

# MONTHLY REVIEW

## *Of Credit and Business Conditions*

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### MONEY MARKET IN APRIL

The money market remained tight in April, with member bank reserve positions heavily dependent upon borrowings from the Federal Reserve over the three weeks ended April 17. Although member bank borrowings declined in the final week covered by this *Review*, the rate on Federal funds remained at the 3 per cent level that had prevailed throughout the month. Over the month as a whole, prices of most Government securities were lower; in general, the longer the maturity the greater the decline. Treasury bill rates were about the same at the end of the month as at the beginning (although rates had generally risen until after the April 15 tax date), while prices of the 3 per cent bonds of 1995 were off more than 2½ points. These and other developments in member bank reserve positions, in the Government securities market, in other securities markets, and in the extension of member bank credit are described more fully below.

#### MEMBER BANK RESERVE POSITIONS

The tighter reserve positions during the four weeks ended April 24 were primarily attributable to the combined impact of a sharp advance in required reserves, a substantial outflow of currency before Easter, and a rise in Treasury balances at the Reserve Banks. The reserve drain was partially offset by an increase in Federal Reserve holdings of Government securities. System outright purchases of Treasury bills were confined to the week ended April 17, but funds were also supplied from time to time through the acquisition of short-term Treasury obligations under repurchase agreements. Holdings of Government securities under such contracts reached a daily average peak of 222 million dollars in the week ended April 10, but by the end of the period the outstanding balance had been reduced to zero.

In the first statement week of the month, the reserve pressure was heavily concentrated in the Chicago District, while banks in some other parts of the country actually acquired reserves on balance. This unevenness grew out of the April 1 tax on personal property in Cook County.

In preparation for this assessment, member banks in the Chicago District borrowed heavily from the Reserve Bank while acquiring short-term securities to be sold to depositors who wished to switch into United States Government securities not subject to the local tax assessment. Thus, some funds flowed out of the area as payment was made for these securities, and returned to the District after the tax date, when the securities were liquidated or matured.

This vast interregional flow of reserves tended for a time to obscure the underlying tightening of reserve positions in the banking system as a whole. However, while available reserves were being shifted among regions, they were also being reduced in amount, particularly as the result of the large increase in required reserves at the end of March. This rise in required reserves stemmed almost entirely from the payment on March 28 for 3.3 billion dollars of newly issued Treasury 3½ per cent notes and 3¾ per cent certificates. Commercial banks, which were permitted to credit Tax and Loan Accounts for their own as well as their customers' subscriptions, were allotted the major share of the new notes and certificates, with the result that required reserves of member banks were almost 350 million dollars higher on April 3 than a week earlier. The reserves absorbed in this fashion around the turn of the month were only partially restored to the banking system during the remainder of the month.

Similarly, the absorption of reserves as the result of larger Treasury balances at the Reserve Banks also de-

#### CONTENTS

Money Market in April .....	53
International Monetary Developments .....	56
Sterling After Suez .....	58
The Location of Business Customers of Second District Banks .....	64
Selected Economic Indicators .....	68

veloped early in the period. The expansion in Treasury deposits represented a restoration to more normal working levels, following sharp reductions in mid-March as a result of quarterly interest payments and redemption of various maturing Treasury securities. The subsequent influx of personal income tax payments in April created no special problems in the management of Treasury balances. Unlike the corporate returns filed in March, these payments are made with a large number of checks of relatively small dollar amounts, thus requiring a longer time for processing at Internal Revenue offices. As a result, the transfer of funds into Treasury accounts at Reserve Banks proceeded very gradually from the end of March to April 22 and, on several occasions, was more than offset by expenditures apparently associated with defense activities. In fact, a number of special "calls" were made on Class C depository banks during the month to prevent Treasury balances at the Reserve Banks from being drawn down again.

The expansion of currency in circulation, which began late in March, continued through the middle of April, with a heavy return flow beginning after Easter. The outflow of currency prior to the holiday was somewhat more pronounced than usual, perhaps associated with the fairly brisk pace of retail sales reported for the period, and this factor served, on balance, as a drain on reserves over the four weeks ended April 24.

The advance in float in the middle of the period was surprisingly moderate, despite the curtailed operation of the postal service just at the time of the largest mail volume of income tax checks. Part of the explanation may lie in the fact that Post Office departments at several Federal Reserve Banks remained open on Saturday, April 13, when regular mail deliveries were suspended. In addition, some commercial banks were reported to have transmitted a fairly substantial volume of checks by special

Table 1  
Changes in Factors Tending to Increase or Decrease Member  
Bank Reserves, April 1957  
(In millions of dollars; (+) denotes increase,  
(-) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	Apr. 3	Apr. 10	Apr. 17	Apr. 24	
<b>Operating transactions</b>					
Treasury operations*	- 157	+ 127	- 84	+ 42	- 72
Federal Reserve float	- 90	+ 4	+ 86	+ 517	+ 517
Currency in circulation	- 86	- 67	- 26	+ 71	- 108
Gold and foreign account	+ 41	- 45	+ 2	- 42	- 44
Other deposits, etc.	- 137	- 29	+ 7	- 153	- 312
Total	- 428	- 11	- 15	+ 436	- 18
<b>Direct Federal Reserve credit transactions</b>					
Government securities:					
Direct market purchases or sales	- 11	-	+ 106	+ 23	+ 118
Held under repurchase agreements	+ 106	+ 73	- 86	- 68	+ 25
Loans, discounts, and advances:					
Member bank borrowings	+ 230	+ 156	+ 14	- 297	+ 103
Other	-	-	-	-	-
Bankers' acceptances:					
Bought outright	-	+ 2	-	-	+ 2
Under repurchase agreements	-	+ 1	-	- 1	-
Total	+ 325	+ 231	+ 34	- 342	+ 248
<b>Total reserves</b>	- 103	+ 220	+ 19	+ 94	+ 230
<b>Effect of change in required reserves†</b>	- 149	- 15	- 18	- 74	- 256
<b>Excess reserves†</b>	- 252	+ 205	+ 1	+ 20	- 26
<b>Daily average level of member bank:</b>					
Borrowings from Reserve Banks	1,049	1,205	1,219	922	1,099‡
Excess reserves‡	342	547	548	568	501‡

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

\* Includes changes in Treasury currency and cash.

† These figures are estimated.

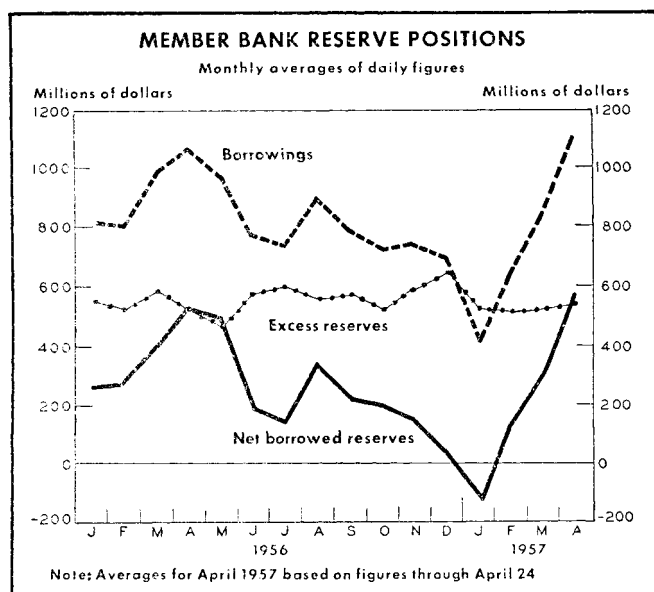
‡ Average for four weeks ended April 24.

delivery service, which continued uninterrupted. In the last statement week of the month, however, a large expansion of float supplied reserves to the banking system. Railway Express strikes in several major cities interfered with normal check deliveries, with the result that float expanded in a period when it would normally have contracted substantially. This enabled the member banks to reduce their borrowings from the Reserve Banks to the lowest level since the end of March, and net borrowed reserves declined from 671 million dollars to 354 million.

#### GOVERNMENT SECURITIES MARKET

During this same period there was a further decline in prices throughout the list of Government bonds and notes. Prices declined over much of the period in response to current and prospective large demands for capital funds, expectations regarding Treasury debt management decisions to be made in the near future, and continued restrictive credit policies.

Attention was focused increasingly on the prospective refunding of 4.2 billion dollars of 1½ per cent Treasury notes due to mature May 15. In the prevailing atmosphere, the market apparently felt that a further rise in Treasury issuing rates might be necessary to encourage a successful exchange, which served to make prices on outstanding issues somewhat vulnerable. Market opinion also appeared to be influenced by the possibility that a new long-term marketable Treasury bond might soon be



issued in exchange for the 1.8 billion dollars of Series F and G Savings bonds due to mature over the balance of 1957. The Treasury announced on April 9 that no action would be taken on this matter during April, but the apparent likelihood of an exchange offering in the near future continued to create uncertainties in the long-term market. In addition, the passage of legislation by Congress enabled the Treasury to announce on April 20 that the interest rate on Series E and H Savings bonds purchased on or after February 1 would be increased to  $3\frac{1}{4}$  per cent from 3 per cent.

Although prices rallied somewhat toward the end of the month, most issues maturing between 1959 and 1972 fell by  $\frac{1}{4}$  of a point to  $1\frac{3}{4}$  points over the month as a whole. The  $3\frac{1}{4}$ 's of 1978-83 and the 3's of 1995 fell somewhat further, being more closely competitive with the possible long-term Treasury offering currently being discussed as well as with new corporate and municipal obligations being issued at higher yields.

