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MONEY MARKET IN APRIL

Member bank reserve positions were under continuous pressure during April, a month in which the discount rates of the Federal Reserve Banks were advanced and in which upward adjustments in a wide range of money market rates took place. Government bond prices showed substantial declines, and yields on both new and outstanding corporate and municipal securities rose sharply, while Treasury bill rates broke through the previous postwar highs set in December 1955.

On April 12, nine Federal Reserve Banks announced increases in their discount rates from 2½ per cent to 2¾ per cent, and the Federal Reserve Banks of Minneapolis and San Francisco advanced their rates from 2½ per cent to 3 per cent, the new rates being effective in each case on April 13. Later in the month, the Federal Reserve Bank of Chicago raised its discount rate to 2¾ per cent, effective April 20. For the Federal Reserve Bank of New York and for most of the other Reserve Banks, this advance was the fifth since the beginning of April 1955, when the discount rates of all Federal Reserve Banks were at 1½ per cent.

Following the discount rate advances announced on April 12, the principal commercial banks in New York City, joined by major banks in other cities, announced an increase in their prime loan rates—the rates charged to customers with the highest credit ratings—from 3½ per cent to 3¾ per cent. The announcements were made on April 12 and April 13, and represented the third rise of ¼ per cent since the beginning of August 1955. Dealer rates for commercial paper were raised on April 13 by ¼ per cent, bringing the rate on prime four-to-six months' paper to 3¼ per cent, while rates on bankers' acceptances were raised by ⅛ per cent on April 16. Rates on directly placed finance company paper were raised by ⅛ per cent on April 17.

Meanwhile bank reserves remained under steady pressure throughout the month, as average net borrowed reserves amounted to 450 million dollars or more each week and average member bank borrowings from Federal Reserve Banks were close to, or above, 1 billion dollars. On a daily average basis, total Federal Reserve holdings of Government securities were 226 million dollars lower in the week ended April 25 than in the last statement week of March. The continuous pressure in the money market was reflected in the market for Federal funds, the effective rate for which was steady at 2½ per cent before the discount rate increases and thereafter rose to 2¾ per cent, remaining at this level throughout most of the rest of the month.

Expectations of an advance in Reserve Bank discount rates and other rates of interest were important influences in the Government securities markets early in the month and contributed to higher yields on intermediate and long-term Treasury bonds. In addition, the downward trend in the prices of Government notes and bonds reflected optimism concerning the prospects for business activity, as well as the reduced attractiveness of yields on Government securities, as yields on high-grade corporate and municipal bonds moved rapidly higher. Prices fell further immediately after the advance in discount rates, but later many issues recovered most or all of this loss, and prices steadied toward the end of the month. Over the month as a whole, most longer-term issues recorded net losses of between $^{18}/_{32}$ and $^{30}/_{32}$ of a point.

Treasury bill rates moved erratically early in the month as end-of-March demand stemming largely from Chicago was replaced by liquidation of bill holdings after the April 1 Cook County, Illinois, tax assessment date had passed. As these offer-

CONTENTS

ings tapered off, yields declined briefly, but growing expectations of an upward adjustment in basic interest rates led to advances in market rates to above 2½ per cent even before the discount rate increases. Thereafter rates advanced sharply, and in the April 16 Treasury bill auction the average issuing rate climbed to 2.769 per cent, more than ¼ per cent above the rate a week earlier. A further slight advance to 2.788 per cent occurred at the auction on April 23, but subsequently Treasury bill yields declined slightly. The longest bill closed on April 27 at 2.68 per cent (bid), 38 basis-points higher than at the end of March.

The markets for corporate and municipal bonds remained weak during most of April, as the current and prospective volume of new offerings continued to be substantial. Prices on outstanding securities moved down and, in a number of cases, the breaking-up of underwriting syndicates resulted in sharp yield markups as dealers attempted to move unsold securities. Most new issues, even when offered at rising yields, met with only limited demand until late in the month, when several attractively priced issues were quickly sold.

Member Bank Reserve Positions

Pressure on member bank reserve positions during April was about the same as in March. Net borrowed reserves averaged 462 million dollars during the four statement weeks ended April 25, slightly higher than the 406 million dollar average in the preceding four weeks. Member bank borrowings remained high, averaging over 1 billion dollars, 104 million dollars above the average March level. In contrast to March, when reserve positions showed large daily and weekly swings, the pressure on reserves in April was relatively steady.

At the beginning of the period, net borrowed reserves declined somewhat from the peak reached in the statement week ended March 28 when they reached the highest level since May 1953. A decrease in required reserves contributed substantially to the decline and was importantly influenced by preparations for the Cook County tax assessment date on April 1, which led depositors to switch into Treasury bills, not subject to the local tax assessment. Throughout the rest of the month operating factors tended on balance to add to bank reserves, especially in the weeks ended April 18 and April 25 as the usual midmonth expansion in float and return flow of currency from circulation developed. The influence of these two factors on reserves was only partly offset by losses stemming from a rise in Treasury balances at Federal Reserve Banks after the middle of the month as the volume of personal income tax collections increased.

Federal Reserve operations acted to offset in part the fluctuations in bank reserve positions during the month. At the outset, the market pressures engendered by the coincidence of the Cook County tax date, the March 31 statement date, and the Good Friday holiday in some parts of the country were relieved by a moderate increase in average System holdings of Government securities. Later in the month, however, as member bank reserve positions tended to ease, System open market operations withdrew reserves. On a daily average basis outright holdings in the week ended April 25 were 213 million dollars lower than in the statement week ended March 28, while average holdings under repurchase agreements declined by 13 million dollars.

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

Factor	Daily averages—week ended				Net changes
	Apr. 4	Apr. 11	Apr. 18	Apr. 25	
Operating transactions					
Treasury operations*	+ 41	+ 56	− 24	− 34	+ 39
Federal Reserve float	+ 81	−196	+147	+ 44	+ 76
Currency in circulation	− 69	+ 18	+ 10	+135	+ 94
Gold and foreign account	− 5	+ 30	− 5	+ 13	+ 33
Other deposits, etc	−133	+130	− 5	− 15	− 23
Total	− 84	+ 38	+123	+142	+219
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 92	− 69	−141	− 95	−213
Held under repurchase agreements	+ 34	− 44	+ 19	− 22	− 13
Loans, discounts, and advances:					
Member bank borrowings	−211	+134	− 10	− 49	−136
Other	0	0	0	0	0
Bankers' acceptances:					
Bought outright	+ 1	0	0	− 1	0
Under repurchase agreements	0	0	0	0	0
Total	− 84	+ 21	−132	−167	−363
Total reserves	−168	+ 57	− 8	− 25	−144
Effect of change in required reserves†	+124	+ 58	0	− 19	+163
Excess reserves†	− 44	+115	− 8	− 44	+ 19
Daily average level of member bank:					
Borrowings from Reserve Banks	985	1,119	1,109	1,060	1,068‡
Excess reserves†	535	650	642	598	606‡

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 April 25.

Government Securities Market

The decline in the prices of Treasury notes and bonds, which had continued almost without interruption since early February, was accelerated in the first half of April. Prices were marked down sharply and, although brief rallies developed from time to time, the downward readjustments continued until the latter part of the month when some recovery took place.

Prior to the advance in Reserve Bank discount rates, the declines reflected in part the growing expectation that either discount rates or commercial bank prime loan rates, or both, would be raised. This anticipation had been strengthened toward the end of March when leading banks in New York City increased some call loan rates to brokers and dealers against collateral other than Government securities. More fundamentally, continued optimism over the prospects for business activity during the remainder of the year and growing fears that a resurgence of inflationary pressures might lead to further measures to restrain credit expansion acted to depress Government bond prices. Furthermore, the prospective corporate and municipal security flotations scheduled over the next few months suggested to the market that further advances in bond yields were not unlikely, while upward adjustments already made created a yield spread that encouraged switching from Treasury issues into high-grade corporate and municipal bonds.

Although yields on intermediate and long-term Treasury bonds reached the highest levels since mid-1953 even before the advance in discount rates, the volume of trading was limited. Most of the markdowns in price were the result of professional activity, and only a limited volume of offerings, notably from commercial banks and savings institutions, appeared in the market. Demand, however, was sporadic as most investors preferred to remain on the sidelines awaiting developments.

