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The Business Situation

Over-all business activity continued to expand more than seasonally in August and appears to have advanced further in September. Output rose for the fourth consecutive month in August, and evidence continues to accumulate of prospects for the further growth of aggregate demand in the coming months—in the private as well as the government sector. Nevertheless, there is still a substantial gap between the currently visible level of activity and that which would reduce unemployment and surplus capacity to the proportions characteristic of other prosperous years since World War II.

The Federal Reserve Board's seasonally adjusted index of industrial production advanced 3 points to 137 in August, 11 points above the April trough but still 9 points below the peak of 146 last reached in early 1957. Output of both durable and nondurable goods advanced, but increases were not so general among the component industries as in either June or July. Despite the sharp fall in auto assemblies in August as a result of the early shutdown for change-over to the 1959 models, total output of major consumer durables was stable at the July level, as production of parts for the new auto models apparently expanded. Housing starts, building expenditures, and construction contract awards all rose during August.

More recently, there are indications of further gains. In September the rate of auto assemblies recovered somewhat from week to week, and the rise was accompanied by irregular weekly increases in steel output to peak levels for 1958. There has been a less-than-seasonal reduction in electric power output during September, as well as a rising volume of miscellaneous freight carloadings.

Accompanying the expansion in production, total civilian employment rose in August but without a significant reduction in the level of unemployment. On an unadjusted basis, farm employment fell moderately and nonfarm jobs increased. The actual number of unemployed workers in August fell appreciably below the five-million level for the first time since January. This decline, however, reflected in part the withdrawal from the labor force of temporary summer workers. Indeed, the number of unemployed workers 25-years old or over remained the same as in the previous two months, while the number of workers who have been jobless for six months or more continued to rise—and in August was about double the highest levels reached in the 1949 and 1954 recessions. Moreover, the August decline in the number of unemployed was less than seasonal; the seasonally adjusted rate of unemployment rose slightly to 7.6 per cent of the labor force as compared with 7.3 per cent in July.

For factory workers who do hold jobs, the average workweek and overtime work both increased seasonally in August. Weekly earnings were at about the July level, nearly 1 per cent above a year ago, despite a relative increase in the employment of low-pay workers. The rise in wage and salary payments during August was accompanied by higher proprietors' and property income and an increase in transfer payments; taken together, these sources of higher income receipts generated a further rise in personal income to a new peak annual rate of $355.6 billion, an increase of $1.4 billion above the July level (excluding the July retroactive wage payments to Government employees).

The rise in incomes was accompanied by a slight decline in the August consumer price index—the first monthly decline in two years. A fall of 1 per cent in food prices, chiefly of truck produce and meats, more than offset a small rise in other items, notably of services. Food prices also fell at wholesale, resulting in a decline in the wholesale commodity price index in August. Seasonally adjusted retail sales, which had increased only moderately from April to July, rose more than 1 per cent in August. The volume of transactions at department stores was significantly above the year-ago levels in August and through mid-September.

Manufacturers' stocks of both finished goods and materials have continued to decline; total inventories in the trade sector have also dropped, chiefly as a result of the fall in the showroom stock of 1958 automobile models. Liquidation of stocks by manufacturers, however, has proceeded at a substantially lower rate than in the first half of 1958. Reflecting the slowing-down of inventory liquidation and a rise in final demand, new orders received by manufacturers have increased more than seasonally since May and the backlog of unfilled orders has grown modestly after a decline lasting over a year and a half. A part of the recent rise in orders may be due to buyers' fear of future price increases and supply bottlenecks, resulting in earlier placement of orders.

Businessmen have evidently responded to these indications of higher aggregate demand by a modest upward

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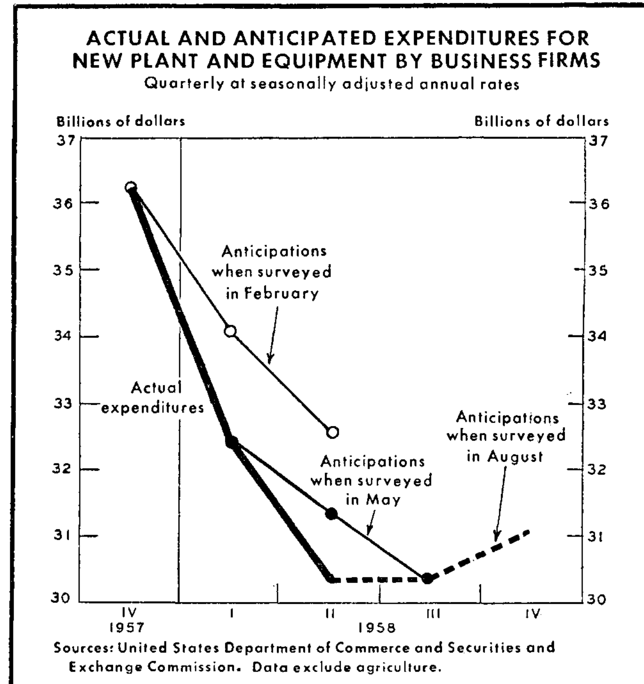
revision in their plans for purchases of new plant and equipment (seasonally adjusted). The August survey of business capital spending plans, made by the Securities and Exchange Commission and the United States Department of Commerce, indicates that businessmen now anticipate a volume of outlays in the third quarter unchanged from the actual level of spending achieved in the second quarter, and identical with the level they anticipated for the third quarter when their plans were surveyed in May (see chart). A small rise in planned expenditures during the final quarter of this year contrasts with a decline implied by the previous survey. The magnitude of the currently anticipated upturn in the final quarter of this year is relatively small, however, amounting to about one third the actual drop in expenditures between the first and second quarters of 1958.

These survey results, which suggest a favorable turn in business sentiment, are based on anticipations; actual spending levels may, of course, exceed or fall below the anticipated rates. Since the downturn last year, similar estimates based on business anticipations have consistently understated the magnitude of quarterly declines in actual expenditures, as has been generally true in earlier periods of declining capital expenditure. On the other hand, the predictive value of anticipatory data has proved to be uncertain at cyclical turning points. A recently released private study of business capital spending plans, based on a survey of manufacturers' capital appropriations put on the books during the second quarter, suggests that expeditures may continue to fall through 1958, with an upturn being delayed until 1959. However, machine tool orders received so far appear to confirm an upturn in capital spending.

The capacity of corporations to meet the cost of improvements from their own funds, without resorting to external sources of financing, is probably less favorable today than at the onset of earlier business spending upswings. While corporate liquidity has risen in the past year, its growth has been slowed by a sharp decline in retained earnings, due to the fall in profits after taxes, and by the evident reluctance to impose an equivalent cut in dividends. However, retained earnings usually rise rapidly during the early stages of a business upswing, increasing both liquidity and internal-financing capacity. Presumably this rise in earnings may now be under way; yet many firms may still find it desirable to tap external sources of funds. Although financing is available from commercial banks, the recent advance in prime loan rates indicates that terms have tightened somewhat. The cost of financing in the



Sources: United States Department of Commerce and Securities and Exchange Commission. Data exclude agriculture.

open markets through bond flotations and short-term debt instruments also has risen sharply in recent months and may deter some borrowers. Finally, firms may find the buoyant stock market a good source of funds. However, access to the equity securities market is not open to all, and the widespread use of the stock market as a source of funds may require an alteration of established practices for many firms, since the bulk of postwar externally financed expansion has been accomplished through debt obligations rather than by equity issues.

