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MONEY MARKET IN NOVEMBER

Pressures in the money market remained rather steady during most of November, despite two Treasury financing operations, continuing uncertainty over the international situation, a heavier atmosphere in the capital markets, and relatively wide fluctuations in member bank reserve positions. Reserve balances were influenced primarily by a seasonal outflow of currency into circulation, sharp swings in float, and System open market operations. In addition, there was a large rise in required reserves, reflecting mainly commercial bank purchases of the Treasury's new money offering of special Treasury bills at the middle of the month.

System open market operations were primarily designed to insure that sufficient reserve balances would be provided to meet seasonal credit needs, including those of the Treasury. Reflecting such policy, outright System holdings of Treasury bills were increased by 532 million dollars between October 31 and November 28. Repurchase agreements with Government securities dealers were outstanding throughout the period, in amounts ranging roughly between 40 and 100 million dollars, although there was a small drop of 15 million dollars from the opening date to the close of the period. Holdings of bankers' acceptances rose nearly 3 million dollars and repurchase agreements on acceptances rose more than 4 million over the same period.

In the Government securities market, the Treasury's financing took the form of a 1.75 billion dollar special bill issue auctioned on November 13 for payment November 16, and an exchange offering for the 9.1 billion dollars of 2⅝ per cent certificates maturing on December 1, 1956. In the latter case, holders of the maturing certificates were offered either a 3¼ per cent tax anticipation certificate due in June 1957 or a 3¼ per cent certificate due in October 1957. Both of these financing operations were successful; the average issuing rate on the special bill was in fact slightly lower than that on the previous special bill issued in October, while attrition on the exchange offering was moderate, amounting to 500 million dollars.

The unexpectedly early announcement of the special bill offering and stubborn rumors in the market of a possible rise in the discount rate contributed to an advance in yields on the longer outstanding regular bills, which rose to a peak for the month of 3.18 per cent (bid) on November 27. The average issuing rate on regular bills followed a similar course, rising to 3.174 per cent in the auction held on November 26, about 29 basis-points above the rate in the last October auction. At the very close of the month, however, perhaps partly because the cumulative effect of the System's seasonal purchases had finally become substantial, the rates on longer Treasury bills in the trading market dropped back to the neighborhood of 3 per cent.

The market for Government notes and bonds held up well during the earlier part of the month, even though a steady erosion of prices characterized the corporate and municipal bond markets. After midmonth, however, prices of Government securities declined as market opinion took account of the heavy prospective demands for credit and capital and continued rising yields on corporate and municipal issues. New corporate and municipal offerings were relatively light as compared with last month, but yields moved higher on both new and outstanding bonds as investor demand apparently slackened even more markedly.

Rates on bankers' acceptances were raised by ⅛ per cent three times during the month—on November 13,

CONTENTS

November 15, and November 28. This brought the bid rate on unindorsed 90-day acceptances to 3⅜ per cent and the offering rate to 3¼ per cent. The three increases were reportedly connected with a weakening of foreign demand stemming from the international situation, and also, as the month wore on, with increasing bank efforts to switch some commodity financing from direct bank loans to acceptances.

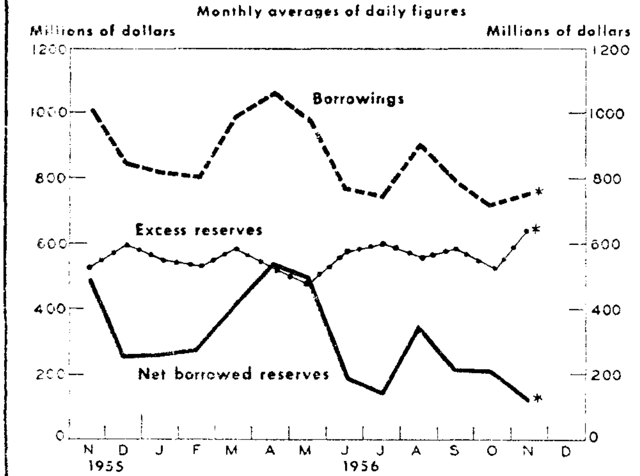
Member Bank Reserve Positions

Member bank borrowings from the Federal Reserve Banks averaged 765 million dollars in the four weeks ended November 28, almost unchanged from September and October, while average net borrowed reserves amounted to 122 million dollars as compared with slightly over 200 million the previous month. An outflow of currency into circulation, associated in part with the effects of the three holidays, Election Day, Veterans' Day, and Thanksgiving Day, was the chief factor tending to reduce member bank reserves during the month. In addition, required reserves rose in the week ended November 21 as Treasury Tax and Loan Accounts were credited by banks making payment for the special Treasury bill issue. Over the month as a whole, the combined effect of the outflow of currency and the rise in required reserves was more than offset, however, by System open market operations and by a large net expansion of float, partly associated with the delays in check processing that are usual at this time of the year.

During the first two weeks of November the outflow of currency into circulation was the chief factor creating pressure upon bank reserves. System open market operations replaced most of the reserves lost because of this and other factors as outright purchases of Treasury bills totaled 216 million dollars in the two weeks ended November 14. In addition, the System was extending repurchase agreements to Government securities dealers to alleviate any sudden strains that might develop out of the prospective Treasury borrowing or the delicate international situation. However, dealers were generally able to obtain financing elsewhere, so that outstanding repurchase agreements actually declined by 37 million dollars over the two-week period.

MEMBER BANK RESERVE POSITIONS

Monthly averages of daily figures



* Preliminary estimates for the four weeks ended November 28.

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

Factor	Daily averages—week ended Nov. 7	Nov. 14	Nov. 21	Nov. 28	Net changes
Operating transactions					
Treasury operations*	+ 41	+ 65	+ 6	+ 5	+117
Federal Reserve float	+ 22	− 44	+503	− 29	+452
Currency in circulation	−169	−178	−128	− 86	−561
Gold and foreign account	+ 1	− 36	+ 18	− 4	− 21
Other deposits, etc	+ 25	− 50	+106	+ 41	+122
Total	− 80	−244	+506	− 73	+109
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 98	+116	+ 77	+151	+442
Held under repurchase agreements	+ 18	—	+ 16	+ 18	+ 52
Loans, discounts, and advances:					
Member bank borrowings	+154	+114	−282	− 31	− 45
Other	—	+ 3	− 1	—	+ 2
Bankers' acceptances:					
Bought outright	+ 1	—	—	+ 1	+ 2
Under repurchase agreements	+ 3	+ 4	− 1	− 2	+ 4
Total	+274	+236	−191	+137	+456
Total reserves	+194	− 8	+315	+ 64	+565
Effect of change in required reserves†	− 9	+ 42	−233	− 60	−260
Excess reserves†	+185	+ 34	+ 82	+ 4	+305
Daily average level of member bank:					
Borrowings from Reserve Banks	828	942	660	629	765‡
Excess reserves†	575	609	691	695	643‡

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 November 28.

Member banks gained reserves on balance in the statement week ended November 21, as a substantial expansion of float more than offset the continued currency outflow and the sharp rise in required reserves associated with commercial bank payment for the special Treasury bill on November 16. The statistical easing in reserve pressures was, however, concentrated outside the money market banks, and this, combined with the prospects for a decline in float later in the month and the desirability of providing reserves to meet seasonal credit needs, led to continued System purchases of Treasury bills and the extension of repurchase agreements to Government securities dealers. In the final week of the month, System outright purchases of Treasury bills and the extension of repurchase agreements more than offset depletions of member bank reserve balances caused by a fall in float and a further currency outflow.

Government Securities Market

The market for Government securities was dominated during the greater part of the month by Treasury financing operations. The first of these operations, announced after the close of the market on November 7, was a cash offering of 1.75 billion dollars of 91-day special Treasury bills, auctioned on November 13 for payment November 16. Commercial banks were permitted to pay for their own and customers' subscriptions by credit to Tax and Loan Accounts. Subsequently, on November 16, the Treasury announced an exchange offering for the 2⅝ per cent certificates maturing December 1. Holders of maturing certificates were given the option of accepting cash, taking 3¼ per cent tax anticipation certificates due June 24, 1957 (which may be tendered at par plus accrued interest to maturity in payment of income and profits taxes due June 15, 1957), or exchanging for a regular 3¼ per cent certificate due October 1, 1957; the certificates are dated December 1 and subscription books were open November 19 through November 21.

