many foreign countries had turned during the past year were maintained or further emphasized in major foreign financial centers during February. The Bank of England increased its discount rate to 5½ per cent effective February 16, from the 4½ per cent rate in force since February 1955 (see chart). The latest increase, which brings the British bank rate to the highest level since February 1932, was reinforced the next day by a series of other measures of restraint which included: (1) the suspension of the special investment allowances to industry, except for shipbuilding, scientific research, and for contracts already placed; (2) a tightening of hire-purchase controls through an increase to 20 and 50 per cent, respectively, of the 15 and 33⅓ per cent minimum downpayments, as well as through the application of such controls to a wide range of capital goods; (3) an instruction to the Capital Issues Committee to adopt a "vigorously critical attitude" toward new issues; (4) a cut in bread and milk subsidies; and (5) an additional reduction in the investment program of the nationalized industries during 1956-57, as well as some cutbacks in 1956-57 capital expenditures by the government and by local authorities.

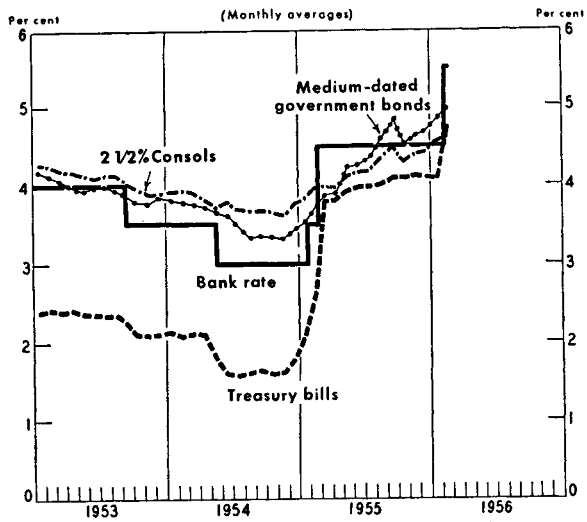
This further and determined tightening of monetary and fiscal policy was needed, in the Chancellor of the Exchequer's words, "to deal with the overload which has put such a strain" on the British balance of payments. During 1955, Britain's gold and dollar reserves fell 642 million dollars, or by 23 per cent; although in January they increased by 29 million, that month's trade deficit was slightly above the 1955 monthly average. On the domestic side, the January statement of the London clearing banks reveals that bank advances on January 18 were 360 million pounds, or 16 per cent, below the mid-1955 level. However, a substantial part of this decline reflected a contraction in lending to nationalized industries, and, while the Chancellor declared that the over-all reduction had "accomplished a good deal", he called on the banks "to continue their efforts to reduce the total".

The increase in the bank rate was followed by a jump to 5.27 per cent in the average tender rate for three months' Treasury bills from the 4.13 level that had obtained at the first two February tenders; the rate had been at 4.07 throughout January. Government bond yields rose almost steadily during the first half of February; the yield of 2½ per cent Consols, which at the end of January had stood at 4.51 per cent, on February 16 reached 4.75, a new postwar high, but declined subsequently to 4.50 on February 28.

The Netherlands Bank increased its discount rate on February 7 to 3 per cent from 2½; the previous rate had been in force since April 1953, following three consecutive decreases.

BRITISH INTEREST RATES

(Monthly averages)



Note: Data for January and February 1956, except for the bank rate, are preliminary.
Sources: Bank of England; Central Statistical Office.

The Dutch action brings to ten the number of European countries that have raised their central bank discount rates since the beginning of 1955. This action followed certain other disinflationary measures taken by the Dutch authorities since last fall, including a speeding-up of corporate income tax payments and a request to the commercial banks to restrain their lending. While the Dutch economy has been going through a period of general economic expansion during the last three years, prices and wages remained stable during 1955; however, there are increasing signs that industrial production may be approaching full capacity, while on the external side rising imports have outpaced exports. Although the growth of the money supply has been relatively small, commercial bank loans to the private sector have risen almost steadily since mid-1954, increasing 21 per cent in the course of 1955. While the increase had slackened somewhat in October and November, it amounted to almost 5 per cent in December alone.

In Canada, where the discount rate was raised three times in the second half of last year, the chartered banks and the Bank of Canada were reported to have agreed on several steps to restrict credit to the private sector of the economy. First, no "term loans" to industry (i.e., loans for periods of more than one year) beyond present commitments are to be granted by the chartered banks for capital purposes; secondly, the private placement of corporate securities with the banks is to cease; thirdly, the chartered banks are to hold, as of next May, a secondary reserve of Treasury bills and call loans equal to 7 per cent of demand liabilities, supplementing the statutory minimum cash reserve of 8 per cent. Loans by the chartered banks, which had declined somewhat between mid-December and mid-January, edged upward again, and on February 8 reached a new peak, 23 per cent above a year earlier. Although there was no significant change in total bank holdings of government securities, there was a noticeable shift in the composition of these holdings, an increase in the banks' portfolio of Treasury bills being offset by a decline in holdings of other government securities; on February 15, Treasury bills and call loans were equal to 6 per cent of demand liabilities. During February, the banks' average cash ratio fell to nearly the legal minimum; no Bank of Canada advances to the chartered banks were outstanding during the month. Long-term interest rates during the first half of the month continued the decline that had begun in mid-January, while the three months' Treasury bill tender rate declined on February 2 to 2.48 per cent, the lowest level since November, but rose again somewhat thereafter.

In New Zealand, where the discount rate was increased three times in the second half of 1955 up to 7 per cent, commercial bank cash reserve requirements against demand liabilities were raised on January 24 to 26 per cent from 24, the fifth increase since last June; minimum requirements against time deposits remained unchanged at 7½ per cent. The increase in the reserve ratio was necessitated, in the words of the Reserve Bank, "by a temporary seasonal increase in the banks' balances" with the central bank. Early last month, the Finance Ministry abolished the fixed minimum and maximum rates chargeable by the trading banks on overdrafts, which had been set at 4 and 5 per cent since 1941; henceforth, the banks reportedly are to charge an "average" rate of 5 per cent.

