

FEDERAL RESERVE BANK OF NEW YORK



MONTHLY REVIEW

MAY 1959

Contents

The Business Situation	66
Money Market in April	70
International Financial Developments	73

Volume 41

No. 5

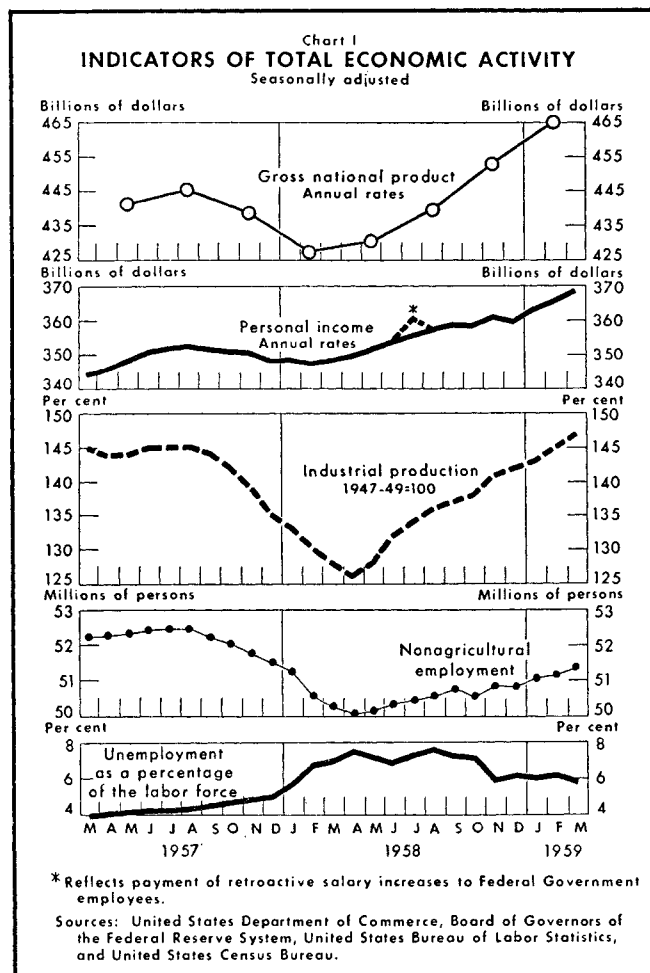
The Business Situation

The month of April provided further evidence that business activity has been expanding along a broad front. Newly available data indicate that the nation's output of goods and services, measured in terms of real gross national product, advanced beyond its pre-recession peak during the first quarter of this year, and further gains were apparently recorded in April. The Federal Reserve Board's seasonally adjusted index of industrial production (as shown in Chart I) climbed to a record level of 147 in March, one point above the previous high reached in the winter of 1956-57. At the same time, a marked increase in personal income—the largest advance recorded for a single month since mid-1956—contributed to a quickening in the pace of consumer purchases of automobiles and other durables, and provided a solid underpinning for continued record outlays on nondurable goods and services. Capital spending has registered further gains, though still of modest proportions, while the latest McGraw-Hill survey of capital spending intentions suggests that businessmen are continuing to raise their targets for plant and equipment outlays during 1959. The consumer price index held a steady course in March, extending to nine months the period of virtual stability.

As advances in production and demand have become more widely diffused through the economy, the unemployment situation has shown the first distinct improvement in a number of months. According to the Census Bureau, total employment advanced substantially in March while unemployment declined by nearly 400,000, almost twice the usual drop for the month. This reduced the seasonally adjusted rate of unemployment from 6.1 per cent of the labor force in February to 5.8 per cent in March, the lowest rate since January 1958. Particularly encouraging was the fact that the decline in seasonally adjusted unemployment was concentrated among men of twenty-five years and over, most of whom are heads of families.

Nevertheless, the March unemployment percentage was still well above the pre-recession average of about 4 per cent, and exceeded the rate for comparable stages of recovery during the 1948-49 and 1953-54 recessions; the number of long-term unemployed (persons out of work for fifteen weeks or more), moreover, remained virtually unchanged. For many major industries, the recovery in employment has been slower than in previous postwar upswings, even though recent production gains have been more rapid (at least as compared with 1954-55). Steel out-

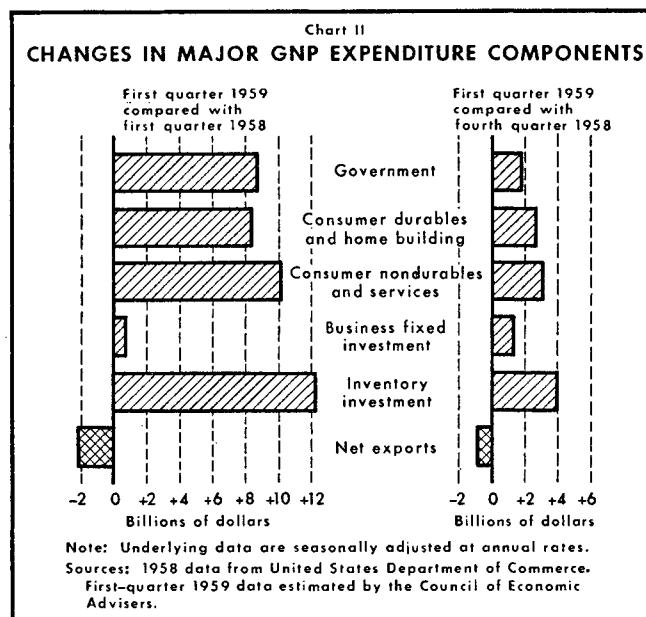
put, for example, had risen to record levels in March, but employment in the steel industry (as measured by the Bureau of Labor Statistics) remained some 10 per cent below its previous peak. And in manufacturing as a whole, production in March was 17 per cent above the April 1958 recession low, as against an employment gain of less than 5 per cent; during a comparable period in the 1954-55 upturn, manufacturing output advanced 13 per cent, while employment rose 6 per cent. However, with a rise of the average workweek in manufacturing to the relatively high level of 40.1 hours, prospects seem favorable that further expansion in output will now result in more active rehiring. The apparently more-than-seasonal decline in insured unemployment since mid-March suggests, in fact, that a further reduction in the jobless total is currently under way.