Treasury bill yields advanced early in April under the influence of selling by Chicago banks and investors after the April 1 Cook County tax date. This had little effect on the longer maturities, however, which came under pressure only as a sizable volume of selling was begun by commercial banks adjusting to the more stringent reserve conditions and as corporate demand tapered off. After the middle of the month, rates drifted down again as non-bank and foreign demand expanded and as some volume of longer term money was diverted to the bill market pending clarification of the rate outlook in the bond markets. In illustration of the increased demand—which was perhaps stimulated in part by higher rate levels—the total tender for new bills in the weekly auction on April 15 was the largest in postwar history. Average issue rates moved up during the month, from 3.050 per cent in the auction on April 1 to 3.154 per cent on April 8, and then to 3.194 per cent on April 15. Thereafter, the average yield fell back to 3.054 per cent on April 22 and 3.039 per cent on April 29.

In the wake of higher bill yields early in the month, and an increased supply of acceptances, bankers' acceptance dealers increased their rates on April 11 by  $\frac{1}{8}$  per cent for acceptances of all maturities. Quotations on 90-day acceptances, for example, moved up to  $3\frac{3}{8}$  per cent bid and  $3\frac{1}{4}$  per cent offered.

#### OTHER SECURITIES MARKETS

An increasingly heavy tone developed in the corporate and particularly in the municipal bond market in April. Only moderate changes were registered in average price quotations for seasoned issues, but a fair amount of trading was reported to have taken place at substantially higher yields, and the distribution of new issues to investors slowed down markedly.

Pressure was greatest in the municipal bond market. The total volume of new public offerings was estimated at 710 million dollars, about 70 per cent greater than in March. In addition, as in the Government market, further uncertainty was generated by the prospective Treasury refunding operations. Most new highway revenue issues met with a poor reception, although it was reportedly technical considerations rather than market conditions that led to the postponement of one major turnpike issue during the month. As the month progressed, the municipal market approached a point of congestion, and dealer-advertised inventories rose to the highest point in almost a year. However, this situation improved in the last week of the month, and new municipal bond issues encountered a good reception at the higher yield levels.

In the corporate market, the buoyant tone introduced late in March by the initial response to a 250 million dollar issue of utility bonds carried over into the early part of April. By the middle of the month, however, the market had weakened and the new utility bonds were trading below the issue price. The volume of new offerings—250 million—was smaller than in the several preceding months, but the adverse influences present in other markets also had a depressing effect in this area.

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. 26, 1956 to Apr. 17, 1957
	Mar. 27	Apr. 3	Apr. 10	Apr. 17	
<b>Assets</b>					
Loans and investments:					
Loans:					
Commercial and industrial loans.....	- 137	- 106	+ 55	+ 165	+ 278
Agricultural loans.....	+ 1	- 15	- 1	+ 8	- 44
Security loans.....	- 154	+ 288	- 115	+ 61	- 366
Real estate loans.....	- 6	- 49	- 1	+ 9	- 153
All other loans (largely consumer).....	+ 10	- 1	+ 6	+ 122	- 66
Total loans adjusted*.....	- 284	+ 113	- 56	+ 363	- 526
Investments:					
U. S. Government securities:					
Treasury bills.....	- 446	- 74	- 131	+ 34	- 790
Other.....	- 380	+ 1,545	- 199	- 81	+ 394
Total.....	- 826	+ 1,471	- 330	- 47	- 396
Other securities.....	- 33	+ 65	+ 63	+ 22	+ 265
Total investments.....	- 859	+ 1,536	- 267	- 25	- 131
Total loans and investments adjusted*.....	- 1,143	+ 1,649	- 323	+ 338	- 657
Loans to banks.....	+ 53	- 379	+ 1	+ 75	- 159
Loans adjusted* and "other" securities.....	- 317	+ 178	+ 7	+ 385	- 261
<b>Liabilities</b>					
Demand deposits adjusted.....	- 232	- 354	+ 470	+ 1,000	- 1,626
Time deposits except Government.....	+ 47	+ 90	+ 15	- 75	+ 1,011
U. S. Government deposits.....	- 759	+ 1,643	- 1,186	- 468	- 89
Interbank demand deposits:					
Domestic.....	- 138	+ 402	- 128	+ 265	- 543
Foreign.....	- 76	- 1	+ 32	+ 33	- 147

\* 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.

## MEMBER BANK CREDIT

Total loans and investments of the weekly reporting member banks expanded 521 million dollars over the four-week period ended April 17, as loans rose 136 million dollars and investment holdings increased 385 million dollars.

The loan increase was concentrated in the "all other loans" category and mainly represented the purchase of consumer instalment paper by Chicago banks in the week ended April 17. Security loans also increased during the period, primarily as the result of a 288 million dollar expansion in the week ended April 3. For the most part this rise reflected increased broker and dealer borrowings associated with a large public utility bond issue and with the recent flotation of Treasury certificates and notes, paid for on March 28.

Business loans at the weekly reporting banks, on the other hand, declined 23 million dollars over the four weeks, as a decline of 243 million during the first two weeks more than offset a 220 million dollar rise in the two subsequent weeks. Bank loans extended to metals and metal products firms and to wholesale and retail trade concerns increased over the period, but loans to most other borrower cate-

gories declined. For the year thus far, business loans at the weekly reporting banks have increased 278 million dollars; in the first sixteen weeks of 1956—the comparable period a year ago—business loans increased 1.1 billion dollars. (The difference is even more marked if loans to sales finance companies are deducted from total business loans; business loans less loans to sales finance companies have increased only 16 million dollars thus far in 1957, while they expanded 1.5 billion dollars in the comparable period in 1956.)

Total investment holdings rose 385 million dollars during the four weeks ended April 17, with the delivery of the new 3¾ per cent certificates and the 3½ per cent notes on March 28 more than offsetting the reduction of bank holdings largely associated with the maturity and redemption of tax anticipation obligations in mid-March. During the year thus far total investments of the weekly reporting member banks have declined 131 million dollars, compared with a 2.4 billion dollar decline in the similar weeks last year. Taken together, loans and investments at these banks declined 657 million dollars in the first sixteen weeks of 1957, compared with a 1.2 billion dollar decline in the comparable period in 1956.

## INTERNATIONAL MONETARY DEVELOPMENTS

## MONETARY TRENDS AND POLICIES

**United Kingdom.** The sharp fall in short-term interest rates, which began in December but had been interrupted in March, was resumed last month. The average Treasury bill tender rate, which rose to 4.15 per cent at the first tender of the month, thereafter declined sharply, falling to 3.91 per cent on April 26; the rate had not been below 4 per cent in any previous month since July 1955 (see chart on page 60). The tender issue has been reduced some 700 million pounds during the first four months of this year, while the demand for Treasury bills, especially on the part of industrial and other nondiscount-market buyers, has been strong. The sharp decline in the Treasury bill rate in April widened the gap between the yields on short and on long-term government securities; the yield of 2½ per cent Consols rose slightly above the March levels and on April 30 stood at 4.70 per cent, about ¾ percentage point above the Treasury bill rate.

In his annual budget message (the main features of which are summarized elsewhere in this *Review*) the Chancellor of the Exchequer stated that the policy of monetary restraint had been "by no means ineffective in checking inflation . . . in spite of rising costs and heavy demands, the banks succeeded both in keeping the total volume of bank credit in check and in distributing it in accordance with national needs". The Chancellor made it clear that no relaxation in the policy of monetary restraint was warranted, and noted that the banks had recently

"renewed their assurance that they would continue to maintain their restrictive attitude toward advances". The only new measure of credit restriction announced in the budget message was that the Capital Issues Committee would again be required to pass on the appropriateness of the use of bank advances to finance capital expenditure. The Chancellor also revealed that it had been decided, after consultation with the Bank of England, to establish a committee to make a thorough inquiry "into the working of the monetary and credit system and to make recommendations".

**France.** The Bank of France announced on April 11 a 1 per cent increase in its discount rate to 4 per cent; the rate had been unchanged since December 1954. The raising of the discount rate was accompanied by changes in several other Bank of France lending rates: (a) the rate for advances against securities was increased to 6 per cent from 4½; (b) the penalty rate for discounts in excess of an individual bank's discount ceiling up to 110 per cent of the ceiling was increased to 6 per cent from 5; (c) discounts in excess of 110 per cent of the ceiling are to be made at penalty rates above 6 per cent, to be established at the discretion of the governor of the Bank of France. However, the 3 per cent rate was retained for export-paper discounts, for thirty-day advances against short-term government paper, and for purchases of Treasury bills maturing within three months. At the same time, the National Credit Council directed the banks to increase their rates

on advances to 7 per cent from 6; it also tightened consumer credit regulations by raising the minimum down-payment on instalment sales and reducing the maximum repayment period.

The rapid expansion of economic activity in France over the past two years—industrial production rose about 10 per cent in both 1955 and 1956—has been accompanied by mounting inflationary pressures. A major factor in the rise in demand last year was the increase of nearly 15 per cent in investment; in the monetary sphere, total credits to private borrowers rose 22 per cent in 1956. The economy has also been under special strain as the result of the increase in the budgetary deficit, the diversion of productive resources to the Algerian campaign, and large wage increases. The pressure of excessive demand in France has been most clearly manifest in the 5 per cent increase in wholesale prices last year, following nearly three years of relative price stability, and a 23 per cent increase in imports. The trade deficit soared to 1.2 billion dollars' equivalent in 1956 and, despite some improvement in exports, the import surplus during the first quarter of 1957 averaged higher than at any time in 1956. This deterioration in the balance of payments has caused a fall of nearly 1 billion dollars in France's international reserves over the past fifteen months; to ease the pressure on the reserves, the French Government has adopted additional measures to discourage imports and has obtained assistance from the International Monetary Fund. Domestically, the government has announced its intention of reducing the budget deficit by cutting expenditures and raising taxes.