In South Africa, the authorities on February 15 announced an increase to 3¼ from 3 per cent in the three months' Treasury bill tap rate, as well as upward adjustments in other short-term money rates and in the yields on government securities; these changes were prompted, according to newspaper comments, largely by domestic considerations. Following the increase in the British bank rate, however, the authorities, in order to restrain flows of funds to London, imposed exchange controls on the movement of short-term funds, held by South African residents, to the rest of the sterling area, parallel to similar controls on capital movements to nonsterling countries. Reportedly, this action was taken instead of making a further adjustment in interest rates, as had been done in the past.

Exchange Rates

Rates for sterling were relatively stable in a rather narrow New York foreign exchange market until February 10, when increasing pressure led to substantially lower quotations. Thus American-account sterling was quoted within $\frac{1}{16}$ cent on either side of \$2.80$\frac{11}{16}$ until February 10, when it turned noticeably weaker; by February 15 the rate had dropped to \$2.80¼. The February 2 announcement that Britain's gold and dollar reserves had risen 29 million dollars during January, the first rise since April 1955, did not noticeably affect the market. The adverse January trade figures announced on February 13, however, tended to slacken demand further and contributed to the weakening of sterling at that time.

With the February 16 announcement of measures designed to dampen internal demand and encourage exports, sterling made a sharp recovery; American-account sterling rose immediately to \$2.80$\frac{21}{32}$, and further strengthened to \$2.80$\frac{31}{32}$ at the month end.

Sterling for forward delivery also tended to weaken during the first part of the month, the discounts on three and six months' sterling increasing to 1$\frac{13}{32}$ and 2½ cents at mid-month. After the rise in the bank rate, discounts on forward sterling tended to widen further, offsetting much of the increased differential in interest rates between New York and London. The 2.5 per cent per annum discount on three months' sterling thus substantially offset the 2.8 per cent differential between British Treasury bills offering an average yield at tender at the month end of about 5.2 per cent per annum and United States Treasury bills returning approximately 2.4 per cent.

Transferable sterling also held steady in a rather thin market at about \$2.77¾ until February 9, after which time the rate began a decline that lowered the quotation to \$2.77½ on February 15. At the month end, it stood at \$2.77⅝. Securities sterling rose one cent during the month to \$2.74⅜.

The Canadian dollar fluctuated between \$1.00$\frac{1}{16}$ and \$1.00$\frac{3}{16}$ throughout the month, with important activity centering on purchases by grain interests of Canadian dollars offered in the market by Canadian importers.

CAPITAL AND CREDIT MARKETS IN 1955

Strong and rising demands for capital and credit financing accompanied the rapid expansion of the United States economy in 1955. Net satisfied demands for additional funds amounted to an estimated 37.0 billion dollars, a sharp rise from 25.9 billion in 1954 and 27.4 billion in 1953. The ability of lenders to supply the credit and capital funds sought by borrowers was limited by the volume of savings available for investment, as well as by the Federal Reserve System's policy of monetary restraint which limited the availability of credit from the banking system. Consequently, the cost of obtaining funds moved moderately upward in 1955. The gradual upward shift in the structure of interest rates occurred in a relatively smooth and orderly fashion, although with some hesitation or reversal at times, and there was no protracted congestion or serious strain in the capital markets.

On the demand side, the accelerated pace of mortgage borrowing was the dominant influence in the capital and credit markets in 1955. As shown in Table I, net mortgage borrowing in 1955 amounted to 16.7 billion dollars, compared with 12.5 billion the year before and 9.8 billion in 1953. Bank loans other than mortgages ranked next in size with an increase of 9.2 billion dollars, as against 1.2 billion in 1954 and 2.4 billion in 1953. Corporate securities outstanding (excluding investment company issues) rose by 5.8 billion dollars, a slightly smaller amount than in the two previous years. State and local governments borrowed 5.1 billion dollars (net of retirements) through long and short-term issues, somewhat less than the record amount of 5.4 billion in 1954. Net cash borrowing by the Federal Government was only 0.2 billion dollars, compared with 0.9 billion in 1954 and 4.6 billion in 1953.

Of the total of 37.0 billion dollars in additional capital and credit supplied to borrowers in 1955, 16.2 billion dollars, or more than 40 per cent, was provided by sources other than banking and financial institutions (see Table I), consisting largely of individuals, State and local governments, nonfinancial corporations, and nonprofit organizations. In addition to the gross saving of this group supplied directly to the market, savings were also channeled to the market through nonbank financial institutions, but some of these institutions supplemented their current accruals of savings with short-term borrowing from other lenders. Finally, a total of 4.4 billion dollars was provided by the banking system in 1955, as com-

Table I
Estimated Sources and Uses of Capital and Credit
(In billions of dollars)

Sources or uses	1952	1953	1954	1955
Uses of funds				
Federal net cash borrowing	3.4	4.6	0.9	0.2
State and local government securities	2.9	3.9	5.4	5.1
Corporate securities	7.3	6.7	5.9	5.8
Mortgage borrowing	9.0	9.8	12.5	16.7
Bank loans other than mortgages	5.3	2.4	1.2	9.2
Total	27.9	27.4	25.9	37.0
Sources of funds				
Banking system:				
Federal Reserve Banks	0.9	1.2	− 1.0	− 0.1
Commercial banks	9.0	4.1	10.2	4.5
Financial institutions:				
Life insurance companies	4.6	4.8	4.9	5.5
Other insurance companies	1.2	1.2	1.2	1.0
Mutual savings banks	1.7	1.8	2.0	2.0
Savings and loan associations	3.0	3.7	4.4	6.0
Corporate pension funds	1.4	1.6	1.7	1.9
All other investors	6.1	9.1	2.6	16.2
Total	27.9	27.4	25.9	37.0

Note: Because of rounding, details may not add to totals.
Source: Estimated by the Federal Reserve Bank of New York from a variety of sources.

mercial bank loans and investments increased 4.5 billion dollars, while Federal Reserve holdings of Government securities declined by 0.1 billion.