The spate of favorable economic news in recent weeks appears to have strengthened business and consumer confidence in the economic outlook. It is widely recognized, nevertheless, that there are a number of uncertainties in the present situation which call for a cautious appraisal of current business trends. A key question, of course, is how much of the current expansion in productive activity can be attributed to precautionary inventory accumulation in anticipation of possible midyear strikes in the steel industry and some other industries, and thus merely represents "borrowing" from the future. Undoubtedly, "hedge" buying has been a major factor in pushing the rate of steel production close to capacity limits during the past several months; in April, this rate averaged 93 per cent of capacity. Even in the steel industry, however, an important share of the enlarged output was absorbed by a rising volume of current production in metal-consuming industries, as well as by an expansion in inventories to support improved sales. Moreover, while the spurt in primary metal output was a major factor in the two-point rise of the industrial production index during March, output gains were widely distributed throughout the range of industrial activities.

A second major source of uncertainty revolves around the question of whether the underlying forces of demand will be strong enough in coming months to permit a continuation or acceleration of the current momentum of expansion, even if the cessation of current hedge buying in anticipation of midyear work stoppages should prove to have only a relatively minor impact on the over-all business trend. As Chart II indicates, the expansion in major areas of aggregate demand during the first quarter of 1959 followed approximately the pattern set since the beginning of the current recovery. Changes in inventory investment, in line with the experience typical of the early phases of cyclical upswings, have provided a major stimulus to the expansion, while rising consumer expenditures for durables and housing, higher business outlays for new equipment, and continued advances in government spending as well as in consumer purchases of nondurable goods and services have also made important contributions.

This pattern, however, is likely to change significantly over the coming year. To be sure, the rate of inventory accumulation during the first quarter was not so high as during comparable stages of other recent recoveries, and inventories are still quite low relative to sales in most industries; thus, there appears to be room for a substantial further build-up of stocks. But even with rising stocks, the net stimulus to over-all activity provided by the inventory sector may, on balance, become smaller over the rest



of the year. At the same time, a leveling-off in the pace of advance in government expenditures may well be in prospect. Thus, it seems likely that the primary spur to further advances in aggregate output will have to come from the consumer sector and from business capital spending.

CONSUMER DEMAND AND HOUSING

Consumer demand has staged a marked revival in recent months. Retail sales rose substantially in March to \$16.9 billion, a new record high in seasonally adjusted terms, and partial April data for department store and auto sales suggest a further gain. Moreover, the buoyancy of sales seems to be especially marked for durables and other postponable items—a sign that incomes are rising broadly and that people are confident about the future. Consumer credit growth speeded up during the first quarter to a seasonally adjusted annual rate of \$5.5 billion, approaching the record pace of the 1955 boom. Significantly, however, the composition of this growth differs from that which occurred in 1955; more money is being borrowed for household items and home repair and on charge accounts and considerably less for automobiles.

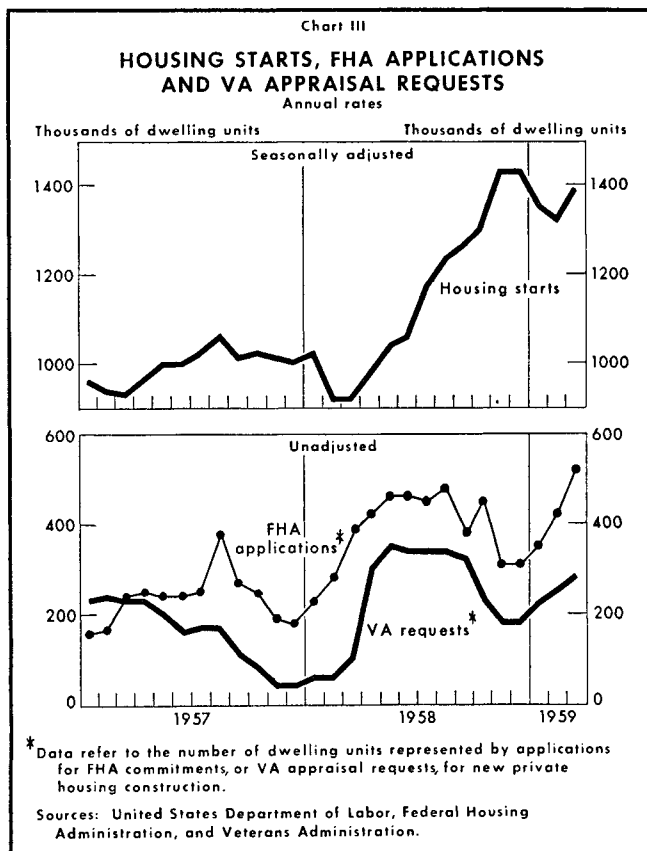
The most vigorous gain in consumer demand, broadly interpreted, has been for housing. Plans to purchase homes and to make large outlays on home repair and improvements, as reported in the Survey of Consumer Finances, were sharply higher in early 1959 as compared with early 1958. Beginning with November 1958, private housing