The terms of the special bill offering met with a favorable response, particularly from commercial banks eager to take advantage of the Tax and Loan Account feature. Commercial bank subscriptions were large and total tenders were roughly comparable to those received on the special bill issued in October. The average issuing rate was 2.617 per cent, slightly lower than the 2.627 per cent issue rate on the earlier special bill. "When-issued" trading opened on November 14 at about 3.10 per cent (bid), but by the payment date on November 16 the bill was bid to yield 3.07 per cent.

Prior to the November 7 announcement of the special bill offering, yields on both shorter and longer regular bills advanced somewhat, while intermediate December maturities tended to decline under the influence of demand from corporations and other investors preparing for dividend payments and other year-end cash requirements. The regular bill auctioned on November 5 went at an average issuing rate of 2.914 per cent, up only slightly from 2.889 per cent a week earlier. After the announcement regarding the special bill offering, the demand for regular bills, especially longer maturities, slackened as commercial banks prepared to bid for the special bill and nonbank investors looked forward to more attractive rates in the secondary market for that issue. The December maturities, however, remained insulated from these developments and declined in yield. In the regular auctions the average issuing rate rose to 2.979 per cent on November 9 and, breaking through the previous postwar high of 3.024 per cent set in mid-October, reached 3.043 per cent on November 19 and 3.174 per cent on November 26. The yield on the longest outstanding Treasury bill then declined, however, to close the month on November 30 at 3.04 per cent (bid), 18 basis-points above the level at the end of October.

The Treasury offer to exchange either a June 1957 tax anticipation certificate or a regular certificate maturing in October 1957 for the maturing 2⅝ per cent certificates met with a favorable response. The "when-issued" certificates remained at par (bid) throughout the refunding and closed the month slightly above par. Attrition on the exchange offering amounted to 500 million dollars, as holders of the 9.1 billion of maturing certificates took 1.3 billion dollars of the June certificates and 7.3 billion of the October issue (including 5.9 billion for the System Account).

The prices of Government notes and bonds moved within a relatively narrow range during the first part of November. At the beginning of the month, both investors and dealers tended to back away both because of uncertainties in the international situation and because of a desire to await the outcome of the election on November 6. Activity was light, but modest offerings of intermediate and longer-term bonds by commercial banks and institutional investors contributed to a decline in prices, as did market expectations of a continued high level of economic activity and a growing view that President Eisenhower would be re-elected. After a brief recovery, prices resumed their downward movement and most intermediate and long-term issues came under pressure in the latter part of the month. Investors generally adopted a cautious attitude in view of the international situation, the weakness in the markets for corporate and municipal bonds, and heavy prospective demands for credit and capital. Outright trading activity continued to be light, although a sizable volume of tax switching took place in the intermediate area, largely by commercial banks. Over the month as a whole, most issues maturing after 1961 declined by between $^{15}/_{32}$ of a point and 1 point and shorter issues by between $^{1}/_{32}$ and $^{21}/_{32}$ of a point. The 3¼ per cent bonds of 1978-83 declined by $^{27}/_{32}$ of a point to close the month at $98^{11}/_{32}$ (bid) and the 3's of 1995 fell by $^{30}/_{32}$ of a point to close at $93^{10}/_{32}$ (bid).

Other Securities Markets

The municipal and corporate bond markets were under almost continuous pressure during November, as investors tended to withdraw from the market. Uncertainties over the international situation were a continuing factor in the cautious attitude of investors. In addition, the prospect of the approximately 2.5 billion dollars of new public financing authorized by the voters on Election Day contributed to the erosion of prices on outstanding issues and the upswing in interest rates on new offerings. Although the relatively light volume of new offerings met with a mixed reception, dealers were generally able to reduce their holdings of older issues moderately by making price concessions. Average yields on outstanding municipal issues, as reflected in Moody's Aaa-rated municipal bond index, advanced to 3.01 per cent on November 28, up 27 basis-points for the month, and yields on similarly rated outstanding corporate bonds rose to 3.74 per cent on November 30, an increase of 9 basis-points over the month. The municipal index is now 28 basis-points above the previous postwar peak in June 1953 and the corporate index 30 basis-points higher than that peak.

The estimated volume of public offerings of corporate bonds for new capital in November declined to 130 million dollars from 310 million in October. The largest new issue was a 50 million dollar public utility offering of Aa-rated mortgage bonds due in 1986. Net interest cost to the company was 4.34 per cent, the highest since 1935 for an Aa-rated issue. When reoffered to yield 4.30 per cent, the offering met with investor resistance.

Offerings of municipal bonds amounted to an estimated 260 million dollars during the month, compared with 525 million in October. Most issues were not well received, even when offered at higher yields. An expressway bond flotation, which had been postponed on two previous occasions and reduced from 75 million dollars to 54 million, was again postponed on November 20 as underwriters were unwilling to meet the borrower's cost ceiling of 4 per cent in view of market conditions.

Member Bank Credit

Total loans and investments at all weekly reporting banks increased by 855 million dollars during the four weeks ended November 21, as loans expanded by 806 million and investments by 49 million.

The increase in total loans was largely accounted for by a 756 million dollar rise in business loans. Although the rise in business loans, which compares with a decline of 35 million in the previous four weeks, was partly seasonal, the advance exceeded the increase during the comparable four-week period last year by about 50 million dollars. Most of the major components of business loans showed advances, the largest being recorded by food, liquor, and tobacco firms, metals and metal products concerns, and retail and wholesale trade outlets. Although loans to sales finance companies increased slightly, in contrast to net repayments earlier in the year, they still lagged far behind the rate of increase in the comparable four-week period in 1955. Aside from the rise in business loans, the most notable feature of the period was a 93 million dollar increase in "all other" loans (largely consumer); however, the increase was still only about two-thirds as large as in the comparable four weeks of 1955. Despite the growth of business loans, the total loan expansion in the recent period was less rapid than a year ago, partly because of a slower growth in real estate loans and a decline in security loans.

The rise in investment holdings at weekly reporting banks was fully accounted for by the 356 million dollar increase in Treasury bill holdings. Reporting bank holdings of Treasury bills rose 664 million dollars in the week ended November 21, reflecting the delivery of the Treasury's special issue on November 16. This rise compares with an increase in holdings of Treasury bills of 723 million dollars in the week of October 17 when delivery of the special bill maturing January 16, 1957 took place. Aside from the net advance in bill holdings over the four-week period, weekly reporting banks continued to liquidate investments. The decrease included a sharp decline in holdings of non-Government securities, probably attributable in part to the maturing of various short-term issues.

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 Nov. 21, 1956p
	Oct. 31	Nov. 7	Nov. 14	Nov. 21p	
Assets					
Loans and investments:					
Loans:					
Commercial and industrial loans	+238	+187	+312	+ 19	+3,740
Agricultural loans	+ 1	+ 3	+ 6	− 11	
Security loans	− 25	− 15	− 58	+ 50	− 963
Real estate loans	+ 8	—	+ 13	− 15	+ 708
All other loans (largely consumer)	+ 24	+ 41	+ 13	+ 15	+ 810
Total loans adjusted*	+245	+217	+286	+ 58	+4,163
Investments:					
U.S. Government securities:					
Treasury bills	− 91	−188	− 29	+ 664	− 270
Other	− 5	− 21	−124	− 9	−3,598
Total	− 96	−209	−153	+ 655	−3,868
Other securities	− 73	− 66	−105	+ 96	− 592
Total investments	−169	−275	−258	+ 751	−4,460
Total loans and investments adjusted*	+ 76	− 58	+ 28	+ 809	− 297
Loans to banks	+121	− 84	+255	− 127	+ 37
Loans adjusted* and "other" securities	+172	+151	+181	+ 154	+3,571
Liabilities					
Demand deposits adjusted	−137	−481	+294	+ 46	−2,954
Time deposits except Government	+ 30	− 54	−167	− 57	+ 114
U. S. Government deposits	+188	−485	− 52	+1,506	+1,017
Interbank demand deposits:					
Domestic	+161	+422	+448	− 719	− 182
Foreign	+ 50	− 18	+ 52	+ 23	+ 169

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 totals shown.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

On November 1 the Bank of Canada announced that thereafter its discount rate would be set at ¼ per cent above the average Treasury bill tender rate every Thursday after the disclosure of the results of the weekly tender for 91-day Treasury bills. Thus, the discount rate was fixed at 3.77 per cent on November 29, as the average Treasury bill rate at the fifth November tender was 3.52 per cent; prior to the adoption of the new policy, the discount rate was 3¼ per cent. From August 1955 to October 1956, there had been six discount rate increases, five of which had followed within a week after the Treasury bill rate had moved above the discount rate.