Record Increase in Mortgage Debt

Expenditures for new residential construction and for alterations and additions to existing homes reached a record 16.5 billion dollars in 1955. Mortgage credit played an essential role in the financing of these outlays as well as in the transfer of existing properties. Outstanding mortgage debt rose by 13.0 billion dollars on one to four-family houses, by 2.7 billion on multifamily and commercial properties, and by 0.9 billion on farm properties.

To meet this record demand for mortgage funds, investing institutions mobilized an increasing share of their financial resources for investment in mortgages, in some cases supplementing the current accrual of funds with the proceeds of liquidated assets or with borrowings from other lending institutions. Life insurance companies "warehoused" mortgages with commercial banks under repurchase agreements, while savings and loan associations supplemented the funds arising from increases in their share capital by borrowing heavily from the Federal Home Loan Banks. Mutual savings banks liquidated holdings of corporate and Government securities in order to add to their portfolios an amount of mortgages that exceeded by far their net inflow of savings deposits.

Despite this very substantial flow of funds into mortgage investments, the strong demand for mortgage credit resulted in an increasing tightness in the mortgage market as the year progressed. Many mortgage lenders found it necessary to reduce their outstanding commitments in order to bring them into line with their prospective available funds. Average discounts in the secondary market on Federal Housing Administration (FHA) mortgages rose from ½ point in January to 2 points at the end of 1955, resulting in a higher yield for investors; interest charges also firmed on conventional mortgages. The tightness of mortgage funds toward the end of 1955 was reflected in the increased sale of mortgages to the Federal National Mortgage Association under its secondary market operations.

A number of official actions taken by the Veterans Administration (VA) and the FHA during the year were designed to moderate the growth in home financing under Government insured or guaranteed loan programs. In April, the VA ended the practice of including in the face amount of VA-guaranteed loans the closing costs on home purchases, thus eliminating the so-called "no-no downpayment" loans. On July 30, both the FHA and VA raised moderately the downpayment requirements on insured and guaranteed loans and shortened the maximum maturity of such loans from thirty years to twenty-five years. In order to restrain the growth of mortgage credit extended by savings and loan associations, the Home Loan Bank Board in September took steps to limit the amount of credit advanced by Federal Home Loan Banks to their member associations.

Later in the year, indications appeared of a slackening of activity in residential construction and financing, and some of the above restrictive measures were relaxed. The Home Loan Bank Board announced in December that stand-by credit from Home Loan Banks would be more freely available. Early in 1956 the VA and FHA reversed in part the action of July 30, 1955 by lengthening the permissible maturities of mortgage loans under their programs to the previous maximum of thirty years.

Bank Loans and Investments

Accompanying the rapid expansion of economic activity, bank loans rose substantially in 1955. The increase of 11.6 billion dollars in total loans of commercial banks (excluding interbank loans) compares with 3.0 billion in 1954 and 3.4 billion in 1953. Real estate loans rose by an estimated 2.4 billion dollars, the largest increase since 1946, while other demands on the part of business and consumers for additional bank credit were met to the extent of 9.2 billion dollars.

Short-term consumer borrowing accounted for a large part of the sharp rise in bank loans other than mortgages. In addition to direct bank loans to consumers in the amount of 2 billion dollars, banks extended roughly 1½ billion in loans to sales finance companies which used the greater part of such funds to finance additional consumer credit. More than half of the 6.1 billion dollar increase in all forms of consumer credit therefore derived either directly or indirectly from the expansion of commercial bank loans; the remainder was largely financed by security issues of sales finance companies in the long-term capital market.

The remaining amount of the loan expansion reflected the rise in general business loans (about 4 billion dollars) apart from loans to finance companies, a decline of 0.8 billion in agricultural loans, and increases of 0.8 billion in security loans and 1.4 billion in all other loans.

The swift rise in commercial bank loans, during a period of increasing restraint by the monetary authorities, was made possible by the liquidation of an estimated 7.3 billion dollars in Government securities and by member bank borrowings from the Federal Reserve Banks. Total loans and investments of commercial banks rose in 1955 by an estimated 4.5 billion dollars, compared with increases of 10.2 billion during the year of monetary ease in 1954 and 4.0 billion in 1953.

Federal Government Securities Market

Activity in the Government securities market was related more to the large shift of Government securities from banks to other investors than to the absorption of an additional amount of such obligations. Although the 800 million dollar net cash deficit of the Federal Government in calendar 1955 was somewhat larger than in the previous year, the drawing-down of the Treasury's cash balance resulted in Federal net cash borrowing of only 200 million dollars, as against 900 million in 1954 (see Table I).

Investors who increased their holdings of Government securities in 1955 included nonfinancial corporations building reserves against increased income tax liabilities arising from higher profits, and State and local governments investing the undisbursed proceeds of bond issues and the assets of trust and retirement funds. Individual investors also made net purchases of Government securities in large amounts, as did foreign investors including foreign governments. Net purchases of Government securities by these nonbank investors accounted in large measure for the increased importance of "All other" investors (shown in Table I) in supplying funds to the capital markets in 1955.

Borrowing costs of the Federal Government moved up almost continuously during 1955. In December 1955 a one-year 2⅝ per cent certificate was offered in exchange for a maturing certificate issued at 1¼ per cent in December 1954; the issue rate on Treasury bills more than doubled during the same twelve months. In general, the yields on Federal Government securities offered during the year were regarded by investors as attractive. The most notable Treasury issue of the year was a 3 per cent forty-year bond which was offered in an exchange in February and reopened to long-term investors in a cash offering in July; this issue had the effect of setting a "benchmark" to which yields on other long-term securities could be related.

