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MONEY MARKET IN JANUARY

Member bank reserve positions were substantially easier during most of January as unusually heavy return flows of currency from circulation, a sharp decline in required reserves, and an exceptionally low level of Treasury balances at the Federal Reserve Banks added to the free reserves of the banking system. These unexpectedly large movements as well as a slower-than-usual decline in float resulted in average free reserves in excess of 200 million dollars for each of the three weeks ended January 23. Federal Reserve operations were designed to counteract these seasonal influences, but it was not until the final statement week of the month that average member bank borrowings from Federal Reserve Banks again exceeded average excess reserves. During the five weeks ended January 30, Federal Reserve open market operations resulted in a record seasonal decline of 1.5 billion dollars in System holdings of Government securities, including both outright and under repurchase agreements; an additional 32 million dollars was withdrawn from the market as the result of transactions involving bankers' acceptances. In the Federal funds market rates showed an unusual degree of day-to-day variability, and the effective rate remained below 3 per cent during much of the month.

The securities markets were marked by the successful distribution of a large volume of new corporate and municipal issues and by a general improvement in the prices of United States Government securities. Treasury bill rates during most of January were at levels somewhat below those prevailing in late December. The revival of demand for bills from nonbank investors after the end of the year was the major factor accounting for the lower level of rates, but the easier position of member banks through most of the month, influenced partly by a seasonal reduction in loans of record proportions, also contributed to the decline. However, a number of factors tended to check the decline in rates, including the general recognition that the easing of bank reserve positions was temporary, the heavy System sales and redemptions of Treasury bills, the Treasury's refunding of 1.6 billion dollars of special bills, and the 100 million dollar increase in offerings in the regular bill auction on January 28. In the final auction of the month, the average issuing rate was 3.283 per cent as against 3.262 per cent at the end of December.

The prices of Government bonds and notes rallied sharply on January 8, after declining up to that date, and then advanced over most of the remainder of the month. The buoyant atmosphere reflected the excellent reception accorded the heavy volume of corporate flotations, which had been a source of expectant concern to the market late in 1956. In addition, security prices were influenced by the belief on the part of some market observers that the economic boom might progress less rapidly in the near future than had been the case in the latter part of last year. As a result, prices of longer term Government securities moved up sharply, in some cases gaining as much as about 4 points over the month, and, along with outstanding corporate and municipal bonds, regained most of the ground lost since October.

MEMBER BANK RESERVES

Wide swings in both member bank borrowings from Federal Reserve Banks and in free reserves took place in January. At the beginning of the statement week ended January 2 banks were making preparations for the year-end statement date, while at the same time the end-of-the-month decline in float tended to withdraw reserves from the banking system; as a result, average borrowings from the Reserve Banks rose sharply and exceeded average excess reserves. In the succeeding three weeks, an unusually heavy return flow of currency from circulation, persistent declines in Treasury balances at Federal Reserve

CONTENTS

Money Market in January	13
International Monetary Developments	17
Trends in International Reserves and Payments in 1956	18
Department Store Trade	22
Selected Economic Indicators	24

Table I
Changes in Factors Tending to Increase or Decrease Member Bank Reserves, January 1957
(In millions of dollars; (+) denotes increase, (−) decrease in excess reserves)

Factor	Daily averages—week ended					Net changes
	Jan. 2	Jan. 9	Jan. 16	Jan. 23	Jan. 30	
Operating transactions						
Treasury operations*	+228	+ 37	+ 56	+ 83	−231	+ 173
Federal Reserve float	−671	+ 2	−261	+168	−368	−1,130
Currency in circulation	+163	+350	+371	+281	+220	+1,385
Gold and foreign account	+ 19	+ 51	+ 4	− 3	+124	+ 195
Other deposits, etc	− 26	+122	+ 22	+ 2	+ 11	+ 131
Total	−287	+562	+193	+528	−243	+ 753
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	+ 36	− 9	−308	−482	−361	−1,124
Held under repurchase agreements	+ 52	−297	− 87	—	—	− 332
Loans, discounts, and advances:						
Member bank borrowings	+259	−395	−182	− 1	+180	− 139
Other	− 1	+ 4	− 4	—	—	− 1
Bankers' acceptances:						
Bought outright	+ 1	+ 1	− 1	− 3	− 1	− 3
Under repurchase agreements	+ 7	− 22	− 12	—	—	− 27
Total	+353	−717	−594	−486	−181	−1,625
Total reserves	+ 66	−155	−401	+ 42	−424	− 872
Effect of change in required reserves†	− 16	+133	+187	− 8	+180	+ 476
Excess reserves†	+ 50	− 22	−214	+ 34	−244	− 396
Daily average level of member bank:						
Borrowings from Reserve Banks	900	505	323	322	502	510‡
Excess reserves†	761	739	525	559	315	580‡

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for the five weeks ended January 30.

Banks, and a decline in required reserves accompanying large reductions in member bank loans and investments, exceeded the withdrawal of reserves through Federal Reserve open market operations and a slow decline in float. Average borrowings declined and member banks held free reserves in excess of 200 million dollars, on an average basis, in each of the three weeks ended January 23. In the final statement week, however, average borrowings exceeded average excess reserves by 187 million dollars, largely as the result of a decline in float and further System sales of Treasury bills.

An exceptionally large decline of currency in circulation was the most important factor in increasing bank reserves over the month. This decline amounted to 1.5 billion dollars between December 26 and January 30, and was the largest return flow of currency ever recorded. Bank reserve positions were also eased by a sharp drop in required reserves, reflecting primarily the heavy net repayments of bank loans. Over the full five-week period, required reserves fell by 410 million dollars, thereby more than offsetting the 195 million rise that had occurred in the four weeks ended December 26, 1956.

During most of the month reserves also tended to increase as a result of the persistent downward movement in Treasury balances at Federal Reserve Banks, largely reflecting unexpectedly heavy defense outlays. The same factor tended to reduce Tax and Loan Account balances at commercial banks, with the result that Treasury balances at the Federal Reserve Banks could not be replenished through the usual call procedures sufficiently to be maintained at normal levels. As a result, the Treasury balance at Federal Reserve Banks fell to a low point of 122 million dollars on January 18, compared with 533 million on December 26. Subsequently the balance rose, in part as the result of increased receipts from personal income tax payments, and banks lost reserves in consequence.

The rise in Treasury balances at Federal Reserve Banks in the statement week ended January 30 was also attributable in part to the sale of 300 million dollars' worth of gold by the International Monetary Fund to the Treasury in exchange for noninterest-bearing notes on January 28. This transaction was designed eventually to replenish the IMF's holdings of dollar funds in anticipation of possible further drawings by member nations of the IMF under stand-by credit arrangements. There was, however, no immediate impact upon bank reserve positions, as the 300 million dollar addition to Treasury balances was offset by a like increase in the gold stock.