The Bank of Canada is, insofar as is known, the only central bank undertaking to adjust its discount rate automatically in response to changes in the Treasury bill rate. The Bank of Canada gave two major reasons for the change in its discount rate technique. In the first place, it stressed its desire to remove any public misunderstanding about the relationship between its discount rate and other interest rates. The bank's view is that "the discount rate should be kept in line with other interest rates and should move when they do, but usually not otherwise"; the new policy is intended to "direct public attention more to the basic factors in the monetary situation, that is, changes in the supply of and demand for money". The second reason given for the new policy, which will keep the discount rate consistently above the yield on Treasury bills, is that "it would be clearly undesirable that banks and dealers should be able to borrow from the central bank at a lower cost than the yield on the most liquid form of Government securities".

Market interest rates in Canada reached new record levels in November; the average Treasury bill tender rate dipped slightly at the first three tenders in November, for the first time in over two months, but resumed its upward movement toward the end of the month, while bond yields rose further. The chartered banks' holdings of government bonds were again reduced; business loans on November 21 were 13.8 per cent above a year earlier, compared with 20.7 per cent at the end of September, the decline showing the significant slackening in the extension of bank credit. The cash ratio of the chartered banks fell to the 8.0 per cent statutory minimum at the end of the second statement week in November, and during the month there was some borrowing in the Bank of Canada for the first time in five weeks. Initial sales of the new series of savings bonds amounted to 705 million Canadian dollars up to November 16, a large increase over savings bond sales in the same period in 1955; the new savings bonds feature for the first time a sliding interest scale, ranging from 3¼ per cent during the first one and a half years to 4 per cent during the final seven years.

A tightening of Swedish monetary policy was signaled by an increase in the Riksbank's discount rate to 4 per cent from 3¾, effective November 22; at the same time a new long-term government loan was announced at 4¾ per cent, compared with 4½ per cent on the last such issue. The last previous change in the discount rate had been a rise of 1 per cent in April 1955; the present action makes the Riksbank the ninth European central bank to raise its discount rate this year. The Riksbank's official discount rate serves mainly to indicate adjustments in its credit policy; the Riksbank no longer quotes its actual lending rates, and thus is free to set the interest charged on each of its loans with regard to the general state of the market. The rate of expansion of over-all demand in Sweden has tended to exceed available resources, as is reflected in an 8½ per cent increase in consumer prices over the past twenty-one months, extreme tightness in the labor market leading to large wage increases, and a continuous increase in imports which has resulted in a serious deterioration in the balance of payments. To counter the inflationary pressures, the Swedish authorities have relied more heavily than ever before in the postwar period on monetary restraint, including discount rate policy, the strict enforcement of commercial bank liquidity ratios, agreements with the banks on a direct reduction in advances, and the tightening of consumer credit terms. While there has been some tendency toward better balance in the Swedish economy this year, prices and wages have continued to rise, and the improvement in the balance of payments has been slight; now, as the Governor of the Riksbank has stated, "speculative developments and other strains on economic stability" are to be feared as a result of the Middle East crisis.

In the United Kingdom, the statement of the London clearing banks for the four weeks to mid-October showed a slight rise in advances, in contrast to the sharp fall in bank lending in the preceding four weeks. The increase in the banks' holdings of Treasury bills, while smaller than in the two preceding reporting periods, was still very large at 54 million pounds, and the banks' liquidity ratio rose for the seventh successive month, to 37.1 per cent. Prices of government bonds declined sharply in November, the yield of 2½ per cent Consols reaching 4.98 per cent at the end of the month—the highest level since the early thirties. The average tender rate for three months' Treasury bills was unchanged at 5.0 per cent at the first three tenders in November, but was slightly higher at the last two tenders. Sales of the new premium savings bonds, part of the government's efforts to encourage small savings, were begun November 1, and more than 33 million pounds were bought during the first three weeks. The Queen's Speech opening Parliament contained the announcement that the government would ask for permanent legislation to control consumer credit in place of the present emergency powers; in November, new regulations were issued restricting car-rental schemes, which were becoming increasingly popular as an alternative to hire-purchase sales, as restrictions on the latter were tightened.

The Peruvian authorities have taken new monetary restraint measures against the background of a 13 per cent increase in bank lending and a 33 per cent rise in rediscounting at the central bank during the first eight months of this year. On September 14, the central bank decided to limit the commercial banks' discount facilities to 75 per cent of their paid-in capital and reserves, and established a new discount rate of 8 per cent for rediscounting in excess of 40 per cent of a bank's paid-in capital and reserves (the old discount rate of 6 per cent continues to apply to rediscounting up to 40 per cent). In addition, on October 22, the authorities, following the recommendation of the central bank, raised the basic reserve requirements and unified the supplementary reserve requirements.

Exchange Rates

The Middle East crisis continued to dominate the foreign exchange market during November. Sterling was under increasing pressure during most of the month, and on only two occasions did the rate for American-account sterling rise noticeably above the $2.78¼ level, and then but momentarily as a result of some demand for sterling on the part of commercial concerns. In general, however, buyers of sterling appear to have delayed purchases as long as possible, while sterling receipts have been sold and dollar requirements covered promptly. Thus sterling was well offered throughout the month, with metal, grain, and, on balance, oil interests among the chief suppliers.

The pressure on sterling also became increasingly noticeable after the midmonth in the forward market. With good offerings of forward dollars in London, discounts on three and six months' sterling declined early in November to $1\frac{7}{16}$ and 2⅞ cents, where they generally held until November 13. Thereafter, offerings of forward sterling pushed discounts wider. By the end of the month, sterling for three and six months' delivery was quoted at discounts of 3¼ and 5¼ cents, the widest discounts in about five years.

Transferable sterling tended to weaken early in November, falling at one time to $2.73½, the lowest level since last February. On November 8, however, the quotation rose sharply to $2.7455; subsequently, the rate moved erratically but closed lower at $2.7445 on November 30. Strong demand on the part of British investors for dollar securities led to a sharp rise in the premium on the investment dollar to as high as 12½ per cent, while lack of interest in investment in British securities contributed to a major decline in the securities sterling rate from $2.58½ to as low as $2.48; by November 30, the rate had recovered to $2.55¼.

The Canadian dollar rose during November from $\$1.02\frac{57}{64}$ to $\$1.04\frac{37}{64}$ on November 28, the highest quotation since November 1933 when it reportedly touched $1.05½, but eased somewhat in the final days to $\$1.04\frac{3}{32}$. The further strengthening of the Canadian dollar was the result of continued strong investment demand from both New York and London and of occasional good commercial demand in New York. An important part of the New York investment demand arose from large-scale financing obtained by public and private Canadian borrowers in the New York market.

FARM CREDIT AT SECOND DISTRICT COMMERCIAL BANKS

Agricultural credit is one of the segments of our credit structure about which we normally have relatively little information. Except for data on the total amount outstanding, almost nothing is regularly available on the uses of such credit, interest rates, or maturities, or about the individuals who are borrowing. To help fill these gaps, the Federal Reserve System with the assistance of the Federal Deposit Insurance Corporation made a special survey of agricultural loans of insured commercial banks outstanding on June 30, 1956. Not since 1947, when a similar survey was made, have comprehensive data been available on bank loans to farmers. The following article presents the major findings of the 1956 survey for the Second Federal Reserve District and outlines some of the changes that took place between 1947 and 1956.[1]

Between the two surveys the total amount of farm debt at insured commercial banks in the Second District, other

[1] The results of the survey for the country as a whole will be published by the Board of Governors in forthcoming issues of the *Federal Reserve Bulletin*. The Second Federal Reserve District comprises all of New York State, the twelve northeastern counties of New Jersey, and Fairfield County, Connecticut.

than loans secured by the Commodity Credit Corporation,[2] increased 103 per cent to a total of 153 million dollars. But the most interesting aspect of the credit picture in this District, as revealed by the two surveys, is not the increase in the total amount of credit outstanding but its composition. In June 1956, farmers were still using the largest portion of their borrowings to finance "intermediate-term investments" such as purchase of machinery and equipment and the improvement of land and buildings.

Borrowing for intermediate-term investments expanded rapidly after World War II, as wartime scarcities ended and production of durable goods began to satisfy the pent-up demand. However, there has been no significant slackening of the demand for credit to provide for intermediate-term investments. At the end of June these loans accounted for 44 per cent of the total amount of farm credit outstanding and 52 per cent of the number of loans. A substantial part of the intermediate credits outstanding in mid-1956 was in the form of instalment paper purchased by larger banks from farm equipment dealers or other lenders.