**West Germany.** The German central bank tightened its credit policy as of May 1 by lowering the rediscount quotas of the banks 15 per cent and raising their minimum reserve requirements 1 per cent; in addition, it announced that henceforth the total of the banks' borrowings abroad would be deducted from their rediscount ceilings. Minimum reserve requirements (which vary according to the location and size of the banks) now range from 9 to 13 per cent for demand deposits and 7 to 9 per cent for time deposits, and are 6 per cent for savings deposits. However, the central bank for the first time has also established special minimum reserve requirements for deposits held by nonresidents; these requirements are substantially higher than for domestically owned deposits, being 20 per cent for demand deposits (the legal maximum) and 10 per cent for time and savings deposits.

The central bank's new monetary restraint measures come against the background of a rapid rise in the liquidity of the banking system and of some indications that a renewed expansion of demand may be in the offing. In the first quarter of this year, industrial production rose much more than seasonally, partly as a result of the mild winter, and consumption has continued to rise rapidly. While

prices have been steady during the past three months, after having risen some 3 per cent last year, the recent increases in wages and social benefits and the shortening of the work-week from forty-eight to forty-five hours may raise production costs. In addition, short-term bank lending has again begun to rise rapidly, at a time when the potential for a large credit expansion exists in the highly liquid position of the banks, which is largely a result of the huge influx of foreign exchange over the past twelve to fifteen months. Germany's export surplus continues to grow, and its balance-of-payments position has been swollen by an increase in short-term credits from abroad and by an influx of foreign short-term capital. The authorities have been concerned about the impact of the balance-of-payments surplus on the liquidity of the banking system and the German central bank has engaged in heavy open market sales; recently, the Treasury agreed to convert an additional 1 billion marks of the bank's equalization claims into short-term government paper in order to replenish the central bank's rapidly diminishing portfolio of marketable securities.

**Latin America.** Monetary policy has been tightened in several countries where inflationary pressures have been threatening. In *Peru*, the superintendent of banks, acting on the recommendation of the central bank, established new supplementary reserve requirements. The commercial banks are now required to maintain minimum reserves of 69 per cent against demand deposits and 57 per cent against time deposits that exceed their February 28, 1957 levels (previously a 45 per cent reserve requirement against increases in both demand and time deposits over the June 1956 level had been in force). The *Colombian* central bank has announced that its rediscounting for the commercial banks was being frozen at the March 27 levels. The banks will be permitted to exceed this ceiling only in the cases of agricultural, livestock, or industrial paper approved by the central bank on an individual basis.

#### EXCHANGE RATES

American-account sterling met with occasionally good commercial demand during April, with the spot rate rising as high as  $\$2.79^{11}_{32}$ . Early in the month the quotation rose  $\frac{5}{16}$  cent, to  $\$2.78^{15}_{16}$ , as union officials announced that strikers in the shipbuilding and engineering trades would return to work pending results of a court of inquiry. Commercial buying then maintained the rate at about  $\$2.78^{13}_{16}$  until April 10, when the quotation rose sharply to  $\$2.79\frac{1}{8}$  following the Chancellor of the Exchequer's budget message. Thereafter the rate continued at about  $\$2.78\frac{7}{8}$  until April 23 when it resumed its upward movement; with heavy offerings of dollars in London on the following day, the quotation reached  $\$2.79^{11}_{32}$ . At the month end it stood slightly lower, at  $\$2.79\frac{3}{16}$ .

Early in April rather strong demand for forward sterling narrowed the discounts on three and six months' sterling to  $1\frac{1}{16}$  and  $1\frac{1}{32}$  cents. After widening slightly at the midmonth, they again narrowed, reflecting commercial demand for forward sterling as well as some market anticipation of a possible change in the British discount rate; by April 25, discounts were at  $1\frac{1}{16}$  and  $1\frac{1}{16}$  cents. At the month end discounts stood at  $2\frac{5}{32}$  and  $1\frac{1}{32}$  cents.

Transferable sterling met with good demand early in the month, and on April 10 was quoted at \$2.7690. The rate soon weakened, however, as offerings of such sterling, particularly from Swiss sources, came into the market; by the midmonth the rate had dropped as low as \$2.7620. The quotation then held at about the \$2.7630 level until April 24 when reportedly demand by some central banks and South American interests sharply firmed it to \$2.7705. On April 30 it was quoted at \$2.7715. Securities sterling declined in a quiet market from a high

of \$2.61½ early in April to \$2.56½ at about the midmonth—the lowest rate since December 1956. At the month end the quotation was only slightly higher at \$2.58.

The Canadian dollar, after declining  $1\frac{5}{32}$  cent to \$1.04½ early in April, moved sharply higher to \$1.042½ on April 9, when it met with good demand, particularly from Switzerland and London. The movement proved short-lived, however, and by April 12 the rate had declined to \$1.031½—its lowest level since mid-January—as rather heavy offerings came into a market where demand was small. After the midmonth the rate fluctuated between \$1.04¼ and \$1.041¾ until April 25 when buying of Canadian dollars in connection with auctions of oil leases in Canada, together with commercial and investment demand, again firmed the quotation which, on April 30, reached \$1.047½.

## STERLING AFTER SUEZ

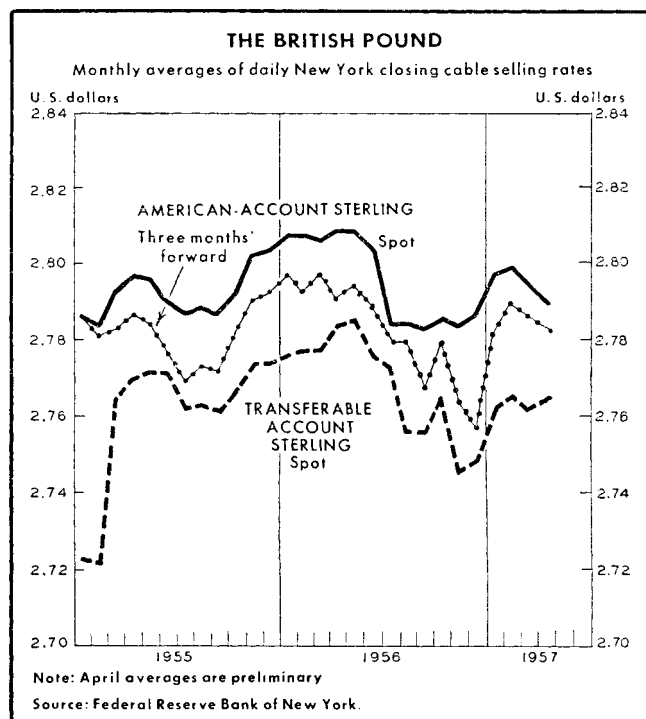
Sterling has staged a notable recovery from the severe speculative pressures generated by the Middle East crisis late last year. The recovery has been greatly aided by prompt international action in support of the pound, but basically it has rested on the current-account payments surplus that Britain and other sterling countries have maintained with the rest of the world. If sterling has not yet fully recovered, the remedy, according to Britain's Chancellor of the Exchequer, is to enlarge this surplus further; this remains the first objective of the British Government, which holds that "Britain's influence in the world depends first and foremost on the health of her internal economy and the success of her export trade".

### CRISIS AND RECOVERY

Sterling came under pressure early in the summer of 1956. Even before the seizure of the Suez Canal Company at the end of July, the sterling rates were gradually declining; after the seizure they dropped sharply, the spot rate for American-account sterling falling nearly to \$2.78¼, where it remained almost until the end of the year (see chart on this page). The main factor in the pressure up to the end of October was concern as to what a Suez Canal closing would mean for Britain's Middle East oil interests and for its foreign exchange earnings from them, as well as for sterling-area trade generally. Following the British and French intervention at Suez, this concern was deepened by the fear of a new surge of domestic inflationary pressure arising from increased military expenditures, freight rates, and commodity prices. In the foreign exchange markets consequently, purchases of sterling were delayed as long as possible, sterling receipts were sold

forthwith, dollar requirements were covered promptly, and holdings of sterling were generally reduced.

These pressures were at first reflected chiefly in the decline in sterling rates; however, as official intervention to support the rates subsequently became necessary, Britain's gold and dollar reserves, which had increased by 285 million dollars in January-July 1956 to 2,405 million, began to decline. If special receipts—notably the 177 million in September from the sale of the Trinidad Oil Com-



pany to an American concern and the 561 million from the International Monetary Fund (IMF) in December—are excluded, the drain averaged somewhat over 100 million dollars monthly during August-October; it then accelerated in November to 300 million and apparently continued at about this rate during early December. Although, according to an official British statement, such speculative pressure against sterling had virtually ended by mid-December, a further drain on the reserves occurred in the second half of that month, owing to the annual 181 million payment to the United States and Canada under the postwar loan agreements. Except for the special receipts, the reserves would therefore have declined by more than 1 billion dollars in the five months ended December.

That speculative pressures disappeared so quickly was partly attributable to the determination of the British authorities to defend sterling at the existing parity and to their mobilization of massive financial reinforcements for this purpose. Early in December the British Government drew 561 million dollars from the IMF, and was granted additional stand-by facilities of 739 million on which drawings could be made at any time during the following twelve months. Later in the month, the United States Export-Import Bank announced that it would grant a 500 million dollar line of credit against the British Government's holdings of dollar securities. In addition, the United States and Canadian governments, in response to a British request under the postwar loan agreements, initiated steps that led to the postponement of 104 million dollars of interest due on the loans at the year end. This 104 million, which had been placed in special accounts when the payments on the loans were made at the year end, was returned to Britain's gold and dollar reserves in April.