Rising personal incomes, the prospects of some revival in business expenditures on plant and equipment, and an expected increase in Government spending all appear to promise further growth in aggregate demand. Support for this view is also provided by the continued strength of construction contract awards and by reports of growing optimism among business leaders. Prospects thus are good that production in most sectors of the economy may be back to the peaks of 1956-57 within a few months; however, this degree of recovery in output will be insufficient to reduce unemployment to a level approximating the 4 per cent which prevailed during the first half of 1957. Growth in productivity and in the labor force requires an advance in economic activity to well beyond the earlier peaks before the unemployment of both men and machines is reduced to pre-recession levels.

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Money Market In September

During September, reserve positions held steady and the money market relatively firm, with average free reserves somewhat below the average level in August. As the month drew to a close, rates were rising in the securities markets, in large part as a result of the Treasury's cash financing, after having experienced a period of relative stability through much of September. Over the month as a whole both long- and short-term yields advanced, although the rise was less than in August.

On September 4 the Federal Reserve Banks of Chicago and Minneapolis announced that their discount rates were being raised from 1¾ per cent to 2 per cent, effective on the following day, thus joining the four other Reserve Banks that had made similar announcements during August. A week later the Federal Reserve Banks of New York, Cleveland, Richmond, and St. Louis joined in the rise to 2 per cent, effective September 12. The two remaining Federal Reserve Banks, Philadelphia and Boston, raised their discount rates to 2 per cent on September 19 and 23, respectively. Several commercial banks also announced on September 11 that they were raising their rates on prime business loans from 3½ per cent to 4 per cent, a change which soon spread throughout the banking system. Early in the month the effective rate for Federal funds generally remained at or below the 1¾ per cent "ceiling" corresponding to the discount rates in New York and several other Federal Reserve Districts. Later the "ceiling" moved up as more discount rates were raised to 2 per cent, and transactions were effected at rates ranging up to that level.

On September 25 the Treasury announced that it was offering on September 29 $2.5 billion of special 219-day bills priced to yield about 3¼ per cent and $1 billion of thirteen-month notes bearing 3½ per cent interest. The new issues were priced generously in relation to market rates then prevailing.

MEMBER BANK RESERVE POSITIONS

Free reserves of member banks exhibited a considerable measure of stability during September close to the lower levels reached late in August. Week-to-week fluctuations were moderate during the month, with average free reserves remaining within a range of $124-183 million. During the four statement weeks ended September 24 free reserves averaged $144 million, compared with $383 million in August. Over the period member bank borrowing from the Reserve Banks averaged $493 million, $241 million above the August level, while excess reserves remained substantially unchanged.

In the first statement week of the month, which included the Labor Day week end, a seasonal rise in currency in circulation, gold and foreign account transactions, and other factors absorbed $366 million of member bank reserves. System open market purchases only partially offset the drain resulting from these transactions, so that average free reserves declined from $302 million in the last statement week in August to $128 million in the week ended September 3. During the three following weeks, System securities sales approximately counterbalanced the heavy additions to reserves flowing from operating transactions. On balance, System holdings of Treasury obligations decreased by $357 million between August 27 and September 24.

In addition to the usual effects of float, reserve positions were considerably bolstered during the middle of the month by Treasury operations. The Treasury's balance at the Reserve Banks dipped temporarily well below normal, reflecting in part the heavy cash disbursements for

Table I
Changes in Factors Tending to Increase or Decrease Member Bank Reserves, September 1958
(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	Sept. 3	Sept. 10	Sept. 17	Sept. 24	
Operating transactions					
Treasury operations*	− 58	+ 62	+ 176	− 192	− 12
Federal Reserve float	− 65	+ 91	+ 166	+ 154	+ 346
Currency in circulation	− 130	− 54	+ 40	+ 108	− 36
Gold and foreign account	− 146	− 24	− 140	+ 45	− 265
Other deposits, etc.	+ 33	+ 27	+ 34	− 44	+ 50
Total	− 366	+ 101	+ 276	+ 72	+ 83
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 96	− 120	− 232	− 108	− 364
Held under repurchase agreements	—	—	—	—	—
Loans, discounts, and advances:					
Member bank borrowings	+ 191	+ 53	+ 49	− 130	+ 163
Other	− 1	—	—	—	− 1
Bankers' acceptances:					
Bought outright	− 1	− 1	—	− 2	− 4
Under repurchase agreements	—	—	—	—	—
Total	+ 286	− 68	− 183	− 240	− 205
Total reserves	− 80	+ 33	+ 93	− 168	− 122
Effect of change in required reserves†	+ 78	+ 33	− 61	+ 97	+ 147
Excess reserves†	− 2	+ 66	+ 32	− 71	+ 25
Daily average level of member bank:					
Borrowings from Reserve Banks	461	514	563	433	493‡
Excess reserves†	589	655	687	616	637‡

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 September 24.

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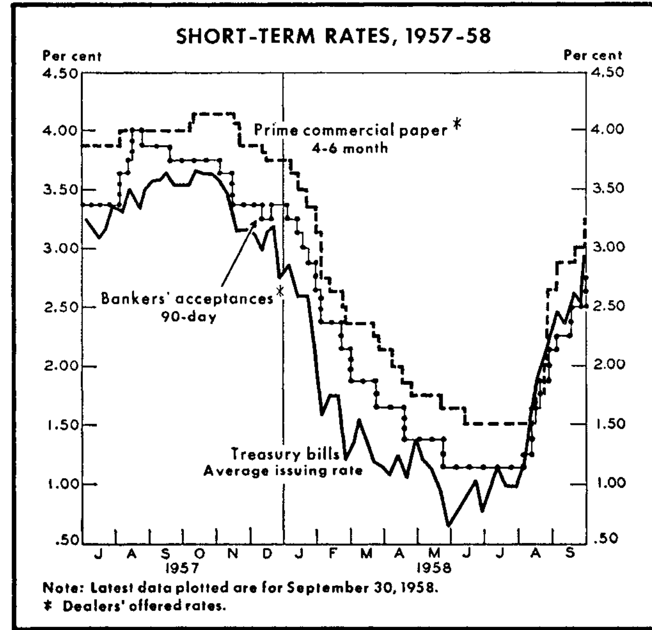
the redemption of the unexchanged Treasury bonds called for payment on September 15. However, this expansionary effect on reserves was reversed in the statement week ended September 24 by a rebuilding of the Treasury balance as large quarterly corporate income tax payments were processed and collected. The absorption of reserves by gold and foreign account transactions was rather large over the month as a whole. The drain in the first three statement weeks was offset only slightly by a reversal in the week ended September 24. The outflow of currency over the Labor Day week end and the subsequent return flow later in the month also affected reserve positions, while a decline in required reserves released about $147 million on a weekly average basis during the four weeks.

GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds moved moderately lower in light trading during September, in contrast to the continuing and often rapid price erosion witnessed in the preceding two and a half months. As the month opened, prices throughout the list exhibited some measure of stability. Subsequently, weakness developed in the long-term sector, in part as a result of investor switching to new industrial bonds, and then spread to other maturities. Later the atmosphere in the Government securities market improved, as a succession of large new offerings in the corporate market met with an excellent reception. There was little reaction to the announcements on September 11 of the rise to 2 per cent in the discount rates of four additional Reserve Banks, and the almost simultaneous increase to 4 per cent in the prime lending rates of commercial banks. After the announcement on September 25 of the terms of the Treasury's new cash offering, prices moved generally lower in a readjustment to the generous rates offered on the new issues. For the month as a whole, prices of Treasury issues were generally lower. Securities maturing before 1963 showed losses of up to $^{17}/_{32}$, while those in the 1963-72 range were unchanged to $1^{3}/_{16}$ lower. Longer term bonds closed with losses of up to $1^{15}/_{16}$ points. At the end of the month, the average yield on Treasury bonds due or callable in ten years or more was just above the previous peak of last October.

The steep rise in Treasury bill yields slowed somewhat during September (see chart), with rates working irregularly higher over the month. Bill yields rose during the first half of the month as selling by corporations raising funds for tax and dividend payments took place against a background of less easy reserve positions; in addition, the supply of bills was augmented by an increase of $100 million over the maturing issue in each of the weekly auctions started on September 8. However, the payment



Note: Latest data plotted are for September 30, 1958.
* Dealers' offered rates.

by the Treasury on September 15 for the $1.9 billion in unexchanged Treasury bonds that were called for redemption on that date augmented buying interest and contributed to a temporary decline in yields. Later in the period, bill rates again rose, first, moderately in expectation of the Treasury's cash financing and, then, sharply in response to the attractive yields announced for the offering. The average issuing rates established in the weekly Treasury bill auctions rose from 2.359 per cent on September 8 to 2.605 per cent on September 15, dipped to 2.511 per cent on September 22, and jumped to 2.920 per cent on September 29.

On September 25 the Treasury announced that on September 29 it would offer for cash two short-term securities to raise $3.5 billion: a thirteen-month note in the amount of $1.0 billion yielding 3½ per cent, dated October 10, to mature November 15, 1959; and a special 219-day Treasury bill in the amount of $2.5 billion, priced at 98.023 to yield about 3¼ per cent, to be dated October 8 and to mature on May 15, 1959. Commercial banks were permitted to make payment for subscriptions, both for their own and their customers' accounts, by credit to Treasury Tax and Loan Accounts. On September 30 the new notes were bid at $99^{31}/_{32}$ and the special bills at 3.35 per cent in "when-issued" trading.

OTHER SECURITIES MARKETS

The markets for corporate and municipal bonds exhibited an improvement in tone over the course of the month, as a large volume of new issues was successfully

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floated in both markets. Yields on both new and seasoned issues continued, however, to advance. Average reoffering yields on the month's new corporate issues, adjusted to a Aaa basis (see May 1958 issue of this *Review*), rose to 4.56 per cent, almost one full percentage point above the low point reached in June and only about 25 basis points below the postwar high reached in 1957. Over the month Moody's index of yields on seasoned Aaa-rated corporate bonds rose 16 basis points to 4.13 per cent, and yields on seasoned Aaa municipals increased 2 basis points to 3.24 per cent after touching 3.31 per cent earlier in the month.

In the corporate market a number of scheduled offerings, chiefly refunding issues of public utilities, were postponed early in the month because of market conditions. However, the atmosphere improved notably after the enthusiastic response to the offering on September 9 of $350 million of Aa-rated Sears, Roebuck and Company debentures, the largest corporate debt offering ever underwritten in this country. The 25-year issue was priced at par to yield 4¾ per cent and is nonrefundable for five years; in mid-July a similarly rated $300 million issue had been offered to yield 3.97 per cent. In subsequent weeks several more large offerings also moved very well. New municipal issues met with a somewhat mixed reception, but dealers were able to reduce their inventories over the month. Nonetheless, one issue was postponed when it failed to draw bids from underwriters, owing to an interest-cost limitation imposed by a State constitution, while another was reduced in size after the original offering did not attract bids.

The volume of new securities marketed during September exceeded by a large margin the offerings of the preceding month and was significantly higher than in September 1957. An estimated $860 million in corporate bonds was publicly offered for new capital purposes in September, $655 million above the August figure and the highest monthly total since March. Public offerings of new municipal bonds totaled $560 million, compared with $315 million in August.

In the short-term market for private debt instruments, rates continued to rise during the month though not so sharply as in August. (See chart.) Rates on all maturities of bankers' acceptances, after advancing 1 per cent during August, moved up another ⅝ per cent in three steps (on September 2, 16, and 30) to bring the offering rate on 90-day acceptances to 2¾ per cent at the end of September. The major finance companies that place their paper directly with investors raised their offering rate on directly placed paper by ½ per cent on September 2 and four out of five companies by as much as ⅜ per cent on September 19. This brought the new rate on 30- to 89-day paper to 2½ per cent. On September 29 the remaining major company increased its rates on longer term maturities by ½ to ⅞ per cent, leaving rates on all maturities split at the month end. Commercial paper dealers raised their rates by ⅝ per cent in three steps (on September 2, 19, and 30), to bring the rate on prime 4-to-6 months' paper to 3¼ per cent.

MEMBER BANK CREDIT

Total loans and investments of the weekly reporting member banks decreased $638 million during the four weeks ended September 17, as a sharp drop in investments more than offset a $674 million rise in total loans. A $1.4 billion fall in bank holdings of Government securities was the outstanding feature of the decline in securities portfolios. By September 17 the banks' investments in Government securities had reached the lowest level since early June, having fallen by $2.3 billion from their recent peak on August 6, when the banks took delivery of their allotments of the 1½ per cent tax anticipation certificates. Commercial and industrial loans rose by $557 million during the four weeks, compared with an increase of $373 million in the corresponding weeks of 1957. Since midyear (July 2) the rise in business loans has been $54 million, considerably less than the $286 million recorded last year and far less than in 1955 or 1956.

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

Item	Statement week ended				Change from Dec. 31, 1957 to Sept. 17, 1958
	Aug. 27	Sept. 3	Sept. 10	Sept. 17	
Assets					
Loans and investments:					
Loans:					
Commercial and industrial loans	− 27	− 15	+ 207	+ 392	− 1,886
Agricultural loans	− 4	− 1	− 8	− 9	+ 116
Securities loans	− 142	+ 177	+ 11	− 147	− 404
Real estate loans	+ 8	+ 7	+ 26	+ 39	+ 378
All other loans (largely consumer)	+ 37	+ 82	+ 26	+ 17	− 91
Total loans adjusted*	− 129	+ 249	+ 262	+ 292	− 1,939
Investments:					
U. S. Government securities:					
Treasury bills	− 200	− 62	+ 221	− 24	− 302
Other	− 195	− 166	− 231	− 727	+ 5,792
Total	− 395	− 228	− 10	− 751	+ 5,490
Other securities	+ 95	− 50	+ 153	− 126	+ 1,580
Total investments	− 300	− 278	+ 143	− 877	+ 7,070
Total loans and investments adjusted*	− 429	− 29	+ 405	− 585	+ 5,131
Loans to banks	+ 292	+ 78	− 93	+ 147	+ 1,060
Loans adjusted* and "other" securities	− 34	+ 199	+ 415	+ 166	− 359
Liabilities					
Demand deposits adjusted	+ 521	− 335	+1,210	+ 81	− 87
Time deposits except Government	+ 14	+ 17	+ 140	− 196	+ 4,025
U. S. Government deposits	− 618	− 208	−1,373	− 185	− 488
Interbank demand deposits:					
Domestic	− 396	+ 515	+ 158	+ 169	− 433
Foreign	+ 20	− 39	− 70	− 5	− 195

* 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.