The proportion of bank credit used for intermediate-term investments and for buying farm land is considerably larger in the Second District than it is for the country as a whole. On the other hand, loans for current expense purposes, although they have been increasing since the 1947 survey, represent only 16 per cent of the total dollar amount of credit outstanding, compared with 38 per cent for the whole country. These differences between this District and other parts of the country reflect mainly differences in the dominant types of agriculture and hence in the farmers' credit needs.

In spite of changes in the general credit situation, interest rates on direct loans to farmers in this District showed little change between the two surveys. At the time of the 1956 survey, real estate loans were still generally carrying a rate of about 5 per cent and non-real estate loans about 6 per cent. However, purchased instalment contracts frequently carried effective rates of 10 per cent or more.[3]

Results from the 1956 survey disclosed wide differences between note maturities and the actual length of time the credit is normally in use. Demand notes and single payment notes of short maturities are frequently employed when the credit will be used for longer periods of time. Usually there is a tacit understanding between the borrower and lender that the note will not be called or will be renewed. In addition, farm borrowers often make periodic partial payments on demand and single payment notes. Such arrangements permit a bank to keep its loan portfolio somewhat more liquid than it would be if notes were written for the full time for which the credit might be needed.

About 60 per cent of the farmers in this District had commercial bank debts outstanding in June 1956. The average amount borrowed by farmers in the 35 to 44-year age group was more than in any other group, although the largest dollar volume of funds was loaned to men 45 and over who represent 64 per cent of all farmers in this District. The 1956 survey indicated that the average net worth of farm borrowers rose from below $10,000 in 1947 to between $10,000 and $25,000 in 1956. However, after the prosperity of the Korean war period the total net income of farmers in the Second District declined as costs rose faster than prices received.

The modal or "typical" farm borrower in this District has a net worth of between $10,000 and $25,000 and an annual cash income of $5,900. He is over 45 years old and probably operates a dairy farm. At the end of June he owed his bank a total of $2,191, representing one or two notes, and he paid his bank about 6 per cent interest per year on these loans. He used the proceeds to purchase machinery, equipment, and livestock, and to buy land to increase the size of his farm. This average borrower is rarely out of debt to his bank. His needs for credit seem to be almost continuous, with new notes negotiated or old ones renewed season after season.

The Farm Economy in Mid-1956

Between 1947 and 1956 major changes occurred in the farm economy of the United States. The number of farms, farm workers, and total net farm income declined, but production expenses and investment per worker rose substantially. Moreover, a rapid increase in the use of fertilizer, electricity, and specialized machinery and equipment influenced the kinds and amounts of capital and credit needed by farmers. In the interval between the surveys the amount of credit of all types extended to farmers in the United States more than doubled, and at the beginning of 1956 financial institutions, Government agencies, and other lenders held agricultural loans totaling 18.8 billion dollars. About 23 per cent of the total debt was held by insured commercial banks.

Changes in the farm economy of the Second District since 1947 have generally followed the national pattern. Productivity rose as the average size of farms increased and machinery displaced farm workers. According to United States Census figures, the number of farms decreased 29 per cent but the average number of acres per farm in the Second District expanded about 20 per cent

[2] Commodity Credit Corporation-insured loans were not included in the surveys.

[3] When interest is charged on the original amount of an instalment loan and the loan is repaid in regular payments, the effective rate is approximately double the stated rate, because the average amount of credit extended to the borrower over the term of the loan is approximately half the face amount of the note.

between 1945 and 1954.[4] New York State dairy farms, for example, increased total milk shipments by 27 per cent, but the average dairy farmer increased his shipments by 45 per cent and the output per cow rose 14 per cent. Total net income of farmers in New York State in 1955, however, was about 15 per cent lower than it was in 1949 when the United States Department of Agriculture first published net farm income figures by States.

The 1956 Survey

The 1956 survey was conducted on a stratified random sample basis in each District. The Second District sample included 119 insured commercial banks (including nonmembers of the Federal Reserve System).These banks reported detailed information on about 5 per cent of the dollar volume of farm loans outstanding on June 30, 1956. In all, reports were made on 5,296 farm loans representing 3,673 individual and corporate borrowers. The information reported included the original amount of the loans and the amount outstanding on June 30, 1956 as well as the purpose of the loan, its renewal status, security, repayment provisions, and the interest charged. The survey also requested information about the borrowers whose loans were selected in the sample, including farm characteristics, the borrower's net worth, tenure, and age, and whether or not he was a part-time farmer. The data obtained from the sample of loans were subsequently "blown up" to correspond to the total farm loans held by all insured commercial banks in the District. The total amount of farm loans reported by the banks in their mid-1956 reports of condition was used as the benchmark.

4 Agricultural census data are not available for 1947 and 1956, the years of the farm loan surveys; the census years 1945 and 1954 have therefore been used to indicate the trends in the Second District's farm economy.

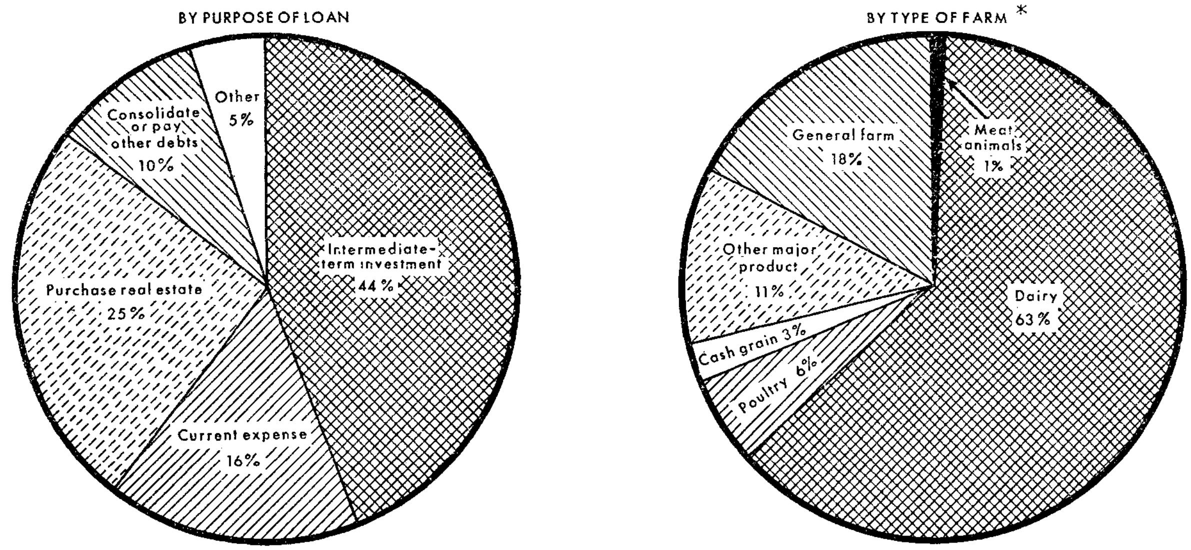
Loan Characteristics

Purpose

The purposes for which farm loans are used depend in large measure on the type of farming in an area, as Chart I suggests. In the highly urban and industrialized Second Federal Reserve District about 42 per cent of all farms are dairy farms. At some District banks, farm loan portfolios consist almost entirely of loans to dairy farmers. General farmers, who grow a variety of crops including fruits and vegetables, are the second most important type of farm in this District. Poultry farmers are third and represent about 9 per cent of all farms. Cash grains and meat animals, which constitute so important a part of the national farm economy, are of minor significance in this District.

Dairy and truck farming and other important types of farming in this District have in the past required a relatively limited amount of acreage per farm and a high proportion of labor. But, as labor costs have risen in the postwar years, there has been a strong incentive for the farmers to expand their use of machinery and to improve the productivity of their land and other facilities. Further-

Chart I
DOLLAR AMOUNT OF FARM LOANS OUTSTANDING ON JUNE 30, 1956 AT SECOND DISTRICT INSURED COMMERCIAL BANKS



* Total adds to more than 100 per cent because of rounding.

more, after making relatively large investments in machinery, many of them found that they needed to expand their acreage if they were to achieve the lowest machine cost per unit of output. This drive for increased productivity in the Second District has been reflected directly in the expansion in the volume of loans for the purchase of machinery and equipment and, to a lesser extent, in loans to improve or expand acreage holdings.

Over 44 per cent of the dollar amount of all loans to farmers in the Second District outstanding on June 30, 1956 had been used for the purchase of capital and consumer durable goods, compared with only 33 per cent for the country as a whole. Since the incomes of farmers in the Second District have not been subject to seasonal fluctuations to so great an extent as those of farmers in other parts of the country, most farmers' needs for current expense loans have been relatively small. Borrowing for current expense accounted for 16 per cent of the total amount of bank credit outstanding on the survey date, less than half of the national average. Loans to consolidate or pay other debts accounted for 10 per cent.

