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MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

NOVEMBER 1955 — FEDERAL RESERVE BANK OF SAN FRANCISCO

PRICE MOVEMENTS IN A PERIOD OF RECOVERY

An interesting feature of the recent downturn and recovery and the present boom has been the very narrow range of movement in the consumer and wholesale price indexes. This apparent stability was achieved by offsetting movements of items within the indexes. It is a widely publicized fact that prices of farm products have declined from a peak reached in early 1951 as a consequence of the outbreak of the Korean war. Wholesale prices for industrial materials also began to fall in 1951 but ceased falling in the middle of 1952. Prices of these nonagricultural materials rose moderately in 1953, levelled in 1954, and have risen fairly rapidly since mid-1955 to an all-time high. Thus wholesale prices of farm and nonfarm products have been moving in opposite directions. The stability displayed by the consumer price index also has been the result of a balance between divergent movements. The current rapid upswing in business raises the question of whether or not these divergent movements between agricultural and industrial prices will continue to offset each other in the over-all price indexes.

Pressure on prices

We are now enjoying high levels of business activity and employment, for the recovery has been swift and strong. With this prosperity, however, has come an increasingly strong upward pressure of demand on prices. In September disposable personal income in the United States reached a yearly rate of $270 billion, topping the 1954 figure by almost $16 billion. Throughout the present boom consumers have demonstrated a strong willingness to spend their high incomes. In addition, they have been using instalment credit in record amounts. Early in the recovery two sectors of the economy were particularly stimulated by consumer decisions to spend—consumer durables and residential construction. More recently consumers have increased their purchases of nondurables. Purchases of services by consumers have increased steadily throughout the recession and the recovery.

High levels of business activity have meant high levels of business income. Many firms enjoyed record-breaking revenues in the third quarter of 1955. On the strength of satisfactory sales and profit records and other encouraging factors, and because it appears necessary to expand capacity, business firms intend to purchase plant and equipment at a record annual rate of nearly $30 billion in the fourth quarter of 1955. This rate of expenditure for plant and equipment is expected to continue well into 1956. The other important item of business spending, inventory investment, cannot be foreseen with accuracy. So far, the change in inventory policy from liquidation during 1954 to accumulation this year has contributed considerably to the business upswing, particularly in the second quarter of 1955. Nevertheless booming sales have kept the ratio of stocks to sales from rising significantly.

State and local government spending has increased in the past year by enough to offset the decline in Federal Government expenditures for defense. As a result total government expenditures show no change from the third quarter of 1954 to the third quarter of this year.

A significant portion of the increased demand for goods by consumers, business firms, and state and local governments has been directed toward durables, including automobiles, household goods, industrial equipment, construction materials, and fabricated metals. As a result, stocks of fabricated metals and machinery are low, while order backlogs of manufacturers are rising. An additional consequence of the increased demand for durables is that near-capacity or capacity output has been reached in several sectors. The backlog of new orders is mounting in all primary metal industries. Steel shortages have served to limit freight car production. Rationing on the basis of past purchases has recently been inaugurated by one major steel producer. Strikes last year and early this year both here and abroad have reduced supplies of copper in the face of expanding world-wide demand. Similarly, capacity production of cement has been too small to meet demands generated by highway and building construction and the New England flood damage.

Boom conditions in other industrialized economies, particularly West European countries, have added to the demand for such internationally traded commodities as

<u>*Also in This Issue*</u>

rubber, steel, and nonferrous metals, including copper. The world-wide boom has served to augment demand for many United States raw and manufactured products. The pressures of these combined foreign demands caused the value of United States exports in the first half of 1955 to exceed the value of exports for the first six months of 1954 by 14 percent. A substantial portion of the increase in exports consisted of steel (including scrap), coal, paper, and pulp. Recent price increases for scrap steel in Japan and in France and other European countries suggest that export demand for United States scrap steel will increase.

The high levels of demand discussed above have pushed output closer to the "barrier" of capacity. Consequently, rising production costs with the resultant upward pressures on prices are now more of a danger than when considerable unutilized capacity existed. Wage increases, overtime costs, the lowering of hiring standards in the face of tightening labor markets, and the use of standby plant and equipment have raised production costs. These increased production costs, including increased costs of raw and semi-finished materials, have already been translated into price increases in those sectors where strong demand prevails. Thus there have occurred price increases in a wide range of industrial products, including steel, fabricated metals, farm equipment, 1956 automobiles (list prices), aluminum products, copper products, rubber products, coal, television sets, paper products, and cement.