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International Monetary Developments

MONETARY TRENDS AND POLICIES

UNITED KINGDOM. The British authorities on September 15 removed all controls over hire-purchase (instalment) sales for a wide range of consumer durable goods as well as for industrial and agricultural equipment. Heretofore, such sales had required a minimum 20 per cent downpayment and, for most articles, repayment within a two-year maximum. Cars (a major British export), radios, and television sets remain subject to a minimum 33⅓ per cent downpayment; the maximum repayment period of two years is likewise retained.

This easing of hire-purchase controls came at a time when the British commercial banks were moving actively into the consumer credit field. Since late July, virtually all of the eleven London clearing banks, including the Big Five, as well as several merchant banks, have acquired an equity interest in existing hire-purchase finance companies, with participation ranging from a minority interest to 100 per cent ownership. In addition, since late August a number of clearing banks have announced new personal loan services, which in time may well supplement hire-purchase credit. The loans, which may be for as much as £500 and will carry 5 per cent interest, are to be extended to personal and professional customers (and in some cases also to small businesses) for financing "exceptional nonrecurring" expenditures, including not only durable goods but also house repairs and redecorating. These developments—which were followed on September 17 by a relaxation of restrictions on dollar imports, including most types of industrial, agricultural, and office machinery—are a sequel to the lifting of the ceiling on bank lending and the substantial easing of controls over new capital flotations announced by the Chancellor of the Exchequer in July.

The authorities' gradual moves toward renewed economic expansion—which also include four discount rate reductions this year—have been endorsed by the second report (published August 25) of the Council on Prices, Productivity, and Income, a group of government-appointed but independent observers. The council noted that the British economy had been working well below its capacity and that the outlook was for a further moderate fall in production. In discussing whether the relaxations in financial policy would be sufficient to reverse or even to halt this decline, the report had mentioned a relaxation of hire-purchase controls, as well as a reduction of the purchase tax, as possible additional stimulants. However, the council declared that "the dangers of inflation have only been scotched, not killed. . . . In these circumstances it seems clear to us that, while it is right that policy should aim at an expansion of demand, it must proceed gradually and with caution towards that end."

IRELAND. The Central Bank of Ireland reduced its discount rate to 4½ per cent from 5, effective September 2, the third ½ per cent reduction since March. The move was primarily a technical adjustment to the lowering of the British bank rate to 4½ per cent on August 14.

JAPAN. The Bank of Japan reduced its principal discount rate (applicable to commercial bills) to 7.3 per cent from 7.665, effective September 5; the rate had previously been lowered from 8.395 on June 18.[1] Last month's move restored the rate to the level obtaining prior to the spring of 1957, when monetary, fiscal, and import-control measures were adopted to help check the investment boom and halt the serious deterioration in the country's international accounts. By the second quarter of 1958, manufacturing production had fallen 6 per cent below the postwar peak a year earlier, and by July wholesale prices had dropped more than 8 per cent from May 1957. The curtailment of domestic demand helped bring about a substantial rise in exports and a sharp decline in imports, and consequently led to an improvement in Japan's external position. While exports during the first half of this year were somewhat below the level of July-December 1957, the continuing fall in imports reduced the January-June trade deficit to only a $187 million equivalent from the $1,016 million peak reached in January-June 1957.

FINLAND. The Bank of Finland, effective October 1, lowered the rate charged on rediscounting for commercial banks to 7¼ per cent from the 8 per cent level in force since April 1956.[2] The bank's move was made so as to coincide with a lowering—also by ¾ per cent—of the commercial banks' lending and deposit rates; e.g., the rate on advances was lowered to around 7¼ per cent and that

[1] The Bank of Japan maintains a differential discount rate structure, with the discount rate on export bills (currently 5.475 per cent) the lowest rate at which banks can borrow from the central bank. Moreover, each bank can borrow only a certain maximum (determined by a complex formula based on the assets and liabilities of the bank) at the "basic" rate for each category, and must pay a higher rate for additional accommodation.

[2] The Bank of Finland employs a range of discount rates. The upper limit, now reduced, is the effective lending rate to the banking system; the lower limit is applicable to loans to private nonbank customers. The latter rate remains unchanged at 6½ per cent.

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on time deposits to 5 per cent. Earlier this year the Bank of Finland had eliminated the penalty rates on rediscounts in those cases where a credit institution's total indebtedness to the Bank of Finland did not exceed 60 per cent of the institution's capital and reserves. This compares with penalty rates ranging up to 5 per cent above the rediscount rate that had been applicable to *all* rediscounting for the banking system since August 1957. These changes, as well as certain other monetary and fiscal relaxations introduced last spring, form part of a concerted effort on the part of the authorities to halt and reverse a decline in economic activity. The slowing-down of production in Western Europe and elsewhere has sharply reduced Finnish exports, particularly of wood and wood products, which account for roughly four fifths of total exports. Thus, while total export volume during the first half of this year was some 8 per cent below a year earlier, the volume of sawn-timber and pulp exports fell by 21 and 18 per cent, respectively. This decline in activity in the forest industries has adversely affected over-all production and employment. Early in September the authorities outlined a broad program of budgetary measures—including government loans for further expansion and rationalization of the forest industries, and increased depreciation allowances for new industrial plant and equipment in general—to supplement and reinforce the steps taken in the credit sector.

EXCHANGE RATES

The notable stability that had characterized sterling in previous months continued during September. At the beginning of the month, seasonal demand for dollars in London (particularly from tobacco interests) and uncertainty over developments in the Far East temporarily depressed the quotation for American-account sterling to $\$2.79\frac{13}{16}$. An immediate reaction, however, advanced the rate to about $2.80¼, where it remained in a relatively quiet market until midmonth. Thereafter, under increasing commercial demand for sterling the quotation gradually moved upward, reaching $\$2.80\frac{25}{32}$ on September 23 and again at the month end, following a brief dip to $\$2.80\frac{17}{32}$.

In the forward market rather substantial commercial purchases of sterling and intermittent speculation regarding a further reduction in the Bank of England discount rate contributed to a narrowing of the discounts. By midmonth the spread on three months' delivery had contracted to $\frac{15}{32}$ cent and on six months' sterling to 1 cent. Subsequently, only minor fluctuations occurred until the end of September when three and six months' sterling further narrowed to ⅜ cent and $\frac{27}{32}$ cent, the narrowest spreads since February 1955.

Transferable sterling, following the pattern of American-account sterling, declined to the month's low of $\$2.77\frac{31}{32}$ early in the month on offerings from the Continent. After recovering somewhat, the quotation remained relatively steady in a quiet market until mid-September when demand from Continental sources, including central banks, caused the rate to appreciate to $\$2.79\frac{3}{16}$ by September 23. A slight easing in the quotations followed, and at the month end the rate was $\$2.79\frac{1}{16}$. The securities-sterling quotation ranged between $2.77¼ and $2.78 during the month, and on September 30 was $2.77½.