The individual farmer's use of bank credit depends in large measure on the type of farm he operates. Nearly half of the dairy farmers' borrowing as reported by the 1956 survey was for intermediate-term purposes, and loans to buy farm machinery and livestock represented 80 per cent of these loans. Loans to buy farm real estate were second in importance in dollar amount and accounted for 26 per cent of their total borrowing. The optimum size of the dairy herd requires relatively little land, and the regularity of the dairy farmer's milk check minimizes his need for current expense loans.

On the other hand, poultry farmers generally had little need for bank credit to buy machinery, and their land requirements are even more limited, but seasonal variations in output create a need for credit to compensate for seasonal income fluctuations. Poultry farmers, therefore, used their bank loans for current expenses, including purchases of feeder livestock and, secondly, to improve their land and buildings. General farmers, who grow a variety of crops, have felt a greater need to expand the size of their farms than either dairy or poultry farmers. The general farmer can usually increase output and lower unit costs by using more mechanized equipment, but additional land is often needed for the efficient use of the machinery. Consequently, the general farmer borrowed relatively more from commercial banks to expand his acreage than any other group of farmers. General farmers used 36 per cent of their bank borrowings to buy land and buildings, but only 28 per cent for all intermediate-term investment purposes.

The purpose of farm loans also tends to vary with the status of the farmer as an owner or tenant. Intermediate-term investments are of relatively greater importance to tenant farmers than owner-operators, because tenants borrow very little to purchase or improve land and buildings. Tenants used nearly 56 per cent of their total bank credits for purchases of livestock and machinery, while owner-operators used only 31 per cent of their bank credit for these purposes. The differences between the relative amounts borrowed by owners and tenants for current expenses and debt repayment or consolidation were small in spite of the fact that the average net worth of tenants is much less than that of owner-operators. About 7 per cent of all farm borrowers in the Second District were tenants, and they borrowed about 4 per cent of the total amount of loans outstanding.

Interest Rates

On the survey date, June 30, 1956, the average interest rate in this District for loans not secured by real estate was 6.6 per cent per annum, and loans secured by real estate averaged 5.1 per cent per annum. Interest rates were generally lower for large loans, both those secured by real estate and other loans, and loans made for intermediate-term investment purposes had a higher average interest rate than loans for other purposes.

Although most banks made instalment loans which carried effective interest rates about double the rates charged on single payment loans, high interest rates were most frequently associated with purchased paper—the loans acquired by banks from finance companies, equipment dealers, and other initial creditors. About 31 per cent of the total number of non-real estate farm loans outstanding at all Second District insured banks were acquired by banks from other initial creditors, and a large proportion of these loans carried effective interest charges of over 10 per cent per annum. More than half the number of all loans for purchases of farm machinery and equipment were acquired by the banks from other initial creditors.

Because the large banks had more purchased paper, they generally had more farm loans with high rates of interest than medium and small-sized banks. However, when average rates on direct loans are compared by bank-size groups, no large differences are disclosed.

Banks with total deposits of over 10 million dollars held 50 per cent (in dollar volume) of all the purchased paper outstanding, and these loans constituted 44 per cent of their non-real estate loans to farmers. Purchased paper was only 29 per cent and 20 per cent, respectively, of the total number of non-real estate farm loans in medium and small-bank groups. About 93 per cent of the acquired notes of the large banks represented loans for intermediate-term investments, largely farm machinery and equipment.

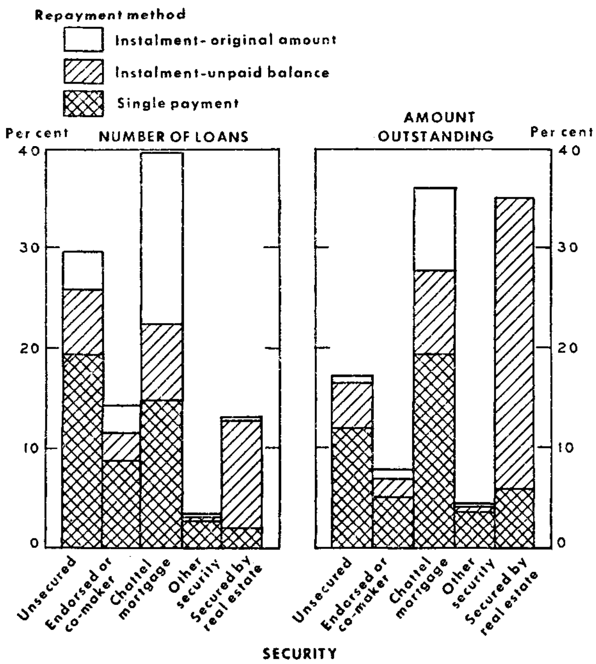
Within bank-size groups there were marked differences in average interest rates and the proportion of purchased paper held by banks in branch systems and unit banks. Among the large banks, over two thirds of the loans of unit banks were acquired loans, but only one third of the loans of branch banks were initiated by others. Nearly 58 per cent of the number and 70 per cent of the dollar amount of acquired loans of large unit banks carried effective interest charges of 10 per cent or more per annum. Large branch banks had a somewhat larger proportion of acquired notes at over 10 per cent interest, but the average size of their acquired notes was smaller. In contrast, unit banks with deposits of less than 10 million dollars acquired about 21 per cent of their loans from other initial creditors, and only 23 per cent of the dollar amount of these acquired loans carried interest charges exceeding 10 per cent per annum.

Security, Repayment Method, and Maturity

As might have been expected, types of loan collateral are related to loan purpose. Chattel mortgages (or conditional sales contracts) have replaced real estate mortgages as the most important security for farm loans. Last June, 36 per cent of the dollar amount of all loans was secured by chattel mortgages, compared with 35 per cent in 1947. But in 1947 about 39 per cent of the dollar amount and 17 per cent of the number of loans outstanding were secured by farm land, while the current survey, as indicated in Chart II, found only 35 per cent of the amount and 13 per cent of the number of loans outstanding secured by real estate. Chattel mortgage loans are used frequently to buy machinery, other durable goods, and livestock. This security was used for 46 per cent of all non-real estate loans. The use of chattels rather than land for security reflects the expansion in ownership of farm machinery and other durables that can be employed as collateral, and it also reflects the increasing amounts borrowed to buy machinery, equipment, and livestock.

Chart II

SECURITY AND REPAYMENT METHOD OF FARM LOANS OUTSTANDING ON JUNE 30, 1956 AT SECOND DISTRICT INSURED COMMERCIAL BANKS



Unsecured loans represented about one third of the number and one quarter of the dollar amount of all non-real estate loans. The proportion of unsecured loans to the total has increased only slightly since 1947. This may indicate that farmers with established credit standings and financial conditions warranting loans without specific collateral have not increased in number or, if they have increased, banks have adopted more conservative lending standards. The decline in net farm income suggests that the farmers' credit standings have not improved materially since 1947, even though net worth has.

About 48 per cent of the loans outstanding in the Second District were repayable in a single payment in contrast to about 70 per cent for the country as a whole. The low proportion of single payment loans in the Second District reflects in part the Second District farmer's greater use of instalment credit for purchases of farm equipment and machinery.

Most mortgage loans secured by farm land were repayable in instalments with interest charged on the unpaid balance, while 53 per cent of non-real estate loans were single payment loans.[5] Large banks generally held more instalment loans than small banks, and the largest proportion of their instalment loans had interest charged on the original amount; small banks had few such loans. This situation reflects primarily the concentration of purchased loans among the larger banks.

Two thirds of the loans outstanding had maturities of one year or less, although these loans represented only 56 per cent of the total dollar amount outstanding. Maturities on current expense loans and loans for "other purposes" were predominantly six months or less, whereas 60 per

[5] While the survey was primarily concerned with the legal status of loans, many so-called single payment notes were in practice being repaid in regular or irregular instalments. Of all single payment loans, 43 per cent had outstanding amounts less than the original amount and some repayments had been made on 73 per cent of all demand notes.

cent of the number and 65 per cent of the dollar volume of all loans to purchase real estate had maturities of five years or more. Demand notes constituted 45 per cent of the total dollar volume of loans to consolidate or repay other debts.