Prices moved down rapidly immediately after the advance in discount rates, but a later rally offset the decline in many issues, and prices steadied toward the end of the month. Activity revived from the low levels that had been characteristic of the first half of April, and a moderate investment demand developed. Tax switching, which had been moderate early this year, increased slightly as the lower level of prices made sales for tax loss purposes of interest to some investors. The markdowns in April tended to accentuate the bulge in the yields on intermediate maturities that had first developed toward the end of March, and led to some demand for intermediate issues toward the end of the month. By April 27, prices of bonds and notes with maturities through 1960 had generally declined by $^{12}/_{32}$ to $^{29}/_{32}$ of a point from the end of March, while most longer issues had fallen by between $^{18}/_{32}$ and $^{30}/_{32}$.

At the beginning of the month the Treasury bill market was dominated by substantial liquidation of Treasury bills that had been held in connection with the April 1 personal property tax assessment date in Cook County. Partly as a result, the auction on April 2 resulted in an average issuing rate of 2.397 per cent, more than 20 basis-points higher than in the previous auction, when the market had been influenced by the demand for bills originating in the Chicago area. Yields on outstanding bills declined briefly on April 5 and 6, but the rise was resumed after the week end. A fair volume of trading took place, but nonbank demand was readily satisfied by commercial bank and Federal Reserve sales, while the spreading conviction that a further rise in interest rates was imminent exerted upward pressure on rates. As a result, the average issuing rate rose to 2.497 per cent in the April 9 auction, when substantial holdings of maturing bills were not replaced. The following day yields on the longest bills moved above 2½ per cent, reaching 2.56 per cent (bid) on the eve of the discount rate advances. The immediate reaction to the discount rate advance was a sharp rise in rates on all maturities, and was reflected in the April 16 auction when the average issuing rate climbed to 2.769 per cent. Later in the month rates tended to stabilize and then to decline slightly, as nonbank demand revived in the wake of higher yields and steady accruals of corporate funds. In the auction held on April 23 for the bill dated April 26, the average issue rate rose only slightly to 2.788 per cent, and by April 27 the longest bill was bid at 2.68 per cent, down 8 basis-points from the peak quotation on April 17 but 38 basis-points higher than at the end of March.

Other Securities Markets

The optimistic appraisal of the economic outlook and a continued large volume of new offerings resulted in steadily higher rates on both new and seasoned corporate and municipal bond issues. Average yields on Moody's Aaa corporate bond list advanced 16 basis-points through April 27, following a rise of 7 basis-points in March, and rates on new issues rose considerably more. Average yields on outstanding high-grade municipal issues rose by about 18 basis-points, approximately the same amount as in the previous month. In each case, average yields for the first time this year exceeded the 1955 highs and were at the highest levels since the fall of 1953.

The estimated volume of public offerings of corporate bonds for new capital amounted to 315 million dollars, down about 65 million dollars from the previous month but about twice as large as in April 1955. Each new issue as it reached the market bore a higher rate than the last preceding comparable issue. One notable development was the reoffering, after the advance in discount rates, of a new Aa-rated public utility issue at a yield of 3.77 per cent, the highest rate on such an issue since September 1953 and almost ½ per cent above the reoffering yield on a similar issue toward the end of March. In several instances the congestion in the corporate market was reflected in the markup of yields after underwriting syndicates had broken up. Most new issues met with a poor reception until late in the month, when several sizable issues were successfully floated and soon were quoted at premiums over the initial prices.

New public offerings of municipal bonds amounted to an estimated 350 million dollars in April, about 55 million more than in the previous month. Although dealer inventories reportedly declined somewhat from the levels prevailing in the latter half of March, they remained large as most new issues met with investor resistance despite a general advance in the yields offered. Toward the end of the month a 50 million dollar issue of Aa-rated State revenue bonds was bought by underwriters at a net interest cost of 3.09 per cent, as against a 2.31 per cent cost to the same borrower in July 1955.

Member Bank Credit

Total loans and investments of weekly reporting member banks declined by 1.0 billion dollars during the four weeks

Table II
Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks
(In millions of dollars)

Item	Statement weeks ended				Change from Dec. 28, 1955 to Apr. 18, 1956
	Mar. 28	Apr. 4	Apr. 11	Apr. 18	
Assets					
Loans and investments:					
Loans:					
Commercial and industrial loans	+ 69	−181	+107	+ 89	+1,063
Agricultural loans	− 9	− 32	− 2	− 2	
Security loans	−297	+ 61	− 58	− 83	− 475
Real estate loans	+ 21	+ 3	+ 33	+ 35	+ 265
All other loans (largely consumer)	+ 23	+ 37	+ 27	+ 83	+ 371
Total loans adjusted*	−193	−116	+106	+121	+1,114
Investments:					
U.S. Government securities:					
Treasury bills	−276	− 87	− 51	+140	− 696
Other	−383	− 56	−105	−141	−1,731
Total	−659	−143	−156	− 1	−2,427
Other securities	− 6	+ 82	+ 43	− 80	+ 64
Total investments	−665	− 61	−113	− 81	−2,363
Total loans and investments adjusted*	−858	−177	− 7	+ 40	−1,249
Loans to banks	+276	−126	−113	+120	+ 128
Loans adjusted* and "other" securities	−199	− 34	+149	+ 41	+1,178
Liabilities					
Demand deposits adjusted	−767	−341	+819	+502	−2,169
Time deposits except Government	+ 23	+ 22	− 33	− 11	− 65
U. S. Government deposits	+384	−933	−981	+ 59	+ 240
Interbank demand deposits:					
Domestic	−159	+862	+ 74	−270	− 395
Foreign	+ 32	+ 32	+ 30	− 53	+ 36

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

ended April 18, in contrast to a 2.4 billion increase in the preceding four weeks. The decline in the current period reflected primarily a renewed liquidation of security investments, which amounted to 920 million dollars, compared with a 325 million increase in the four weeks ended March 21. Treasury bill holdings, following earlier purchases that were attributable in part to preparations for the Cook County assessment date, decreased by 274 million dollars in the current period, and holdings of other Government securities fell by 685 million dollars.

The reduction in total loans was very moderate, amounting to only 82 million dollars, and was largely attributable to a drop in security loans. Security loans showed a net decline over the four-week period of 377 million dollars, with most of the decrease concentrated in the first week when the financing needs of Government security dealers were reduced as the demand for Treasury bills rose prior to the Cook County assessment date on April 1. Loans in most other major categories increased. Both real estate loans and "all other" loans (largely consumer loans) continued to rise at about the same rate as in earlier months this year.

Business loans showed a moderate increase of 84 million dollars, contrary to the expectations of some observers that the rapid increase in borrowing during the mid-March tax period might lead to net repayments in late March and early April. Most categories of business loans increased over the four-week period, with the largest advances taking place in the metals and metal product industries, in petroleum and related industries, and in wholesale and retail trade. These advances were partially offset by substantial net repayments in the public utility and transportation industry category, largely representing funds obtained from recent security flotations that were used to reduce indebtedness to banks in New York City.

Since the end of 1955, total loans and investments of weekly reporting member banks have declined by 1.2 billion dollars, in contrast to a larger 1.6 billion decrease in the comparable period last year. The smaller decline this year is attributable almost equally to a larger increase in loans and a smaller liquidation of Government securities. Loans have risen by 1.1 billion dollars, compared with a 0.8 billion advance last year, while Government security holdings have fallen by 2.4 billion, as compared with a 2.8 billion liquidation last year. Holdings of other securities have, however, increased only slightly so far this year in contrast to a 0.4 billion dollar rise last year.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

The Bank of Canada raised its discount rate from 2¾ to 3 per cent—a record high—as of the close of business April 4. The increase, the fourth since August 1955, came against a background of continued credit expansion and rising market interest rates. Business loans by the chartered banks (shown as "all other" loans in the banks' consolidated balance sheet) increased by over 2 per cent in both February and March, and on April 11 were 7.8 per cent above the end of 1955 and 30.4 per cent above a year earlier. In the first statement week in April, the banks' average cash ratio fell briefly below the legal limit (this deficiency, however, was made good in subsequent weeks), and during the month the chartered and savings banks again borrowed from the Bank of Canada for the first time since early January. At the same time, the banks' total holdings of government securities declined substantially, and in mid-April were 8.1 per cent below the December 28 level. In preparation for the coming into effect at the end of this month of secondary commercial bank reserve requirements (in the form of Treasury bills and day-to-day loans), the shift in the composition of the chartered banks' holdings of government securities continued, with Treasury bills accounting for almost 23 per cent of such holdings on April 18, as against less than 14 per cent at the end of 1955. Day-to-day loans, however, dropped sharply to a record low in the first half of the month. Government bond yields continued to rise in April, and the three months' Treasury bill tender rate reached a postwar high of 2.89 per cent on April 26. On April 23 the chartered banks raised by ½ per cent most loan rates; the prime commercial rate, which had remained unchanged since 1953, thus rose from 4½ to 5 and some other rates reached the statutory maximum of 6 per cent.