starts have been at an annual rate of over 1.3 million units, as high or higher than during the 1955 housing boom and nearly matching the all-time record of 1950. Furthermore, the pace of applications for Federal Housing Administration- and Veterans Administration-approved construction—which represents the most volatile part of the housing market, even though it accounts for a lesser proportion of the total than during the previous boom—suggests continuing strength in residential starts. (See Chart III.) A rather sizable share of recent building has consisted of apartment houses; in 1958, one out of every six dwelling units started was an apartment, the largest proportion since 1949. The fact that suburban land in a growing number of areas has become too expensive for single-family units has been cited as one reason for this trend.

As in the past the spurt in housing has helped to produce substantial sales gains for furniture and most household appliances. Output of major household durables has been running at record rates, although probably somewhat ahead of sales as inventories are gradually being rebuilt

from the very low levels to which they had been cut in 1958. Recent trends in the automobile market have also been encouraging. Sales of new domestic cars in March and April exceeded the February pace by about 12 and 16 per cent, respectively. This would appear to represent a more-than-seasonal improvement and has led some manufacturers to revise upward the sales forecast for 1959 to six million cars, of which perhaps 500,000 would be imports.

The reception of the smaller American cars now scheduled to be introduced later this year may determine whether these sales forecasts turn out to be correct. The large gains recorded by the small cars already on the market and the active demand for used cars suggest a promising market for the new "compact" cars. It remains to be seen, of course, whether the introduction of the smaller cars will lead to a net expansion in the over-all demand for automobiles. The smaller cars might establish their place in the market by drawing from the bigger models as well as by cutting into sales of used cars. To the extent that used-car sales are affected by the introduction of smaller cars, used-car prices and trade-in values would fall, and this, too, might exert a depressing effect on sales of the larger models; actually, the present strength of the used-car market has resulted in higher trade-in values which have made new cars attractive despite higher list prices and smaller discounts than in recent years.



THE CAPITAL GOODS SECTOR

Business expenditures for capital equipment, while still 15 per cent below the 1957 peak, advanced sharply in the first quarter of this year, and further advances are foreshadowed by the marked rise in machinery orders as well as by recent studies of business capital spending plans. According to the survey conducted by McGraw-Hill in March, businessmen now anticipate a 7 per cent rise in 1959 capital outlays over the 1958 level; the Commerce-Securities and Exchange Commission study undertaken a month earlier had implied a lesser gain of 4 per cent. (If it is assumed that capital spending is now on a rising trend, the increase in the rate of outlays between the *end* of 1958 and the *end* of 1959 may, of course, substantially exceed 7 per cent.) Because of certain differences in coverage (principally more extensive participation of smaller and medium-sized firms in the Commerce-SEC survey), it would be hazardous to attach too much importance to detailed comparisons between the McGraw-Hill and Commerce-SEC data; it seems likely, however, that a fair number of industries raised their spending targets between February and March. A perhaps more significant result of the new McGraw-Hill survey is the evidence of a sharp

upward revision in the capital spending plans of business firms that McGraw-Hill had surveyed on a preliminary basis last fall, and which then anticipated almost no net increase in capital outlays during 1959 over 1958.

The McGraw-Hill report also contains an interesting analysis of the nature of the projected capital outlays. Nearly two thirds of new fixed investment planned by manufacturing companies for 1959-62 will be devoted to improvement and modernization of existing facilities; both the amount and the proportion to be spent for this purpose in 1959 will, in fact, be higher than in any year since 1950. Conversely, planned outlays for expansion of facilities are relatively moderate, a fact which is reflected in the continuing lag in business construction (expenditures for this purpose showed no gain in April after declining for three successive months) and can be readily explained by the existence of idle capacity in most industries. At the end of 1958, for example, manufacturing companies on the average operated at 80 per cent of capacity, compared with a preferred operating rate of about 90 per cent; every industry surveyed, moreover, indicated that its rate of capacity utilization was below preferred levels.

While the prevalence of idle capacity places an important limit on the total volume of capital expenditures, it is quite possible that actual capital outlays during 1959 will exceed the volume projected in the latest McGraw-Hill survey. For one thing, business capital spending intentions appear to be subject to rather sharp shifts at cyclical turning points, as pointed out in last month's *Review*. Although the spending plans reported in the March McGraw-Hill survey already represent a substantial upward revision from those of last December, it is noteworthy that they were formulated against the background of over-all sales expectations that were virtually unchanged; if the current quickening in the pace of economic activity should lead to a significant reassessment of over-all sales prospects, further upward revisions in investment programs also may result. Second, average capacity data do not necessarily provide a reliable guide to the impact of rising sales on the capacity requirements of individual industries and companies. Thus, half of the manufacturing industries surveyed by McGraw-Hill at the end of 1958 operated only slightly below the rates of capacity reported at the end of 1954, when the economy stood at the threshold of a capital investment boom. Third, the rise in profits thus far this year may well have exceeded earlier expectations, thus providing a further stimulus to new investment. While precise data

are not yet available, a recent statement by the Secretary of the Treasury indicates that corporate profits reached a record level in the first quarter. In any event, a continued expansion in corporate cash flows (annual depreciation allowances, according to McGraw-Hill, are scheduled to advance by 21 per cent between 1958 and 1962) would seem to provide a broad financial base for additional capital spending.