The response of the foreign exchange markets to these measures was rapid. Whereas the spot rate for American-account sterling in New York had, until early December, been held a little above  $\$2.78\frac{1}{4}$  only by almost continuous support from the authorities, it recovered to  $\$2.78\frac{1}{16}$  at the year end and strengthened further to  $\$2.80$  toward the end of January. Rates for transferable sterling also strengthened, and forward discounts narrowed markedly. Thereafter, the continued uncertainty about the Suez Canal, together with renewed difficulties in the British labor market, led to some decline in the rates, but the pressures were neither severe nor prolonged.

Furthermore, the gold and dollar drain was stopped. Indeed, the reserves increased to 2,320 million dollars at the end of April from 2,133 million at the year end, despite enlarged dollar payments for oil imports and reportedly substantial disbursements on account of India. The latter, however, were more than offset by the transfer to the sterling area's central reserves of India's 127.5 million dollar drawing on the IMF. Moreover, the reserves benefited during the period not only by the return of the

104 million interest payment but also by seasonal sales of sterling-area commodities to both dollar and European Payments Union countries. Consequently, Britain avoided drawing on the 739 million dollar IMF stand-by credit and the 500 million Export-Import Bank line of credit.

#### THE STERLING AREA'S BALANCE OF PAYMENTS

While the recovery of sterling after mid-December owed much to the prompt actions of the IMF and of the authorities in Britain, Canada, and the United States, the success of these measures in turn depended very largely on the strengthening that had already occurred during 1956 in the sterling area's balance of payments on current account. The improvement in Britain's own position was especially striking, its current-account balance of payments changing to a surplus of 233 million pounds in 1956 (of which 79 million was earned in July-December) from a 79 million deficit a year earlier. Most of this improvement was achieved with nonsterling rather than sterling countries, and was the result of an expansion of exports rather than a decrease in imports. Britain's 1956 exports to the United States and Canada were up 23 per cent in value from 1955; to other dollar-area countries, 37 per cent; to Western European countries and their dependencies, 11 per cent. At the same time Britain's imports from nonsterling countries rose only slightly, with the result that Britain's 1956 trade deficit with those countries was reduced to about two fifths of the 1955 deficit. Since net invisible earnings also rose, Britain's total current-account deficit with the nonsterling world declined to only 51 million pounds from 304 million in 1955.

How much the recovery of Britain's over-all current-account balance has been set back by the closing of the Suez Canal is uncertain. The known effects so far have been surprisingly small. While net earnings of British oil companies have doubtless been reduced, Britain's imports in the five months ended March 1957 actually averaged 4 per cent higher than the 1956 average, exports were up 5 per cent, and the over-all merchandise trade deficit was virtually unchanged.

The improvement in Britain's own current-account balance was in marked contrast to the weakening of the overseas sterling area's balance with nonsterling countries, although the latter balance still showed a substantial surplus. Among the independent sterling countries, it is true, Australia's balance of payments improved during 1956 as the result of both a tightening of import restrictions and increased receipts from exports—especially wool, the price of which rose during most of the year. New Zealand's position also improved, imports being held in check by the government's financial-restraint policy and exports of meat and dairy products expanding greatly. On the other hand, India's imports rose sharply, largely because of increased outlays on its development program; the result



was a substantial balance-of-payments deficit that was largely financed through a drawing-down of its sterling balances. All told, the imports of the independent sterling countries from both the OEEC<sup>1</sup> and dollar areas, expanded more rapidly than their exports to these areas, the consequent increase in their merchandise trade deficit being only partly offset by a rather substantial rise in gold sales (mainly from South Africa) in Britain. The independent sterling area's balance-of-payments surplus from transactions with the dollar and OEEC areas, and from gold sales in Britain, thus declined to 48 million pounds in 1956 from 62 million a year earlier.

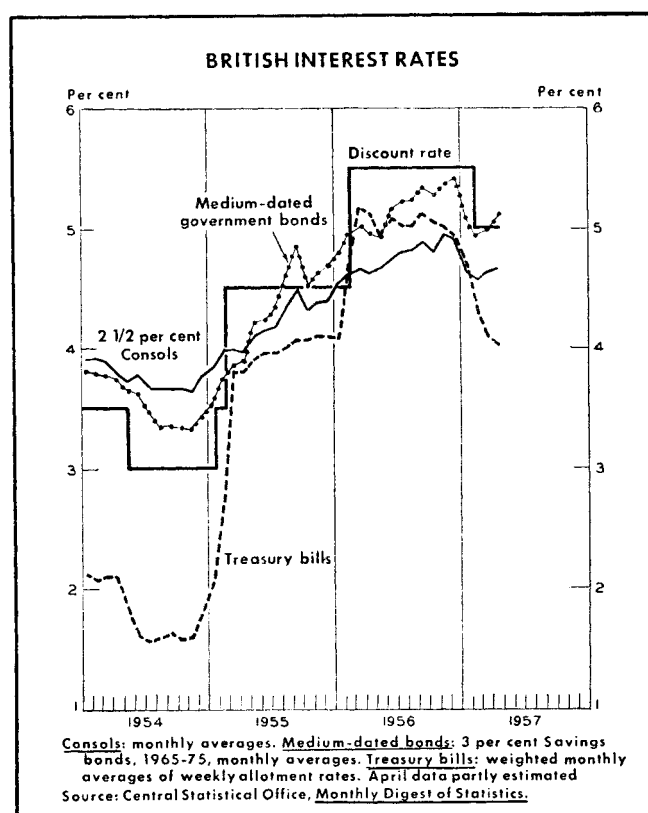
The dependent territories of the sterling area experienced a similar weakening in their balance with nonsterling countries. Like the independent sterling countries, the dependencies as a whole increased their imports more than their exports; West African exports were particularly affected by the low price of cocoa. While their over-all balance-of-payments surplus with the dollar and OEEC areas remained substantial, it declined moderately to 146 million pounds in 1956 from 173 million in the year before.

#### BRITAIN'S DOMESTIC ADJUSTMENTS

If the way for sterling's recovery after the November Suez crisis was prepared by the strengthening of Britain's current-account balance of payments, this strengthening in turn reflected mainly the decline of inflationary pressures in Britain. These pressures had reappeared in 1954 and increased further in 1955, largely because of rising consumption and investment. The 1955 increase in Britain's aggregate domestic expenditure exceeded the rise in gross domestic production by a considerable margin, and the balance of payments consequently swung into deficit. At the same time, labor market conditions became exceedingly tight, and wage rates rose during the year at a considerably faster pace than productivity.

The restraint policy by which the government countered these pressures was unfolded gradually. Initially, it was implemented through monetary policy alone: the Bank of England's discount rate was raised from 3 per cent to 3½ at the end of January 1955, to 4½ per cent four weeks later, and to 5½ in February 1956 (see chart on this page). At the time of the second increase, controls over hire purchase (instalment credit), which had been dropped the previous summer, were reimposed; later on, the interest rates charged by various government lending agencies were progressively increased. However, the restraint exerted by these monetary measures was partially offset by the reduction in income and sales taxes under the government's budget for the year beginning April 1955. Not until the fall and winter of 1955-56 was government fiscal policy used to increase the restraints on personal consump-

<sup>1</sup> Organization for European Economic Cooperation.



tion and on public and private investment. Consumption, which already had been subjected to increasingly stringent hire-purchase controls, was further restricted by increases in sales taxes, in the charges of various state utilities, and in the tax on distributed profits, as well as by reductions in food subsidies. Investment in housing was curtailed by requiring the local authorities to rely as much as possible on funds raised in the capital market rather than obtained from the Treasury. To curb business investment, special tax incentives for certain capital outlays were reduced, and access to the capital market was made more difficult by tightening up the rules under which the Capital Issues Committee operated. Curbs were also placed on the capital programs of the nationalized industries. Finally, incentives for personal saving were increased under the budget for the fiscal year beginning April 1956.

These monetary and fiscal measures brought a marked change in the British economy. On the financial side, the money supply was stabilized in 1955 and 1956 after having increased significantly in the two previous years (see table). Note circulation, it is true, continued to rise rapidly but the London clearing banks' net deposits turned downward. The decline in net deposits during 1955 and 1956 actually wiped out more than half of the rise in the two preceding years, and was accounted for by a substantial reduction in the banks' bond holdings, partially offset by a moderate rise in the total of loans, Treasury bills, and other money market assets. Since economic activity continued to



**Money Supply Changes in the United Kingdom**  
(In millions of pounds)

Year	Bank of England notes in circulation*	Net deposits of London clearing banks†	Total money supply	Changes from year previous		
				Bank of England notes in circulation*	Net deposits of London clearing banks	Total money supply
1951.....	1,342	5,930	7,272	+ 55	+119	+174
1952.....	1,435	5,857	7,292	+ 93	- 73	+ 20
1953.....	1,532	6,024	7,556	+ 97	+167	+264
1954.....	1,630	6,239	7,869	+ 98	+215	+313
1955.....	1,760	6,185	7,945	+130	- 54	+ 76
1956.....	1,875	6,013	7,888	+115	-172	- 57

\* Average of Wednesdays.

† Average of monthly figures.