In the United Kingdom, the Chancellor of the Exchequer, in his budget message for the 1956-57 fiscal year (discussed elsewhere in this *Review*), announced a series of measures intended to stimulate private savings. These include: (1) a new seven-year Savings Certificate, with a yield to maturity of 4.20 per cent, compared with the current ten-year, 3.05 per cent issue; (2) a new 4½ per cent Defense Bond issue, with a 5 per cent tax-free bonus if held for ten years, which compares with the current 4 per cent issue carrying a 3 per cent premium; (3) exemption from income tax of the first £15 of interest accruing from Post Office Savings; and (4) creation of a £1 premium bond—noninterest-bearing, but qualifying for quarterly prizes of varying amounts (some as high as £1,000) that each year will aggregate 4 per cent of the bonds outstanding.

Further evidence of the government's intention to absorb additional funds from nonbank sources is to be found in the Treasury announcement on April 20 of a 250 million pound cash issue of 3½ per cent Treasury Stock of 1979-81, priced at 81, to yield 4.825 per cent. The Chancellor also announced that for fiscal years 1956-57 and 1957-58 the Treasury will meet, up to a maximum of 700 million pounds, the total long-term borrowing needs of the nationalized industries. Reportedly, this is to give the authorities greater technical control over such borrowing; the nationalized industries will look to the banks only for their "normal requirements of short-term capital". This move is likely to ease the pressure on bank advances which, according to the March statement of the London clearing banks, increased by 39 million pounds in the five statement weeks ended March 21 (the same amount as in the four weeks through February 15), largely because of further borrowing by the nationalized industries and of certain seasonal demands that more than offset reductions in other sectors. Prices of gilt-edged securities generally were higher during April; the yield of 2½ per cent Consols on April 27 closed at 4.56 per cent, as against 4.65 at the end of March. The average tender rate for three months' Treasury bills, which had stood at 5.17 per cent at the last March and first April tenders, declined to 5.12 on the following two tender dates.

The Bank of Finland on April 19 raised its differential discount rate structure from 5-7½ per cent to 6½-8 per cent. This move was taken, according to the bank's announcement, to check the rising trend of prices and wages and to put a brake on investment and speculation.

Exchange Rates

The pound sterling strengthened in the New York market during most of April but declined somewhat toward the end of the month. The Canadian dollar also firmed. Other developments included a rise in the West German "liberalized capital" mark and an adjustment in the quotation for the Chilean peso, reflecting the measures taken to simplify the Chilean exchange rate structure.

Sterling, recovering from the weakening tendency that marked the period immediately preceding Easter, strengthened early in April. Thus American-account sterling rose from an April 2 quotation of $\$2.80^{13}/_{32}$ to as high as $\$2.80^{31}/_{32}$ on April 11, on increased commercial demand in a market influenced by the announcements that Britain's gold and dollar reserves and its trade balance had developed quite favorably during March. While the rate weakened slightly on April 12, it nevertheless remained rather steady in a quiet market awaiting the budget presentation of April 17. Following the budget, the rate moved as high as $2.81⅛ on April 18. Thereafter, the rate declined somewhat and closed at $\$2.80^{23}/_{32}$ on April 30.

In the forward market the discount on three months' sterling declined during the first half of April from $2^{1}/_{16}$ cents to $1^{13}/_{16}$, while six months' sterling fluctuated narrowly at a discount of about 3¾ cents. After the midmonth, however, increased demand reduced both discounts, the three months' discount falling to $1^{23}/_{32}$ cents and the six months' to $3^{5}/_{16}$ cents at the close of the market on April 30.

Transferable sterling also reportedly met with continued good demand, the rate moving upward from $2.7785 on April 2 to a high of $2.7865 on April 18 and closing at $2.7845 on April 30. Securities sterling, after having appreciated substantially in earlier months, fluctuated within rather narrow limits during April, such sterling being offered at rates ranging from $2.77¾ to $2.78⅜.

The Canadian dollar was quoted near $\$1.00^{5}/_{32}$ during the first week of the month, but then began to strengthen, moving to $1.00¾ on April 25, in large measure as a result of substantial investment demand.

The West German "liberalized capital" mark, after having been quoted for some time at between 23.65 and 23.74 cents, rose sharply on April 4 to 23.81. A rather small supply of these marks, coupled with continued good demand for investments in Germany, reportedly accounted for the strengthening, which brought the rate above that for the official Deutsche mark.

The Chilean Government on April 20 introduced a new exchange system. While a secondary market will continue for a few invisible transactions, the major part of exchange transactions—involving commercial imports and exports, Government transactions, and some invisible transactions—will be made at a unified rate that will be responsive to supply and demand forces but subject to discretionary intervention by the authorities to avoid excessive movements. Following the introduction of the new system, the rate applying to the bulk of Chile's exchange transactions has been steady at 500-495 pesos per United States dollar.

CURRENT BUSINESS PATTERNS

Since late in 1955, after a year of rapid expansion, economic activity in the United States has tended to level off on a high plateau. While total production of goods and services in the first quarter of 1956 rose further from the record rate attained in the preceding quarter, the increase was quite small compared with the gains registered last year and largely reflected higher prices. To some extent, these developments have been a more or less necessary consequence of the economy's swift approach to capacity output during 1955, but because of the noticeable weakening in certain types of demand (particularly for new homes and automobiles) there has been some concern that a business readjustment might be in the making. At the same time, however, there have been impressive signs of additional strength in the economy—most notably the stepped-up programs of capital investment—as well as widespread evidence of unimpaired business and consumer confidence. According to some observers, these stimulating factors are making it possible for the economy to absorb the declines in a few areas with a minimum of disruption, and to avoid the general retrenchment that in the past has often followed periods of rapid and substantial growth. Indeed, the more immediate concern recently has related to the inflationary potentialities suggested by intensive demand for credit along with continued swift inventory build-up, large-scale capital expansion, tight supply conditions for essential materials, and persistent price increases for key industrial goods.

Tendency Toward Leveling Out

In broad outline, the economy seems to have been characterized since last summer by a shift away from consumer investment—in new homes, automobiles, and other durable goods—and toward business investment in inventories and new plant and equipment. In addition, there have been further gains in consumer spending for services and nondurable goods, and government outlays have risen somewhat. At the same time, industrial prices have moved upward along a wide front and farm prices also have advanced after reaching a low point in December, while average retail prices showed almost no change. Since increases in certain areas of demand have outweighed the declines in some others, gross national product advanced from a seasonally adjusted annual rate of 392 billion dollars in the third quarter of 1955 to 397 billion in the final quarter and to an estimated 399 billion in the first three months of 1956.

Most of the increase in aggregate activity since the third quarter of 1955 had apparently been achieved by October or November, since a number of comprehensive monthly measures of business activity tended to level off or decline somewhat after early autumn. Total business sales, for example, have shown only minor variation since last September, after seasonal adjustment. Retail sales rose to a plateau in September that was maintained during the balance of the year, as lower automobile sales were nearly offset by increases in other lines. Sales weakened slightly, however, in the opening months of 1956 when automotive sales declined further and those of some nondurable goods and of household durables tended to level off or decline. Nevertheless, total consumer spending has increased moderately further since the third quarter of 1955, largely as a result of expanding outlays for services. Consumer credit outstanding has also risen during this period (on an adjusted basis), although the increase was much less rapid than during most of 1955, as the rate of instalment debt repayment tended to catch up with new extensions. Credit growth has thus continued to support the high level of consumer spending but to a lesser extent than previously.