The pressure on the Canadian dollar, which developed in the last half of August, continued into the first part of September. Persistent demand for United States dollars by Canadian commercial interests, substantial offerings of Canadian dollars from London, and some movement of capital from Canada to the United States to take advantage of the higher short-term interest yield in this country combined to move the rate for the Canadian dollar from $\$1.02\frac{49}{64}$ at the beginning of September to $\$1.01\frac{49}{64}$ on September 10, the lowest quotation since February. Following the increase in the Canadian Treasury bill rate on the next day, and with increased offerings of United States dollars by Canadian commercial interests (particularly paper companies), the pressure on the Canadian dollar eased. These factors, together with a developing demand for Canadian dollars from London and also on United States commercial account, in part by grain interests, strengthened the rate to $\$1.02\frac{25}{32}$ by September 19. Thereafter, the quotation moved rather erratically in a thin market, although the tendency was toward lower levels. On September 30 the Canadian dollar stood at $\$1.02\frac{33}{64}$.

THE STORY OF CHECKS

The Federal Reserve Bank of New York has available for distribution a new illustrated booklet, entitled *The Story of Checks,* prepared as a teaching aid for secondary schools. It describes the past and present role of checks and check-clearing operations and discusses plans for meeting problems of future increases in the volume of checks. Requests for copies should be directed to the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y.

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Recent Canadian Economic Developments

Canada's vigorous growth during recent years was checked in early 1957 by the development of recessionary forces that affected the economy more widely than in either of the earlier postwar declines. Nevertheless, the 1957-58 dip in Canada was less steep though slightly more protracted than that in the United States. While industrial activity had recovered about half of its decline by mid-1958, the economy does not appear as yet to have regained the dynamic strength of the country's earlier expansion.

THE DOWNTURN AND THE BEGINNING OF RECOVERY

The relatively moderate decline in Canadian business activity is the more notable in view of the exuberance of the preceding investment boom. Strong world demand for Canadian exports in 1955-56 had been an important factor in stimulating enormous capital expenditures; at the same time, there had been a broad growth of production for domestic use. Thus between the third quarter of 1954, when the powerful upswing began, and the final quarter of 1956, when business activity reached a peak, gross national product (GNP) rose by more than one quarter, of which only a minor part reflected higher prices. During the same period, the rate of gross domestic investment grew by over one half. Although GNP has increased further since that time, the more recent gains have apparently reflected higher prices more than increased production.

Industrial production, which reached a peak in February 1957, fell by 7 per cent in the following ten months. By June 1958, however, almost half of the decline had been recovered. Both the downturn and the recovery were more pronounced in durable than in nondurable manufacturing; mining output, on the other hand, fluctuated during the first six months of this year around the same levels as in the comparable period of 1957.

Recovery in production during 1958 has not been enough to eliminate slackness in many lines of activity where capacity has been substantially increased. Neither have there been any clear signs of an imminent upturn in business investment. Such investment (excluding residential construction) in the second quarter of 1958 was 10 per cent lower than the peak reached in April-June 1957. The official midyear estimate of 1958 business investment noted a further weakening of spending plans, with the total for the year falling to 13 per cent below actual investment in 1957.

New housing construction, in contrast, has recovered rapidly. Partly as a result of financing difficulties, such construction had begun to fall in mid-1956 and, by early 1957, was the most depressed sector of the economy. By the year end, however, with a large boost from the government's program of direct housing loans, residential construction had regained a near-peak level and made an important contribution to the Canadian upturn. The official expectation for 1958 is that housing expenditures will be one-quarter higher than last year. Increased government expenditures and the relatively favorable showing of Canadian export trade were also important factors in assisting recovery.

Moreover, there was only a minor interruption in the rise in personal income which, by the second quarter of 1958, was 7 per cent higher than a year earlier. An important factor in this rise has been the increase in government transfer payments, which have increased by a third from the second quarter of 1957 and have accounted for almost half of the rise in personal income. In addition, average weekly earnings have increased. Partly because of the strength of personal income, personal consumption expenditures have continued to be the most important single element sustaining economic recovery.

No feature of the Canadian recession has received more public attention than its effect on employment. Since the end of 1955 the labor force, which now averages over six million persons, has been growing at an annual rate of about 4 per cent. In 1957, despite official restrictions applied during the year, immigration exceeded a quarter million persons, more than in any year since 1913. Thus, while those who were actually employed in each month of 1957 numbered almost the same as a year previously, the number of unemployed in the winter of 1957-58 was not far short of double that of 1956-57. In March 1958, unemployment rose to a seasonal peak of 10 per cent, considerably above the previous postwar peak in the spring of 1955. While the proportion fell to 4.6 per cent by July, the decline appears to have been largely seasonal.

ANTI-RECESSION MEASURES

A sharp change occurred in the federal government's financial policy during the fiscal year ended March 1958, as the Conservative government made vigorous attempts to fulfill its mid-1957 election campaign pledges. Apart from increases in civil and military service pay effected by the outgoing Liberal government, higher federal expenditures resulted from extended unemployment insurance benefits,

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increased old-age pensions and veterans' benefits, the granting of interest-free advances on farm-stored grain, and more liberal grants to the provinces. In addition, funds were appropriated for direct housing loans, public work projects were accelerated where possible, and there were widespread if minor tax rate reductions. As a result of these factors, the past fiscal year to March 1958 ended with a deficit of $39 million,[1] whereas it was originally budgeted for a surplus of $152 million.

In the fiscal year ended March 1959, with only small tax changes, the government expects revenues to fall by about 8 per cent, but scheduled expenditures will boost total budgetary outlays by over 4 per cent. According to the most recent official estimate, the budget deficit will be $700 million, by far the largest in peacetime. When account is taken also of nonbudgetary expenditures (mainly public investment) of almost $800 million, the government's cash requirements for 1958-59 will be in excess of $1.4 billion, or 30 per cent of budgetary receipts.

The intensity of the 1954-56 investment boom led the authorities to adopt a policy of monetary restraint aimed at keeping increases in the money supply (currency and nongovernment bank deposits) in line with the growth in output. The commercial banks (chartered banks) continued to increase their business loans until mid-1956, when the level of their deposits stabilized and the rate at which they had been liquidating government securities was greatly reduced.

The reversal of monetary policy from restraint to ease has been reflected in a number of significant developments. Since mid-1957, there have been few occasions when the commercial banks were under pressure. Furthermore, yields on government bonds which had reached their maximum in mid-August 1957 declined, and deposits at commercial banks resumed their upward movement. As for bank assets, there has been a general downward trend in loans, but an increase in liquidity, and since the end of November 1957 a massive reinvestment in government securities. In the seven months to mid-1958, bank holdings of government bonds rose by 38 per cent. Indeed, the growth in chartered banks' bond holdings more than accounted for the entire growth in government indebtedness during the period and was almost equal to the increase in the Canadian money supply.

THE BIG BOND CONVERSION

The Canadian money supply increased in the first half of 1958 at a rate exceeding 10 per cent per annum, comparable with that which had accompanied the recovery in early 1955. At the same time, the government was committed to heavy expenditures and large new cash requirements for at least the rest of the fiscal year. In addition, $1.35 billion of government bonds was due to mature before January 1959. In these circumstances, the Minister of Finance in July announced the government's intention to refund a major part of its debt. The purpose of the conversion offer, the biggest financial operation in Canadian history, was stated to be the lengthening of the average maturity of the debt and the reduction of the amount of refinancing to be done over the next few years.