Although a substantial drain on bank reserves over the month arose from the usual seasonal decline in float, the decline after the week ended January 2 was slower than usual, and the major losses stemmed from the reduction in System holdings of Government securities. In addition, holdings of bankers' acceptances, both outright and under repurchase agreements, were reduced by 32 million dollars over the period. The net reduction in outstanding repurchase agreements with Government securities dealers amounted to 331 million between December 26 and January 9, while the reduction in outright holdings of Government securities amounted to 1.2 billion dollars during the five weeks ended January 30. A substantial part of the sales and redemptions of Government securities was concentrated in the week ended January 23. In the final statement week, System sales proceeded at a slower pace as float declined.

Government Securities Market

The prices of Treasury notes and bonds tended downward at the beginning of January but subsequently rebounded sharply. The decline in prices as the month opened reflected widespread apprehension over the unusually heavy calendar of corporate flotations in January and February, as well as market expectations that a continued expansion in economic activity would be accompanied by tighter credit conditions and perhaps by a rise in discount rates at Federal Reserve Banks. Although trading activity, both on an outright basis and on switches, slackened as the new year opened, prices were marked down sharply, carrying most intermediate and longer Treasury issues to new lows on January 7.

The excellent response of investors to the corporate issues floated on January 7 and 8 apparently provided the initial impetus for the sharp upward trend in the prices of Government bonds over much of the remainder of the month. By January 9, virtually all of the 300 million dollars of corporate issues offered during the week had been taken by investors. In addition, some doubt began to develop in the market regarding the strength of inflationary pressures in the economy, a view that received some support from the sharp decline in business loans at weekly reporting banks. Trading volume continued to be very light although there was a sporadic demand arising mainly from small investors which met with few offerings. Most of the price advances occurred as dealers sought to probe for price levels at which some trading might take place. The price rise carried average yields on Treasury securities due or callable in ten to twenty years down to 3.22 per cent in the week ended January 25, about equal to the yield at the end of October 1956 and in contrast to the high of 3.53 per cent reached in early January. Over the month as a whole, most issues maturing after 1962 showed increases of between 3 and 4 points; the 3's of 1995 closed at 94$^{14}/_{32}$ (bid), up 3$^{12}/_{32}$ points. Intermediate and shorter issues showed more moderate advances, generally of between ½ of a point and 1½ points.

On January 4 the Treasury announced that it would refund the 1.6 billion dollars of special bills maturing on January 16 through the sale at auction of an equal amount of 159-day tax anticipation bills dated January 16, maturing June 24, and acceptable at face value in payment of income and profits taxes due on June 15. Relatively few of the holders of maturing bills appeared to be interested in the new offering, and bidding by other investors was also light. As a result, the average issuing rate was 3.305 per cent. Trading on a when-issued basis opened at about 3.32 per cent (bid), but by the end of the month a substantial demand developed and the tax bills were bid down to 3.12 per cent.

Rates on regular Treasury bills fluctuated within relatively narrow limits throughout January, with moderate declines both early and late in the month. The revival of investor demand for regular Treasury bills after the year end was substantial and, in conjunction with relatively light offerings, tended to move rates down as the month opened. The announcement of the refunding offering of tax bills on January 4, as well as the expectation that the System would be selling bills to offset the seasonal increase of bank reserves, tended to dampen dealer interest in the regular bill auction on January 7, but investor bidding was quite strong. As a result, the average issuing rate declined by about 7 basis-points from the final auction in December to 3.197 per cent. Although dealers again bid cautiously in the January 14 auction, partly because of heavy awards of the new tax bill, customer interest was unusually strong, in part swelled by bids from holders of the maturing special bill who had not tendered for the new tax bill, and the average issuing rate rose only slightly to 3.223 per cent. A brisk investor demand for the new bills developed subsequently and, partly as a result, the auction held on Friday, January 18 (rather than on Monday because of the Inaugural Day holiday in Washington), resulted in an average issuing rate of 3.085 per cent, the lowest since mid-November. Toward the end of the month, rates on outstanding issues tended to move up, influenced by the increase in the offering of bills by 100 million dollars in the regular bill auction on January 28, by some tapering-off of nonbank demand, and by a reduced reserve availability. The average issuing rate rose to 3.283 per cent in the final auction. A drop in yields in the last three days of the month, however, lowered the closing bid on the longest outstanding issue of Treasury bills to 3.12 per cent, compared with 3.22 per cent at the end of December.

On January 31 the Treasury announced refunding plans for the 7.2 billion dollars of 2⅝ per cent certificates maturing February 15, the 3.0 billion dollars of 2⅞ per cent notes maturing March 15, and the 531 million dollars of 1½ per cent notes due April 1. Holders of the obligations due February 15 and March 15 will be offered the option of exchanging into either new 3⅜ per cent one-year certificates maturing February 14, 1958 or 3½ per cent Treasury notes maturing May 15, 1960. Holders of the notes due April 1, primarily the Federal Reserve Banks, may exchange only into the new one-year certificates. The new certificates and notes will be dated February 15, 1957, with interest adjustments in all cases as of that date. The subscription books will be open on February 4 and 5, 1957. In addition, the Treasury also announced that it will accept tenders on February 7 for about 1.75 billion dollars of 129-day tax anticipation bills for cash or in exchange for the special Treasury bills which mature February 15. The new bills will be dated February 15, will mature June 24, 1957, and are acceptable at face value in payment of income and profits taxes due June 15, 1957. Settlement for accepted tenders may be made either in cash or in a like face amount of the special Treasury bills maturing February 15.

Other Securities Markets

The atmosphere in the corporate and municipal bond markets improved strikingly in January and yields declined, despite an extremely large volume of new offerings. Yields on outstanding issues were steady during the first calendar week of the month, as the market awaited some indication of investor response to the wave of new corporate flotations scheduled on January 7 and succeeding days. The success of these offerings improved the tone of outstanding corporate issues, which started to move up in price on January 8. Average yields on high-grade corporate bonds, as reflected in Moody's Aaa-rated index, declined over the month as a whole by 10 basis-points to 3.72 per cent, while average yields of similarly rated

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

Item	Statement weeks ended					Five weeks ended Jan. 23, 1957
	Dec. 26, 1956	Jan. 2, 1957	Jan. 9, 1957	Jan. 16, 1957	Jan. 23, 1957	
Assets						
Loans and investments:						
Loans:						
Commercial and industrial loans	+ 46	− 167	− 383	−155	−243	− 902
Agricultural loans	+ 1	− 9	− 1	− 3	− 3	− 15
Security loans	+102	− 78	− 392	− 11	− 93	− 472
Real estate loans	− 13	− 13	− 7	− 1	− 24	− 58
All other loans (largely consumer)	+ 50	+ 2	− 92	− 74	− 37	− 151
Total loans adjusted*	+181	− 402	− 874	−246	−400	−1,741
Investments:						
U. S. Government securities:						
Treasury bills	+ 17	+ 157	− 396	+601	−391	− 12
Other	+ 59	− 37	− 106	− 50	−102	− 236
Total	+ 76	+ 120	− 502	+551	−493	− 248
Other securities	− 36	− 9	− 60	—	− 27	− 132
Total investments	+ 40	+ 111	− 562	+551	−520	− 380
Total loans and investments adjusted*	+221	− 291	−1,436	+305	−920	−2,121
Loans to banks	+131	+ 110	− 129	+ 32	+ 28	+ 172
Loans adjusted* and "other" securities	+145	− 411	− 934	−246	−427	−1,873
Liabilities						
Demand deposits adjusted	+ 66	− 585	+ 131	+763	−227	+ 148
Time deposits except Government	+130	+ 2	+ 116	+125	+ 33	+ 406
U. S. Government deposits	− 31	− 199	−1,230	−308	− 19	−1,787
Interbank demand deposits:						
Domestic	− 42	+1,314	−1,215	− 96	−792	− 831
Foreign	+ 25	+ 32	− 82	− 36	− 18	− 79

* 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.

municipal bonds fell 18 basis-points to 2.87 per cent. In each case, the average yields of late December and early January represented postwar peaks and the subsequent declines carried the indexes back to the levels of about mid-November 1956.