Slightly more than 40 per cent of the number and dollar amount of all loans granted for intermediate-term purposes had original maturities of more than one year, while 56 per cent of the number and 59 per cent of the amounts outstanding were written for one year or less. Demand notes constituted 16 per cent of the number but almost 30 per cent of the volume of all intermediate-term investment loans. More than half of both the number and amount of demand notes for all purposes were for intermediate-term investments.

Borrower Characteristics

The 1956 survey obtained information about the net worth, age, and tenure of the farm borrower and whether or not he was a full-time farmer. About 70,000 farmers had loans outstanding from Second District banks on the survey date, or approximately 60 per cent of all farmers in the District. On the average they owed the banks $2,191.

According to the 1956 survey, 41 per cent of the borrowers in this District last June had a net worth between $10,000 and $25,000. This group borrowed 38 per cent of the dollar amount outstanding. As would be expected, the average amount borrowed increased with net worth, but as net worth increased, the average amount borrowed did not increase proportionately. Apparently, the wealthier farmer had a smaller relative need for commercial bank credit. This may be due to his ability to finance himself or it may reflect a greater reliance on credit extended by Government agencies or other financial institutions. But it may be also related to the age of the wealthy farmers, as the accompanying table suggests.

A comparison of the age of farm borrowers and the amount borrowed indicates that the average amount borrowed by farmers between 35 and 45 is more than that in any other age group. Both older and younger farmers borrowed smaller average amounts, and the youngest group of farmers—those under 25 years of age—borrowed on the average about half as much as the older men. Reflecting the exodus of young men from the farm, over half of all farm borrowers were over 45 years old. Because of their number, farmers over 45 borrowed the largest total amount, but they borrowed less than the average within all net worth groups between $3,000 and $99,999. Therefore, the fact that the average amount borrowed did not rise so rapidly as net worth was apparently caused by the relatively small average borrowings of older farmers who are heavily represented in the higher net worth groups.

Average Indebtedness of Farmers to Second District Insured Commercial Banks by Age and Net Worth of Borrower, June 30, 1956

Age of borrower	All net worths	Net worth					Net worth unknown
		Under $3,000	$3,000–9,999	$10,000–24,999	$25,000–99,999	$100,000 and over	
All borrowers*	$2,191	$626	$1,213	$2,240	$4,576	$12,680	$ 822
Under 25 years	1,285	547	1,352	2,761	—	—	—
25–34 years	2,174	714	1,387	3,161	4,728	3,229	1,005
35–44 years	2,571	501	1,330	2,609	4,818	11,538	389
45 years and over	2,341	673	1,035	1,821	4,428	13,356	493

* Includes corporate borrowers and borrowers whose age is not known.

A comparison of the number of borrowers in each age group with the total number of New York farmers in the age group shows that the relative use of bank credit by farmers in the 35-44 age group is much greater than it is for older farmers. Farmers between 35 and 44 years of age are 22 per cent of the farm population but represented 33 per cent of the bank customers, while farmers 45 and over are 64 per cent of the farm population but only 52 per cent of the bank customers.

Little difference was found between full-time and part-time farmers. Part-time farmers were 12 per cent of all borrowers; the average amount borrowed by part-time farmers was 11 per cent less than the average for full-time farmers. The number of corporate farm borrowers was insignificant in the Second District; corporate borrowing amounted to less than 0.2 per cent of the total.

Tenant farmers and sharecroppers constituted 7 per cent of all Second District farm borrowers, and they held 4 per cent of the dollar amount of loans outstanding, about half the proportions found nationally. Tenant borrowers, however, represented 40 per cent of all borrowers in the net worth group under $3,000, reflecting the high concentration of tenants in the lower net worth groups. The average bank debt of all tenants was only 51 per cent that of owner-operators.

Bank Characteristics

For the purposes of the survey, banks in the Second District were divided into three groups: small banks, those with deposits of less than 3 million dollars; medium-sized banks, those with deposits of 3 to 10 million; and large banks, those with deposits of more than 10 million. In addition, banks were classified as unit or branch banks. Grouping banks by size and type classes made it possible to determine if the amount, kind, and cost of credit differed between small and large unit and branch banks.

The dollar volume of farm loans outstanding in each group of banks was found to be directly related to the number of banks in the group rather than to the size of the banks. The average small bank had a greater number of farm borrowers than larger banks, but the average amount loaned per borrower was less. Banks with total deposits of less than 3 million dollars represented only 24 per cent of all Second District commercial banks, but they had 30 per cent of the farm customers (about 125 per bank) and held 25 per cent of the farm debt, and the average amount per borrower was $1,810. Medium-sized banks represented 38 per cent of Second District commercial banks and held 37 per cent of the outstanding farm credits. These banks averaged about 83 farm customers per bank, but the average amount borrowed per customer was $2,571. The largest banks represented 38 per cent of the total number of banks and held 38 per cent of the farm debt, but the average amount borrowed per farmer was $2,178. The banks in the largest-sized group averaged more borrowers per bank than medium-sized banks but less than small banks.

Banks in the over 10 million dollar deposit-size group invested heavily in dealer paper—loans purchased by banks from dealers or other initial creditors. The average note purchased from dealers is less than half the size of the average direct loan. These factors account for the larger average number of borrowers and the smaller average loan in these banks, compared with medium-sized banks. Dealer paper accounted for 39 per cent of all farm notes among the largest banks, but for only 25 and 18 per cent, respectively, of the notes held by medium-sized and small banks. Most of the dealer paper represented intermediate-term loans, largely for farm machinery and equipment.

Although some tendency exists for large banks to attract customers with high net worth, the difference between the average net worth of farm borrowers in large and small banks was not great. Farmers having a net worth of over $10,000 to under $25,000 represented 41 per cent of all borrowers in each of the three bank size groups. Only the small group of borrowers with net worths of $100,000 and over showed a marked tendency to borrow from large banks. Apparently one reason why the net worth of the average borrower from large banks was not much more than the net worth of the average borrower from small banks is that few farmers, even large ones, require loans that would tax the lending capacity of small country banks. Even large farms are small businesses when compared with the average industrial enterprise, and their credit needs can usually be met by the local country bank. Loans to borrowers with net worths of $100,000 and over averaged only $6,746 per note, and the amount outstanding per borrower averaged $12,680. Moreover, only about one hundred loans to farmers in the Second District had amounts outstanding of over $25,000.

Reprints of this article with supplemental statistical data will be available after December 17, 1956. Requests for copies should be addressed to the Public Information Division, Federal Reserve Bank of New York, New York 45, N. Y.

RECENT ECONOMIC TRENDS

The continuing expansion of the United States economy has been marked in recent months by distinct crosscurrents in the patterns of production, consumption, and investment. The over-all trend of output remains favorable, gross national product (GNP) rising in the third quarter by 5 billion dollars to a seasonally adjusted annual rate of 414 billion and apparently continuing to grow during the current quarter. On the other hand, well over half of the third-quarter growth of GNP was accounted for by higher prices, which partly reflected wage and other cost increases earlier in the year that have been subsequently working their way through the price structure. Among the major components of GNP, business outlays for new plant and equipment continued to pace the growth in output during the third quarter, while consumer spending on nondurable goods as well as services also remained strong. Over the same period, however, consumer investment in durable goods slackened somewhat further and residential construction starts evidenced no sign of recovery.

These divergent trends presumably cannot continue indefinitely and, as has so often occurred during the postwar period, new patterns of economic activity and growth may already be emerging. Since September, indications have appeared of strengthening demand throughout the broad range of consumer durable markets, while business investment may settle down during the coming year to somewhat less strenuous rates of expansion. Meanwhile, assessment of these and other developing trends has been further complicated by the recent outbreak of armed warfare in Hungary and the Middle East. While the resultant heightening of international tension has so far had relatively little direct effect upon United States economic activity, the recent events abroad have for the present inclined business sentiment toward an attitude of watchful waiting.

Business and Consumer Investment Patterns

The principal expansionary force in the economy during recent months has been the continued upsurge in business outlays for new plant and equipment. As may be seen in Chart I, business investment expenditures have risen substantially in each quarter this year, continuing a trend that began early in 1955.[1] Although the rise in nonresidential construction outlays slackened appreciably in the third quarter, there was a further marked increase in outlays for equipment. A government survey in late July and August indicated that business investment outlays in the final quarter of this year would register an advance comparable to those in earlier quarters.