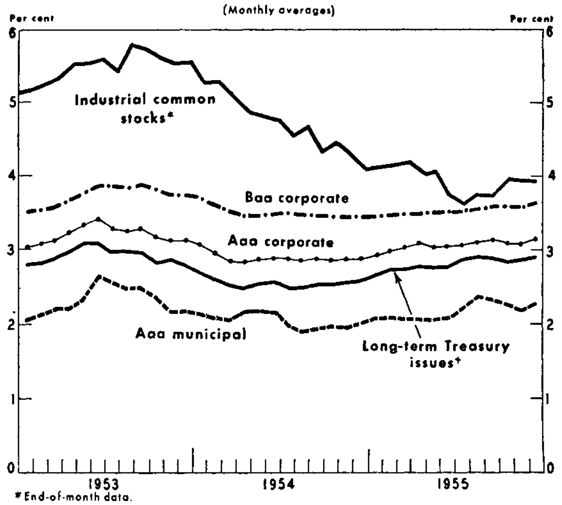
State and Local Government Borrowing[1]

Net demands of State and local governments for long and short-term funds in 1955 amounted to an estimated 5.1 billion dollars, as shown in Table I, which was less than the record 5.4 billion dollar increase in outstanding State and local debt in the previous year. The gross total of long-term "municipal" bond issues in 1955 amounted to 5.6 billion dollars, as against a record 7.0 billion in 1954. Offerings of general obligation bonds in 1955 increased moderately but revenue bond issues, particularly those financing toll roads, registered a large decrease from 1954.

A number of market factors are believed to have contributed to the marked decline in revenue issues last year. The volume of revenue bonds floated during 1954 was far in excess of previous years, as a result of the culmination in 1954 of many plans for toll road projects. Legal difficulties were encountered on some projects in 1955, and the uncertainty regarding the Federal highway program proposed early in the year may have led some issuing authorities to hold off bond financing until the role of Federal aid was clarified. According to market observers, moreover, the disappointing revenue experience of some recent turnpike projects resulted in a more cautious investor attitude toward proposed toll roads, particularly those planned for less heavily populated areas. Also of importance was the rise in borrowing costs in 1955, stemming from the strong demand for funds in all sectors of the capital market in relation to a limited, though nonetheless record size, availability of capital and credit.

Market reception of the 5.6 billion dollars in municipal bonds issued in 1955 was generally favorable, although dealers found it necessary from time to time to make price concessions on unsold securities, and temporary congestions in the municipal market occurred in June and again toward the end of 1955 as dealers' inventories rose to high levels. Borrowing costs of State and local governments edged upward during the first eight months of the year, as measured by the yields on seasoned bonds (see chart). During the summer months, underwriters' bids were rejected on a few large issues, apparently because of relatively high interest costs. In the autumn, however, a decline in yields on long-term bonds facilitated the flotation of some previously deferred issues. Toward the end of the year, borrowing costs resumed their upward trend, and once again some scheduled issues were deferred reportedly because of unfavorable market conditions.

MARKET YIELDS OF SELECTED SECURITIES
(Monthly averages)



*End-of-month data.
†Old series.
Sources: Federal Reserve Bulletin and Moody's Investors Service

[1] The data for 1955 in this section exclude the 415 million dollar issue of Illinois State Toll Highway revenue bonds, which were offered in October 1955 but not paid for until January 1956 because of litigation that delayed delivery of the bonds.

Corporate Financing

Rising corporate expenditures on plant and equipment contributed to the expansion of economic activity in 1955. However, a sharp increase in retained earnings, together with the growth of depreciation reserves, made it possible for corporations to finance a greater share of their expansion programs with internal funds so that they were less dependent upon the capital market. As shown in Table I, the estimated increase in corporate securities outstanding (excluding investment company issues) amounted to 5.8 billion dollars, slightly less than in 1954. A considerable part of the 1955 increase represented a rise in outstanding securities of sales finance companies, for use in financing consumer credit as noted above.

Gross proceeds of corporate securities offered for cash amounted to 10.5 billion dollars in 1955, of which 2.2 billion was from common stock issues, 0.6 billion from preferred stock, and 7.6 billion from bond issues. As may be seen in Table II, the gross issues of manufacturing corporations and of financial and real estate concerns increased from the previous year, while the offerings of electric, gas, and water companies declined.

The generally strong market for common stocks, stemming from the favorable economic outlook and the prospect of rising corporate profits, encouraged corporations to raise a larger share of their new capital through equity issues. Gross offerings of common stock reached the highest level since 1929, and were equal to more than 20 per cent of total corporate security issues in 1955, as against 13 per cent in 1954 and 15 per cent in 1953. The flotation of bonds with conversion privileges also increased over the previous year.

Table II
Estimated Gross Proceeds of Corporate Securities Offered for Cash
(In billions of dollars)

Classification	1952	1953	1954	1955
By type				
Common stock	1.4	1.3	1.2	2.2
Preferred stock	0.6	0.5	0.8	0.6
Bonds and notes	7.6	7.1	7.5	7.6
Total	9.5	8.9	9.5	10.5
By issuer				
Manufacturing	4.0	2.3	2.3	3.1
Mining	*	0.2	0.5	0.4
Electric, gas, and water	2.7	3.0	3.7	2.5
Transportation	1.0	0.6	0.8	0.9
Communication	0.8	0.9	0.7	1.1
Financial and real estate	0.5	1.6	1.1	1.9
Commercial and other	0.5	0.3	0.4	0.5
Total	9.5	8.9	9.5	10.5

Note: Because of rounding, details may not add to totals.
* Included with "Commercial and other".
Source: Securities and Exchange Commission.

In an effort to restrain excessive use of credit in the stock market, margin requirements against purchases of listed securities were increased by the Board of Governors of the Federal Reserve System from 50 to 60 per cent in January 1955 and from 60 to 70 per cent in April. Over the year as a whole, average stock prices rose 22 per cent, as measured by the Securities and Exchange Commission index of 265 common stocks, while the combined increase in customers' net debit balances and bank loans to "others" for purchasing or carrying securities (other than Governments) was about 600 million dollars, or 17 per cent. More than half of the latter increase occurred prior to the second increase in margin requirements in April.

EARNINGS AND EXPENSES OF SECOND DISTRICT MEMBER BANKS IN 1955

Operating earnings of member banks in the Second District rose to record levels in 1955, but net profits after taxes declined, owing to substantial losses on security sales. The high level of business activity in the District and in the country as a whole was accompanied by an unprecedented demand for bank credit, and member banks in this District were able to increase their total current operating earnings by 135.1 million dollars, or 11.4 per cent. Salaries and wages, interest payments, and other operating costs also rose but by a smaller amount, 70.9 million or 10.0 per cent. As a result, net current operating earnings (before income taxes) increased by 64.2 million to 534.0 million dollars, an increase of 13.7 per cent.