The estimated volume of public offerings of corporate bonds for new capital in January rose to 620 million dollars, the highest volume of flotations since last May and exceeding the December volume by about 250 million. About half of this amount was offered in the three-day period, January 7-9, to which the market had been looking forward with apprehension. All of these issues were well received and, in several instances, were bid at a premium shortly after the offering. Most corporate issues later in the month did equally well. Liberal pricing by underwriters contributed to the attractiveness of the new issues.

Offerings of municipal bonds amounted to an estimated 600 million dollars in January, compared with 360 million in December. The major test of the municipal market came about a week later than in the corporate market, with almost two fifths of the offerings—238 million dollars—being concentrated in the three-day period, January 14-16. The lower level of dealer inventories, already notable at the end of December, aided in the retailing of the new issues, and the reappearance of demand from banks and others resulted in a generally good response, even though most issues moved more slowly than did corporate offerings.

New offerings by Government agencies and international organizations were also extremely well received during the period. A 100 million dollar issue of twenty-year 4½ per cent bonds by the International Bank for Reconstruction and Development was successfully marketed on January 10, as was a 72 million dollar issue of 4⅛ per cent bonds maturing in 1972 offered by the Federal Land Banks on January 30. Shorter term offerings by the Federal Home Loan Banks, the Federal National Mortgage Association, the Federal Intermediate Credit Banks, the Bank for Cooperatives, and the Federal Land Banks were also in strong demand. Reportedly in order to limit competition with other local government offerings, the Public Housing Administration announced on January 15 that it would offer in early February less than one third of the 100 million dollars of local housing bonds originally contemplated.

Member Bank Credit

Total loans outstanding at all weekly reporting member banks declined 1,922 million dollars over the four weeks ended January 23 after reaching their seasonal peak in the week ended December 26. Last year total loans fell 831 million dollars in the four weeks following their seasonal peak on December 28, 1955. Business loans dropped by 948 million dollars in the four weeks ended January 23, or by more than twice as much as in the comparable period a year earlier. Security loans, real estate loans, and "all other" (largely consumer) loans also declined.

The decline in business loans during the four weeks ended January 23 was largely attributable to those types of firms that normally repay at this time of the year. Wholesale and retail trade, food processors, and commodity dealers accounted for the bulk of the decline in total business loans, but in each case the decline was more marked than a year earlier. Loans to metals and metal products firms showed, however, an even sharper contrast with year-earlier figures, dropping by 49 million, compared with a 66 million dollar increase a year ago. Loans to sales finance companies increased 248 million dollars in the two weeks ended January 2 but subsequently declined; over the entire five-week period, such loans declined by 7 million dollars as against a 104 million dollar decline last year.

Total investments of weekly reporting member banks declined 380 million dollars during the five weeks ended January 23, 1957. Holdings of non-Government securities declined by 132 million, compared with an 87 million dollar decline a year ago, while holdings of Government obligations fell 248 million dollars as compared with a decrease of 785 million in similar weeks last year. The smaller decline in holdings of Government securities this year was in part due to heavy bank subscriptions for the special issue of tax anticipation bills in the week ended January 16.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

In West Germany, the official discount rate was lowered to 4½ per cent from 5, effective January 11; the rate had been reduced ½ per cent last September, following three consecutive increases between August 1955 and May 1956. In commenting on the present action, the president of the board of directors of the Bank deutscher Länder reportedly stated that the present German economic situation warranted a certain relaxation of credit curbs, although the economy had not slowed down to the point where an expansionary credit policy was indicated. He also noted the possibility that a lower discount rate would tend to reduce the heavy inflow of foreign funds attracted in part by high German interest rates. The Bank deutscher Länder, analyzing economic conditions in its December report, pointed to the distinct signs that the boom had leveled off in the latter half of 1956; in particular, the increase in industrial production in October and November over the corresponding months of 1955 was only 4 per cent, as against 7 per cent for the third quarter and 10 per cent for the first half. The slackening of the pressure of demand in Germany is due almost entirely to a decline in investment, which has been more than sufficient to offset the continued rapid expansion of consumption and exports. The considerable fall in building activity and in new domestic orders for capital goods was attributed by the bank to the tightness of credit and of the capital market, and also to a weakening of the inducement to invest since profits have been squeezed by wage increases that have not been passed on in higher prices. While short-term interest rates have eased recently, the stringency in the capital market, which was only temporarily alleviated following the September discount rate decrease, has been cited as a matter of concern by the bank. On the other hand, short-term bank lending to the private sector actually declined during July-November, while the liquidity of the banking system has grown greatly as a result of the continued heavy influx of foreign exchange. Recently the Treasury agreed to the conversion of a further billion marks of the Bank deutscher Länder's equalization claims (special federal government debt arising from the 1948 currency reform) into short-term securities that may be sold on the open market.

In the United Kingdom, interest rates continued the declining trend that had begun in December. Seven successive declines totaling 0.4 per cent brought the average Treasury bill tender rate to 4.55 per cent on January 25; this is the lowest level since the discount rate was raised to the present 5½ per cent last February, and compares with the year's peak of 5.27. The continued rise in Consol prices in January was almost sufficient to wipe out the entire decline that occurred in the first eleven months of 1956; on January 31, Consols yielded 4.50 per cent, compared with 4.76 at the end of December and a 25-year record of 4.98 reached at the end of November. Bank clearings through the London Clearing House rose 5.4 per cent in 1956 to a new peak; however, three fourths of the increase in clearings occurred in the first half of the year. The statements of the London clearing banks for the eight weeks ended January 16 showed a 135 million pound increase in net deposits, an 18 million decrease in advances, and a rise of 30 million in the banks' Treasury bill holdings; during the same period a year earlier, the increase in deposits was substantially less, there was a larger decrease in advances but a much larger rise in the banks' Treasury bill holdings. The banks' liquidity ratio stood at 37.3 per cent on January 16, compared with 36.3 in mid-November and 37.6 a year earlier.

Canadian interest rates continued to rise in January. The average Treasury bill tender rate reached 3.72 per cent during the middle of the month but declined to 3.70 at the final tender. The discount rate was accordingly fixed at 3.95 per cent on January 31 under the Bank of Canada's present policy of keeping it ¼ per cent above the Treasury bill rate. The upward movement in government bond yields quickened noticeably during the month; on January 22 the government raised the maximum interest rate on insured mortgages under the National Housing Act to 6 per cent from 5½ in order to bring it into line with other long-term rates. The chartered banks continued to reduce their holdings of government bonds in January; business loans remained at around the December level.