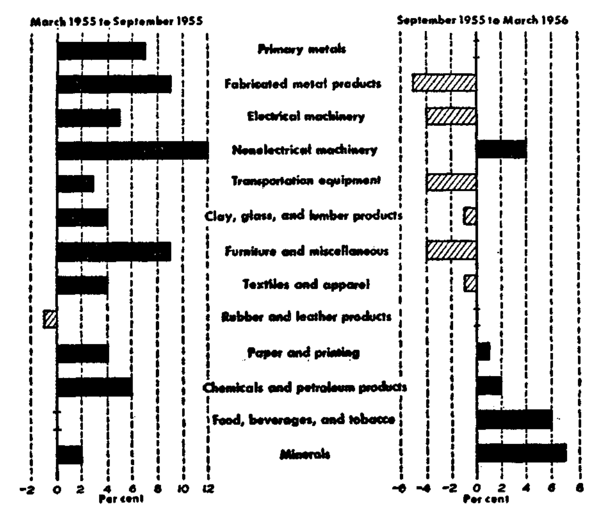
The over-all level of industrial production, meanwhile, has shown little change for a number of months. The Federal Reserve's seasonally adjusted index climbed rapidly from mid-1954 through the third quarter of 1955 and advanced somewhat further in the final three months of the year, reaching a record 144 per cent of the 1947-49 average in December; production moved downward slightly in early 1956, however, and the index for March was estimated at 142, the same as in September 1955. During this six-month period substantial gains were recorded in the output of minerals and certain nondurable goods, while some types of durables showed sizable declines. This diversity, illustrated in the accompanying chart, stands in sharp contrast to developments during the preceding half year when nearly every type of production registered large gains and the aggregate output index increased by 5 per cent. Among durable goods, some of the largest production declines during the September-to-March period were for consumer items. Thus, lower output of electrical goods seemed to reflect particularly the decrease in radio and television set production, as well as the effects of a prolonged labor dispute. On the other hand, output of nonelectrical machinery rose considerably, in response to industry's growing demand for capital equipment. Similarly, the decline in transportation equipment, which mainly reflected a marked drop in passenger car production, was moderated by increased output of aircraft, trucks, and freight cars.

In some lines, industrial output clearly has been restricted by capacity limitations. Most notably, steel production has been running at virtually full capacity since last October, with high backlogs apparently assuring continued peak operations through the first half of this year. In part, this has been a result of inventory accumulation by customers who anticipate a possible strike and higher prices after the current labor contract expires at the end of June, but it also reflects the strong demand generated by capital expansion programs. Output of nonferrous metals and of many types of industrial chemicals and paper products also has been at capacity for a number of months. On the other hand, production of textiles and apparel, and of certain durable consumer goods, has leveled off or declined in response to sales trends.

Reflecting the fact that business sales tended to flatten out earlier than production, inventory accumulation accelerated sharply in the fourth quarter of 1955 and continued at a substantial pace in the opening months of 1956. By the end of February the ratio of stocks to sales had risen by 5 per cent from its low point last summer, with increases at nearly all stages of production and distribution. The over-all ratio was no higher than a year earlier, however, and still below the level of the preceding few years, suggesting that much of the recent inventory rise may have represented a catching-up with the advanced rate of sales. Nevertheless, it is widely recognized that the recent rate of inventory increase, which has stemmed partly from price rises—actual and anticipated—has been larger than can be sustained for long.

An important factor in the recent trend of business activity has been the moderate decline in construction outlays. Following a strong rise throughout 1954 and most of 1955, spending in this area fell off somewhat in the fourth quarter (after seasonal adjustment) and declined further in early 1956, as lower outlays for residential building were only partially offset by increases elsewhere. The declining trend appeared to be

RELATIVE CHANGES IN MAJOR COMPONENTS OF INDUSTRIAL PRODUCTION



Source: Board of Governors of the Federal Reserve System, data adjusted for seasonal variation.

stemmed by the end of the first quarter, however, as residential outlays seemed to be stabilizing while expenditures for industrial building and some other types of construction continued to gain. Furthermore, contracts for new construction have been running well above a year ago for the past few months.

In contrast to the sizable increases recorded during most of last year, both farm and nonfarm employment have generally displayed only seasonal changes in recent months; the estimated number of persons out of work has also held fairly steady at a level slightly higher than during last summer and equivalent to about 4 per cent of the civilian labor force, after allowance for seasonal influences. Employment in government and in many service occupations has risen further in recent months, on an adjusted basis, but the number of workers in manufacturing declined during the first three months of this year, mainly because of cutbacks in the automobile industry. At the same time, the workweek in manufacturing has been declining and was slightly shorter in March than a year earlier; but hourly rates of pay have advanced both in manufacturing and in other types of employment, thus providing an important support to the slowly rising trend in personal income.

Wage increases, however, along with the strains imposed by capacity operations in many lines, have been a source of continuous upward pressure on industrial prices. The average rate of price increases from September to April, while much slower than in the few preceding months, has been enough to generate some apprehension; many observers anticipate that further widespread increases will follow a rise in steel prices after midyear. Prices of farm products also have advanced in the past few months, reversing at least temporarily their sharp decline during most of last year, and aggregate wholesale prices consequently have risen to the highest level since the end of 1951. Consumer prices, meanwhile, have shown remarkably little over-all change, remaining within the narrow range that has prevailed for several years.

Leading Elements of Weakness and Strength

Throughout 1955 the markets for new housing and new automobiles, which were contributing so much to the business expansion, were widely regarded as potential sources of weakness for the economy. While consumer spending in both these areas has declined since last September, playing a major part in slowing the economy's rate of advance, these declines recently have shown some signs of coming to a halt. Thus, during the past few months the value of contract awards for residential building has been running well ahead of the late 1955 pace, after seasonal adjustment, and somewhat ahead of a year ago as well. Moreover, while the year-long downward trend in new housing starts continued during the opening months of this year, the month-to-month declines in outlays for residential building were becoming progressively smaller.

In part, the downtrend in building during the latter part of 1955 seems to have stemmed from the lesser availability of mortgage money and the somewhat more restrictive down-payment and maturity terms required by Federal agencies that underwrite home mortgages; similarly, the recent leveling tendency may be traced in some measure to the easier availability of mortgage funds early this year and the restoration in January of more liberal terms on Federally guaranteed and insured mortgages.

Much larger in dollar terms than the decline in home building since last summer has been the reduction in consumer outlays for automobiles; but in this area, too, there are some indications that the downturn may have run much of its course. New car sales showed a seasonal upturn during February and March, and an active demand has been reported for used cars. Moreover, there is considerable optimism, both within and outside the automobile industry, that new models to be introduced later in the year will stimulate consumer demand. Dealers' inventories of new cars currently are very high, but the sharp rise since last autumn—which apparently resulted initially from an overestimate of sales possibilities for the new models offered at that time, and which continued in early 1956 despite substantial cutbacks in production—seems to have been checked in March. The possibility of a further seasonal strengthening of sales has given rise to hopes of restoring a more normal relationship between stocks and sales, although further, more-than-seasonal output cuts may still occur. Last month, leading manufacturers announced a further paring of production plans for the April-June quarter, scheduling about 25 per cent fewer assemblies than in the corresponding months of 1955.

Also receiving much attention in recent months as a "soft spot" in the economy has been the reduced level of farm income. Here, too, the decline that has continued for several years has shown signs of halting, at least temporarily. Farm prices have strengthened noticeably since December, and, while this advance has been partly seasonal, it may also denote a more fundamental change in trend. To some extent, the price advances have reflected the market's response to Government efforts aimed at bolstering agricultural income. Early in 1956 Federal buying helped to strengthen meat prices, while in April the Administration announced higher support levels for several basic crops.

Counterbalancing the weakness since last September in the areas noted above, some other types of activity have registered appreciable increases. Most notable, both for the size of its advance and the strategic nature of such spending, has been the upsurge in business outlays for new plant and equipment. According to a Government survey early this year, outlays during the first quarter were estimated at a seasonally adjusted annual rate of 33.2 billion dollars; this was some 3½ billion more than in the third quarter of 1955 and more than 15 per cent above the rate for 1955 as a whole. Businessmen's plans indicated an additional rise to an annual rate of 35.3 billion in the second quarter and a slight further advance in the second half of 1956. These investment increases, actual and planned, which have been reported for nearly all major industries, strongly attest to a high level of business confidence not only in immediate sales prospects, but also with regard to a more extended future period.

Larger government outlays for goods and services, especially by State and local authorities, also have been a source of strength to the economy. Moreover, a somewhat higher budget for Federal spending in the coming fiscal year, and the prospect of continuing expansion at the State and local level, make further increases in government expenditures likely during the remainder of the year. These may provide particularly important support in such areas as military hardware and heavy construction.

Finally, continued growth in consumer spending for services and nondurable goods has contributed substantially to the economy's high level of activity in recent months, showing increases that more than offset the drop in outlays for durable goods, which mainly reflected lower new car sales. This upward trend in total consumer outlays during a period of general leveling-off in business activity illustrates forcefully the sustaining influence of such spending on economic growth. An encouraging indication of continued large outlays was provided recently by the Survey of Consumer Finances, sponsored by the Board of Governors of the Federal Reserve System, which pointed to a strong financial position for consumers, widespread confidence in the business outlook, and a high level of spending intentions for this year.