The losses on the sale of securities by banks during 1955 reflected primarily the growing pressure of credit demands against the available supply of funds, which was limited by the shift of Federal Reserve credit policy from ease to restraint. As credit conditions tightened, interest rates rose, security prices declined, and many banks found it necessary to sell securities in a declining market in order to meet the heavy demand for loans. In addition, many banks sold securities to establish losses for tax purposes. As a result of these losses, net profits after taxes of all member banks in the District declined from 286.0 million dollars in 1954 to 251.6 million in 1955. As a proportion of capital outstanding at the beginning of the year, net profits were down from 8.4 per cent in 1954 to 6.8 per cent in 1955. Dividends paid or declared by Second District member banks in 1955 increased, however, by 13.7 million dollars to 155.1 million.

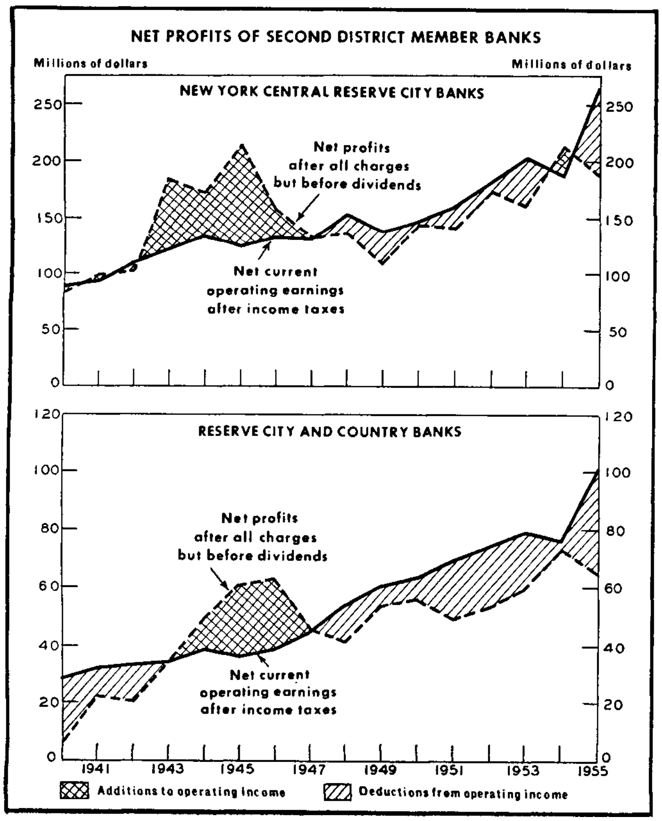
As has often been true in the past, the changes in credit policy had a greater impact on the central reserve New York City banks than on other banks in the District. During most of 1955 the reserve positions of the City banks were under considerably more pressure than were those of the other banks. As a result they had to reduce their security portfolios by almost the same amount as the increase in their loans, while reserve city and country banks as a group were able to add a substantial amount of loans to their portfolios without any net liquidation of investments. Net profits of the central reserve city banks declined 12.6 per cent for the year as a whole to 186.4 million dollars, while those of the reserve city and country banks fell off by 10.4 per cent to 65.2 million.

Operating Income

The most striking development during 1955 was the large expansion in net current operating earnings after income taxes, as shown in the accompanying chart. Net operating earnings after taxes for all member banks rose from 263.3 million dollars in 1954 to 362.7 million dollars in 1955, an increase of 37.7 per cent. The increase amounted to 39.8 per cent for central reserve New York City banks and 33.0 per cent for reserve city and country banks. The expansion in net earnings after taxes resulted from increases in several factors, including an increase in total loans and investments (especially outside New York City), a larger proportion of high-yielding assets held, and the rise in interest rates (particularly in New York City).

Most member banks in the Second District were able to increase their earning assets somewhat during 1955, although the greater expansion occurred at reserve city and country banks. Total loans of the New York City banks rose from an average[1] of 11.9 billion dollars in 1954 to 13.3 billion dollars in 1955, an increase of 11.6 per cent. Total loans and investments of City banks increased 596 million dollars, or 2.6 per cent. Reserve city and country banks, on the other hand, increased their average total loans and investments by 6.8 per cent, as loans expanded from 4.6 billion dollars in 1954 to 5.2 billion in 1955, an increase of 12.5 per cent, while average total investments rose 1.8 per cent (93 million dollars).

[1] Averages of loans and investments obtained by averaging figures reported in each of four Reports of Condition during the year and the Report of Condition for the previous December 31.



The larger commercial banks in New York City raised their prime lending rate from 3 per cent to 3¼ per cent in August, and again to 3½ per cent in October, following discount rate increases by the Federal Reserve Banks. The rise in the prime loan rate was reflected in the average rate charged by these banks to business borrowers, which rose almost ½ of 1 per cent between June and December 1955. In addition, a number of the City banks raised their rates on consumer instalment loans in November. However, since these rate increases came late in the year, most of the rise in income from loans must be attributed to a growing loan volume and a changed loan composition rather than to the higher rates of interest. No comparable figures are available on changes in interest rates charged by reserve city and country banks, but presumably there were some rate increases at these banks as well.

All major categories of loans held by the New York City banks (except farm loans) increased during 1955, but percentagewise consumer, real estate, and "all other" loans rose more rapidly than commercial and industrial loans. The average increase in commercial loans made by the City banks was 6 per cent, while real estate loans increased by an average of 43 per cent and consumer loans 10 per cent. A comparison of the figures for December 31, 1954 and December 31, 1955 shows even sharper increases than do the average figures for the year, since much of the loan expansion came in the latter part of 1955. Retail automobile instalment loans, for example, increased 75 per cent from year end to year end, single-payment consumer loans increased 35 per cent, and "all other" loans rose 36 per cent. These kinds of loans usually carry higher effective rates of interest than commercial and industrial loans.