Exchange Rates

Sterling rates rose noticeably during January, American-account sterling moving gradually upward to \$2.80⅛ on January 22, the highest quotation since June 1956. Important in strengthening the rate in a market relatively short of spot sterling were fairly substantial offerings of dollars in London, on occasion by oil interests; a further factor was general commercial demand in New York. Although the rate weakened somewhat on Sir Anthony Eden's resignation on January 9, the quotation was held at \$2.79¼ reportedly by official support operations. When the market reacted favorably to the appointment of Harold Macmillan, the new Prime Minister, the rate resumed its upward trend. Quotations again declined somewhat in the closing days of the month when there was fairly good demand for dollars in London; on January 31 American-account sterling was quoted at \$2.79 27/32.

In the forward market, discounts narrowed sharply during most of the month as commercial demand in New York, chiefly from oil and metal interests, readily absorbed offerings of forward sterling; such activity, accompanied by substantial offerings of forward dollars in London, reduced the discounts on three and six months' sterling from $2^{13}/_{32}$ and $4^{13}/_{32}$ cents, respectively, to $^{31}/_{32}$ and $1^{31}/_{32}$ on January 22, the latter being the lowest since January 1956. Discounts subsequently widened, however, and at the month end stood at $1^{1}/_{16}$ and $2^{1}/_{16}$.

A brisk demand for transferable sterling, principally from sugar interests, met with somewhat smaller offerings from the Continent and South America; transferable sterling accordingly rose during January from $2.7505 to $2.7685. Securities sterling fluctuated erratically between $2.59¾ and $2.65 on intermittent demand.

Early in January the Canadian dollar dropped below the $1.04 level, on reduced demand from London and in response to the Canadian Pacific Railway strike. At the midmonth, however, the rate began to improve as the strike was settled and renewed demand for the Canadian dollar came from London and the Continent. Subsequently, the announcement of several new security issues, as well as demand for Canadian dollars for the purchase of oil leases, further firmed the quotation to $1.04^{5}/_{16}$ at the month end.

TRENDS IN INTERNATIONAL RESERVES AND PAYMENTS IN 1956

Gold and dollar holdings of foreign countries continued to grow in 1956, for the fifth consecutive year.[1] At the year end, they reached some 28.3 billion dollars, or about 2.1 billion more than in December 1955. Last year's rise in such holdings would have been, however, much smaller had not the United Kingdom in December drawn 561 million dollars from the International Monetary Fund. At the December 1956 level, foreign gold and dollar holdings were nearly twice the mid-1948 postwar low, and some 50 per cent above March 1952 when international reserves began their current rise.

The Flow of Gold and Dollars

Of the 2.1 billion dollar rise in gold and dollar holdings abroad, gold accounted for some 400 million, as against 630 million in 1955. Besides increasing their monetary gold stocks, however, foreign countries paid gold to the International Monetary Fund and—for the first time since 1952—sold gold on balance to the United States. Gold payments to the IMF totaled about 85 million dollars, and were made either as part of certain members' subscriptions or in fulfilment of repurchase obligations. Foreign countries as a whole also sold 80 million dollars' worth of gold to the United States, purchases from the United States by Venezuela, France, and a number of other countries having been more than offset by sales to the United States by Argentina, the United Kingdom, and some other countries.

The gold added to the monetary reserves of foreign countries thus came from new output and other sources outside the United States. Foreign gold production (excluding the USSR) amounted to some 935 million dollars last year, or about 5 per cent more than in 1955, an increase that almost wholly reflected expanded output in the Union of South Africa. Taking into account the transactions of foreign countries with the United States and the IMF noted above, about three fifths of the new output abroad found its way into the reserves of monetary authorities and international institutions—a somewhat smaller proportion than in 1955. The remainder went to meet gold requirements in the arts and industry, and other private demand.

As in 1955, a large portion of last year's foreign gold production was sold on the London gold market. South African and other sterling-area producers sold most of their output there, while a number of nonsterling producers likewise disposed of some of their output in that market. The principal buyers continued to be the Western European central banks, but some gold was also sold to private operators, particularly in the Middle and Far East. The dollar equivalent of the London gold price remained almost entirely within the range of the United States buying and selling prices of $34.9125 and $35.0875 per fine ounce ($35 plus or minus ¼ per cent), at which this Bank, acting on behalf of the United States Treasury, deals with foreign monetary authorities. Sellers thus received a higher price in London, while foreign monetary authorities generally found it cheaper to buy gold there, rather than from the United States Treasury—to the extent, of course, that shipping costs do not enter in.

As a result of these various transactions, the official gold reserves of foreign countries rose last year by some 400 million dollars to 14.8 billion. At the same time, the monetary gold stock of the United States rose by 305 million[2] to 22.1 billion; if account is taken of the 1.7 billion dollars' worth of gold held by the IMF, the United States at the year end held some 57 per cent of the world's monetary gold reserves (excluding those of the USSR).

Foreign short-term dollar holdings rose by 1.7 billion dollars in 1956 to 13.5 billion. Of this amount about 8.0 billion was held by foreign monetary authorities, in part to meet current exchange requirements or to intervene in foreign exchange markets. The remainder was held largely by foreign commercial banks and other businesses for carrying out international transactions. Of the 1.7 billion

[1] For definition of gold and dollar holdings, see footnote to table. Changes in foreign gold and dollar holdings in earlier years were surveyed in the *Monthly Review* for January 1951, and for February in each of the years following.

[2] In addition to the net 1956 purchases of the United States from foreign countries, which totaled 80 million dollars, the United States during March-October acquired 200 million dollars' worth of gold from the International Monetary Fund; the IMF's purpose in making the sale was to invest the proceeds in United States Treasury bills in order to obtain some income to cover its operating deficits.

increase about half was in official holdings. Some two fifths of the total rise took the form of purchases of short-term United States Government securities, and an additional two fifths the form of time and demand deposits, with the balance going into holdings of bankers' acceptances and other commercial paper.

In addition to these short-term dollar assets, foreign countries hold United States Government bonds and notes with original maturities of more than one year. Such holdings totaled some 1.2 billion dollars in September 1956, or about 150 million less than at the beginning of the year; during 1955, they had risen by 560 million. For the greater part, they were held by Canada and certain Western European countries.

Reserve Positions of Foreign Countries

Like those in previous years, the 1956 gains in foreign gold and dollar holdings were unevenly distributed, as is apparent from the chart and the table. About half of the total increase of 1.8 billion dollars during the first nine months of 1956 (the latest period for which complete details were available at the time of writing) was accounted for by Continental Western European countries; among these, the increase went mostly to West Germany and, to a lesser extent, Italy and Switzerland. On the other hand, France's reserves declined rather sharply: its gold and short-term dollar holdings fell by 327 million while its holdings of longer-term United States Government securities (not included in the data shown in the table) dropped by 144 million. The holdings of most other European countries either remained roughly unchanged or showed further, although moderate, increases; the holdings of the Netherlands, however, declined noticeably during the fourth quarter.