Holders of all unmatured 3 per cent Victory Bonds, of which five issues were outstanding, were offered the opportunity of an exchange for Conversion Bonds of longer maturity. The total of outstanding Victory Bonds was $6.4 billion, over three fifths of the government's total direct market issues. Furthermore, the offer actually anticipated the earliest call dates of the three longest Victory Bonds totaling $4.3 billion. The new Conversion Bonds consisted of four noncallable issues of 3¼, 7, 14, and 25 years, with coupon rates of 3, 3¾, 4¼, and 4½ per cent, respectively; the new issues were exchangeable for equal principal amounts of Victory Bonds, with the restriction that the maturity date of the Conversion Bond had to be appreciably later than the final maturity of the Victory Bond offered in exchange. The authorities made no attempt at that time to raise new money from the public; the offer was for conversion only, and the interim needs of the government for cash were met by a short-term loan placed with the Bank of Canada and the commercial banks.

A notable feature of the operation, apart from its size, was the fact that the 4¼ and 4½ per cent coupons of the two longer bonds were approximately ⅜ percentage point higher than the early-July yields of issues of comparable maturities. Moreover, a cash premium of up to 2½ per cent of par value was payable on conversion, depending upon the degree to which the maturity was lengthened. There was accordingly a very considerable inducement to invest in the longer issues; this was stressed in a promotional campaign, mainly addressed to small investors who held over one third of the bonds. After the offer closed in mid-September, the Finance Minister expressed considerable satisfaction with the result. Of the $6.4 billion of Victory Bonds, $5.6 billion had been exchanged and $3.3 billion of these were for the two longest maturities. The effect, therefore, was a lengthening of the average term of the government's marketable debt to ten years from five and one half.

The market for government securities remained reasonably stable throughout the operation. There was a tem-

[1] All dollar values in this article are in terms of Canadian dollars, except as noted.

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porary drop, followed by a rise, in the bill rate and in short-term bond yields. For long-term government bonds other than Victory Bonds, the upward movement in yields was relatively small. During this period, support operations by the Bank of Canada resulted in an increase of some $0.3 billion in the bank's holdings of government bonds, accompanied by a partially offsetting decline in its Treasury bill holdings.

At the end of the conversion operation in mid-September, announcement was made of an issue of $0.6 billion in short-term bonds, with maturities of nine and eighteen months, priced close to current market rates, to yield 2.77 and 2.96 per cent, respectively. Of this, $0.4 billion is for refunding and the remainder for general purposes. At the same time, the terms of the forthcoming 1958 series of Canada Savings Bonds were announced; the new issue will carry an average yield of 4.19 per cent and a fifteen-year maturity, in contrast to last year's 4.46 per cent and a twelve-year maturity.

THE INTERNATIONAL SECTOR

The Canadian recession and recovery have been much affected by the course of international trade and payments. Capital movements have been particularly important in this respect, responding not only to the pace of Canadian development but also to such considerations as the dollar exchange rate and the relation of Canadian interest rates to those of the United States. Especially during periods when growth in Canada has been more rapid than elsewhere, a policy of restraint aimed at checking domestic inflationary pressures has tended to attract foreign capital. This result was notably evident in 1956 and early 1957. Since the authorities have continued their eight-year-old policy of a flexible exchange rate and have intervened only to offset short-term fluctuations and not to resist broad underlying movements, changes in official Canadian reserves have been quite small in the past two years. In this setting, it was the domestic investment boom that gave rise to the paradoxical association of a huge trade deficit and a high premium on the Canadian dollar.

The surge of foreign capital into Canada during the 1955-56 boom provided for approximately one third of Canada's net new investment in the two years to mid-1957; United States investors provided almost three quarters of this foreign long-term capital. It was in 1956 that the inflow developed its full force. Between 1955 and 1956, current direct investment in Canada increased by nearly one half, to $0.6 billion, and even the reduced 1958 flow is still not far below the 1955 rate. A still more marked swing occurred in securities transactions; a net outflow of funds on this account in 1955 was transformed into an inflow of more than $0.7 billion in each of the following years, despite the abrupt fall in new Canadian flotations abroad in the second half of 1957.

Canadian exports maintained their steady growth until the second quarter of 1957, although a weakening of world demand had already caused contractions in some lines. Nevertheless, fears of Canadian exposure to recession as a primary materials exporter have been by no means fully realized. Recent increases in such items as uranium ores and wheat have caused total exports, even in the first half of 1958, to be 2 per cent higher than in the comparable months of 1957. Imports, on the other hand, were cut back sharply after mid-1957, a reflection of the fact that developments in extractive and basic industries had reached a point where imports of equipment could be reduced. The brunt of the change in the Canadian merchandise balance fell on imports from the United States which, in the first seven months of this year, were 14 per cent lower than a year previous.

After the relatively low level of capital inflow in the second half of 1957, there was a resumption in early 1958 of substantial foreign flotations by Canadian institutions. Whereas the earlier borrowing had been applied mainly to the basic development of primary production, the more recent has been to a greater extent intended for use by local governments; as such, it has been less of a stimulant to imports than was business investment. For this reason it has tended to exert a more bullish influence on the exchange rate.

The broad movement of the Canadian dollar over the past fourteen months can thus be regarded as primarily conditioned by the results of the investment flow. The peak exchange rate of over 1.06 (United States dollars per Canadian dollar) in August 1957 occurred just after the check to the inflow of developmental capital, and the low point in January 1958 of below 1.01 marked a weakness that was in part due to heavy seasonal payments from Canada of interest and dividends; the slow appreciation in the first half of this year to a maximum of about 1.04 in July in turn accompanied an increased capital inflow, while the more recent depreciation reflects a slowing-down in capital inflows during the third quarter.

CONCLUSION

Canada has thus experienced not merely a weakening in world markets for some of its products but also a normal readjustment following the culmination of a great developmental investment boom. For several reasons, however, the 1957 contraction was moderate. Consumption demand

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continued to rise slowly, several large basic investment projects still had to be completed, a lower trade deficit shifted some of the impact of recession to Canada's suppliers, credit policy was eased, and the federal government embarked upon a heavy expenditure program. The last has resulted in a larger budgetary deficit for 1958-59 than for any peacetime year. The government's cash needs in the first half of this year have contributed to a rapid increase in the money supply, inasmuch as the larger debt has been associated with increased bank holdings of government bonds. In mid-1958 the bond market also faced a large refinancing of maturing debt. The conversion offer was thus designed not only to lengthen the average maturity of the debt but also to meet the financial needs arising from the government's anti-recessionary fiscal policy. The success of the offer has been accompanied by a somewhat higher level of government bond yields.

The recovery this year has been persistent but partial. Canada's expanded industrial capacity remains less than fully used in many sectors, and unemployment continues to be a higher proportion of the growing labor force than a year ago. However, consumption demand and over-all exports remain strong. Thus, while signs of a resurgence of business fixed investment are lacking, the Canadian economy appears well prepared to respond rapidly to any improvement in world demand for its products.

Manufacturing in the Second Federal Reserve District, 1947-56

From time to time it is interesting to stand back from the details of current business activity to review the overall patterns of business growth that have emerged. Over the past century the most striking changes in the complexion of the American economy, and of the area now comprising the Second Federal Reserve District, have been the shift of a rapidly growing population from rural to urban life and the shift from farming to manufacturing in the composition of goods produced. Manufacturing has long been more important as a source of income and employment than any other sector of the economy, and the Second Federal Reserve District has been one of the nation's major manufacturing centers.