Conclusion

Despite the leveling-off in over-all business activity and the extensive inventory accumulation during the past several months, the recent period may well have been one of hesitation in the economy's advance rather than a peak from which substantial declines must follow. For, while the downturns in automobile sales and in home building as well as the weakening last year in farmers' income undoubtedly generated some downward pressures on the economy at large, there have also been powerful upward forces generated by expanding business capital outlays and moderate strength in other major sources of final domestic demand. Foreign demand has also been a stimulant, both to high activity and rising prices. These factors lend support to the view that aggregate final demand may be well sustained in the months immediately ahead.

There has been little evidence that inventories in general are currently too high, but the rapid growth of stocks in recent months—against a background of little change in sales—has aroused concern that accumulation might proceed too far and then slow down abruptly. A further and related source of apprehension during recent months has been the persistent advance in industrial prices. Nevertheless, to the extent that price increases have reflected demands pushing against capacity limitations, the current expansion of productive facilities may in time relieve some of the upward pressure. In addition, the recent tightening of credit and continuation of strongly competitive conditions in retail markets may exert a restraining effect on both price and inventory increases.

RECENT STERLING AREA DEVELOPMENTS

The recovery of sterling in the past few months has been mainly a response to the measures of financial restraint that were adopted by the British and other sterling area authorities in 1955 and in early 1956. The official sterling-dollar exchange rate, which had dropped close to the lower support level of $2.78 in January and February 1955, and again in the summer months, has now been above par for six months and is currently the highest since August 1954. Transferable sterling, which can be converted into dollars by foreign holders in markets outside the sterling area,[1] has for some time been quoted above $2.78, the Bank of England's lower support limit for American-account sterling. At the same time, the rise in Britain's gold and dollar reserves during the first three months of this year has already made good about one fourth of last year's drain. Finally, and perhaps most important, this recovery has been achieved without any backtracking from the degree of trade and payments liberalization that had been attained in 1953 and 1954 prior to the re-emergence of sterling difficulties.

Economic Expansion Amid Strains

The recent sterling difficulties have differed basically from those of the crisis year of 1947, the devaluation year of 1949, and the post-Korea inflationary outbreak of 1951. Whereas the difficulties of the three earlier periods had originated largely in inflationary pressures that in greater or less degree afflicted all parts of the sterling area, the current strains have emanated to a much larger extent from Britain alone.

In 1955 Britain produced more than at any other time in its history, but beneath this buoyancy lay an imbalance between the rates at which production and aggregate expenditure were expanding. Under the impact of rapidly growing business investment in fixed capital and inventories and, to a lesser degree, a rising level of consumer buying, the total increase in expenditure last year was one-fifth larger than in production. As a result, imports rose sharply to meet the expanded demand from the home economy, and exportable goods were diverted to the home market, thereby swinging the balance of payments from surplus to deficit. This was accompanied by other familiar signs of strain. Job vacancies in industry, which had been about equal to the total number of unemployed early in 1954, rose to more than double that number last summer when unemployment dropped to less than 1 per cent of the number of employed. The increase in wages and prices was accelerated, the rise in 1955 being more than half again as rapid as that of the previous year and larger than in most of the countries that are Britain's main competitors in world trade.

Among the overseas sterling area countries, on the other hand, a considerable degree of economic stability prevailed. Almost everywhere income was increasing under the spur of generally favorable commodity exports and expanding domestic outlays, and only in such countries as Australia, New Zealand, and South Africa was there any question of the expansion being at too rapid a pace. In these countries restraint measures, principally the tightening of monetary policy, were adopted by the authorities to curb inflationary pressures and right the balance of payments; Australia also had recourse to further direct import controls, and South Africa established controls on outward flows of South African capital.

Sterling Area Trade and Payments

These contrasting trends within the sterling area in 1955 brought about a notable change in the pattern of trade and payments that had been established after the area's balance-of-payments difficulties of 1951. From 1952 to 1954 Britain's balance of payments on current account had shown deficits with nonsterling countries, but these deficits had been more than offset by the surpluses of the rest of the sterling area with the nonsterling world, including its sales of newly mined gold in London. As a result, the sterling area as a whole was in surplus with the outside world, and it was largely for this reason that the gold and dollar reserves held by Britain as banker for the whole area rose by 1,332 million dollars in the two years ended mid-1954. In addition, Britain had a large current account surplus with the overseas sterling area that more than offset its deficit with nonsterling countries. Last year, by contrast, Britain's current deficit with nonsterling countries was so enlarged as to more than offset the sustained surplus of the overseas sterling countries, with the result that the position of the entire sterling area changed from a surplus of 97 million pounds in 1954 to a deficit of 181 million in 1955.

The altered position of sterling last year is thus largely explicable in terms of the deterioration of Britain's own balance of payments on current account; the British deficit is provisionally estimated at 103 million pounds, compared with a surplus of 205 million in 1954. This change was brought

[1] For a brief discussion of transferable sterling, see "Recent Developments in Foreign Exchange and Payments Policies", *Monthly Review*, December 1955.

about chiefly by a 400 million increase in imports—a rise of 13 per cent—of which the bulk was from the dollar area and Continental Western Europe; the expansion largely reflected the increased domestic demand for industrial raw materials and semifinished goods. Also contributing to the over-all deterioration was a 142 million pound decline in net receipts from so-called invisible transactions, due mainly to greater outlays for foreign shipping services and special British payments associated with the reopening of the oil refining facilities in Iran. Only partly offsetting these increased payments was a 244 million pound rise in British exports, principally to the dollar area and to other nonsterling countries. The increase was primarily accounted for by exports of metals and engineering products, even though Britain failed to maintain its share of world markets for these products.

The change in the British gold and dollar position from a 244 million dollar surplus in 1954 to a 642 million deficit in 1955 was largely the outcome of this deterioration in Britain's balance of payments on current account, although the recorded capital outflows that accompanied this deterioration also adversely affected its gold and dollar reserves. Of this change in the gold and dollar position, about half was attributable to the enlargement of Britain's deficit with the dollar area. Gold and dollar payments to nondollar countries, however, also went up more than 500 million dollars, including the dollar cost of commodities resold by British merchants to Western European countries; such sales, of course, helped to reduce the sterling area's deficit with the European Payments Union and tended to enhance the usefulness of sterling as an international currency. These drains on sterling area reserves were only partly offset by an increase in the overseas sterling area's combined gold and dollar surplus. While the latter's direct surplus with the dollar area showed a relatively small decline in 1955, its gold sales in the United Kingdom increased by over 100 million dollars, to more than double the level of the years immediately preceding the reopening of the London gold market in March 1954.

Monetary and Fiscal Restraint Measures

The inflationary pressures in Britain, which were largely the cause of these balance-of-payments difficulties, were met by measures of restraint that have become progressively stricter and more comprehensive. These measures have been directed at moderating private consumption and investment, as well as government outlays, with the basic aims of stabilizing internal costs and prices and of redressing the imbalance in external payments by stimulating exports and restraining imports. A distinctive feature of the government's program was the major role assigned to monetary policy, which had not been relied on to any such significant degree in any earlier postwar period of difficulty.

In line with this policy, the Bank of England's discount rate in January and February 1955 was raised in two steps to 4½ per cent, and was then raised further to 5½ per cent in mid-February 1956, the highest level since February 1932. The increases in the bank rate were accompanied by rises in the entire pattern of market interest rates, with the shorter end of the rate structure being particularly affected. The yield on three months' Treasury bills, for example, rose from 1.60 per cent in November 1954 to 5.01 per cent toward the end of April 1956.

At the time of the February 1955 discount rate increase, controls over consumer credit, which had been dropped the previous summer, were reimposed; they were tightened in July 1955, and again last February. In July 1955 the Chancellor of the Exchequer requested that the banks effect "a positive and significant reduction" in advances, which had continued to increase rapidly despite the earlier measures to tighten credit. At the same time he indicated that the Capital Issues Committee would be more critical in scrutinizing applications; last February the committee was directed to adopt a still more stringent policy, and in the following month the exemption from capital issue control was reduced from £50,000 to £10,000. Finally, the authorities have substantially increased a variety of government-controlled interest rates, including those on new loans by the Public Works Loan Board, which has financed a large part of the local-government housing programs.