Aggregate gold and United States dollar holdings of the sterling countries increased by 223 million during the first nine months of the year. However, the central gold and

Foreign Gold and Dollar Holdings
(In millions of dollars)

Area and country	December 1953			December 1954			December 1955			September 1956p		
	Gold	Dollar holdings	Total	Gold	Dollar holdings	Total	Gold	Dollar holdings	Total	Gold	Dollar holdings	Total
Canada	996	1,296	2,292	1,080	1,536	2,616	1,141	1,032	2,173	1,112	1,437	2,549
United Kingdom and other sterling-area countries	2,929	1,104	4,033	3,223	1,000	4,223	2,760	940	3,700	2,814	1,109	3,923
Continental Western Europe:												
Austria	47	191	238	56	273	329	61	261	322	61	276	337
Belgium-Luxembourg (and Belgian Congo)	865	224	1,089	896	148	1,044	1,048	153	1,201	1,097	167	1,264
France (and dependencies)	596*	453	1,049*	596*	732	1,328*	881*	1,105	1,986*	881*	778	1,659*
West Germany	326	899	1,225	626	1,373	1,999	920	1,454	2,374	1,294	1,805	3,099
Italy	346	466	812	346	579	925	352	785	1,137	360	925	1,285
Netherlands (and Netherlands West Indies)	761	294	1,055	820	298	1,118	889	211	1,100	878	238	1,116
Sweden	218	117	335	265	141	406	276	153	429	263	190	453
Switzerland	1,459	674	2,133	1,513	672	2,185	1,597	757	2,354	1,634	812	2,446
Other†	1,293	844	2,137	1,452	841	2,293	1,540	797	2,337	1,551	923	2,474
Total	5,911	4,162	10,073	6,570	5,057	11,627	7,564	5,676	13,240	8,019	6,114	14,133
Eastern Europe‡	290	16	306	290	19	309	289	19	308	275	12	287
Latin America:§												
Argentina	371	130	501	371	160	531	371	138	509	258	141	399
Brazil	321	102	423	322	120	442	323	143	466	323	259	582
Mexico	158	183	341	62	329	391	142	414	556	166	396	562
Venezuela	373	222	595	403	194	597	403	265	668	403	405	808
Other	696	1,061	1,757	677	1,035	1,712	614	976	1,590	585	1,034	1,619
Total	1,919	1,698	3,617	1,835	1,838	3,673	1,853	1,936	3,789	1,735	2,235	3,970
Asia:§												
Indonesia	145	39	184	81	100	181	81	174	255	46	158	204
Japan	123	828	951	126	725	851	128	901	1,029	128	1,075	1,203
Philippines	9	295	304	9	257	266	16	252	268	20	278	298
Other	388	475	863	416	510	926	427	645	1,072	427	679	1,106
Total	665	1,637	2,302	632	1,592	2,224	652	1,972	2,624	621	2,190	2,811
All other	178	106	284	178	111	289	178	147	325	178	130	308
Grand total	12,888	10,019	22,907	13,808	11,153	24,961	14,437	11,722	26,159	14,754	13,227	27,981

Note: In this table, "gold" covers reported and estimated gold reserves of central banks and governments (excluding the USSR) and of the Bank for International Settlements and the European Payments Union (but not other international institutions). "Dollar holdings" consist primarily of sight and time deposits, short-term United States securities, and bankers' acceptances, as reported by United States banks, and comprise the official and private holdings in the United States of foreigners, including the USSR, the Bank for International Settlements, and the European Payments Union (but not other international institutions). In addition, foreigners held longer-term United States Government bonds and notes with an original maturity of more than one year, which are not included in the table; these are estimated to have amounted to 1,154 million in September 1956, 1,308 million in December 1955, 746 million in December 1954, and 806 million in December 1953.

p Preliminary.

* For France, only the gold reserves of the Bank of France are included; beginning with December 1955, data include certain previously unreported French gold reserves, which are included for earlier dates under "Continental Western Europe—Other".

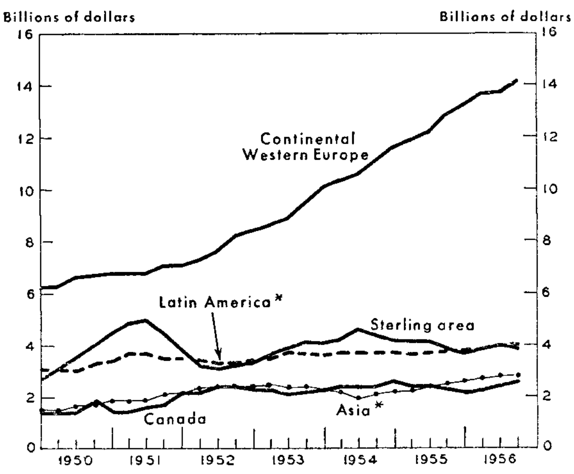
† Including principally the gold and dollar holdings of the Bank for International Settlements, of the European Payments Union, and of Denmark, Finland, Greece, Norway, Portugal and its dependencies, Spain and its dependencies, Turkey, and Yugoslavia, and also estimates of unreported gold reserves, as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

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

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

official dollar assets held by the United Kingdom as the sterling area's banker, which rose during January-July by 285 million, declined 440 million during August-November, to 1,965 million, despite the receipt of 177 million from the sale of a British oil company to a United States firm. Behind this large loss were pressures on sterling which were psychological rather than commercial in character. Actually, Britain expanded its exports by nearly 10 per cent in 1956 while maintaining imports relatively stable, with the result that it had a balance-of-payments surplus on current account; the overseas sterling countries as a whole also seemed in approximate balance with nonsterling countries. The drain on reserves thus appeared to be attributable mainly to the so-called "leads and lags" in the timing of commercial payments and to other speculative pressures, more particularly after the outbreak of the Middle East crisis in July; such factors are, of course, potentially self-reversing. At the beginning of December, the IMF, holding Britain's trading position to be fundamentally sound, and also noting the importance of sterling as a world-wide reserve and trading currency, granted support to sterling by allowing Britain to draw immediately up to 561 million dollars of its 1.3 billion dollar IMF quota and by arranging for a stand-by credit under which Britain may draw within the next twelve months on the remaining 739 million of the quota. Toward the year end, the United States Export-Import Bank extended to the United Kingdom a line of credit of 500 million dollars for the purchase of United States products, against collateral of American securities that had been held by the British Exchange Equalization Account since 1940. As a result of Britain's drawing on the IMF, its official gold and dollar holdings rose by 168 million in December despite losses incurred in supporting sterling before the announcement of IMF assistance, as well as the year-end payments on British postwar indebtedness to the United States and Canada (the interest itself was paid into special accounts pending consideration of the waiver of interest sought by the British Government).

GOLD AND DOLLAR HOLDINGS OF SELECTED COUNTRIES AND AREAS



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

Canada added significantly to its total gold and United States dollar holdings as its rising foreign trade deficit was more than offset by an inflow of capital; the United States-Canadian dollar exchange rate, which had stood only slightly above par during the earlier part of the year, gradually rose to U.S.$1.04 at the year end. Aggregate holdings of Latin American countries rose somewhat, but most of the increase went to Brazil and Venezuela; Argentine and Colombian holdings declined. The increase in the gold and dollar holdings of nonsterling Asian countries was mainly accounted for by Japan and the Philippines.