Between 1947 and 1956 the pattern of growth and change in Second District manufacturing largely reflected the fundamental structural trends at work in the national economy, but factors peculiar to the District also played an important part in shaping the development of manufacturing here. Thus, manufacturing did not grow so rapidly in the District as it did in the country as a whole, while the outstanding structural change within manufacturing in the Second District was a sharper shift toward the durable goods industries than that which took place on the national level. Similarly, in the major manufacturing centers within the District, developments mirrored national and District-wide trends but varied widely owing to local conditions. This article reviews the broad aspects of the growth and change of manufacturing in the Second District during the postwar period as shaped by the interaction of national, regional, and local forces.

The importance of manufacturing in the economy of the Second Federal Reserve District is frequently underestimated because of the diversity of economic activity in the District and its pre-eminence in retail and wholesale trade, specialized services, and finance. But manufacturing actually plays a somewhat more important role in the District than it does in the rest of the country; in 1956, manufacturing provided about 34 per cent of nonfarm employment in the Second District as compared with an average of 32 per cent elsewhere in the United States. Moreover, the number of manufacturing jobs in the District was more than twice as large as those in the next most important sector of its economy, the service trades.

Apparel manufacturing is by far the largest single source of factory employment in the District, providing more than twice as many jobs as any other industry. The concentration of this and other soft goods industries in and around New York City helps to make it the largest manufacturing center in the District, despite the fact that more than two thirds of the City's employees work in nonmanufacturing lines. Durable goods manufacturing, especially of machinery, transportation equipment, and primary and fabricated metals, is predominant in upstate New York; however, nondurable goods industries are also important in some upstate communities. About one fourth of the District's manufacturing employees work in the twelve northeastern New Jersey counties, chiefly in the chemical, apparel, and heavy durable goods industries. Also included within the District is Fairfield County, Connecticut, containing some 4 per cent of the District's manufacturing employees, mainly in durable goods industries.

This concentration of industry makes the District one of the most important manufacturing centers in the nation. The latest figures on "value added by manufacture" (manufacturers' sales less the cost of their materials and other supplies) show that in 1956 manufacturing firms in the

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District accounted for some 16 per cent of value added by manufacture in the country.[1] In that year the District also provided 17 per cent of total manufacturing employment. Of the other Federal Reserve Districts, only the Seventh, which contains large parts of three major manufacturing States—Michigan, Illinois, and Indiana—can boast a larger share of United States industry. New York State, which contains more than two thirds of the Second District's manufacturing activity, was the leading industrial State in the nation, contributing 25 per cent more value added than the next most important State (Ohio). New York State ranked first among the States in value added in six major industry groups—apparel, furniture, instruments, miscellaneous manufacturing (which includes ordnance), printing and publishing, and pulp and paper.

THE PATTERN OF POSTWAR GROWTH

During the postwar years, however, manufacturing has grown less rapidly in the Second District than in the country as a whole. As the accompanying table shows, the 65 per cent increase in value added in manufacturing in the District during 1947-56 was only about three fourths of the national average. (Of course, in the District, as in the country, a substantial part of the nine-year rise in value added reflected higher prices rather than greater output.[2]) The rise in value added in New York State, which at 61 per cent was somewhat beneath the Second District average, was dwarfed by the increases achieved in States where industry is growing most rapidly, such as California (169 per cent). It was also exceeded in such older manufacturing States as Michigan, Ohio, and Indiana. On the other hand, New York outpaced some important traditional manufacturing centers, such as Massachusetts. Total employment at manufacturing plants in the District, like value added, expanded during the postwar period, but at only about 75 per cent of the national rate.

The slower postwar growth of manufacturing in the Second District was in large part attributable to the soft goods industries, which are more important here than in the national economy and which grew relatively slowly throughout the nation. However, the principal cause of the lag in the District's industrial growth was that the local soft goods industries expanded still more slowly than

Manufacturing Growth in the Second District and Its Major Metropolitan Areas

Area	Employees in manufacturing plants		Value added by manufacture	
	Number, 1956 (thousands)	Per cent change, 1947-56	Amount, 1956 (millions of dollars)	Per cent change, 1947-56
United States	17,178.3	20	139,683.0	88
Second District	2,859.6	15	22,585.2	65
New York-Northeastern New Jersey	1,904.3	19	14,589.1	57
Buffalo	211.2	15	1,915.9	87
Rochester	116.0	8	1,092.3	112
Albany-Schenectady-Troy	83.9	18	603.5	86
Bridgeport	72.9	4	610.7	79
Syracuse	64.8	19	561.0	104
Utica-Rome	44.8	−12	393.7	69
Binghamton	42.9	20	285.8	79

Source: United States Census Bureau. Second District totals estimated.

their counterparts in the country as a whole. Value added by the District's soft goods manufacturing rose only 25 per cent between 1947 and 1954,[3] almost one-third less than the national average. More strikingly, the total number of persons employed in soft goods manufacturing establishments in the Second District actually declined 3 per cent and the number of production workers dropped more than 4 per cent. The lag in the District's soft goods manufacturing more than offset the rapid growth in the durable goods sector, in which expansion proceeded at an even faster pace here than in the country at large; between 1947 and 1954, value added in durable goods manufacturing grew by 74 per cent nationally but by 84 per cent in the Second District.

CHANGING INDUSTRIAL STRUCTURE

The much more rapid growth of the hard goods sector since World War II ended the preponderance of nondurable goods manufacturing that historically has differentiated the industrial structure of the Second District from that of the rest of the nation. Whereas in 1947 nondurables accounted for 58 per cent of total value added in manufacturing in the District, compared with a national average of 49 per cent, by 1954 the share of nondurables had fallen to 49 per cent in the District but only to 43 per cent in the country. This shift to durable goods manufacturing in the District, which brought its industrial make-up more closely into line with that of the nation generally, has probably continued in the past few years.

Behind this shift lie the varying fortunes of particular industries; the accompanying chart depicts the rise in value added during 1947-54 in the District's major industries. Within the soft goods sector, the apparel industry stands

[1] The latest "value added" figures for the District are estimated from the United States Census Bureau's *Annual Survey of Manufactures: 1956*, published in August 1958.

[2] In 1956, wholesale prices of all manufactured commodities were about 28 per cent above the 1947 level; however, price increases probably inflated value added by manufacture more in the country as a whole than in the Second District because of the predominance here of textile and apparel manufacturing. This was the only major commodity group in which on the whole prices moved downward significantly during the postwar period.

[3] Data for counties, permitting estimates to be made by industries for the District, are available from the 1954 *Census of Manufactures*, but not from the less comprehensive annual surveys.