The City banks' effective rate of return on total loans rose to about 3.64 per cent in 1955, compared with 3.50 per cent in 1954. The larger volume of loans combined with the higher effective rate of return resulted in an increase of 66.9 million dollars, or 16.1 per cent, in total income from loans for the central reserve New York City banks.

The central reserve city banks' average holdings of United States Government securities declined from 8.6 billion dollars in 1954 to 7.8 billion dollars in 1955, a drop of 9 per cent, and average total investments declined 7 per cent to 10.2 billion dollars. Most of the liquidation represented short-term securities, Treasury bills, certificates of indebtedness, and bonds maturing in less than five years. The rise in interest rates on securities, however, partially offset the loss of income on the securities liquidated. For the City banks, the average return on Government securities rose from 1.8 per cent in 1954 to 2.0 per cent in 1955. Interest and dividends earned on their security portfolios increased 2.3 per cent, or 4.7 million dollars, from the 1954 level of 202.2 million dollars.

The reserve city and country banks added an average of 573 million dollars of loans to their portfolios in 1955, bringing them to an average of 5.2 billion dollars. Income from loans rose 12.9 per cent, from 238.6 million dollars in 1954 to 269.4 million dollars in 1955. The effective rate of return on total loans at these banks remained at 5.2 per cent in 1955, the same as in 1954.

In contrast to the City banks, other Second District banks were able to expand their lending activity without any net liquidation of investments. These banks reduced their average holdings of United States Government securities by 16 million dollars, less than 1 per cent, but average total investments increased 93 million dollars or 1.8 per cent over the year. Since most of the liquidation of Government obligations was of the lower-yielding, short-term securities and since investments in longer-term issues increased, income from interest and dividends on United States Government obligations rose 6.8 per cent from 82.0 million dollars in 1954 to 87.6 million dollars in 1955. Income from other securities increased 11.4 per cent to 26.4 million.

Income from service charges on deposit accounts continued to rise throughout the District. Much of this increase was due to the rapid growth of special checking accounts. Gross trust department earnings of the City banks expanded 17.5 per cent in 1955, from 77.5 million dollars to 91.1 million. This gain reflected both the growth of trust business and higher security yields and dividends. In reserve city and country banks, trust department earnings increased 1.7 million to 12.5 million dollars, an increase of 15.7 per cent.

Operating Expenses

Total salary and wage payments of the central reserve New York City banks and of the reserve city and country banks were 8.6 per cent and 7.8 per cent higher, respectively, in 1955 than in 1954. Since the number of persons employed by banks in the Second District rose only 3 per cent to a level of 91,082, most of the rise in salary and wage payments represented increased rates of pay.

Although time deposits did not expand further in 1955, rates of interest paid on such accounts increased. Consequently, the total amount of interest payments on these deposits rose from 97.4 million dollars in 1954 to 108.8 million in 1955, an increase of 11.7 per cent. The average effective rate rose from 1.20 per cent to 1.23 per cent at the central reserve institutions and from 1.32 per cent to 1.50 per cent at the other banks in the District.

As Federal Reserve credit policy tightened and increasing pressure was put on bank reserves, both interbank borrowing of Federal funds and bank borrowing from the Federal Reserve Bank expanded rapidly. The discount rate of this Bank was raised in several stages from 1½ per cent in late 1954 to 2½ per cent in November 1955, while rates on Federal funds

Earnings and Expenses of Second District Member Banks, Selected Years
(In millions of dollars)

Item	New York central reserve city banks				Reserve city and country banks			
	1945	1949	1954	1955	1945	1949	1954	1955
Number of banks	37	25	21	18	777	743	659	608
Earnings:								
On United States Government securities	222.1	147.8	153.4	156.0	81.5	75.3	82.0	87.6
On other securities	24.2	25.8	48.8	50.9	10.3	15.0	23.7	26.4
On loans*	105.6	188.8	416.7	483.6	45.2	123.1	238.6	269.4
Service charges on deposit accounts	7.5	14.9	20.5	20.4	9.0	17.9	28.6	31.9
Trust department earnings	40.7	51.9	77.5	91.1	5.3	7.7	10.8	12.5
Other current earnings	32.1	46.9	59.9	64.1	12.9	15.6	20.4	22.1
Total current operating earnings	432.2	476.1	776.8	866.1	164.2	254.6	404.1	449.9
Expenses:								
Salaries and wages—officers and employees	116.8	164.2	232.5	252.5	46.4	80.8	127.8	137.8
Interest on time deposits (including savings deposits)	5.6	7.7	40.5	42.5	23.8	31.3	56.9	66.3
Interest and discount on borrowed money	1.0	1.8	3.0	6.5	0.2	0.2	0.4	1.2
Taxes other than on net income	10.2	9.7	13.6	14.0	6.0	7.3	10.5	11.2
Recurring depreciation on banking house, furniture, and fixtures	4.2	3.4	4.5	7.3	3.7	5.1	8.9	9.6
Other current operating expenses	78.6	95.3	134.3	148.4	32.3	52.7	78.2	84.7
Total current expenses	216.4	282.1	428.4	471.2	112.4	177.4	282.7	310.8
Net current operating earnings before income taxes	215.8	194.0	348.4	394.9	51.8	77.2	121.4	139.1
Net recoveries (+) or charge-offs (−) on loans	+ 1.3†	− 5.7	+ 0.6	− 4.0	+ 1.2†	− 3.7	− 3.5	− 6.0
Security profits and recoveries (+) or charge-offs (−)	+100.2‡	+ 12.0‡	+ 57.8	− 34.0	+ 26.1‡	+ 8.3‡	+ 19.8	− 14.2
All other net recoveries (+) or charge-offs (−)	− 12.4	− 3.9	+ 0.7	− 6.5	− 2.7	+ 0.5	− 3.7	− 3.1
Net additions to (−) or deductions from (+) valuation reserves for:								
Loan losses	—	− 30.1	− 18.5	− 36.7	—	− 11.8	− 11.1	− 16.5
Security losses	—	—	− 15.0	+ 5.2	—	—	− 4.4	+ 4.7
Net profits before income taxes	304.9	166.3	374.0	318.9	76.4	70.5	118.5	104.0
Taxes on net income	90.7	55.0	160.8	132.5	16.0	16.9	45.7	38.8
Net profits after income taxes	214.2	111.3	213.2	186.4	60.4	53.6	72.8	65.2
Cash dividends paid or declared	73.0	82.3	112.8	123.9	13.9	19.4	28.7	31.2
Retained earnings	141.2	29.0	100.4	62.5	46.5	34.2	44.1	34.0