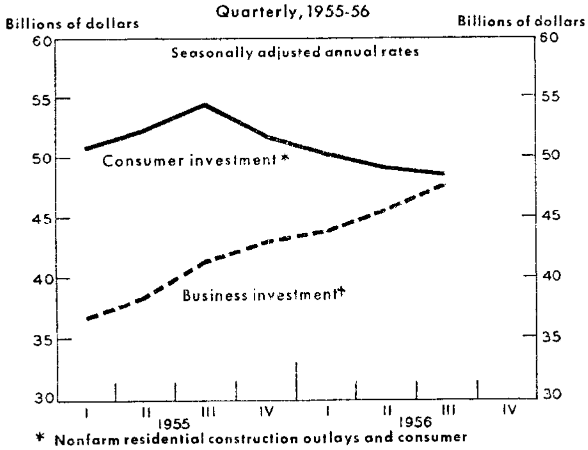
While part of the extraordinary rise in business spending for construction and equipment is attributable to price increases, by far the major portion represents a real expansion. Thus, it is estimated that plant and equipment outlays in the current quarter are running some 10 per cent higher than six months ago, while construction costs and wholesale prices of producers' goods have risen by approximately 3 per cent over this period. Moreover, nearly all major industry groups have shared in the recent investment upsurge, scheduling considerably higher outlays in the current quarter compared with six months or a year ago. (Two exceptions are mining enterprises and commercial firms, which expanded their investment outlays sharply in the first half of this year but have tended to hold their expenditures fairly steady since then.)

[1] The series on "business investment" shown in Chart I differs somewhat from the Commerce Department-Securities and Exchange Commission data on business plant and equipment outlays, mainly because the latter exclude agricultural investment and certain construction outlays charged to current expense. The over-all trend in the two series has been similar.

Chart I

BUSINESS AND CONSUMER INVESTMENT

Quarterly, 1955-56



* Nonfarm residential construction outlays and consumer expenditures for durable goods.

† Private nonresidential construction outlays and expenditures for producers' durable equipment.

Source: United States Department of Commerce.

In contrast to the sharply rising trend in plant and equipment expenditures, total "consumer investment" in durable goods and new homes continued to decline through the third quarter of this year. As shown in Chart I, however, the rate of decline slackened appreciably and certain indications of recovery are now appearing, at least for consumer durables. Sales of furniture and household appliances, for example, rose in September to the highest level this year, while sales of television sets picked up sharply in September and October. In the latter month, distributors' television sales topped the corresponding month in 1955 for the first time this year.

In the automobile field, the earlier depressing influence of declining new car sales and even sharper cuts in output has clearly run its course. From a record high of close to 900,000 units early this year, dealers' stocks were pared to about 350,000 by the end of October, three quarters of which were 1957 models. With output still running considerably below last year's record pace, it seems assured that dealers will start the new year with considerably fewer cars on hand than at the beginning of 1956. Industry sources are optimistic about the reception of the recently introduced 1957 models, moreover, and a more-than-seasonal upturn in automobile sales may already be in progress.

On the other hand, even though outlays for residential construction held fairly steady during the summer months, the continuing downtrend in home-building activity is clearly revealed in the rate of new housing starts. Private starts, on a seasonally adjusted annual basis, decreased to 1,060,000 in the July-October period from 1,135,000 during the first half of this year and 1,280,000 in July-October 1955. The fact that dollar outlays for residential building have not shown a similar decline is largely attributable to steadily rising construction costs, together with an upgrading in the average size and quality of the new houses being built.

Most of the decline in residential building has occurred in the case of homes financed with Government-guaranteed or insured mortgages; the number of new housing starts covered by conventional financing remained about the same as last year. As interest rates on virtually all types of investments have gradually risen in response to the increasing demand and limited supply of funds, lenders have found the Government-underwritten home mortgages, on which the interest rate is limited by law or Federal regulation, increasingly less attractive. The Federal Housing Administration's move a few days ago, raising the maximum interest rate permitted on mortgages that it will insure, may encourage the flow of funds into the mortgage market, although it is by no means certain that the decline in residential building has been due wholly to the reduced availability of credit. There also may well have been some weakening in consumer demand for housing because of the rise in new home prices (stemming from higher construction costs) and because the backlog of demand for housing had been reduced by high rates of building during the past several years.

Trends in Other Types of Spending

Accompanying these partially offsetting increases and declines in business and consumer investment, there has been an expansion in most of the other categories of expenditures that make up GNP. Thus, consumer outlays for services and nondurable goods advanced by about 3½ billion dollars in the third quarter to a seasonally adjusted annual rate of 234 billion; much of the rise was a reflection of higher prices—notably for food products—but there appears to have been some real increase as well. Price and wage increases also accounted for part—but not all—of the expansion in government outlays for goods and services, which occurred at both the Federal and State and local levels. The growth of GNP has been further stimulated by export increases that have continued to outpace the rise in imports.

Net accumulation of business inventories slowed markedly in the third quarter, mainly as a result of liquidation of steel stocks during the month-long strike in that industry and the sharp reduction in automobile dealers' holdings. The over-all rate of inventory accumulation (on a seasonally adjusted annual basis) decreased from nearly 4 billion dollars in the first half of this year to about 2 billion dollars in the July-September period. The inventory rise during the summer was concentrated in manufacturers' stocks, especially among producers of machinery, transportation equipment, and chemical and petroleum products. More recently there may well have been a renewed acceleration in the aggregate pace of inventory growth; in September, when steel production returned close to capacity rates, manufacturers' total inventories (seasonally adjusted) rose in book value by more than 500 million dollars—or about as much as the average monthly increase during the first half of this year—and preliminary estimates indicate a similar increase in October. In this connection, it may be noted that inventory growth has consistently outrun sales increases throughout the past year. By the end of September, the ratio of aggregate business inventories to total monthly sales had climbed to 160 per cent as compared with 151 per cent a year earlier. The current ratio nevertheless remains somewhat lower than during most of the 1951-54 period.

Production and Employment Gains

Recent developments in production and employment have roughly mirrored the changing patterns of demand. Thus, while the Federal Reserve's seasonally adjusted index of industrial production was estimated in October to have risen moderately above the level that was maintained (with but slight variation) during the first half of this year, there have been some marked divergences of movement for output in particular industries. Production of passenger cars, for example, which had dropped very sharply during the first half of this year, declined somewhat further after midyear as manufacturers continued to respond to lagging new car sales and heavy inventories; in November, however, the downward trend in passenger car output (seasonally adjusted) was reversed, as production of new model cars expanded sharply. Meanwhile, total output of transportation equipment (including automobiles) has expanded appreciably since June, as production rose for aircraft, railway cars, ships, and other transportation equipment purchased in large volume by business firms.

The strong upward push in business outlays for new equipment also led to a 5 per cent rise from June to October in output of machinery, thus further extending the increase that had already occurred during the first half of the year. Recent changes in output of nondurable products have been comparatively small, as was to be expected, since most of the rise in consumer expenditures for these goods during the past several months has been merely a reflection of price increases. There has been a significant advance since June, however, in output of textiles and apparel, following the decline that was registered during the first half of this year.

Employment trends in manufacturing have followed a similar pattern, showing little net change in over-all terms since early this year but with significant variations for certain components. Thus there has been an appreciable expansion of employment for firms manufacturing machinery and other producer goods, while work forces in the automobile industry were cut back substantially during the summer months from last year's level; employment in automobile plants rose in October and November, but remained much below that of a year ago. The number of workers engaged in producing nondurable goods was roughly the same in October as in June 1956 and December 1955, reflecting the fairly steady pace of output in such industries.

In contrast to the fairly steady level of factory employment, there has been an appreciable increase in employment in other segments of the economy—notably in government, trade, and various service occupations. Total civilian employment, as estimated by the Census Bureau, reached a record 66¾ million persons in August, exceeding the year-earlier mark by 1¼ million. The October estimate was slightly lower, as a result of seasonal influences, but remained substantially higher than a year previous.

Thus, despite the output and employment declines in some industries, the over-all demand for labor has been rising and a tighter labor supply has been reported for many areas of the nation. Monthly estimates of total unemployment have recently been running somewhat lower than a year ago. The number of persons out of work in October was estimated to be 1.9 million, the lowest figure since 1953. Along with higher employment, wage rates also have advanced significantly in recent months and the length of the workweek in manufacturing has increased slightly. These factors have played a major part in boosting personal incomes and consumer buying power to new records.