The greatly expanded role of government spending in the economy, compared with prewar years, has of course lent added importance to fiscal policy, and the progressive tightening of this policy over the past half year or so has been a significant part of the over-all disinflationary program. While taxes, including those on personal and corporate incomes were reduced under the April 1955 budget, the purchase tax was increased in October, and during the autumn and winter announcement was made of measures to reduce the expenditures of the public authorities, including cuts in military manpower, subsidies, and the projected investment programs of the nationalized industries. In addition, local authorities, which had been borrowing heavily from the Public Works Loan Board, were directed to finance as large a portion of their requirements as possible in the capital market. In mid-February, moreover, the Chancellor announced a reduction in certain allowances under which tax relief had been provided to encourage private investment. Finally, in his budget for fiscal year 1956-57, he announced further measures to bring aggregate government expenditures (including those of the nationalized industries) closer into balance with revenues than at any time since 1950-51. These measures included the elimination of the bread subsidy, higher taxes on business profits, tobacco, and some beverages, and a general review of all departmental expenditures with the aim of reducing them by at least 100 million pounds from budget estimates. In addition, the Chancellor announced measures to stimulate private savings, including a novel small-denomination bond issue with lottery features.

While it is, of course, still too early to assess the impact of the new budget, the fiscal and monetary measures adopted since early 1955 have clearly helped to restrain the boom primarily through the change that they have effected in British monetary conditions. Whereas the money supply increased rapidly until the beginning of 1955, last year it not only ceased to grow but actually declined; however, the velocity of this diminished money supply seems to have increased.

The decline in bank deposits that underlay this tightening in Britain's monetary conditions is attributable largely to the liquidation of bank investments and, to a smaller extent, to a decline in advances. Partly offsetting this decline in investments and advances was a considerable increase in the London clearing banks' cash and money market assets, chiefly the latter. Treasury bill holdings of the clearing banks were almost 100 million pounds higher in mid-March 1956 than a year earlier; this rise appears to have been largely the outcome of the Treasury's budgetary deficit and what was, in effect, the financing of repayments of bank advances to the nationalized gas and electricity industries primarily through increases in the government's floating debt. Even after the reduction in bill holdings during the first quarter of 1956, when the Treasury's tax receipts were seasonally high and its cash position was in surplus, the banks' liquidity ratios were appreciably higher than they had been a year earlier. As a consequence, the question has recently been widely discussed in British financial circles as to whether the government's financial policies, and especially its debt management, are as yet fully adequate for the maintenance of monetary control.

Problems and Prospects

This relatively high liquidity of the banking system undoubtedly presents a problem that has yet to be dealt with, although the cash offer on April 25 of 3½ per cent Treasury Stock carrying a gross redemption yield of 4.825 per cent is an indication of the government's determination to deal with the problem of short-term debt. Basically, Britain's problem is to restrain domestic spending so that internal costs and prices can be reasonably stabilized and the country's international payments position strengthened. In achieving this goal the authorities are facing the need not only of restraining consumer and government expenditures but also of curbing investment on which Britain's longer-run position in the world economy—and indeed its general well-being—is dependent. They are consequently confronted by the delicate task of curbing the boom while at the same time maintaining conditions conducive to further growth, in which an increase in private domestic savings must play a leading role.

It appears from several sensitive indicators of economic conditions that the government's financial policies are bearing fruit. The strengthening of the sterling-dollar exchange rate has already been mentioned; this was accompanied during February and March by a decline in Britain's trade deficit to the lowest level in nearly a year, much of the improvement being attributable to a rise in exports to record heights. As a result of this basic improvement, and also because of the seasonal demand for sterling area exports, gold and dollar reserves have been rising steadily in 1956. There are indications, too, that some of the special balance-of-payments factors that operated to Britain's detriment in 1955 will not be repeated in 1956. Among these is the possibility that the better balance in the British economy will lead to the closing-out of bear positions in sterling and the rebuilding of foreign-held sterling balances.

On the other hand, as the British Government's *Economic Survey* for 1956 has pointed out, Britain last year missed an exceptionally favorable opportunity to strengthen its international position. The world level of demand for Britain's traditional exports of the metal-working and engineering industries was perhaps never higher. Yet, despite the increase in its own exports, an enlarged share of world markets was taken up by Britain's chief competitors, including Germany and Japan. The United States balance of payments again resulted last year in net dollar outpayments of about 1.5 billion dollars to the rest of the world;[2] nevertheless, Britain's reserves declined while those of Continental Europe continued their rapid build-up.

Furthermore, while the recent upturn in Britain's gold and dollar reserves seems basically to reflect a genuine improvement in its international position, it is undoubtedly also attributable in part to purely seasonal factors that in the past have often been reversed later in the year when dollar imports rise and payments on the United States and Canadian postwar loans fall due. Substantial net gold and dollar receipts are therefore needed in the first half of the year not only to offset a possible net outflow in the second half, but also to rebuild the reserves from the low level at which they still stand. The problem of rebuilding the reserves is rendered even more difficult by Britain's political commitments abroad, among which the most important are the maintenance of armed forces on the Continent and elsewhere and the supplying of capital to the overseas sterling area.

In the face of these problems, the British authorities have endeavored to restore a sustainable balance to the economy, domestically as well as internationally, and to secure the conditions necessary for its long-run growth. Not only have they adopted the remedial measures that they regarded as appropriate under the circumstances, but they have also reinforced and broadened them whenever earlier efforts did not appear to be obtaining the desired results with sufficient speed. The long-run objective of these efforts has been well expressed in the Chancellor of the Exchequer's recent budget speech, as well as in the government's *Economic Survey* for 1956, which concludes:

> This programme of disinflation is disagreeable but necessary: carried through with determination, and with the

[2] See "Trends in International Reserves and Payments in 1955", *Monthly Review*, February 1956.

understanding of the country, our economy will emerge stronger and safer, and we can look forward to a steady advance in the standard of living thereafter.

The reconciliation with this objective of the many obligations with which Britain is faced is indeed a challenging task. The determination with which the British Government is approaching this task is clearly a matter that transcends the interests of the sterling area alone. For the continuation of the movement toward freer trade and payments that has developed in recent years depends in large measure on the sterling area's stability and prosperity.

SURVEY OF BUSINESS LOANS AT MEMBER BANKS IN THE SECOND DISTRICT

A survey of business lending at member banks in the Second District, conducted last October 5, indicated that between that date and November 20, 1946, when a similar survey was conducted, the number of business borrowers at member banks in the Second District had more than doubled, that the relative importance of the various industrial groups among bank borrowers had shifted significantly, and that the size of the average business loan had increased. The survey also showed that interest rates on most types of business loans were higher in 1955 than 1946, that the proportion of term loans to total loans had declined somewhat, and that the proportion of corporate and noncorporate firms among business borrowers had shown little change.

Historically, one of the primary functions of the commercial banking system in this country has been to supply a substantial part of the working capital needs of commerce and industry through loans to business. Since the end of World War II, the volume of such loans made by commercial banks has expanded tremendously. It has been possible to follow the size and trend of this expansion through data provided in member bank condition reports. Limited information has also been available on loans to large businesses by type of industry and on average interest rates from a few large banks. But such reports provide no information for the great bulk of business loans on the size or business of borrowers, the size or maturities of individual loans, or even the numbers of loans made. To obtain information of this nature, the Federal Reserve System has in the last fourteen years made three major surveys of business lending at member banks throughout the country; the first was conducted in the spring of 1942,[1] the second as of November 20, 1946, and the third as of October 5, 1955. The tabulation of part of the 1955 survey data has recently been completed. The remainder of this article describes the manner in which the most recent survey was conducted in this District and outlines some of the major changes that the survey and the condition reports indicate have occurred in commercial lending in this District since the end of the war. Articles in subsequent issues of this *Review* will discuss the information obtained in the October survey on loan maturities, interest rates, and collateral and on the size, type of business, and location of borrowers.

[1] The data gathered in the first survey are not strictly comparable with those collected in the second and third surveys.

Survey of Commercial Loans

In the October 1955 survey, reports were received from all member banks in the Second District with total deposits of 50 million dollars or more and, as Table I shows, from a sizable representation of the smaller banks. In selecting the sample of the smaller banks to be included in the survey, all member banks with deposits of less than 50 million dollars were grouped according to geographic location and then subgrouped according to the volume of their total deposits and the relative importance of their commercial lending. From each subgrouping, a sufficient sample of banks was drawn at random to permit an adequate analysis of commercial lending for each of the size-groups of banks shown in the table. In the aggregate, reports were received from 267 member banks which held 97 per cent of all commercial loans outstanding in the Second District on June 30, 1955.