Recent advances in profit margins can be attributed to an important extent to the sharp rise in productivity which has taken place during the first year of recovery. Estimates of recent productivity gains vary widely, depending on the definition of productivity and the time periods used. There is little doubt, however, that increases in output per man-hour over the past year have been quite substantial; further advances may still be taking place at the present time, although very likely at an appreciably slower rate than in the latter half of last year. Of course, a major share of the productivity gain is attributable to the higher rates of plant capacity utilization as the economy emerged from the recession. Clearly, however, the large-scale modernization programs carried out during the recent capital spending boom as well as the record volume of business expenditures on research and development (which, according to McGraw-Hill, totaled \$8.2 billion in 1958) must also receive a large share of the credit for the improvement in industrial efficiency. To the extent that current increases in profit margins can be regarded as the fruits of the previous introduction of new processes and more efficient equipment, they serve to dramatize the advantages of modernization and may thus give additional impetus to an upward revision in capital spending plans.

CONCLUSION

Over-all production and spending have by now forged ahead of their pre-recession peaks, and there are encouraging indications that the pace of the advance may continue. However, the rate of unemployment, though significantly lower in March than in preceding months, still remains at a much higher level than during corresponding stages of other recent recoveries. A decline in joblessness to markedly lower levels is dependent on a considerable further expansion in final demand. The setting may now indeed be favorable for a substantial further strengthening in the demand for consumer goods as well as in business capital outlays.

Money Market In April

The money market was tight during most of April, as reserve pressures converged on the money market banks in New York City and Chicago until the last few days of the month. These pressures partly reflected a slackening in nonbank demand for Government securities and resulting heavy financing needs of Government securities dealers. The effective rate on Federal funds was at the 3 per cent discount rate ceiling on all except two days of the month, while dealer loan rates posted by New York City banks rose to 3½ per cent by midmonth after having ranged between 2¾ and 3¼ per cent during March. The average issue rate on three-month Treasury bills rose steadily to 3.105 per cent in the April 20 auction, the highest rate since December 1957. Toward the latter part of the month the demand for short-term securities revived, and in the April 27 auction the average issue rates dropped close to those of the last auction in March.

Yields on long-term and intermediate Treasury obligations advanced fairly steadily over the month, and several issues were yielding about 4¼ per cent at the month end. Investor interest in these securities waned in the face of reports that the expansion in economic activity was accelerating, expectations that credit policy might become tighter, and the approach of the Treasury financing in May. However, the decline in prices was for the most part orderly and gradual, reflecting dealer response to the shift in sentiment, and offerings were not pressed upon the market in large and sustained volume.

MEMBER BANK RESERVE POSITIONS

Reserve positions of member banks on a weekly average basis were generally within the range of \$150-250 million net borrowed reserves during the five statement weeks ended in April, averaging \$222 million for the period as a whole compared with \$140 million in March. Average excess reserves declined by \$5 million to \$456 million, while average member bank borrowings from the reserve banks were \$77 million higher at \$678 million.¹

In the first statement week ended in April, reserve drains from operating transactions were offset by a sharp drop in required reserves, and System open market operations were relatively small in volume. During the next

¹ The figures for net borrowed reserves used in the text and in Table I are larger than reported in preliminary press releases during the month and reflect revised data on required reserves that became available in early May.

Table I
Changes in Factors Tending to Increase or Decrease Member Bank Reserves, April 1959
(In millions of dollars; (+) denotes increase, (-) decrease in excess reserves)

Factor	Daily averages—week ended					Net changes
	Apr. 1	Apr. 8	Apr. 15	Apr. 22	Apr. 29	
Operating transactions						
Treasury operations*	- 65	+ 6	+ 53	+ 23	- 101	- 84
Federal Reserve float	+ 37	- 84	- 98	+ 314	- 230	- 61
Currency in circulation	+ 6	- 55	- 85	+ 33	+ 88	- 13
Gold and foreign account	- 69	+ 68	+ 15	- 38	- 64	- 88
Other deposits, etc.	- 136	+ 165	+ 4	- 16	+ 71	+ 88
Total	- 226	+ 98	- 111	+ 318	- 236	- 157
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases of sales	+ 1	+ 22	+ 61	- 34	+ 97	+ 147
Held under repurchase agreements	- 17	+ 206	+ 6	- 211	- 33	- 49
Loans, discounts, and advances:						
Member bank borrowings	+ 12	+ 60	+ 31	+ 46	- 93	+ 56
Other	- 1	-	-	-	-	- 1
Bankers' acceptances:						
Bought outright	- 3	+ 1	-	- 1	+ 1	- 2
Under repurchase agreements	-	-	-	+ 1	- 1	-
Total	- 9	+ 290	+ 98	- 199	- 30	+ 150
Total reserves	- 235	+ 388	- 13	+ 119	- 266	- 7
Effect of change in required reserves†	+ 245	- 445	+ 48	- 10	+ 116	- 46
Excess reserves‡	+ 10	- 57	+ 35	+ 109	- 150	- 53
Daily average level of member bank:						
Borrowings from Reserve Banks	612	672	703	749	656	678†
Excess reserves‡	467	410	445	554	404	456†
Net borrowed reserves	145	262	258	195	252	222†