Recent Price Movements

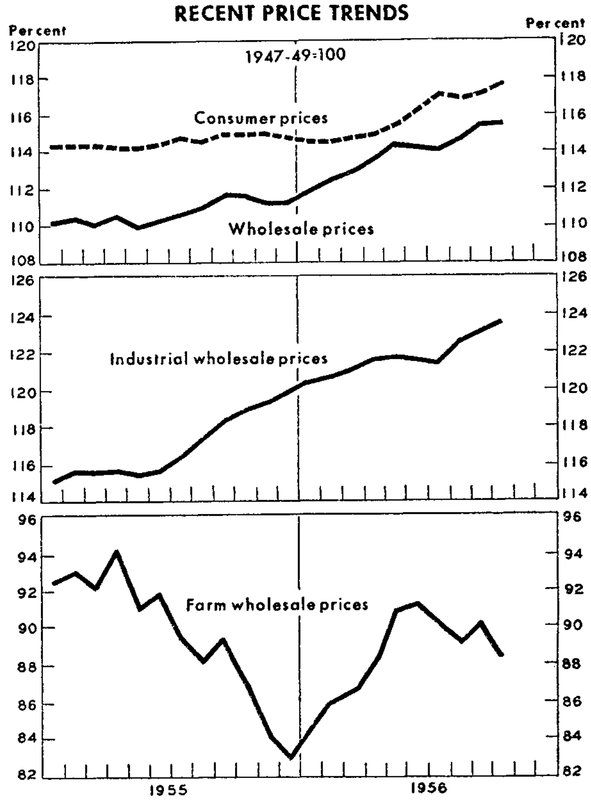
The dominant price trend since midyear has been upward, although the rise has been neither general nor steady. Thus it may be seen in Chart II that the recent advance in wholesale prices has reflected increases for industrial commodities while farm prices, on the average, have shown seasonal declines. Even among industrial prices, there has been considerable diversity of movement; in the early autumn weeks there was a distinct weakening in prices of sensitive raw materials, although this trend was reversed after the start of hostilities in the Suez area.

The advance in the industrial wholesale price index since June has stemmed from the expansion of demand, particularly for business investment goods, and from increases in labor and other costs. Even though demand declined in certain areas and the high rate of business investment led to an expansion of total industrial facilities, upward price pressures remained strong as many industries were operating at or near capacity rates. The 6 per cent rise in basic steel prices in early August, following the settlement of the strike in that industry, provided a particularly strong upward push on the industrial price structure. Thus, not only did prices of metals and metal products advance by 4 per cent from June to October, but machinery prices also increased by 3 per cent. On the other hand, in a few instances reduced demand has led to price declines; prices of lumber and wood products moved down by 4 per cent from June to October, apparently reflecting the reduced rate of residential building.

After mid-September, the upward pressures on industrial prices lessened in intensity; costs of raw materials such as copper and steel scrap declined appreciably, and the weekly Bureau of Labor Statistics index of industrial prices

Chart II

RECENT PRICE TRENDS



Source: Bureau of Labor Statistics.

held steady throughout October after rising markedly in the few preceding months. However, the outbreak of hostilities in the Middle East has caused sensitive commodity prices to advance again and raised doubts as to whether the recent tendency toward easing of upward pressures was more than temporary.

As a partial offset to the recent increases in industrial prices, wholesale farm prices have declined since June. But in contrast to the severe decline experienced in the summer and autumn months of 1955, the decrease has been more moderate this year and primarily seasonal in nature. Reflecting this tendency, as well as the fact that farm prices had increased quite sharply during the first half of this year, average prices received by farmers have recently been appreciably higher than a year ago, bringing about at least a temporary halt to the four-year decline in farmers' incomes.

The increases in wholesale costs of both industrial and farm products have gradually been working through to retail markets, although only after some lag. Thus, while average consumer prices during the first several months of this year continued the essentially sideways movement that had prevailed since 1952, the advances registered since last spring have pushed the consumer price index to new record levels. The rise was particularly rapid during the April-July period when food prices mounted sharply, partly in response to seasonal factors. Since July, the over-all consumer price index has increased more moderately as food prices declined and then held steady. Although the rate of increase accelerated again in October, this was largely attributable to the sharp advance in automobile prices as new models were put on sale. While automobiles, food, and from time to time a few other products have thus tended to exert a somewhat erratic influence on the general level of consumer prices, the path of prices of most consumer goods and services has on balance moved upward since early this year.

On the other hand, the upward price pressures during recent months have been mitigated to some extent by renewed advances in output per man-hour. With new and improved industrial facilities coming into operation in large volume—as a result of the record pace of business investment in plant and equipment—productivity gains over coming months may exert an even stronger restraining influence on the price level.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1956			1955	Percentage change	
		October	September	August	October	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	145p	145	142	143	#	+ 1
Electric power output*	1947-49 = 100	216	217	220	204	#	+ 6
Ton-miles of railway freight*	1947-49 = 100	—	111p	101	109	+10	+ 5
Manufacturers' sales*	billions of $	28.2p	27.6	27.6	26.6r	+ 2	+ 6
Manufacturers' inventories*	billions of $	50.7p	50.1	49.5	45.3	+ 1	+12
Manufacturers' new orders, total*	billions of $	28.7p	28.1	29.1	27.5	+ 2	+ 4
Manufacturers' new orders, durable goods*	billions of $	14.5p	14.3	15.2	14.1	+ 1	+ 3
Retail sales*	billions of $	—	16.0p	16.3	15.8	− 2	+ 1
Residential construction contracts*	1947-49 = 100	227p	250	264	252	− 9	−10
Nonresidential construction contracts*	1947-49 = 100	258p	251	257	266	+ 3	− 3
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	90.7	91.6	90.6	89.3	− 1	+ 2
Wholesale prices†	1947-49 = 100	115.5p	115.5	114.7	111.6	#	+ 3
Consumer prices†	1947-49 = 100	117.7	117.1	116.8	114.9	+ 1	+ 2
Personal income (annual rate)*	billions of $	—	328.5p	328.1	311.6	#	+ 6
Composite index of wages and salaries*	1947-49 = 100	—	150p	149	144	+ 1	+ 5
Nonagricultural employment*	thousands	51,817p	51,603p	51,702	50,594	#	+ 2
Manufacturing employment*	thousands	16,989p	16,826p	16,890	16,810	+ 1	+ 1
Average hours worked per week, manufacturing†	hours	40.6p	40.7	40.3	41.1	#	− 1
Unemployment	thousands	1,909	1,998	2,195	2,131	− 4	−10
Banking and finance							
Total investments of all commercial banks	millions of $	73,710p	73,530p	73,560p	79,650	#	− 8
Total loans of all commercial banks	millions of $	88,830p	88,520p	87,470p	79,210	#	+12
Total demand deposits adjusted	millions of $	107,450p	105,440p	104,500p	106,100	+ 2	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,741p	30,772	30,742	30,410	#	+ 1
Bank debits (337 centers)*	millions of $	78,658	72,235	80,756	69,291r	+ 9	+14
Velocity of demand deposits (337 centers)*	1947-49 = 100	138.1p	135.6	141.3	126.9	+ 2	+ 9
Consumer instalment credit outstanding†§	millions of $	30,811	30,707	30,644	27,968	#	+10
United States Government finance (other than borrowing)							
Cash income	millions of $	3,434	6,877	6,579	2,869	−50	+20
Cash outgo	millions of $	6,409	5,649	6,855	5,659	+13	+13
National defense expenditures	millions of $	3,892	3,265	3,545	3,281	+19	+19
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	150	149	155	149	+ 1	+ 1
Residential construction contracts*	1947-49 = 100	—	170p	197	165	−14	+ 1
Nonresidential construction contracts*	1947-49 = 100	—	245p	235	231	+ 4	− 3
Consumer prices (New York City)†	1947-49 = 100	115.7	115.1	114.4	112.4	+ 1	+ 3
Nonagricultural employment*¶	thousands	7,709.7p	7,691.7	7,705.9	7,643.6	#	+ 1
Manufacturing employment*¶	thousands	2,647.4p	2,642.8	2,657.6	2,661.1	#	− 1
Bank debits (New York City)*	millions of $	70,093	61,841	77,332	66,899	+13	+ 5
Bank debits (Second District excluding New York City)*	millions of $	5,128	4,702	5,135	4,621	+ 9	+11
Velocity of demand deposits (New York City)*	1947-49 = 100	177.9	166.8	195.8	176.0	+ 7	+ 1
Department store sales*	1947-49 = 100	112	120	117	109	− 7	+ 3
Department store stocks*	1947-49 = 100	129	123	127	117	+ 5	+10

Note: Latest data available as of noon, December 3, 1956.

p Preliminary.
r Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
# Change of less than 0.5 per cent.
§ Revised series. Back data published in *Federal Reserve Bulletin*, October 1956.
¶ Revised series. Back data available from the Domestic Research Division, Federal Reserve Bank of New York.

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