Factors in the Growth of Foreign Reserves

About one fifth of last year's rise in foreign gold and short-term dollar holdings was accounted for, as already noted, by accruals of gold from new production and from other sources outside the United States. The remainder originated to an important extent in transactions with the United States, which as in earlier years were the largest single factor affecting foreign gold and dollar reserves; in part, last year's over-all increase also reflected transactions with international financial institutions.

During the first three quarters of the year, according to preliminary data, foreign countries received 19.0 billion dollars as the result of United States purchases of foreign goods and services, economic aid and other outlays by the United States Government, and a net capital outflow on both United States Government and private account; they also obtained, as already noted, an additional 80 million through net gold sales to the United States Treasury. On the other hand, purchases by foreign countries of United States goods and services amounted to 16.9 billion. Foreign countries thus had a net recorded surplus of some 2.2 billion dollars in their relations with the United States, which they utilized mainly to build up their dollar holdings, purchase United States corporate securities, and increase their direct investments in the United States.

As in 1955, United States exports rose strikingly, hand in hand with the further expansion of economic activity throughout much of the world. Merchandise exports (excluding shipments under military grants) increased from 10.4 billion in January-September 1955 to a record level of 12.4 billion for the same months of 1956, or by nearly 20 per cent. United States imports also rose to a record level last year—to 9.6 billion in January-September 1956 from 8.4 billion a year earlier—under the impact of the high level of domestic economic activity. The rise in imports, however, having been less than in exports, the United States merchandise trade surplus rose from 2 billion in January-September 1955 to 2.8 billion during the corresponding period of 1956.

Income derived from United States investments abroad and other current receipts from abroad also increased substantially last year, but were more than offset by record tourist and transport expenditures, by enlarged United States Government outlays on military construction in foreign countries, and by the expenditures of the United States defense forces overseas. These United States Government outlays continued to be an important source of dollar income to a number of foreign countries; at 2.2 billion dollars in January-September 1956, they were equivalent to over one fifth of the dollars paid by the United States for all its merchandise imports. For Western European countries alone they were equal to over 60 per cent of United States imports from these countries.

United States economic and other aid grants were nearly 250 million dollars lower in January-September 1956 than a year earlier, primarily as a result of the discontinuing of new allocations of economic aid to Western European countries other than Greece, Spain, and Yugoslavia. On the other hand, the outflow of capital on Government account increased by 223 million—to a large extent because of shipments abroad of surplus agricultural commodities against local currency payments.

A particularly important factor in last year's balance-of-payments developments was the outflow of private capital —1.9 billion dollars in January-September 1956, as against 0.7 billion a year earlier. Among the more sizable individual transactions were the previously noted purchase of a British oil company by a United States firm, the purchase of oil concessions in Venezuela, and investment in a Canadian pipeline. There also was a continued outflow of portfolio capital, chiefly in the form of Canadian bond issues.

The gold and dollar holdings of foreign countries also increased because of receipts of dollars from the IMF and the International Bank for Reconstruction and Development. The British drawing on the IMF has already been mentioned; among other countries that drew on the IMF last year were Indonesia (55 million dollars), Iran (17.5 million), and Burma (15 million). The International Bank disbursed 84 million dollars (net) on loans during the year ended September 1956. On the other hand, foreign countries made payments to the IMF, both for the payment of their subscriptions, as by Argentina, and for the repurchase of their currencies, as by France and India. Foreign countries also made payments in dollars as part of their subscription to the newly established International Finance Corporation. Total payments to international institutions, however, were much smaller than the receipts of dollars from these institutions.

The international reserves of individual countries are also significantly affected by gold and dollar transfers among themselves. West Germany thus received 750 million dollars as the result of its monthly European Payments Union settlements, and Belgium 159 million; on the other hand, France and the United Kingdom made substantial payments to the EPU (485 million and 202 million). Furthermore, dollar payments are more frequently made than in earlier years in settlements among foreign countries in respect of nondollar trade.

The Pattern of Trade and Payments Liberalization

Despite renewed or increased balance-of-payments difficulties of certain countries, the freer pattern of trade and payments that had emerged in recent years was largely maintained in 1956. In fact, further advances were made in this direction—at least prior to the outbreak of the Middle Eastern crisis in midyear. In the latter part of the year, it is true, there were scattered instances of some tightening of direct controls over trade and payments; but most of the foreign countries concerned endeavored to cope with the deterioration in their balances of payments by monetary and fiscal measures, and did not relapse into the more stringent direct controls that had characterized the earlier postwar years.

In Western Europe, more particularly, further advances were made last year by a number of countries in relaxing their remaining discriminatory controls over dollar imports. West Germany, Italy, and Sweden significantly increased their earlier liberalization of dollar imports, while Norway took its first postwar step toward freeing dollar trade. As a result of these and earlier liberalization measures, some 90 per cent of dollar imports have been freed in Belgium, Germany, Norway, and Switzerland, and over 50 per cent in Denmark, Sweden, Portugal, and the United Kingdom. The extent of the dollar liberalization achieved in Western Europe has contributed to the expansion of United States exports to that area during recent years. In Latin America and in other foreign countries, there has been relatively less discrimination against dollar imports.

Western European countries during 1956 also liberalized further their intra-European trade; in most of these countries about 90 per cent of the imports from other countries participating in the Organization for European Economic Cooperation and their overseas territories have now been freed. During the year, six Continental Western European countries studied the formation of a "common market", providing for the progressive elimination of all tariffs among the participants and for the establishment of a common tariff toward other countries; the United Kingdom announced that it was considering limited association, in a "free trade area", with the "common market" countries and other countries of Western Europe. The United States has indicated that it welcomes such arrangements to strengthen the European economies, provided they lead toward the expansion of trade not only among the participants but also with other countries.

Concluding Remarks

The gold and dollar reserve positions of foreign countries thus have been characterized during the recent past by two major developments. Aggregate gold and dollar holdings have continued to rise at a pace commensurate with the general expansion of international trade as well as of the foreign trade of the United States; at the same time, however, the additions to gold and dollar reserves have gone to a rather small number of countries, last year principally to West Germany, Canada, and Venezuela. Many other countries, it is true, have also added somewhat to their reserves; but others, more particularly the United Kingdom, France, the Netherlands, as well as a number of Latin American and nonsterling Asian countries, have lost reserves. Recent developments in international reserve positions have thus been at the same time encouraging and disappointing.