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for five weeks ended April 29, 1959.

two weeks reserves were absorbed by regular market factors, including first a sharp rise in required reserves arising from payment by the banks for Treasury obligations sold late in the preceding month, and then a decline in float and an outflow of currency into circulation. During this period, however, the System provided about \$300 million of reserves through open market operations, the largest part through repurchase agreements written during the week of April 8. The maturing of these repurchase agreements in the week of April 22 along with a decline in outright holdings absorbed a large part of the return flow of reserves in that week resulting from the midmonth rise in float and inflow of currency. In the last statement week open market operations again were small, as a net drain from operating transactions was partly offset by a decline in required reserves.

The decline in currency in circulation during April was less than might have been expected from seasonal influ-

ences. Because of the increased demand for currency arising from the expansion of business, the net inflow of currency to banks over the first four months of this year has amounted to only about \$900 million, compared with about \$1.3 billion in the same period of both 1957 and 1958.

GOVERNMENT SECURITIES MARKET

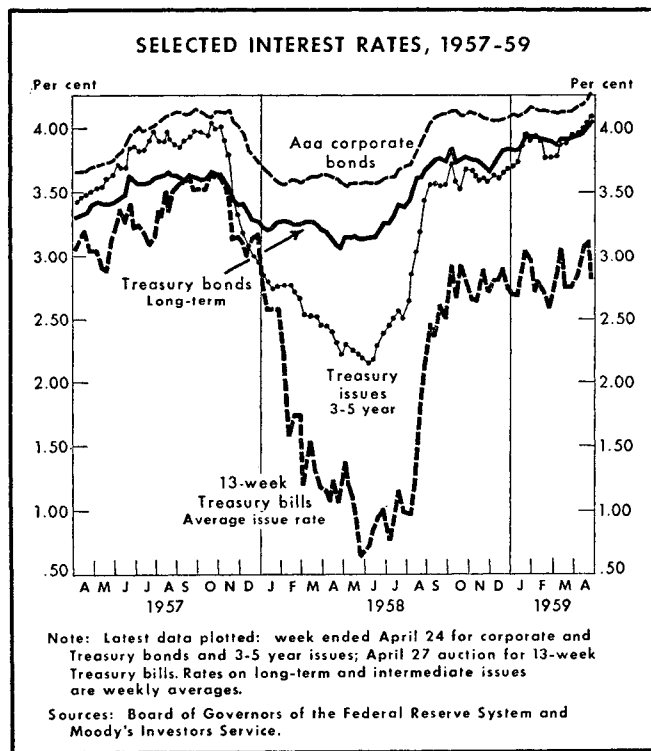
Prices of intermediate and long-term Treasury securities drifted downward during most of April with many issues falling to new all-time lows. Prices of bonds maturing after 1965 generally declined by 1 to 2¼ points over the month, while notes and bonds due between 1962 and 1965 lost ¾ to 2 points. Offerings from professional and investment sources were of limited volume but, because of an apparently growing sentiment that an upward adjustment in interest rate levels was in prospect, there was little except small-lot buying interest. Reportedly this market opinion reflected the belief that the continuing rapid expansion of business activity and the growth of the seasonally adjusted money supply would result in a more restrictive credit policy. Uncertainties over the impact of approaching Treasury debt operations also exerted downward pressure on securities prices. The sharp rise in stock prices during most of the month, to new high

levels, also underscored the continued investor preference for equities over fixed-income obligations. While price declines on long-term Treasury bonds brought the average yield to 4.07 per cent at the end of April from 3.96 per cent a month earlier, Standard and Poor's price index for 500 common stocks increased by almost 4 per cent.

After the close of the market on Thursday, April 30, the Treasury Department announced its program for meeting the \$2.7 billion of special Treasury bills and the \$1.8 billion of 1¼ per cent certificates of indebtedness that mature on May 15, 1959. The \$2.7 billion of special Treasury bills will be redeemed for cash on the maturity date. An offering of \$2 billion, or thereabouts, of 340-day Treasury bills will be dated May 11, 1959 and will mature on April 15, 1960, with payment allowed through credit to Treasury Tax and Loan Accounts. The Treasury stated that this offering represented a further step in its program to establish a pattern of one-year Treasury bill maturities with quarterly dates in January, April, July, and October. The Treasury also offered \$1.5 billion, or thereabouts, of 221-day tax anticipation Treasury bills to be dated May 15, 1959 and maturing December 22, 1959. Payment for the December tax bills is to be in cash or other immediately available funds. These bills will be accepted at face value in payment of income and profits taxes due on December 15, 1959. In addition, the Treasury will announce on Thursday, May 7, the terms of a one-year certificate of indebtedness to be dated May 15, 1959 and to mature May 15, 1960. This issue will be offered in exchange for the \$1.8 billion of 1¼ per cent certificates of indebtedness maturing May 15. Subscription books for this issue will be open on May 11 and May 12.