Source: Central Statistical Office, *Monthly Digest of Statistics*, March 1957.

expand, the rate of turnover of the stabilized money supply rose mainly through the drawing of idle balances into more intensive use.

Tightness in the financial markets was accompanied during 1956 by striking changes in the national economy as a whole. While the gross national product continued to rise—although the “real” increase was very much less than in the two previous years—the rapid expansion of domestic expenditure was checked, primarily because of a slowing-down in the rate of inventory accumulation. With reduced pressure from domestic demand, the rapid rise in imports of the two previous years was greatly moderated, while increased supplies from domestic output facilitated a rather substantial expansion of exports. Only slightly less significant than the resulting improvement in the balance of payments was the reduced pressure in the labor market where, for the first time since early 1954, total unemployment rose above vacancies during the winter of 1956-57. New uncertainties arose from wage demands in the engineering and shipbuilding trades. Strikes in March were called off only after a government court of inquiry had been appointed to investigate the disputes.

#### MONETARY CONTROL PROBLEMS

While there is no doubt that the government's restraint policy has reduced inflationary pressures in Britain, there has been much discussion about the efficacy of the various policy instruments used—particularly of the monetary instruments—in the novel conditions of the postwar economy. Thus, in October 1955 Mr. R. A. Butler, the then-Chancellor of the Exchequer, observed that the authorities had had “little practical experience” in using the discipline of credit restriction “in conditions of full employment when the trend of consumption and investment was rising”. His successor, Mr. Harold Macmillan, subsequently noted that since the government's monetary “technique had not been used for many years—and even then under vastly different circumstances—there are many new problems, especially as between the Exchequer and the monetary system”.

Some of these problems were reviewed in the following terms by Governor Cobbold of the Bank of England in

his October 1955 Mansion House address:

The proportion of the economy which is directly affected by credit policy through the banking system, both as to investment and as to consumption spending, is much smaller than it used to be. With the enormous growth of the public sector, monetary action to restrict the borrowing and spending of individuals, firms and companies can be outweighed by the action of Government, local authorities and the nationalized industries. Moreover, with the redistribution of income since before the war, the immediate impact of credit policy on consumption spending is outweighed by the level of earnings and by fiscal policy.

Secondly, with present high taxation levels, business people are less sensitive to an increase in the cost of bank borrowing. International capital movements are less free than before the war and also less sensitive, though by no means wholly insensitive, to interest rate changes.

On a similar occasion a year later, Governor Cobbold noted that the size and form of government borrowing had a very great influence on the level of bank deposits. He added that:

Our consistent objective has been to keep the floating debt, vastly expanded during the war, down to manageable size. By a series of funding operations over the postwar years, a more healthy position was restored. Unfortunately, at some periods during more recent years, it has not proved possible to match the total requirements of Government and public bodies by the sale of long-term securities. Floating debt has again at times become excessive, bank deposits too high and technical pressures more difficult to maintain.

One of the symptoms of these difficulties was the easing of the banks' liquidity ratios<sup>2</sup> during 1955 and 1956, and the consequent lessening of the pressures on them to restrain their advances. The authorities, in order to maintain their control, therefore found it necessary in July 1955 to request the banks to curtail their lending to the private sector, and this “directive” has since been reaffirmed on several occasions.

While the authorities continued during 1956 to rely on the “directive” technique to reinforce their traditional controls, they simultaneously attempted to deal with the problem of excessive bank liquidity. They aimed, in Governor Cobbold's words, “to reduce the creation of new short-term debt and to fund existing short-term debt—by [budgetary] economies, a savings drive and a general funding program”. However, the implementation of this program encountered a number of obstacles. Of these, one of the most important was the prevailing rate structure in the government securities market which, for some time after the discount rate was increased to 5½ per cent in mid-February 1956, was characterized by higher yields on bills than on government bonds. While it is true that yields on medium-dated bonds rose above the bill rate in May, those on short and long-dated issues remained below the bill rate during most of the rest of the year. The emergence of this pattern of rates, accom-

<sup>2</sup> The ratio of the banks' cash, call money, and bills to total deposits.

panied by uncertainty as to the future trend of market rates, enhanced the attractiveness of short-term assets to investors generally and consequently tended to divert funds from the longer term market.

The authorities attempted to deal with these obstacles to funding during the ensuing months. Thus, the Chancellor was apparently seeking to strengthen bond prices when he stated in June that "we can surely find the way out of our troubles . . . without recourse to the most extreme monetary measures" and, in October, that "there is in practice, if not in theory, a limit beyond which the rate for money could not be driven". Similarly, the desirability of changing the rate structure seemed to be implied in Governor Cobbold's statement at Mansion House last October that "we shall obviously feel more comfortable when circumstances justify a somewhat lower pattern of short-term interest rates".

The conditions for the achievement of these objectives were in fact created by the improvement in Britain's economic balance as the year progressed, but short-term interest rates declined only slightly until the most acute of the Middle East difficulties had passed. Soon after the beginning of December, however, the average rate for tender bills, which had been quite steady at about 5 per cent for some weeks, resumed its decline. As the decline continued from week to week, expectations of a discount rate cut became increasingly strong, and a minor boom developed in the government bond market, which in turn facilitated what seem to have been substantial sales of bonds from official portfolios.

The expected discount rate change came on February 7, 1957, when the Bank of England reduced the rate by  $\frac{1}{2}$  per cent to 5. This prepared the way for the next stage in the government's funding program, the flotation of 300 million pounds of  $3\frac{1}{2}$  per cent Funding Stock, 1999-2004, priced to give a gross redemption yield of 4.50 per cent. Sales of this issue—together with Treasury receipts from earlier official bond sales and from the seasonally high tax payments—enabled the authorities to reduce the tender bill issue by no less than 730 million in the fifteen weeks to mid-March—more than double the reduction achieved a year earlier. The clearing banks' average liquidity ratio consequently dropped to an eighteen-month low.

Although the liquidity pressure on the banks has thus been increased, the authorities have not yet found it feasible to place full reliance on their more traditional monetary techniques. The "directive" technique is regarded as an "unpleasant necessity" and, as the Chancellor stated in his budget message last month, is evidence "that the monetary machine is working under great difficulties". There is "general agreement as to objectives of monetary policy", but there are "the widest differences of opinion" about the means to attain them. The Macmillan Report, continued the Chancellor, was an authoritative exposition

of the way the monetary system worked before 1931, but present problems are altogether different, involving Treasury finance, the management of the "vast" government debt, and changes in the structure of the banks' assets that are making them "less susceptible to monetary pressure". Accordingly, the government has decided to set up a committee, headed by Lord Radcliffe, "to inquire into the working of the monetary and credit system and to make recommendations". In launching another in the long series of distinguished official studies of Britain's financial institutions and problems, the government has thus taken a significant step toward clarifying the problems of monetary control.

#### RECENT CHANGES IN FISCAL POLICY

Meantime, changes have already been announced in the government's financial policy that are designed to strengthen further the authorities' monetary control and buttress sterling as an international currency. In his April budget message, the Chancellor indicated that the policy of financing the government's over-all budgetary deficit from noninflationary sources would be continued, and that the government's fiscal policy would be "dictated by the need to place and keep our external position on a really sound footing". Although the current-account balance of payments was considerably improved last year, the surplus, as the government's *Economic Survey* for 1957 observed, "was still quite inadequate to enable [Britain] to meet all its overseas commitments and to start to build up the reserves to a point at which they are strong enough to take in their stride a temporary reverse such as they have recently suffered". Exports, according to the *Survey*, must therefore be increased more rapidly than in recent years.

The need to facilitate such an increase has led the government to continue its financial-restraint policy, and in particular to reduce its own expenditures. Most of this reduction has been concentrated in defense expenditures. The recent Defense White Paper has noted that:

Some 7 per cent of the working population are either in the [armed] Services or supporting them. One-eighth of the output of the metal-using industries, upon which the export trade so largely depends, is devoted to defence. An undue proportion of qualified scientists and engineers are engaged in military work. In addition, the retention of such large forces abroad gives rise to heavy charges which place a severe strain upon the balance of payments.

Accordingly, the government has announced plans which among other things would curtail various military procurement programs, and which envisage a reduction of almost one half in the country's armed forces by the end of 1962. The immediate budgetary effects of these changes, as estimated by Chancellor Thorneycroft, will be to cut defense expenditures in 1957-58 to 1,420 million pounds, 105 million below actual expenditures in the fiscal year ended

last March; this cut would more than offset a slight increase in other budgetary expenditures. The total of ordinary and net below-the-line (mainly capital) expenditures is consequently estimated at 5,414 million pounds, 75 million less than in the year just ended. Since prices rose appreciably during the past fiscal year, the cut in "real" terms is considerable.

Apart from curtailing budgetary expenditures, the government also proposed a variety of measures to strengthen the British economy. Thus certain mining, oil-extracting, agriculture, manufacturing, processing, and other companies, controlled and managed from the United Kingdom but having all their actual trading operations abroad, are to be exempted from income and profits tax on their trading profits earned abroad. This change, said the Chancellor, would serve to remove the serious disadvantage under which such firms operated, compared with local companies, especially in countries whose tax rates were lower than in Britain. It was, he said, "a step towards more investment, more trade, and more exports".

To provide "better incentives and opportunities for initiative and effort", the Chancellor proposed to grant tax relief to middle and upper-income groups, whose tax load has been especially heavy in recent years. Relief was given especially to individuals whose annual incomes were £2,000 or more, a group that, in the Chancellor's view, included "the very men whose activities and decisions do most to determine our rate of economic expansion. In their hands rests, for good or ill, much of the future of the national economy. In penalizing them, the nation penalizes itself."