* Includes service charges and other fees on banks' loans.
† Includes transfers to or from valuation reserves for loan losses.
‡ Includes transfers to or from valuation reserves for losses on securities.
Sources: Board of Governors of the Federal Reserve System, 1945-54; 1955 preliminary figures compiled by the Federal Reserve Bank of New York.

transactions rose correspondingly. The increased use of these types of borrowing together with the rise in their cost resulted in a sharp increase in "interest and discount on borrowed money", although such expenditures continued to represent a relatively small proportion of total operating expenses. For the District as a whole, this item amounted to 3.4 million dollars in 1954 and to 7.9 million dollars in 1955.

Expenses such as taxes other than income taxes, depreciation, and "other current operating expenses" (which includes deposit insurance assessments, supplies, and the maintenance of bank premises) all moved moderately higher in 1955.

Nonrecurring Items

Realized net losses on securities amounted to 48.2 million dollars in the Second District, and 71 per cent of the total loss was sustained by the central reserve New York City banks. Although a large part of the loss on securities transactions was due to portfolio liquidation over a period when security prices were falling, some of the loss resulted from "switching" operations undertaken to establish losses for tax purposes. The loss on security transactions in 1955 contrasts with a net profit of 77.6 million dollars in 1954.

Losses on loans increased from 2.9 million dollars in 1954 to 10.0 million dollars in 1955 for the District as a whole but were moderate when measured against outstanding loans. In 1955 the New York City banks lost 4.0 million dollars, while in 1954 they recovered 0.6 million.

Valuation reserves for losses on securities decreased 10 million dollars in the District as the banks drew upon reserves to cushion losses, while reserves for loan losses increased 53 million dollars. The City banks alone increased their valuation reserves for loan losses by 37 million dollars. The increase in valuation reserves for loan losses continued to reflect in 1955 the more liberal provisions of the 1954 revision of the Treasury Department's special method for computing reasonable additions to the reserve for bad debts.

Taxes, Dividends, and Retained Earnings

Profits before income taxes of all Second District member banks declined 69.6 million dollars, or 14.1 per cent, from 492.5 million dollars in 1954 to 422.9 million in 1955. As a consequence of this decline, taxes on net income were reduced from 206.5 million dollars in 1954 to 171.3 million dollars in 1955, a decrease of 35.2 million dollars or 17.0 per cent. Thus, net profits after taxes declined 12.0 per cent, or 34.4 million dollars. The decrease in taxes was greater for central reserve city banks (18 per cent) than it was for other Second District banks (15 per cent), because the City banks sustained a proportionally greater reduction in profits before taxes owing primarily to their relatively larger losses on securities transactions.

Dividend payments rose at all classes of banks, but, measured as a percentage of capital funds on hand at the beginning of the year, dividends remained virtually unchanged at 4.4 per cent at the central reserve New York City banks, and declined from 3.3 per cent to 3.2 per cent at all other member banks.

Retained earnings of Second District member banks were sharply reduced since larger dividends were paid out of smaller net profits. Retained earnings of the central reserve New York City banks decreased 37.9 million dollars, or 37.8 per cent, from 100.4 to 62.5 million dollars, but the decline was relatively less for other Second District banks where retained earnings decreased from 44.1 million dollars in 1954 to 34.0 million dollars in 1955, a drop of 22.9 per cent.

DEPARTMENT STORE TRADE

The dollar volume of department store sales in the Second District in February was 8 per cent above February 1955, according to preliminary data. The stimulus of the Lincoln's Birthday holiday, which fell on a Monday this year but on Saturday in 1955, and the extra trading day this year on February 29 accounted for a major part of the increase.

On a seasonally adjusted, daily-average basis, the index of department store sales for the month is expected to be 105 per cent of the 1947-49 average, the second "best" February on record, and 4 per cent above the level of the same month a year ago. Daily-average department store sales in the District for the year to date were also 4 per cent higher than in the first two months of 1955.

Credit Sales at District Department and Furniture Stores

The dollar volume of Second District department store credit sales increased by 6 per cent in 1955, continuing the upward trend in credit sales evident in the last nine years. As a proportion of total sales, however, credit sales in 1955 were only slightly larger than in 1954. On the average, 44 per cent of all sales by District department stores were on credit, either in the form of charge accounts (open book credit) or instalment accounts. In 1954 such sales averaged 43 per cent of the total.

Regular charge account sales, although somewhat larger in dollar amount in 1955, accounted for approximately the same

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

Item	1956	1955		
	Jan.	Dec.	Nov.	Jan.
Sales (average daily), unadjusted	90	194	139	86
Sales (average daily), seasonally adjusted	114	110	110	109
Stocks, unadjusted	108	110	136	102
Stocks, seasonally adjusted	122	121	119	114

proportion of total sales (31 per cent) as in 1954. Instalment sales (which include all sales involving deferred payment contracts payable in two or more instalments) increased by 11 per cent last year, and instalment sales' relative proportion to total sales advanced from 12 to 13 per cent. The dollar amount of sales on a cash basis (including c.o.d. sales) was virtually unchanged from 1954 to 1955, resulting in a decline of one percentage point—to 56 per cent—in its proportion of total sales in 1955. The increase in instalment sales at department stores represents a continuation of a steady growth in this method of selling that has been evident throughout the postwar period. It indicates in particular a greater promotion and use of such credit plans as "coupon" or "revolving credit" accounts.

At furniture stores in the District the proportion of cash and credit sales was virtually the same in 1955 as in 1954, 18 per cent cash and 82 per cent credit (principally instalment). The larger proportion of credit sales at furniture stores than at department stores is due to the fact that a major portion of furniture store goods are large ticket, durable items, whereas department stores offer their customers a wide variety of merchandise ranging from small notions to major durables.