Treasury bill rates rose during most of April. At the start of the month, the short-term market was bolstered temporarily by a selective demand for the longer Treasury bills, as well as for certificates and short-term notes, resulting partly from the reinvestment of the proceeds of recent sales of securities in the capital market. This demand soon dried up, while reserve pressures, particularly on New York City and Chicago banks, resulted in bank liquidation of bills. As a result, until late in the month the distribution of the new bills following the weekly auctions was sluggish. Toward the close of the period, nonbank demand recovered and the heavy atmosphere surrounding this market lifted.

In the weekly auctions for 91-day bills, the average issuing rate rose steadily until the final auction when it dropped sharply. From 2.841 per cent for the issue auctioned March 30, the rate increased in successive weeks



to 2.948 per cent, 3.075 per cent, and 3.105 per cent before declining to 2.831 per cent on the issue auctioned April 27. Similarly, the average issuing rate on the six-month bills rose from 3.236 per cent for the issue auctioned March 30 to 3.249 per cent, 3.351 per cent, and 3.361 per cent, after which it declined to 3.189 per cent on the bill auctioned April 27.

OTHER SECURITIES MARKETS

Yields on corporate and municipal bonds rose during April under the influence of developments in the Government securities market, general expectations that interest rates would move higher, and a near-record calendar of new municipal offerings. Prices of seasoned corporate issues fell steadily during the month, the average yield on Moody's Aaa-rated corporate bonds closing the month at 4.30 per cent compared with 4.15 per cent at the end of March. The municipal market maintained a steadier tone until midmonth when, under pressure of mounting dealer inventories, prices of seasoned issues began to slip. At the end of April the average yield on Moody's Aaa-rated municipals stood at 3.18 per cent, against 3.06 per cent at the close of the previous month. The underwriting syndicates for a number of issues originally marketed in February, March, and early April were terminated, and the issues became available at yields 10 to 20 basis points higher than the original reoffering yields.

The estimated volume of municipal bond offerings in April reached an all-time high of \$830 million, slightly exceeding the previous high reached in February 1958. Municipal financing had totaled \$535 million in March 1959 and \$700 million in April 1958. Total corporate bond financing for new capital purposes amounted to an estimated \$300 million in April, higher than the \$195 million total for March but considerably lower than the \$760 million volume in April 1958 when several unusually large industrial offerings were floated.

In the new issues market, offerings of both corporate and municipal bonds were accorded varying receptions. Some were priced quite generously and moved rapidly out of underwriters' accounts, while others, generally the smaller offerings, met considerable resistance on the part of investors. The largest corporate offering of the period, a \$75 million Aa-rated industrial issue maturing in 1984 and nonrefundable for the first five years, was quickly disposed of at a reoffering yield of 4.35 per cent. The largest tax-exempt offering, a \$200 million State power authority issue, also was given a favorable reception. This issue consisted of \$40 million of serial bonds offered at yields ranging from 3.00 per cent to 3.80 per cent and

\$160 million of term bonds maturing in 2006 and yielding 4.20 per cent. The rate on the term bonds was about the same as that paid by the same borrower on a similar offering last January.

In the market for short-term debt instruments, several upward rate revisions were made. Dealers in bankers' acceptances raised their rates on all maturities by $\frac{1}{8}$ of a per cent on April 14, and again on April 24. After these adjustments the bid and offered rates on 90-day unindorsed acceptances were $3\frac{1}{4}$ per cent and $3\frac{1}{8}$ per cent, respectively. On April 21, both the dealers in commercial paper and the major sales finance companies increased their rates, the former by $\frac{1}{8}$ per cent and the latter by $\frac{1}{4}$ per cent on short-term paper and $\frac{1}{8}$ per cent on longer maturities. Following these adjustments, the rate on prime 4- to 6-month commercial paper was $3\frac{1}{2}$ per cent while rates paid by the major finance companies on directly placed paper ranged from $2\frac{5}{8}$ per cent to $3\frac{5}{8}$ per cent, depending on maturity, with a rate of $3\frac{1}{4}$ per cent for 60- to 89-day paper.

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, 1958 to Apr. 22, 1959
	Mar. 25	Apr. 1	Apr. 8	Apr. 15	Apr. 22	
Assets						
Loans and investments:						
Loans:						
Commercial and industrial loans.....	- 38	- 5	- 169	+ 250	- 39	- 166
Agricultural loans.....	- 7	+ 7	+ 6	+ 16	- 7	- 23
Securities loans.....	- 149	+ 500	- 204	+ 173	- 45	- 187
Real estate loans.....	+ 25	+ 21	+ 29	+ 39	+ 18	+ 319
All other loans (largely consumer).....	+ 46	+ 66	+ 36	+ 66	+ 65	+ 393
Total loans adjusted*.....	- 125	+ 590	- 302	+ 543	- 9	+ 322
Investments:						
U. S. Government securities:						
Treasury bills.....	- 130	+ 470	- 31	- 143	- 250	- 152
Other.....	- 801	+ 708	- 132	- 146	- 201	- 2,102
Total.....	- 931	+ 1,178	- 163	- 289	- 451	- 2,254
Other securities.....	- 41	+ 123	+ 111	+ 104	- 149	+ 275
Total investments.....	- 972	+ 1,301	- 52	- 185	- 600	- 1,979
Total loans and investments adjusted*.....	- 1,097	+ 1,891	- 354	+ 358	- 609	- 1,657
Loans to banks.....	+ 257	+ 233	- 444	+ 112	- 142	+ 685
Loans adjusted* and "other" securities.....	- 166	+ 713	- 191	+ 647	- 158	+ 597
Liabilities						
Demand deposits adjusted.....	- 391	- 739	+ 828	+ 1,076	+ 65	- 1,187
Time deposits except Government.....	+ 52	+ 4	+ 16	- 63	+ 63	+ 47
U. S. Government deposits.....	- 604	+ 2,604	- 1,551	- 773	- 238	- 480
Interbank demand deposits:						
Domestic.....	- 624	+ 1,051	- 373	+ 697	- 1,229	- 2,248
Foreign.....	- 65	- 23	- 39	- 35	- 74	- 170