Finally, with a view to easing the tax burden the Chancellor proposed to give special tax relief to the aged, to increase certain income tax deductions for children, and to reduce or eliminate a variety of taxes on consumers' goods—part of the revenue lost in these concessions being recouped by an increase in the television license fee.

All told, the Chancellor's proposed tax concessions were expected to cost 98 million pounds of the 229 million by which revenues would otherwise have increased in 1957-58. Ordinary revenues after the tax changes were thus expected to total 5,289 million, as against estimated net expenditures of 5,414 million. The estimated over-all budgetary deficit of 125 million would be less than two fifths of last year's, and as the Chancellor observed, could "be amply covered by small savings and other noninflationary methods of finance".

#### CONCLUDING REMARKS

How far these measures will help in the achievement of Britain's balance-of-payments objectives—the strengthening of its international competitive position, the fulfilment of its manifold overseas financial obligations, and the rebuilding of its gold and dollar reserves—only time can tell. Assessing the prospects earlier in this year, a Treasury

spokesman indicated that Britain's current-account balance of payments would probably show "a small but by no means unsubstantial surplus" in the year ending June 1957. The government's recently published *Economic Survey* is also hopeful. It cautions that "competition from the other main manufacturing countries will be keen", but it foresees that "there should be no lack of markets" for exports. It also states that:

The very heavy investment of the last two or three years has improved our industrial efficiency and expanded our capacity . . . [Thus] equipment for a further export drive has been considerably strengthened. With good prospects for world trade, and with a record of rising exports, the external conditions for a successful year are already present. Internally, high savings and all possible restraint in Government expenditure should create a situation favorable to the export effort and help us to avoid any undue increase in the level of imports . . .

While the government thus regards its policies as being "consistent with our large responsibilities as a trading and a banking nation", it still faces many difficult problems. Not the least of these is the continued upward pressure on wage costs. Although a somewhat better balance was achieved in the labor market last year, wage rates rose notably whereas output per man remained virtually unchanged. This upward pressure continued during the early months of 1957, threatening not only to weaken the competitive position of Britain's export industries but also to draw exportable goods into domestic use.

Another problem is to achieve the level of investment in industry that is requisite for the strengthening of the country's long-term international competitive position, and to do so without bringing about renewed balance-of-payments strains. To achieve these objectives involves more than the expansion of production and the restraint of over-all domestic expenditures, essential as these are; it also requires more effective restraint of the tendency for personal consumption to absorb the bulk of each year's increment in production, and the encouragement, instead, of capital investment that will strengthen the foundation on which Britain's international economic influence rests.

Policies designed to reconcile monetary stability with expanding output and growing investment would also strengthen the confidence of other trading nations in sterling. Indeed, if any single lesson emerges from last year's sterling crisis, it is that a sizable current-account payments surplus is a necessary but not a sufficient condition for the stability of the pound. As a major international currency held for both reserve and trading purposes by many countries, sterling is subject to massive and sudden movements of funds that originate in changes in world opinion about the economic and political outlook of Britain and the rest of the Commonwealth. The maintenance of international confidence in the pound is thus one of the essential prerequisites for the strengthening of Britain's place in world trade and payments.

## THE LOCATION OF BUSINESS CUSTOMERS OF SECOND DISTRICT BANKS

There has long been general recognition of the role of the principal money market banks in providing credit and banking facilities to serve the needs of the country as a whole. That recognition usually has centered, however, on their role in meeting the residual reserve adjustments of the nation's banking system, as reserve pressures are transmitted to the principal centers through shifts in interbank balances and transfers of Federal funds. Recognition has extended, too, to the important role of the large banks in serving the national needs of the large corporations whose head offices tend to cluster in the same cities as those in which the lending banks are located. But there has never been a statistical basis for appraising the important contribution made by the large metropolitan banks to the financing of the nation's business through the granting of loans to firms which maintain head offices, as well as much of their operations, in areas located hundreds or thousands of miles away from such financial centers as New York City.

The survey of commercial loans at member banks which was conducted by the Federal Reserve System in October 1955 provided quantitative information on this subject for the first time, in addition to data on many other aspects of

business borrowing. While some other findings of the survey have already been published, the information on location of borrowers is, due to processing difficulties, only now becoming available.<sup>1</sup> Results for the Second District are analyzed in this article.

Most businesses which borrow from Second District banks are located in the same city, metropolitan area,<sup>2</sup> or county as the banks from which they receive loans, and therefore the great majority of the *number* of bank loans is made to local borrowers. But nearly half of the total *amount* of loans outstanding at Second District member banks at the time of the 1955 loan survey had been extended to borrowers outside the metropolitan area or county in which the banks were situated. Over 40 per cent of the total amount of loans went to borrowers outside the

<sup>1</sup> The information on location of borrower for all member banks is still being processed by the Board of Governors of the Federal Reserve System. However, some figures for the Seventh District have been published by the Federal Reserve Bank of Chicago (see *Bank Loans to Business*, August 1956, and the article on "Location of Business Borrowers" in the April 1957 issue of *Business Conditions*). These data indicate that Seventh District member banks made 40 per cent of their loans to nonlocal borrowers, compared with 45 per cent for Second District banks.

<sup>2</sup> As defined by the Bureau of the Census.

**Table I**  
**Commercial Loans Made by Second District Member Banks, Classified by Location of Bank and Borrower, Outstanding on October 5, 1955**

Borrower location relative to location of lending bank	Location of lending banks in the Second Federal Reserve District									
	Central reserve New York City banks	Other Second District member banks								Total Second District
		All other Second District member banks	New York City reserve city banks	Newark, Jersey City, Paterson, and Passaic	Buffalo	Rochester	Syracuse	Albany, Schenectady, and Troy	All other locations	
	Amount of loans (in millions of dollars)									
Within same city . . . . .	3,959	918	183	82	128	67	58	32	368	4,876
Outside same city but within same metropolitan area or county . . . . .	406	523	18	130	28	2	6	10	329	929
Inside Second District, but not in same city, metropolitan area, or county . . . . .	148	237	4	2	75	31	30	33	62	385
Outside Second District but within United States*	4,027	149	7	21	65	5	6	15	30	4,176
Outside United States . . . . .	218	†	†	0	0	0	0	†	0	219
Total—all borrowers . . . . .	8,758	1,827	212	235	296	105	99	91	789	10,585 <sup>r</sup>
	Number of loans (in thousands)									
Within same city . . . . .	62.5	84.9	11.3	5.6	5.2	3.0	2.6	3.0	54.1	147.5
Outside same city but within same metropolitan area or county . . . . .	7.6	51.7	0.8	7.4	2.6	0.3	0.6	0.8	39.3	59.4
Inside Second District, but not in same city, metropolitan area, or county . . . . .	0.9	11.5	0.1	0.1	1.0	1.2	1.9	1.6	5.6	12.4
Outside Second District but within United States*	6.7	3.0	0.3	0.4	0.2	0.1	0.1	0.1	1.8	9.7
Outside United States . . . . .	0.4	‡	‡	0	0	0	0	‡	0	0.4
Total—all borrowers . . . . .	78.1	151.2	12.6	13.5	9.1	4.5	5.2	5.5	100.9	229.3 <sup>r</sup>

Note: Details may not add to totals shown because of rounding.

<sup>r</sup> Revised.

\* Includes loans to borrowers in United States territories.

† Less than \$500,000.

‡ Less than 50.

District (including 2 per cent to borrowers outside the United States).

The sharp contrast between the number and amount of loans made to nonlocal borrowers mainly reflects the heavy volume of nonlocal lending by the central reserve New York City banks which figure so prominently in the District totals. As shown in Table I, the business loans of the eighteen central reserve New York City banks on October 5, 1955 amounted to 8.8 billion dollars—over 80 per cent of the amount held by all Second District member banks on the survey date. More than 4.2 billion dollars, or 48 per cent, of these loans went to borrowers outside the Second District. For other District banks, on the other hand, no more than 149 million dollars, or 8 per cent, of their total commercial loans were extended to borrowers outside the Second District.

The survey also indicated that more than a fifth of the commercial loans of the central reserve New York City banks involved participation through pool arrangements. In the case of reserve city and country member banks, pool participations were less prevalent and participations generally took the form of "over-line" arrangements. As was expected, the survey verified earlier impressions that the bulk of nonlocal loans is extended to the larger corporations.

#### NEW YORK CITY BANK LOANS TO NONLOCAL BORROWERS

At the time of the October 1955 survey, lending by the central reserve New York City banks to nonlocal borrowers amounted to 4.4 billion dollars, of which more than 4.2 billion represented loans to borrowers outside the Second District. The City banks had loans outstanding to borrowers in all but five of sixty-four major cities which were coded separately in the survey. The amount of loans to borrowers in individual cities ranged downward from 375 million dollars each for Chicago and Houston and 218

million for Los Angeles. Total loans outstanding to borrowers in seven other major cities ranged from 138 million to 89 million dollars.<sup>3</sup> More than 30 per cent of their loans outside the District were made to borrowers located outside major cities.

An idea of the flow of funds to various sections of the country from the Second District (mainly originating with the New York City banks) can be obtained from Table II, in which loans are classified by the Federal Reserve District in which the borrower was located.<sup>4</sup> The Districts receiving the largest shares were the Chicago District with 18 per cent of the total, Dallas with only slightly less, and San Francisco with 14 per cent.