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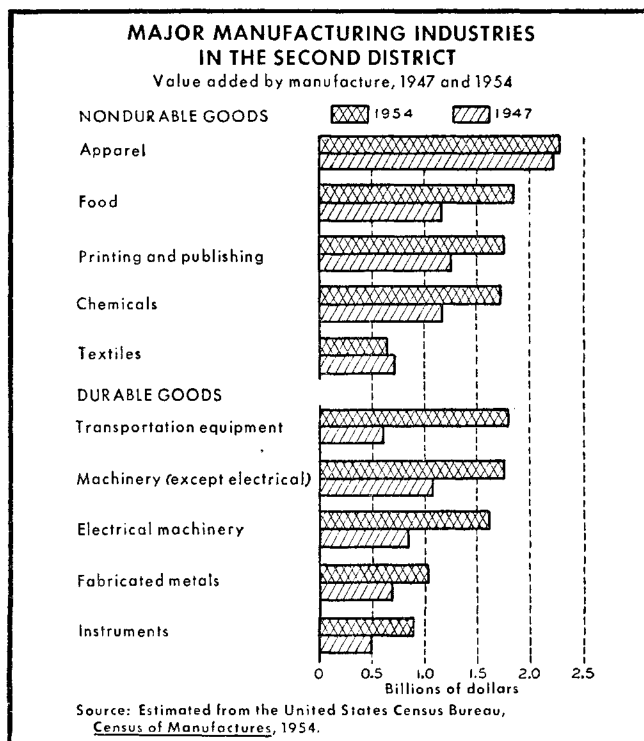
out as the largest single factor in slowing down the over-all industrial growth of the District. Clothing manufacture has long ranked first among the District's industries, accounting in 1947 for 17 per cent of total value added in the District compared with 6 per cent in the country as a whole. The relative sluggishness of demand has made this one of the least rapidly expanding American industries, but in the District a more important factor retarding growth has been the movement of the apparel industry to other parts of the country. The rise in value added in the District was less than one fourth of the national average, and the District's share of the industry slipped to 44 per cent in 1954 from 50 per cent in 1947. Most of the relative decline in the Second District was in women's wear, but ground was also lost in the manufacture of clothing and furnishings for men.

Garment manufacturing was by no means the only one of the District's soft goods industries where growth trailed the national average. The District's share of total value added in printing and publishing, its fifth largest industry, also declined somewhat, although in 1954 local firms still accounted for over 28 per cent of the national total as compared with 30 per cent in 1947. In the chemical industry, which in this District, as in the country, was the fastest growing industry in the nondurables sector, the rate of expansion here was about 60 per cent of the national average. The food-processing industry was the only one in the nondurables group to experience a more rapid increase in value added in the District than it did nationally; while slipping from first to third nationally, it rose from third- to second-ranking industry here.



Source: Estimated from the United States Census Bureau, Census of Manufactures, 1954.

In durable goods manufacturing, the transportation equipment industry had by far the most outstanding growth record in the District, nearly tripling its value added between 1947 and 1954. During these seven years, transportation equipment accounted for about 25 per cent of the increase in value added in the District's durable goods industries and it jumped from ninth place among the District's industries to third (in the country as a whole, the industry ranked first in 1954). The bulk of the rise in transportation equipment manufacturing in the District was the product of the spectacular expansion of the aircraft industry, where value added was nine times higher in 1954; aircraft manufacturing is much more important than the motor vehicle industry in the District (whereas these industries are about equal on the national level), but the rate of expansion of the latter industry here was also substantially above average.

The growth of nonelectrical machinery manufacturing in the Second District was also more rapid than in the country as a whole, and the industry rose to fourth from fifth place in the District. Similarly, the rate of increase in value added in the manufacture of electrical machinery and in the lumber and furniture industries also exceeded the national average. In the other durable goods industries, growth was slower than in the rest of the country, but the lag in the District was not great.

EXPERIENCE OF DIFFERENT AREAS

The District's major manufacturing areas, with their widely varying industrial make-up, felt the impact of postwar growth and change very differently. In 1956, some 90 per cent of total value added by manufacture in the Second District was the product of establishments located in its eight largest "standard metropolitan areas"—i.e., those cities and their surrounding regions which contain more than 40,000 manufacturing employees. By far the most important industrial area is the New York-Northeastern New Jersey area which encompasses nearly two thirds of the District's manufacturing industry.[4] However, as the table shows, this was also the only one of the metropolitan areas where the growth of manufacturing (value added rose 57 per cent during 1947-56) was beneath the District average of 65 per cent. This chiefly reflected the much

[4] In addition to New York City, this area includes Nassau and Suffolk Counties on Long Island, Westchester and Rockland Counties in upstate New York, and eight nearby New Jersey counties.

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greater relative importance of the slower growing nondurable goods sector in its industrial structure; in addition, value added in the major industries turning out durable goods in the New York area rose more slowly than elsewhere in the District.

Within the New York-Northeastern New Jersey area, however, there were sharply contrasting trends. In New York City, which contains about half this area's industry, value added rose only 21 per cent through 1954; Nassau and Suffolk Counties, by contrast, comprise one of the fastest growing industrial areas in the country, with value added in 1954 more than five times above the 1947 level. This largely reflected the area's emergence as a defense production center and, in particular, the phenomenal expansion of the aircraft industry. However, rapid rises in electronics, instruments, and fabricated metals also contributed to Long Island's growth as a durable goods manufacturing center. The success of the northeastern New Jersey counties in attracting durable goods industries also helped to bolster the position of the New York area as a manufacturing center.

In contrast to New York, the remaining metropolitan areas in the District showed an 88 per cent average rise in value added during 1947-56. With its concentration of heavy industry, the Buffalo area, the second-largest urban center in this District and the tenth largest in the country, benefited from the postwar growth in the durable goods industries. A large part of the rise in value added occurred in primary metals, an industry in which Buffalo, as one of the largest steel-producing areas in the country, accounts for about half of the value added in the District. This was closely tied in with the expansion of the automotive industry since Buffalo plays a large role in the production of auto bodies, parts, and accessories. The Rochester area was the swiftest growing metropolitan manufacturing center in the District, chiefly because of the rapid expansion of the photographic equipment industry, but also reflecting above-average rates of growth in the electronics, machinery, and fabricated metals fields. Manufacturing in the Syracuse area, another one of the District's traditional durable goods centers, expanded markedly over this period as the dominant nonelectric and electrical machinery industries grew rapidly.

In the area centered around Albany, where the fast-growing heavy electrical machinery industry predominates, manufacturing grew as quickly as in any but the most rapidly expanding areas in the District; the increases in value added in the nonelectrical machinery industry and in the miscellaneous group in this area were much sharper than elsewhere in the District. On the other hand, the Bridgeport area, within which the great bulk of manufacturing in Fairfield County, Connecticut, is done, was among the slower growing parts of the District despite a preponderance of durable goods industries. The important primary metals, fabricated metals, electrical machinery, and aircraft industries there did not grow so much as they did in the rest of the District; in the manufacture of nonelectrical machinery, however, expansion in the Connecticut area was well above average. While value added rose relatively slowly in Utica-Rome and in Binghamton, the two smallest of the District's major metropolitan centers, their record nonetheless represents considerable success in overcoming the structural handicap of dependence upon soft goods industries. In the Utica-Rome area, which suffered a decline of nearly two thirds in value added in textiles, which had been its major industry, the slack was taken up in part by the expansion of such durable goods industries as electronics, tools, and automotive parts. In similar fashion, the losses incurred in the dominant shoe manufacturing industry in the Binghamton area were made good by the expansion in the manufacture of business machines, instruments, and ordnance.

CONCLUSIONS

The slower growth of manufacturing in the Second District, compared with the rest of the country, has reflected to a substantial extent the decline in the competitive position of its soft goods industries, especially apparel. In contrast to the lag in soft goods industries, the growth of output of durable goods industries has been more rapid than in the rest of the country. As a consequence of these shifts, the District's durable and nondurable goods industries have been brought into closer balance. This suggests that in the future the rate of expansion of manufacturing in the Second District may more closely approximate that in the rest of the country.

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