* 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 rose by about \$200 million over the five weeks ended April 22 as a \$700 million increase in loans offset a \$500 million decline in investments. Reporting bank credit fell sharply in the week of March 25, largely reflecting the redemption of maturing Treasury securities, but the increase in the following week was even larger, as the banks took into portfolio their allotted share of the \$4.0 billion of Treasury obligations offered late last month and as they financed large dealer acquisitions of these securities. In the three weeks following, loans and invest-

ments declined on balance as Government securities holdings fell by \$900 million.

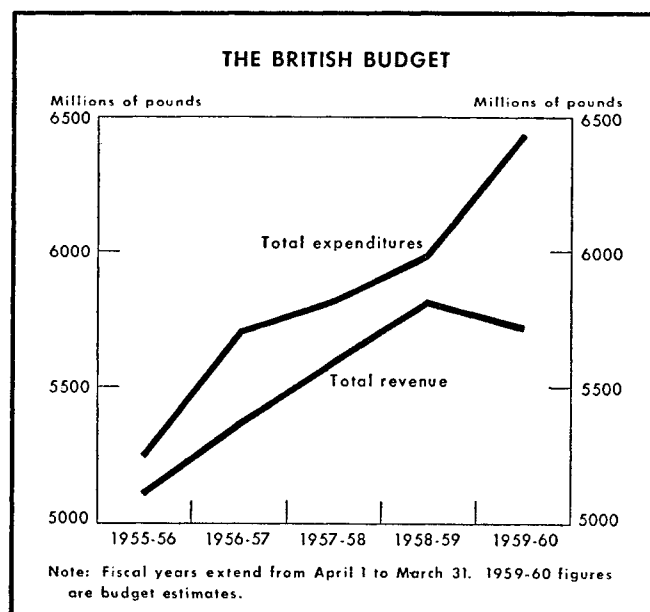
Since the end of 1958, loans and investments of the reporting banks have declined by \$1.7 billion, with the liquidation of \$2.3 billion of Government securities partly offset by small increases in loans and in holdings of other securities. This decline in bank credit is about equal to that during the same period of 1955 and larger than the decline in 1956 or 1957. (Last year, when credit policy was directed toward combating recessionary forces, bank credit rose contraseasonally by \$3.1 million.) The small decline in business loans so far this year compares with a \$2.0 billion drop in 1958, but in the previous three years business loans expanded during this period.

International Financial Developments**THE BRITISH AND CANADIAN BUDGETS**

On April 1 the 1959-60 fiscal year began in both the United Kingdom and Canada, and new budgets were presented early in the month in the two countries. The two financial programs contrast sharply. Broadly speaking, the British budget envisages substantial tax reductions and other fiscal concessions; its Canadian counterpart calls for tax increases. This basic difference reflects, of course, the different goals that are being pursued by the British and Canadian authorities as a result of the particular economic conditions in their countries. In the United Kingdom, economic activity has shown little vigor over the past three years and considerable unutilized resources currently exist, and the new budget follows upon a substantial relaxation of credit restrictions in the past ten months. In Canada, on the other hand, the economy has pulled out of the 1957-58 recession and economic expansion is once more under way.

The British budget provides for tax concessions of £295 million, plus a special refund to taxpayers of £71 million of the so-called "postwar credits", comprising together the largest tax remission ever made in the United Kingdom in any single fiscal year. As a result of the decline in revenues and the simultaneous increase in expenditures (see chart), the over-all budget deficit is scheduled to rise to £721 million from an actual deficit of £182 million in the year ended March 31. While the scheduled reductions in taxes will affect both the consumer

and the businessman, the major effect will be a substantial addition to consumer purchasing power. Roughly two thirds of the concessions reflect a reduction in personal income tax rates—a drop in the basic rate to 38¾ per cent from 42½, plus lesser cuts in the rates on smaller incomes. Furthermore, sales taxes on a broad range of consumer durable goods and on jewelry were reduced by one sixth. Finally, consumer purchasing power will be



increased by the special refund of "postwar credits". These "credits", of which some £430 million are currently outstanding, arise from compulsory, noninterest-bearing withholdings from wages and salaries during World War II, which heretofore have been repaid at an annual rate of £18 million. The special repayment results from the lowering of the age at which further repayments are to be made and from the immediate repayment to hardship cases; moreover, outstanding credits will begin earning 2½ per cent interest as of October 1. The Chancellor also hinted at the possibility of further accelerated repayments whenever an additional stimulus to economic activity seemed desirable.