The role of the central reserve New York City banks in the national market was even greater than these figures suggest since many national concerns have headquarters in New York City, and although they may disburse their borrowed funds in other parts of the country, loans to such businesses were classified for purposes of the survey as loans to local borrowers. The extent to which local loans are made to concerns doing a nation-wide business cannot be accurately determined but a partial indication is the fact that on the books of the central reserve New York City banks on the survey date were 814 loans of 1 million dollars or more which had been made to borrowers in the New York metropolitan area. These loans amounted to 2.2 billion dollars, or a quarter of all business loans made by the money market banks.

The central reserve New York City banks were responsible for virtually all of the 219 million dollars of business loans made to borrowers outside the United States by Second District banks. Borrowers in Latin American countries accounted for nearly 45 per cent of the amount of loans outstanding to foreign borrowers on the survey date (of which 10 per cent went to Mexico), and another third was held by continental Western European countries. Japan and Canada were next in line with 8 per cent and 5 per cent, respectively, while borrowers in the United Kingdom and other sterling-area countries together had 4 per cent.

Table II

Commercial Loans Made by Second District Member Banks to Borrowers in Other Federal Reserve Districts, by District of Borrower Outstanding on October 5, 1955  
(Dollar amounts in millions)

Location of borrower— Federal Reserve District	Central reserve New York City banks		Other Second District member banks		All Second District member banks	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Boston.....	145	3.6	20	13.6	165	4.0
Philadelphia.....	308	7.7	29	19.4	337	8.1
Cleveland.....	310	7.7	5	3.2	314	7.6
Richmond.....	457	11.4	27	18.3	484	11.6
Atlanta.....	210	5.2	5	3.1	215	5.2
Chicago.....	716	17.9	33	22.2	749	18.0
St. Louis.....	148	3.7	3	2.2	151	3.6
Minneapolis.....	147	3.7	8	5.4	155	3.7
Kansas City.....	332	8.3	*	0.1	332	8.0
Dallas.....	685	17.1	5	3.2	690	16.6
San Francisco.....	554	13.8	14	9.5	568	13.6
Total—all borrowers.	4,012	100.0	149	100.0	4,161	100.0

Note: Details may not add to totals shown because of rounding.

\* Less than \$500,000.

#### NONLOCAL LOANS BY OTHER SECOND DISTRICT BANKS

Loans of other Second District banks tended to be concentrated much nearer home than those of the money market banks (see the accompanying chart). Nearly 80 per cent of the total amount of loans outstanding at the other banks in the Second District had been made to borrowers in the same city, county, or metropolitan area as

<sup>3</sup> Detroit, 138 million; Dallas, 125 million; Philadelphia, 113 million; Baltimore, 98 million; Minneapolis, 97 million; San Francisco, 93 million; St. Louis, 89 million.

<sup>4</sup> Undoubtedly, some Second District businesses borrowed from banks in other parts of the country, but figures on these loans are not yet available, so no net interdistrict flow can be computed.

the lending bank, compared with 50 per cent for the central reserve banks. Only 8 per cent of the business loans of other Second District banks went to borrowers outside the District, in contrast to 48 per cent for the big New York City banks. But the percentage of loans made by other Second District banks to borrowers within the District but outside their own metropolitan areas was larger than for the central reserve New York City banks (13 per cent, compared with 2 per cent).

The loan pattern, however, varied somewhat from city to city. The reserve city and country banks located in the major cities of the New York metropolitan area for which separate figures were obtained, i.e., New York City, Newark, Jersey City, Paterson, and Passaic, concentrated their lending operations in their local area to a greater degree than banks in other major cities in the District. Over 90 per cent of the amount of these loans outstanding on the survey date, or 413 million dollars, had been made to local borrowers; only 6 million had been made to borrowers elsewhere in the District and 28 million to borrowers in other parts of the country. This pattern was also typical of banks in the smaller cities and towns and rural areas of the District.

For banks in Rochester and in Syracuse, on the other hand, local borrowers accounted for somewhat less than two thirds of the total amount of their loans outstanding, and for banks in Buffalo and in the Albany, Schenectady, and Troy area, local borrowers accounted for only about half of the outstanding amount of business loans. Most of the remainder of the loans at Rochester and Syracuse banks went to borrowers in other parts of this District. But roughly a fifth of the outstanding loans of the Buffalo and capital-area banks had been extended to borrowers outside the District.

Table III  
Commercial Loans Made by Second District Member Banks  
by Kind of Participation and Location of Borrower  
Outstanding on October 5, 1955

Borrower location relative to location of lending bank	Per cent distribution of amount of loans				
	All Second District member banks	Central reserve New York City banks	Other member banks in New York City	Member banks in other major cities*	All other member banks in Second District
<b>All locations:</b>					
No bank participation	74.7	71.1	98.1	88.2	94.0
Excess or overline participation initiated by lending bank	2.1	2.0	0.7	3.2	2.7
Excess or overline participation initiated by another bank	4.4	4.5	1.2	5.7	2.6
Pool-type participation	18.8	22.4	0	2.9	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Within same city, metropolitan area, or county:</b>					
No bank participation	83.9	80.4	98.0	93.2	95.0
Excess or overline participation initiated by lending bank	2.5	2.3	0.8	4.0	2.8
Excess or overline participation initiated by another bank	2.0	2.1	1.3	1.9	1.7
Pool-type participation	11.6	15.2	0	0.9	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Inside Second District but not in same city, metropolitan area, or county:</b>					
No bank participation	78.1	76.0	100.0	75.2	89.6
Excess or overline participation initiated by lending bank	1.3	0	0	2.2	2.0
Excess or overline participation initiated by another bank	10.8	8.6	0	14.1	7.5
Pool-type participation	9.8	15.4	0	8.5	0.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0†</b>	<b>100.0</b>	<b>100.0</b>
<b>Outside Second District:‡</b>					
No bank participation	62.2	61.4	100.0	83.3	81.0
Excess or overline participation initiated by lending bank	1.7	1.7	0	1.1	1.7
Excess or overline participation initiated by another bank	7.0	6.9	0	11.3	13.0
Pool-type participation	29.1	30.0	0	4.3	4.2
<b>Total</b>	<b>100.0</b>	<b>100.0‡</b>	<b>100.0†</b>	<b>100.0</b>	<b>100.0</b>

Note: Details may not add to totals shown because of rounding.

\* Including Newark, Jersey City, Paterson, Passaic, Buffalo, Rochester, Syracuse, Albany, Schenectady, and Troy.

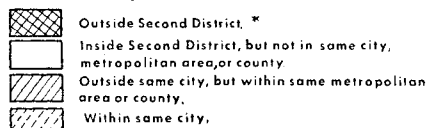
† Less than 10 million dollars of loans.

‡ For central reserve New York City banks this includes 218 million dollars of loans to borrowers outside the United States, distributed as follows: No bank participation, 88.1 per cent; excess or overline participation initiated by lending bank, 1.4 per cent; excess or overline participation initiated by another bank, 1.5 per cent; pool-type participation, 9.0 per cent.

#### COMMERCIAL LOANS MADE BY CENTRAL RESERVE NEW YORK CITY BANKS AND OTHER SECOND DISTRICT MEMBER BANKS BY LOCATION OF BORROWER

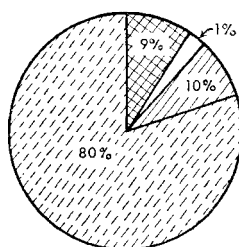
October 5, 1955

Borrower location:

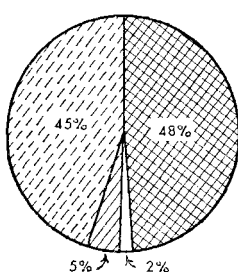


##### CENTRAL RESERVE NEW YORK CITY BANKS

Number of loans

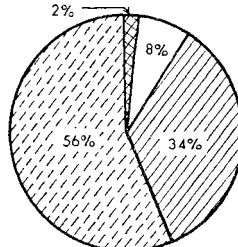


Amount of loans

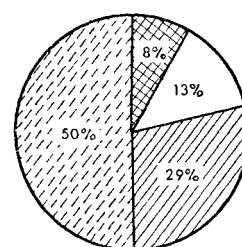


##### OTHER SECOND DISTRICT MEMBER BANKS

Number of loans



Amount of loans



\* Including loans to borrowers domiciled outside the United States.

## PARTICIPATED LOANS

Banks who wish to participate, with other banks, those customer requests for loans, which are larger than they can or wish to handle alone, usually do so in one of two ways. The first is a pool-type arrangement in which two or more banks share a loan; in their negotiations with the borrower the participating banks may operate through a syndicate leader or they may jointly or separately work out the loan details with the borrower. This method is most often used by large banks in connection with loans to large borrowers. The second is an excess or "over-line" arrangement in which the initiating bank offers another bank that part of a loan which exceeds the bank's legal limit for loans to a single customer, or which exceeds the line of credit which the bank wishes to extend to the customer concerned.

Participated loans accounted for about one quarter of the total amount of loans outstanding at Second District member banks in October 1955 (see Table III), pool loans for 19 per cent, and excess loans for 6 per cent.<sup>5</sup> Nearly all pool participations were made by the central reserve New York City banks. The proportion of their loans in this form ranged from about 15 per cent of their loans to borrowers within the Second District to 30 per cent of their loans to borrowers outside this District. Over-line credits, on the other hand, were found in banks throughout the District. About 4.5 per cent of all business loans of the central reserve banks were derived from over-line loan arrangements initiated by other banks.

<sup>5</sup> Accommodation loans are included in the figures for pool loans; a loan to a railroad in which the lending bank agrees to give certain banks along the right of way a portion of the loan is an example of an accommodation loan.