The banks in the survey which had total deposits of less than 10 million dollars submitted detailed information on every one of their commercial loans outstanding on October 5, 1955, while banks with total deposits of 10 million to 100 million dollars submitted data on each individual commercial loan of $100,000 or more and on one sixth of their smaller commercial loans. The largest respondents provided data on each loan of 1 million dollars or more and on every sixth loan of less than 1 million dollars. In all, the 267 member banks in the survey provided detailed information on approximately 40,000 individual loans.

Table I
Number of Banks and Dollar Volume of Commercial and Industrial Loans in Sample Banks Compared with All Member Banks of the District

Bank size-groups (measured by total deposits on June 30, 1955)	Number of member banks		Commercial and industrial loans outstanding June 30, 1955		
	All members	In survey sample	Millions of dollars: All members	Millions of dollars: In survey sample	Percentage in sample banks
$2½ billion and over	4	4	4,725	4,725	100.0
$1 billion to $2½ billion	4	4	2,462	2,462	100.0
$500 million to $1 billion	3	3	566	566	100.0
$250 million to $500 million	8	8	535	535	100.0
$100 million to $250 million	20	20	377	377	100.0
$50 million to $100 million	19	19	240	240	100.0
$20 million to $50 million	71	42	227	133	58.6
$10 million to $20 million	99	49	122	60	49.2
$2 million to $10 million	333	77	128	29	22.7
Under $2 million	79	41	8	4	50.0
Total	640*	267	9,390	9,131	97.2

* Eight banks without commercial loans were excluded.

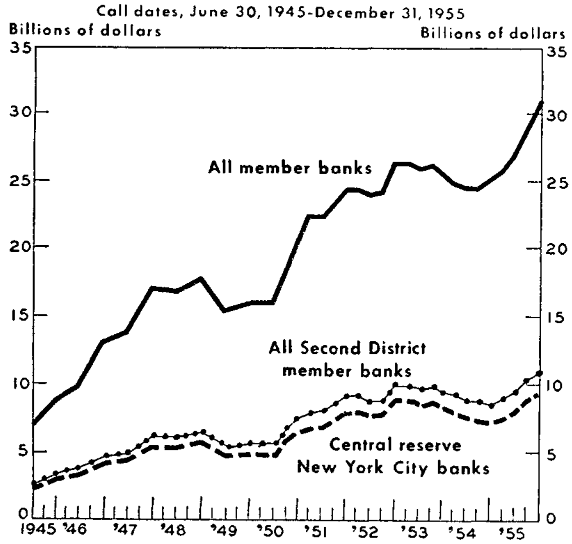
Trends in Total Business Lending in the Postwar Years

At the close of World War II, nearly four fifths of the earning assets of all member banks in the United States consisted of Government or "other" securities; loans accounted for the remaining one fifth. To meet the sustained demand for credit by virtually all the private segments of the economy which developed after the close of World War II, the commercial banks disposed of a substantial portion of their Government securities and expanded loans to businesses and consumers and loans on real estate. Currently, member bank earning assets in the aggregate are divided almost evenly between loans and investments.

During the postwar period, business loans of member banks in the United States rose from 7.1 billion dollars at the end of June 1945 to 31.0 billion dollars at the end of 1955, or by nearly 4½ times. By mid-April 1956, the total had risen further to an estimated 32.3 billion dollars. This increase accompanied the expansion in production and trade and, as the accompanying chart shows, was interrupted only three times—in 1949-50, 1952, and 1953-54. During the first and third of these periods, the economy was experiencing inventory liquidations, and while inventories were being reduced to what was considered more comfortable levels, demands for bank credit contracted.

At New York City member banks business loans expanded from 2.4 billion to 9.7 billion dollars, or by 304 per cent, from June 30, 1945 to April 11, 1956. In the Second Federal Reserve District outside New York City they increased by 465 per cent. The greatest growth in commercial lending at District banks occurred in Syracuse, Albany, and Buffalo. In the rest of the country, the greatest relative gains in commercial lending were in the middle and southern Atlantic States and the western parts of the country.

COMMERCIAL AND INDUSTRIAL LOANS DURING THE POSTWAR PERIOD
Call dates, June 30, 1945-December 31, 1955



Measured in relative terms, the postwar rise in business lending by the member banks has been outstripped by the increases in real estate and consumer loans, but in actual amount business loans rose more than any other type of credit. In the New York City banks, moreover, business loans are vastly more important than any other segment of the banks' loan portfolio, currently accounting for five eighths of total loans and nearly 40 per cent of their total earning assets; in the country as a whole, the current proportions are 43 and 22 per cent, respectively.

Between the November 1946 and October 1955 surveys of business loans, the dollar amount of such loans in this District increased from 4.6 billion dollars to 10.6 billion dollars, or by 129 per cent, while the number of business loans increased from 114,000 to 254,000, or by 123 per cent. The greater rise in dollar amount than in number was due to a 3 per cent rise in the average size of loans. For the country as a whole, the dollar volume of business loans rose from 13.2 billion dollars in 1946 to 30.8 billion dollars in 1955, or by 133 per cent, while the number of loans rose from 673,000 to 1,317,000, or by 96 per cent. This greater relative increase in the dollar amount of business lending in the country as a whole than in this District reflected a greater rise (19 per cent) in the average size of the loans extended. However, despite this greater growth, the average size of loans in this District remained about twice as large as in the country as a whole because of the heavy concentration in New York City of large banks with large legal lending limits. As of October 5, 1955, business loans in the Second District accounted for 34.3 per cent of the dollar volume of business loans outstanding at all member banks and 19.3 per cent of the number; the respective percentages on November 20, 1946 were 35.0 and 16.9 per cent.

Changes Since the Previous Survey in Business Lending by Type of Borrower

Table II shows the number and dollar amount of business loans to various classes of business borrowers in the Second Federal Reserve District on the 1946 and 1955 survey dates. It indicates that between 1946 and 1955 there was a rather large shift in the relative importance of the major groups of borrowers. Loans to all classes of borrowers increased in both number and dollar amount in the 1946-55 period, but in 1955 loans made to manufacturing and mining and to trade concerns accounted for a much smaller proportion of the total than in 1946, while "other" types of borrower accounted for a more substantial portion. The increase in loans to service industries, construction contractors, sales finance companies, and public utilities far exceeded the increases in the number and dollar amount of loans made to manufacturing and mining concerns and trade concerns. Total loans to the former group of industries increased by 80,000 (235 per cent) in number and 3.1 billion (242 per cent) in dollar amount from 1946 to 1955, accounting for 57 per cent of the increase in the total

Table II
Actual and Percentage Distribution by Type of Borrower of the Dollar Amount and Number of Business Loans Outstanding at Member Banks in the Second Federal Reserve District on November 20, 1946 and October 5, 1955

Business of borrower	Amount, in millions of dollars		Per cent distribution		Number of loans, in thousands		Per cent distribution	
	Nov. 20, 1946	Oct. 5, 1955	Nov. 20, 1946	Oct. 5, 1955	Nov. 20, 1946	Oct. 5, 1955	Nov. 20, 1946	Oct. 5, 1955
Manufacturing and mining—total	2,189	4,584	47.5	43.4	23	46	20.2	18.0
Food, liquor, and tobacco	607	632	13.2	6.0	2	5	1.8	1.9
Textiles, apparel, and leather	224	989	4.9	9.4	8	15	7.0	5.7
Metal and metal products (including iron, steel, and nonferrous metals and their products; electrical and other machinery; and automobiles and other transportation equipment and parts)	607	1,122	13.2	10.6	5	11	4.4	4.4
Petroleum, coal, chemicals, and rubber	458	1,284	9.9	12.1	2	3	1.8	1.1
All other manufacturing and mining (including lumber; furniture; paper; printing and publishing; and stone, clay, and glass)	293	557	6.3	5.3	6	12	5.2	4.9
Trade—total	1,150	1,627	24.9	15.4	57	95	50.0	37.2
Wholesale trade and commodity dealers (including sales to business as final buyers)	817	939	17.7	8.9	17	22	14.9	8.6
Retail trade	333	688	7.2	6.5	40	73	35.1	28.6
Other—total	1,273	4,357	27.6	41.2	34	114	29.8	44.8
Sales finance companies (firms primarily engaged in financing retail sales made on the instalment plan)	308	919	6.7	8.7	1	1	1.0	0.5
Transportation, communication, and other public utilities	581	1,575	12.6	14.9	5	9	4.4	3.6
Construction (including operative builders)	58	355	1.2	3.3	6	17	5.2	6.8
Service firms (including hotels; repair services; amusements; personal and domestic services; and medical, legal, and other professional services)	132	429	2.9	4.1	14	46	12.2	18.1
All other borrowers (including real estate operators, owners, agents, brokers, and subdividers and developers of real property)	194	1,079	4.2	10.2	8	40	7.0	15.8
Total, all borrowers	4,615*	10,568†	100.0	100.0	114	254	100.0	100.0

Note: Because of rounding, figures do not necessarily add to totals.
* Includes a small amount of loans not classified by business of borrower.
† This figure does not agree with the call report for this date, since it includes real estate loans for business purposes and excludes open market paper.

number of business loans and 52 per cent of the increase in the total dollar amount.