To encourage industrial expansion, the budget restores the so-called "investment allowances". These allowances permit businessmen to deduct for tax purposes 20 per cent of the cost of new plant and machinery and 10 per cent of new industrial buildings in the first year, in addition to applying regular annual depreciation charges against the total outlays. This means in effect that a 20 per cent investment allowance permits a businessman to treat a £1,000 asset for depreciation purposes as though its original cost had been £1,200. The Chancellor stressed that this particular device was intended to stimulate investment that was to be undertaken now rather than later on, and that it was not a fiscal provision that would continue automatically without regard to the state of the economy.

The main features of the budget, which are somewhat more expansionary than had been anticipated, must be judged in the light of over-all economic conditions in Britain. The official *Economic Survey* for 1959, released a week prior to the budget, had emphasized that there was scope for a further expansion of both output and employment this year, and that it was the special concern of the government to foster both. Actually, there has been substantial underutilization of manpower and industrial capacity in the United Kingdom, and seasonally adjusted industrial production early this year was only slightly higher than in 1955 and 1956. According to an estimate by the independent National Institute of Economic and Social Research, domestic production could be expanded by 10-15 per cent over the next two years without creating significant inflationary pressures.

It thus appears that the generous concessions of the British 1959-60 budget, besides looking ahead to the national election, reflect the absence of several factors that have hitherto impeded tax reductions. First, there is currently no problem of overstrained domestic resources. Secondly, the threat of domestic price inflation has receded considerably—because British prices, according to

the Chancellor, now are more stable than at any time since 1945 and because fresh wage claims are likely to remain moderate. Thirdly, the Exchequer's nonbudgetary financial requirements (arising from maturing issues and foreign exchange purchases) are expected to be appreciably smaller this year so that the increase in the government deficit—even one of the proposed magnitude—probably will not complicate official debt policy unduly. Finally, confidence in sterling is strong. British gold and convertible-currency reserves now exceed \$3,000 million and are still rising, while stand-by credits of over \$900 million are available from the International Monetary Fund.

By contrast, the new Canadian budget provides for a reduction in the over-all deficit to Can.\$850 million from Can.\$1,263 million in 1958-59. Among the tax changes, which are designed to increase revenue by some Can.\$250 million in the current fiscal year, are a boost of 2 percentage points in personal income tax rates on taxable income in excess of \$3,000; a similar increase in the tax on corporate income above \$25,000; and a hike to 3 per cent from 2 in the social security taxes that are levied on incomes and sales. The Canadian finance minister based his forecast of increased revenues under these new imposts on an expected 7 per cent increase in Canada's gross national product in 1959, on the assumption of "normal crops, stable prices, and no untoward external events". Indeed, Canada's economic recovery is already under way. In February, the seasonally adjusted industrial production index rose for the sixth consecutive month, to an all-time peak, with production advancing in all major industrial sectors. At the same time, retail sales have shown sizable gains and seasonally adjusted unemployment has dropped significantly. Because of the upturn in economic activity, the government will face growing competition for funds from business in financing its capital requirements. In addition, a sizable amount of outstanding issues will have to be refunded during the new fiscal year. These considerations appear to have contributed to an increase in Canadian long-term bond yields since the budget message.

EXCHANGE RATES

Activity on the New York foreign exchange market increased appreciably in April, with sterling and the Canadian dollar advancing to new highs for the year. The Brazilian cruzeiro gradually strengthened, while the Argentine peso declined to the lowest levels since the creation, at the end of December, of a single market in which the peso was permitted to fluctuate freely.

Spot sterling advanced during most of April and reached

\$2.8180 on April 21, the highest quotation since late May 1958; the rise was influenced by sustained commercial demand in New York (primarily from oil companies), occasional demand from Canada, and offerings of dollars in London. Thereafter, as sterling offerings developed from Continental sources and some demand for dollars developed in London, the rate turned somewhat lower and at the month end stood at \$2.8162.

Forward-sterling discounts tended to widen during most of the month. Although there was some commercial demand for forward sterling, the prospect of elections in England may have contributed to the widening of the spreads, which was more pronounced in the six-month quotations than in shorter delivery dates. Thus, three and six months' sterling, quoted at discounts of 39 and 69 points at the beginning of April, widened to 53 and 92 points as of April 21. A subsequent narrowing brought the spreads to 44 and 83 at the end of April.

Persistent demand for securities sterling for the purchase of stocks (primarily South African gold-mining

shares) on the London stock exchange strengthened such sterling to \$2.81¾ on April 22. This demand on occasion brought the quotation almost up to external-account (convertible) sterling. On April 30 securities sterling was quoted at \$2.81½.

The Canadian dollar generally appreciated, largely as a result of demand from commercial sources and of occasional demand in connection with oil-lease auctions in Canada, and reached \$1.04¾ on April 22. After reacting to \$1.03⁵/₆₄ on the following day, the rate advanced to \$1.04³/₃₂ on April 29, the highest level since August 1958. It closed the month at \$1.03⁵/₆₄.

In terms of the United States dollar, the Brazilian cruzeiro advanced steadily from 137 cruzeiros (\$0.00729 per cruzeiro) at the beginning of April to 130 (\$0.00769) on April 23, but then declined to 133.50 (\$0.00749) at the month end. The Argentine peso, on the other hand, declined steadily from 67.50 pesos to the dollar (\$0.01481 per peso) at the beginning of April to 79.25 (\$0.01261) on April 30.