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

Area	Net sales			Stocks on hand Jan. 31, 1956
	Jan. 1956	Jan. through Dec. 1955	Feb. 1955 through Jan. 1956	
Department stores, Second District	+ 7	+ 4	+ 4	+ 7
New York-Northeastern New Jersey Metropolitan Area	+ 7	+ 4	+ 4	+ 7
New York City	+ 3	0	0	
Nassau, Suffolk, Westchester, and Rockland Counties	+33	+27	+27	+ 7*
Northern New Jersey	+ 8	+ 5	+ 5	+ 5
Newark	+ 6	0	0	—
Fairfield County	+10	+11	+10	+ 3
Bridgeport	+11	+ 8	+ 8	—
Lower Hudson River Valley	+ 1	+ 7	+ 7	+21
Poughkeepsie	− 2	+ 7	+ 6	+22
Upper Hudson River Valley	+ 7	+ 4	+ 4	+19
Albany-Schenectady-Troy Metropolitan Area	+ 7	+ 3	+ 4	+18
Albany	+10	+ 7	+ 7	+29
Schenectady	+ 3	− 1	− 1	+ 5
Central New York State	+ 6	+ 5	+ 5	+ 5
Utica-Rome Metropolitan Area	+ 3	+ 3	+ 3	+11
Utica	+ 3	+ 5	+ 4	+ 9
Syracuse Metropolitan Area	+ 7	+ 5	+ 5	+ 3
Northern New York State	n.a.	n.a.	n.a.	n.a.
Southern New York State	+ 4	+ 2	+ 2	+ 4
Binghamton Metropolitan Area	+ 3	+ 3	+ 4	+ 3
Western New York State	+ 5	+ 3	+ 3	+ 8
Buffalo Metropolitan Area	+ 3	+ 3	+ 3	+ 8
Buffalo	+ 2	+ 2	+ 2	+ 8
Niagara Falls	− 1	+ 3	+ 2	—
Rochester Metropolitan Area	+ 9	+ 2	+ 3	+ 7
Apparel stores (chiefly New York City)	0	+ 3	+ 2	+ 8

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

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1956	1955			Percentage change	
		January	December	November	January	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	144p	144	143	132	#	+ 9
Electric power output*	1947-49 = 100	211	207	205	182	+ 2	+16
Ton-miles of railway freight*	1947-49 = 100	—	106p	104	98	+ 2	+13
Manufacturers' sales*	billions of $	27.1p	27.3	27.3	24.3	− 1	+12
Manufacturers' inventories*	billions of $	46.2p	45.9	45.7	43.2	+ 1	+ 7
Manufacturers' new orders, total*	billions of $	28.2p	29.3	28.3	24.6	− 4	+15
Manufacturers' new orders, durable goods*	billions of $	14.8p	15.6	14.7	12.1	− 5	+22
Retail sales*	billions of $	—	15.8p	15.8	14.9	#	+ 5
Residential construction contracts*	1947-49 = 100	291p	273	252	286r	+ 7	+ 2
Nonresidential construction contracts*	1947-49 = 100	309p	319	382	243	− 3	+27
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	89.4	89.7	88.5	91.1	#	− 2
Wholesale prices†	1947-49 = 100	111.8p	111.3	111.2	110.1	#	+ 2
Consumer prices†	1947-49 = 100	114.6	114.7	115.0	114.3	#	#
Personal income (annual rate)*	billions of $	—	315.0p	312.0	292.2	+ 1	+ 7
Composite index of wages and salaries*	1947-49 = 100	—	144p	144	139	#	+ 4
Nonagricultural employment*	thousands	50,208p	50,211p	50,135r	48,404r	#	+ 4
Manufacturing employment*	thousands	16,861p	16,948p	16,962	15,993	− 1	+ 5
Average hours worked per week, manufacturing†	hours	40.6p	41.3	41.2	40.2	− 2	+ 1
Unemployment	thousands	2,885	2,427	2,398	3,347	+19	−14
Banking and finance							
Total investments of all commercial banks	millions of $	77,350p	78,320p	78,000p	85,700	− 1	−10
Total loans of all commercial banks	millions of $	82,000p	82,760p	81,390p	70,550	− 1	+16
Total demand deposits adjusted	millions of $	108,860p	109,690p	106,920p	107,000	− 1	+ 2
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,559p	30,592	30,516	30,050	#	+ 2
Bank debits (337 centers)*	millions of $	74,718	72,755	72,916	65,272r	+ 3	+14
Velocity of demand deposits (337 centers)*	1947-49 = 100	133.8p	128.1	130.6	121.3	+ 4	+10
Consumer instalment credit outstanding†	millions of $	27,724	27,895	27,247	22,436	− 1	+24
United States Government finance (other than borrowing)							
Cash income	millions of $	4,729	5,353	5,934	4,299	−12	+10
Cash outgo	millions of $	5,323	6,264	5,951	5,009	−15	+ 6
National defense expenditures	millions of $	3,394	3,312	3,289	3,273	+ 2	+ 4
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	159	153	149	142	+ 4	+12
Residential construction contracts*	1947-49 = 100	—	193p	173	218	+12	− 1
Nonresidential construction contracts*	1947-49 = 100	—	301p	274	230	+10	+41
Consumer prices (New York City)†	1947-49 = 100	112.1	112.0	112.5	112.3	#	#
Nonagricultural employment*	thousands	—	7,647.0p	7,625.6	7,491.1r	#	+ 2
Manufacturing employment*	thousands	—	2,651.3p	2,635.2	2,596.4r	+ 1	+ 2
Bank debits (New York City)*	millions of $	67,646	68,667	68,178	60,817	− 1	+11
Bank debits (Second District excluding New York City)*	millions of $	4,989	4,773	4,681	4,341	+ 5	+15
Velocity of demand deposits (New York City)*	1947-49 = 100	174.4	173.3	175.2	159.5	+ 1	+ 9

Note: Latest data available as of noon, March 1, 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.