They have been encouraging in that the rebuilding in recent years of gold and dollar holdings of many countries is a healthy sign of a gradual strengthening of their balances of payments—the strengthening being itself the outcome of growing agricultural, mineral, and industrial output and of a much better balance in their domestic economies than during the earlier postwar years. The United States has contributed to the economic growth of other countries, and to the reinforcement of their balances of payments and international reserves, by steadily increasing its imports and other current expenditures abroad as well as its exports of private capital. United States Government outlays on account of "defense support" and other aid programs, as well as military expenditures abroad, have also been important. Apart from these United States Government outlays, however, all transactions through which foreign countries are acquiring dollars rest on the firm foundation of growing United States trade and private investment abroad. The further build-up of gold and foreign exchange reserves by foreign countries is an essential prerequisite for freer and less discriminatory trade and payments, which is one of the main objectives of United States international economic and financial policies. In fact, many foreign countries have already reduced their trade and payments restrictions in order to secure more dollar goods, and this freeing of imports can be expected to continue, now that gold and dollar reserves in many countries have been raised to more adequate levels and there is less need of maintaining direct controls over imports for balance-of-payments considerations.

Many countries, however, have experienced renewed or increased balance-of-payments difficulties, which in some cases have brought about sizable gold and dollar losses. The very fact that these strains and stresses are not world-wide, and furthermore have greatly varied in scope and character as between countries, shows that they are attributable primarily to differences in the underlying economic conditions in the countries concerned, notably differences in the extent of the inflationary rise in demand, as well as price and cost disparities. Psychological and other noneconomic factors are also important, since bankers and traders may allow their working balances in some currency to run down for fear of exchange depreciation or on the contrary may increase them in the expectation of an exchange appreciation. Last year, sterling and the German mark were particularly affected by such shifting expectations.

Since payments difficulties have thus been confined to certain individual countries, they can be dealt with primarily by the countries concerned, on their own initiative and responsibility. Many countries, indeed, are currently endeavoring to curb inflationary pressures and restore a sustainable balance in their trade and payments. The British Government has made clear that it intends to keep the rate of the pound sterling at its existing parity and that it does not propose to reimpose any of the controls of foreign trade and payments that it had previously removed. At the same time, it is maintaining monetary, fiscal, and other policies designed to restrain demand and moderate the rise in costs and prices, in an effort to safeguard exports and strengthen confidence in sterling. Other countries, too, are endeavoring to restrain excessive demand, with principal emphasis on monetary and fiscal policies.[3] These efforts, together with the greatly increased strength of many economies over only a few years ago, give grounds for hope that the countries that have recently been experiencing difficulties will succeed in restoring a better economic balance within a framework of expanding world trade.

[3] For a discussion of recent monetary conditions and policies in foreign countries, see "A Year of Monetary Restraint Abroad", in the *Monthly Review*, November 1956.

DEPARTMENT STORE TRADE

Shoppers spent more money in the nation's department stores in 1956 than in any previous year. They purchased more goods than they ever had before. They also purchased better quality and higher priced merchandise, and they bought more on time. However, not all parts of the country shared to the same degree in the sales increases. In most postwar years, the principal increases in department store sales occurred in the southern and southwestern parts of the country, the Atlanta, Dallas, and Richmond Federal Reserve Districts, where industry, population, and incomes were expanding rapidly. But in 1956 one of the largest relative increases was in the New York District. Department store sales here rose 6 per cent last year, compared with 4 per cent for the country as a whole. In fact, the 1956 increase was the largest sales gain in this District since the early postwar period when the removal of wartime restraints on the production of consumer goods gave rise to a heavy upsurge in sales.

Despite last year's favorable showing, however, the level of department store sales in this District in 1956 still showed the smallest improvement over the 1947-49 average of any Federal Reserve District. The index of sales for the country as a whole for 1956 was 125 on the 1947-49 base; in this District, it was 113. Thus, while Second District department stores were able to catch up somewhat in 1956, in terms of postwar growth they still lagged far behind stores in other parts of the country.

Within the Second District, there were also wide differences in the rate of sales growth in 1956. Although all areas of the District showed sales gains in 1956, the greatest increases occurred in the suburban sections of the metropolitan areas of New York-Northeastern New Jersey and Buffalo. Department stores in eastern Long Island and in Westchester County were major gainers, with an aggregate sales increase of 36 per cent, and the stores on the outskirts of the cities of Buffalo and Newark showed gains of 16 per cent and 10 per cent, respectively. The smallest increases were generally shown by the downtown areas or the areas within city limits.

Binghamton, and New York-Northeastern New Jersey, with sales increases of 9 and 7 per cent, respectively, were the only metropolitan areas to show a rise in 1956 better than the average for the District. Syracuse, Buffalo, and Rochester metropolitan areas, where the steel strike last July probably had an important impact upon consumer incomes, showed increases of only 2 to 4 per cent, as Table I indicates. Since 1947, however, the metropolitan areas of Syracuse, Buffalo, and Rochester have shown the largest increases in the District. In these areas, where incomes depend to a large extent upon activity in durable goods manufacturing, the expansion in sales over the past nine years has about equaled the national average. The level of sales in these three metropolitan areas in 1956 was 124 or 125 per cent of their 1947-49 average. In contrast, 1956 sales in the New York-Northeastern New Jersey metropolitan area, which accounts for roughly 70 per cent of the District's sales but which produces a relatively greater proportion of consumers' nondurable goods and services, were only 110 per cent of the 1947-49 average, despite the rapid suburban growth.

Of the nine major Second District cities (as contrasted with metropolitan areas) for which department store sales data are available, the most substantial increase in sales in 1956, 11 per cent, occurred in Albany. The increases in department store sales in the cities of Poughkeepsie and Newark were equal to or just below the District average. But all of the other cities for which separate data are available reported below-average increases of 1 to 4 per cent.

An analysis of the District sales by departmental groupings shows that every major group shared in the past year's sales gains. Nevertheless, the increase in main store sales, which usually consist of higher priced, high quality articles, was more than twice that of basement store sales. Moreover, this tendency of the public to buy higher priced goods was evident within the components of the main store itself. The largest sales increase in 1956 occurred in homefurnishings which include a heavy proportion of "big ticket" items, such as furniture, rugs, television and radio sets, refrigerators, and washers. An above-average sales gain also was registered in women's and misses' ready-to-wear apparel. The smallest yearly increases, on the other hand, were shown in departments selling piece goods and household textiles and women's and misses' ready-to-wear accessories, which, relatively, are lower priced merchandise.

The dollar amount of inventories on hand and of new orders rose to new highs during 1956 in both the Second District and the nation as a whole, but the increases generally paralleled those of sales, so that the ratio of both stocks and new orders to sales showed little change in either the District or country from 1955 to 1956. Within the District the ratio of stocks to sales also showed little change either geographically or for the major categories of merchandise.