Table IV  
Commercial Loans Made by Second District Member Banks to Nonlocal Borrowers As a Per Cent of the Banks' Total Loans to Specified Types and Sizes of Borrowers, Amount Outstanding on October 5, 1955

Business of borrower	Asset-size of borrower (in thousands)							
	Less than \$50	\$50-250	\$250-1,000	\$1,000-5,000	\$5,000-25,000	\$25,000-100,000	\$100,000 and over	All borrowers
<b>Central reserve New York City banks</b>								
<b>Manufacturing and mining—total:</b>	8	4	10	29	57	68	58	51
Food, liquor, and tobacco.....	*	*	9	28	72	79	44	56
Textiles, apparel, and leather.....	†	3	5	22	32	44	74	30
Metals and metal products.....	*	4	6	36	52	57	54	49
Petroleum, coal, chemicals, and rubber.....	*	*	61	59	80	77	66	73
All other manufacturing and mining.....	*	3	8	21	32	54	43	31
<b>Trade—total:</b>	4	3	9	27	35	70	76	38
Wholesale trade.....	1	1	3	25	26	90	5	19
Retail trade.....	7	9	4	17	42	58	66	41
Commodity dealers.....	*	*	48	54	37	73	95	67
<b>Other—total:</b>	13	16	34	47	55	63	59	54
Sales finance companies.....	*	*	17	33	54	66	66	61
Transportation, communication, and other public utilities.....	*	*	62	62	63	82	59	64
Construction.....	*	11	10	18	45	63	*	32
Real estate.....	*	18	39	62	74	76	*	58
Service firms.....	14	9	15	66	31	13	6	23
All other borrowers.....	1	9	39	17	23	37	44	26
<b>Total—all borrowers</b>	9	7	16	35	53	67	60	50
<b>Other Second District member banks</b>								
<b>Manufacturing and mining—total:</b>	7	10	17	31	46	37	87	29
Food, liquor, and tobacco.....	*	*	36	72	*	*	*	58
Textiles, apparel, and leather.....	*	2	25	35	*	*	*	20
Metals and metal products.....	*	11	8	14	56	*	81	28
Petroleum, coal, chemicals, and rubber.....	*	*	*	72	*	8	*	29
All other manufacturing and mining.....	*	12	13	23	74	*	*	22
<b>Trade—total:</b>	10	12	9	9	19	*	75	12
Wholesale trade.....	6	10	10	3	*	*	*	8
Retail trade.....	11	12	9	17	23	*	75	14
Commodity dealers.....	*	*	*	*	*	*	*	19
<b>Other—total:</b>	11	9	13	22	28	63	75	23
Sales finance companies.....	*	*	*	40	*	*	99	69
Transportation, communication, and other public utilities.....	*	18	38	*	23	48	59	41
Construction.....	14	10	9	17	*	*	*	11
Real estate.....	6	6	7	21	39	*	*	13
Service firms.....	13	9	18	8	*	*	9	13
All other borrowers.....	7	6	7	*	*	*	*	9
<b>Total—all borrowers</b>	10	10	13	24	35	44	78	22

\* Less than 10 million dollars of loans.

† Less than 0.5 per cent.



### NONLOCAL LOANS BY ASSET-SIZE OF BORROWER AND TYPE OF BUSINESS

The percentage of loans to nonlocal borrowers generally increased with the asset-size of the borrower. For the central reserve banks only 9 per cent of the total amount of loans outstanding on the survey date to borrowers with assets of \$50,000 or less had been made to customers outside the New York metropolitan area. As Table IV indicates, the proportion of out-of-town loans to total loans by size classes increased from 9 per cent until it reached a maximum of 67 per cent for businesses with assets of from 25 million to 100 million dollars. But it decreased to 60 per cent for loans to borrowers with assets of 100 million dollars or more. This decline in the percentage of loans made to nonlocal companies in the largest asset class—which occurred in a number of industry categories—is probably explained by a fact mentioned earlier: that many of the largest firms have national headquarters in New York City. Loans to these firms were classified as loans to borrowers within the New York metropolitan area.

In the case of the central reserve New York City banks,

nonlocal loan percentages were relatively high in most industry classifications, with the notable exceptions of wholesale trade, textile, apparel, and leather firms, construction, and service firms. For other Second District member banks, the table indicates that there were only three industry categories in which more than two fifths of all loans were made to borrowers outside the banks' own metropolitan areas or counties; these were food, liquor, and tobacco manufacturers; sales finance companies; and transportation, communication, and other public utilities.

### COMMERCIAL LOAN SURVEY

In July the Bank will publish a pamphlet combining all the articles that have appeared in the *Monthly Review* on the 1955 commercial loan survey and some supplemental statistical data. Requests for copies of this pamphlet may be addressed to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y. Requests will be filled as soon as the pamphlet is available.

### SELECTED ECONOMIC INDICATORS United States and Second Federal Reserve District

Item	Unit	1957			1956	Percentage change	
		March	February	January	March	Latest month from previous month	Latest month from year, earlier
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1947-49 = 100	146p	146	146	141	#	+ 4
Electric power output*§	1947-49 = 100	226p	224	227	214	+ 1	+ 6
Ton-miles of railway freight*	1947-49 = 100	—	104p	102	106	+ 2	+ 3
Manufacturers' sales*	billions of \$	28.9p	29.1	29.2	27.1	- 1	+ 7
Manufacturers' inventories*	billions of \$	52.2p	51.9	51.5	47.4	+ 1	+10
Manufacturers' new orders, total*	billions of \$	27.8p	28.2	28.9	26.9	- 1	+ 3
Manufacturers' new orders, durable goods*	billions of \$	13.6p	14.0	14.4	13.3	- 3	+ 2
Retail sales*	billions of \$	16.3p	16.5	16.4	15.7	- 1	+ 4
Residential construction contracts*	1947-49 = 100	—	n.a.	n.a.	317	n.a.	n.a.
Nonresidential construction contracts*	1947-49 = 100	—	323	297	267	+ 9	+ 8
<i>Prices, wages, and employment</i>							
Basic commodity prices†	1947-49 = 100	88.7	88.9	91.7	89.7	#	- 1
Wholesale prices†	1947-49 = 100	116.9p	117.0	116.9	112.8	#	+ 4
Consumer prices†	1947-49 = 100	118.9	118.7	118.2	114.7	#	+ 4
Personal income (annual rate)*	billions of \$	337.6p	336.6	335.0	318.6	#	+ 6
Composite index of wages and salaries*	1947-49 = 100	—	154p	154	147	#	+ 5
Nonagricultural employment*	thousands	52,008p	52,105p	52,046	51,057	#	+ 2
Manufacturing employment*	thousands	16,930p	16,977p	17,033	16,804	#	+ 1
Average hours worked per week, manufacturing†	hours	40.0p	40.2	40.2	40.4	- 1	- 1
Unemployment†	thousands	2,700	2,881	2,940	2,834	- 6	- 5
Unemployment†	thousands	2,882	3,121	3,244	n.a.	- 8	n.a.
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	72,020p	72,960p	73,660p	75,240	- 1	- 4
Total loans of all commercial banks	millions of \$	90,710p	89,420p	89,010p	84,690	+ 1	+ 7
Total demand deposits adjusted	millions of \$	104,960p	106,780p	109,210p	104,400	- 2	+ 1
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	30,846p	30,811	30,916	30,531	#	+ 1
Bank debits (337 centers)*§	millions of \$	77,414	80,287	83,158	73,862	- 4	+ 5
Velocity of demand deposits (337 centers)*	1947-49 = 100	141.3p	143.8	141.3	130.6	- 2	+ 8
Consumer instalment credit outstanding†	millions of \$	31,273	31,233	31,298	29,112	#	+ 7
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	12,235	7,427	4,886	12,351	+65	- 1
Cash outgo	millions of \$	7,203	6,802	5,599	6,149	+ 6	+17
National defense expenditures	millions of \$	3,873	3,968	3,651	3,396	- 2	+14
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	155p	159	160	155	- 2	#
Residential construction contracts*	1947-49 = 100	—	n.a.	n.a.	243	n.a.	n.a.
Nonresidential construction contracts*	1947-49 = 100	—	n.a.	n.a.	320	n.a.	n.a.
Consumer prices (New York City)†	1947-49 = 100	116.0	115.9	115.6	112.2	#	+ 3
Nonagricultural employment*	thousands	7,829.4p	7,803.7	7,856.3	7,795.6	#	#
Manufacturing employment*	thousands	2,663.2p	2,662.0	2,696.0	2,685.2	#	- 1
Bank debits (New York City)*§	millions of \$	69,893	74,483	74,233	68,424	- 6	+ 2
Bank debits (Second District excluding New York City)*§	millions of \$	4,997	5,170	5,470	4,781	- 3	+ 5
Velocity of demand deposits (New York City)*	1947-49 = 100	181.3	191.6	183.6	175.6	- 5	+ 3
Department store sales*	1947-49 = 100	115	115	119	107	- 7	+ 7
Department store stocks*	1947-49 = 100	132	129r	131	121r	+ 2	+ 9

Note: Latest data available as of noon, May 1, 1957.

p Preliminary.

r Revised.

n.a. Not available.

\* Adjusted for seasonal variation.

† Seasonal variations believed to be minor; no adjustment made.

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

‡ New basis. Under a new Census Bureau definition, persons laid off temporarily and those waiting to begin new jobs within thirty days are classified as unemployed; formerly these persons were considered as employed. Both series will be published during 1957.

# Change of less than 0.5 per cent.

§ Seasonal factors revised. Back data available from the Domestic Research Division, Federal Reserve Bank of New York.