Within this general category of business borrowers, the number of loans to service firms (defined as hotels, repair services, amusements, personal and domestic services, medical, legal, and other professional services) and the closely allied borrower group entitled "all other nonfinancial business" (comprising real estate operators, owners of real estate, agents, brokers, subdividers, and developers of real property, agricultural services, forestry, and fisheries) was nearly 86,000 in 1955, or about four times the 1946 figure of 22,000; the dollar amount of the loans made to these groups of borrowers totaled 1,508 million dollars in 1955, nearly five times the 1946 total of 326 million. These striking increases in the number and dollar amount of loans to these groups of borrowers reflect their growing importance in the economy. Rising living standards and the high level of building activity have given impetus to the demand for consumer durable goods and have been accompanied by an expansion in the number of firms devoted to servicing and maintaining this equipment. The higher living standards undoubtedly also have given rise to an expansion in the demand for professional services and services of various kinds that were originally performed at home. Also, the high level of building activity apparently has been accompanied by an expansion in service units connected with the sale, rental, and management of real estate.

Loans to construction contractors, which directly reflect the level of building activity, just about tripled in number between 1946 and 1955, while the dollar amount showed a sixfold expansion, the largest relative gain of any industry group in the table. The number of loans made to the transportation, communications, and public utility group did not quite double between 1946 and 1955, but it did account for the largest dollar increase, 1 billion dollars, of any group. Loans to sales finance companies increased only moderately in number, but they were triple the 1946 level in dollar amount.

In the manufacturing and mining groups of companies the greatest relative and absolute increases in the dollar amount of loans occurred in the textile, apparel, and leather group and in the petroleum, coal, chemical, and rubber group of companies. In both these groups, the rise in dollar amount was due more to increases in the average size of the loan than to increases in the number of loans outstanding. In the food, liquor, and tobacco companies, the dollar amount of loans showed the smallest increase of any group, 4 per cent, despite a 150 per cent rise in the number of loans, and indicates a large decrease in the average size of the loans made to this group of companies. A similar decline in the average size of loans to companies in this field occurred in other parts of the country; the reasons for it are not entirely clear. It may be that the relative stability of earnings for the companies in these fields permitted them to finance their expansion to a greater extent out of retained earnings and sale of capital issues and thus limited their reliance upon bank credit largely to seasonal needs. The fact that the 1955 survey was made earlier in the season than the 1946 survey may also account, at least in part, for the smaller average size of the loan.

Loans to concerns in the wholesale trade field (including commodity dealers) also showed relatively small increases in both number and dollar amount. In the retail trade field the increase in the number and dollar amount of loans was larger than in the wholesale trade group but was moderately less than the average growth in the number and dollar amount of loans to all types of business concerns.

The 1946-55 trend of growth in business loans in the Second District has generally paralleled the trends shown for the United States as a whole. The growth in loans to businesses other than manufacturing and mining and trade has been somewhat more pronounced in the United States than in the Second District. Within this group, loans to sales finance companies and to service companies expanded at a sharper rate in the rest of the country than in the Second District, whereas loans to transportation, communications, and public utility concerns increased at a slower rate. The increase in loans to wholesale trade concerns and food, liquor, and tobacco companies for the United States also was small relative to the increases in loans to other groups of companies, but was somewhat larger than the increases shown in loans to the corresponding groups in this District.

DEPARTMENT STORE TRADE

Beginning this month the regular monthly article on Department Store Trade and the accompanying detailed tables will no longer appear in the *Monthly Review.* A monthly analysis of department store trade, including detailed sales and inventories data, will be available on request to the Financial and Trade Statistics Division, Research Department. (These data will be available the last week of the month following the month covered.) The preliminary estimate of monthly sales will be included in the weekly press release as soon as that estimate is available. The monthly indexes of Second District sales and stocks will be published regularly in the "Selected Economic Indicators" table of this *Review.*

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1956			1955	Percentage change	
		March	February	January	March	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	142p	143	143	135	− 1	+ 5
Electric power output*	1947-49 = 100	—	213	211	188	+ 1	+15
Ton-miles of railway freight*	1947-49 = 100	—	107p	112	96	− 4	+11
Manufacturers' sales*	billions of $	—	27.2p	27.0	26.0	+ 1	+11
Manufacturers' inventories*	billions of $	—	46.8p	46.3	43.3	+ 1	+ 8
Manufacturers' new orders, total*	billions of $	—	27.8p	28.1	26.5	− 1	+12
Manufacturers' new orders, durable goods*	billions of $	—	14.3p	14.7	13.4	− 3	+17
Retail sales*	billions of $	—	15.3p	15.7	15.1	− 3	+ 3
Residential construction contracts*	1947-49 = 100	317p	318	290	291	#	+ 9
Nonresidential construction contracts*	1947-49 = 100	265p	298	306	239	−11	+11
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	89.7	88.9	89.4	89.2	+ 1	+ 1
Wholesale prices†	1947-49 = 100	112.8p	112.4	111.9	110.0	#	+ 3
Consumer prices†	1947-49 = 100	114.7	114.6	114.6	114.3	#	#
Personal income (annual rate)*	billions of $	—	313.1p	312.7	295.7	#	+ 7
Composite index of wages and salaries*	1947-49 = 100	—	n.a.	145p	140	#	+ 4
Nonagricultural employment*	thousands	50,211p	50,280p	50,287	48,760r	#	+ 3
Manufacturing employment*	thousands	16,838p	16,852p	16,907	16,229	#	+ 4
Average hours worked per week, manufacturing†	hours	40.3p	40.5	40.6	40.6r	− 1	− 1
Unemployment	thousands	2,834	2,914	2,885	3,176	− 3	−11
Banking and finance							
Total investments of all commercial banks	millions of $	75,180p	75,810p	77,350p	81,180	− 1	− 7
Total loans of all commercial banks	millions of $	84,730p	82,540p	82,000p	72,310	+ 3	+17
Total demand deposits adjusted	millions of $	104,360p	105,590p	108,850p	102,400	− 1	+ 2
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,468p	30,396	30,559	30,000	#	+ 2
Bank debits (337 centers)*	millions of $	73,517	76,830	74,718	69,013r	− 4	+ 7
Velocity of demand deposits (337 centers)*	1947-49 = 100	128.8p	131.9	134.4	125.6	− 2	+ 3
Consumer instalment credit outstanding†	millions of $	—	27,784	27,769	22,974	#	+23
United States Government finance (other than borrowing)							
Cash income	millions of $	12,351	7,089	4,729	10,943	+74	+13
Cash outgo	millions of $	6,149	5,600	5,323	6,932	+10	−11
National defense expenditures	millions of $	3,396	3,075	3,394	3,555r	+10	− 4
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	—	156	159	144	− 2	+ 9
Residential construction contracts*	1947-49 = 100	—	251p	222	239	+13	+ 4
Nonresidential construction contracts*	1947-49 = 100	—	331p	373	216	−11	+64
Consumer prices (New York City)†	1947-49 = 100	112.2	112.1	112.1	112.4	#	#
Nonagricultural employment*	thousands	—	7,669.8p	7,671.3	7,531.1r	#	+ 2
Manufacturing employment*	thousands	—	2,657.9p	2,671.0	2,622.4r	− 1	+ 2
Bank debits (New York City)*	millions of $	69,070	63,792	67,646	63,436	+ 8	+ 9
Bank debits (Second District excluding New York City)*	millions of $	4,795	5,045	4,989	4,682	− 5	+ 2
Velocity of demand deposits (New York City)*	1947-49 = 100	175.6	161.1	173.7	155.3	+ 9	+13
Department store sales*‡	1947-49 = 100	107p	105	114	106	+ 2	+ 1
Department store stocks*‡	1947-49 = 100	122p	124	122	113	− 2	+ 8

Note: Latest data available as of noon, April 27, 1956.
p Preliminary. *r* Revised.
n.a. Not available.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ See note on this page referring to Department Store Trade.
# 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.