Credit Sales

Consumers' use of credit in buying department store merchandise continued to rise in this District in 1956. The proportion of total sales made on time has been expanding steadily since the end of the war, although the year-to-year changes in the share of total sales made for cash and for credit generally have been small. Since 1952, credit sales have constituted a larger proportion of total sales than they did in any prewar year. In 1956, cash sales accounted for 54 per cent of total sales, compared with 55 per cent in 1955, while credit sales represented the balance—46 per cent of the total in 1956 and 45 per cent in 1955. The comparable proportions in 1941 were 60 per cent and 40 per cent, respectively, while the 1944 and 1945 wartime

Table I
Annual Department Store Sales for the United States and Selected Metropolitan Areas and Cities in the Second Federal Reserve District, 1955-56
(Based on retail dollar amounts)

Area	Percentage change		Indexes (1947-49 = 100)	
	1955 from 1954	1956 from 1955	1955	1956
United States	+ 7	+ 4	120r	125p
Second District	+ 4	+ 6*	107	113*
Metropolitan areas:				
New York-Northeastern New Jersey	+ 4	+ 7*	104	110*
Syracuse	+ 5	+ 2	121	124
Binghamton	+ 3	+ 9	108	118
Buffalo	+ 3	+ 4	120	124
Rochester	+ 2	+ 4	119	125
Albany-Schenectady-Troy	+ 3	+ 6	106	113
Utica-Rome	+ 3	+ 6	106	112
Cities:				
New York	0	n.a.	92	n.a.
Newark	0	+ 5	95	99r
Bridgeport	+ 8	+ 2	125r	126r
Poughkeepsie	+ 7	+ 6	120	127
Albany	+ 7	+11	n.a.	n.a.
Schenectady	− 1	+ 1	109	110
Utica	+ 5	+ 4	n.a.	n.a.
Buffalo	+ 2	+ 3	109	112
Niagara Falls	+ 3	+ 1	131	132

n.a. Not available. r Revised.
p Preliminary. * Partly estimated.

peaks for cash sales were 72 per cent and the corresponding wartime lows for credit sales were 28 per cent. In the United States as a whole, the share of total sales made on credit generally has been somewhat larger than in the Second District but the trend over time of cash versus credit sales has been similar to that occurring locally.

Second District credit sales, as shown in Table II, are segregated into charge account and instalment sales and it is noteworthy that virtually all the increase in credit sales, compared with prewar 1941, has occurred in the instalment category; charge account sales still constitute the bulk of credit sales, and while they have increased in the postwar period, they have exceeded their prewar 1941 importance by only a minor extent. Instalment sales, however, have risen to 14 per cent of total sales in 1956 from 9 per cent in 1941, or by more than 50 per cent.

The growth in instalment sales in the past has generally been linked to sales of consumer durable goods "big ticket" items, such as major household appliances, television and radio sets, furniture and bedding, and domestic floor covering. However, in recent years department stores have promoted greater use of instalment arrangements such as "revolving credit" and "budget" plans to stimulate consumer purchases. These payment arrangements provide for an interest or service charge on the unpaid balance, and are used to purchase all types of department store merchandise, including "soft goods" and low-priced articles. Consequently, even when sales of consumer durable goods have temporarily declined during the postwar period, the instalment segment of total sales has either remained unchanged or has shown a further rise.

Table II
Department Store Sales by Type of Transaction for Selected Years Second Federal Reserve District, 1941-56
(Percentage of total sales)

Year	Cash sales	Credit sales		
		Charge account	Instalment	Total
1941	60	31	9	40
1945	72	23	5	28
1950	61	28	11	39
1955	55	32	13	45
1956	54	32	14	46

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1956			1955	Percentage change	
		December	November	October	December	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	147*p*	146	146	144	+ 1	+ 2
Electric power output*	1947-49 = 100	220	218	216	207	+ 1	+ 6
Ton-miles of railway freight*	1947-49 = 100	—	104*p*	107	105	− 3	#
Manufacturers' sales*	billions of $	28.7*p*	28.7	28.3	27.3	#	+ 5
Manufacturers' inventories*	billions of $	51.4*p*	51.3	50.8	45.9	#	+12
Manufacturers' new orders, total*	billions of $	28.8*p*	29.4	28.9	29.3	− 2	− 2
Manufacturers' new orders, durable goods*	billions of $	14.4*p*	15.1	14.6	15.6	− 5	− 8
Retail sales*	billions of $	—	16.4*p*	16.1	15.8	+ 2	+ 4
Residential construction contracts*	1947-49 = 100	—	197	230	273	−14	−22
Nonresidential construction contracts*	1947-49 = 100	—	272	260	319	+ 5	− 4
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	92.9	92.7	90.7	89.7	#	+ 4
Wholesale prices†	1947-49 = 100	116.2*p*	115.9	115.6	111.3	#	+ 4
Consumer prices†	1947-49 = 100	118.0	117.8	117.7	114.7	#	+ 3
Personal income (annual rate)*	billions of $	—	333.6	332.5	317.5	#	+ 6
Composite index of wages and salaries*	1947-49 = 100	—	151*p*	151	145	#	+ 4
Nonagricultural employment*	thousands	51,988*p*	51,943*p*	51,902	50,948	#	+ 2
Manufacturing employment*	thousands	17,078*p*	17,057*p*	17,026	16,975	#	+ 1
Average hours worked per week, manufacturing†	hours	41.0*p*	40.6	40.7	41.3	+ 1	− 1
Unemployment	thousands	2,479	2,463	1,909	2,427	+ 1	+ 2
Banking and finance							
Total investments of all commercial banks	millions of $	74,450*p*	74,360*p*	73,710*p*	78,280	#	− 5
Total loans of all commercial banks	millions of $	91,240*p*	89,580*p*	88,830*p*	82,601	+ 2	+10
Total demand deposits adjusted	millions of $	110,650*p*	108,210*p*	107,450*p*	109,914	+ 2	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,970*p*	30,859	30,741	30,473	#	+ 2
Bank debits (337 centers)*	millions of $	76,576	78,794	78,658	72,755	− 3	+ 5
Velocity of demand deposits (337 centers)*	1947-49 = 100	138.1*p*	140.0	138.1	128.1	− 1	+ 8
Consumer instalment credit outstanding†	millions of $	31,552	31,024	30,811	29,020	+ 2	+ 9
United States Government finance (other than borrowing)							
Cash income	millions of $	5,899	6,332	3,434	5,353	− 7	+10
Cash outgo	millions of $	7,448	6,576	6,409	6,264	+13	+19
National defense expenditures	millions of $	3,448	3,450	3,892	3,312	#	+ 4
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	155	155	150	153	#	+ 1
Residential construction contracts*	1947-49 = 100	—	141*p*	160	195	−12	−18
Nonresidential construction contracts*	1947-49 = 100	—	305*p*	268	302	+14	+11
Consumer prices (New York City)†	1947-49 = 100	115.5	115.6	115.7	112.0	#	+ 3
Nonagricultural employment*¶	thousands	7,737.4*p*	7,734.1	7,708.1	7,700.7	#	#
Manufacturing employment*¶	thousands	2,670.2*p*	2,654.2	2,651.6	2,681.0	+ 1	#
Bank debits (New York City)*	millions of $	65,674	72,031	70,093	68,667	− 9	− 4
Bank debits (Second District excluding New York City)*	millions of $	5,070	5,115	5,128	4,773	− 1	+ 6
Velocity of demand deposits (New York City)*	1947-49 = 100	174.8	186.3	177.9	173.3	− 6	+ 1
Department store sales*	1947-49 = 100	116	120	112	110	− 3	+ 5
Department store stocks*	1947-49 = 100	132	131	129	121	+ 1	+ 9

Note: Latest data available as of noon, February 4, 1957.

p Preliminary. *r* Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
# Change of less than 0.5 per cent.
¶ Revised series. Back data available from 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.