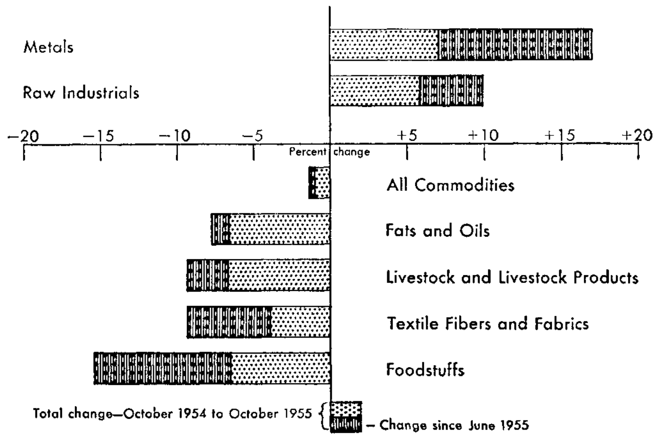
The prices of industrial products

The upward pressures on prices briefly discussed above appear to have had a considerable impact on the prices of nonagricultural products and a less noticeable influence on the prices of farm products. From 1947 through 1949 farm prices were high relative to industrial prices, when judged by their relationship in the period between World Wars I and II. During the 1947-49 period there was an unusually large export demand for United States farm products. This export demand for our farm products, especially food grains and dried foods, decreased substantially when agricultural production was resumed in war-wracked countries and when United States foreign aid programs were curtailed. In contrast, we have noted that the demand for industrial materials was bolstered by a fairly strong demand for consumer durables and the pronounced industrial expansion of European economies. In addition, the Federal Government has stockpiled strategic materials since 1951. The selection of the 1947-49 period as a base for the wholesale price index has dramatized the effects of these sharply different developments in demand.

The divergent movements between farm and industrial prices are most clearly shown by indexes of prices in primary markets. The change in the prices of 22 basic raw materials from October 1954 to October 1955 is shown in Chart 1. For convenience these are grouped into a total index and six component indexes. Though the

CHART 1

PERCENT CHANGES IN PRICES OF BASIC COMMODITIES, UNITED STATES—OCTOBER 1954 TO OCTOBER 1955



Source: United States Department of Labor, Bureau of Labor Statistics.

index for all commodities shows little change, metals and foodstuffs show respective changes of 17 and 15 percent —in opposite directions.

Until late this summer, price increases of wholesale commodities were largely confined to a few strategic areas. Rubber and rubber products show a price rise of 15.1 percent from October 1954 to October 1955. This reflects increased domestic demand for natural rubber as well as increased demand in Western Europe. An important factor behind this demand is a high level of automobile production in a number of industrial economies. Similarly, increased output of durable goods raised the demand for metals and metal products so that these increased in price by 9.7 percent. Iron and steel scrap increased 32 percent during this period. This was accompanied by a 7 percent increase in semi-finished steel products and a 6 percent increase in finished steel products. Meanwhile nonferrous metals increased 20 percent, with copper showing a 44 percent price increase in a year's time.

Recent price increases for chemicals, paperboard, wood pulp, various metals, building materials, shoes, work clothes, furniture, television sets, and an additional number of finished goods account for the increase in the index of nonfarm commodity prices in October. Chart 2 shows that the wholesale price index of industrial commodities has risen steadily through October. Since June these prices have risen at an annual rate of almost 10 percent.

Consumer prices

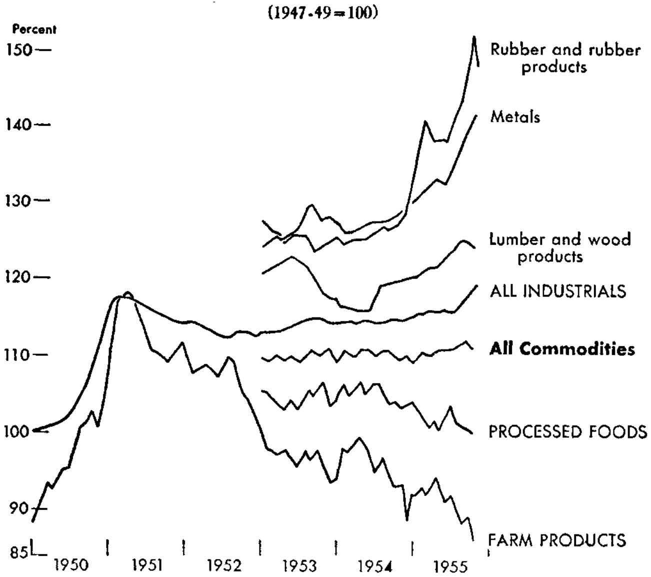
The consumer price index has changed very slightly in the past year. Retail prices are known to move more sluggishly than wholesale prices. Many consumer prices are a collection of costs that can include transportation, material, manufacturing, distribution, and service charges. It is rarely the case that all of these cost elements move at the same time. The possibility that more of these costs will move upward seems to be increasing, however. Until recently the wholesale price index for consumer goods other than food has been stable, and lower margins and increased volume on the retail level had permitted some decline in the price of these consumer goods at retail. The prospects of increases in wholesale prices which will be spread more widely among finished consumer goods, again excluding foods, coupled with rising consumer incomes, suggest that retail prices of manufactured goods may rise also.

So far, consumers have found no shortages in most of the things they have wanted to buy. Supplies of consumer durables have been plentiful. The pressure of abundant supply on price is most clearly demonstrated by the movement of automobile prices. Since January of this year the "transportation" index has decreased from 127.6 to 125.3. In this index the decline in *effective* prices of new and used automobiles was more than sufficient to offset increased costs of automobile repairs and public transportation. This decline in automobile prices was temporarily accentuated by the increased sales efforts of dealers before the introduction of 1956 models.

Retail apparel prices, in contrast, turned upward in September, though this increase appears to have been partly seasonal in character. Food prices, on the other hand, are clearly lower, principally reflecting increased supplies of meat.

It is interesting to note that almost all consumer services show price increases between September 1954 and the end of September 1955. Among these are rent, household operations, medical care, and personal care. It must be recalled that consumer spending for services has been increasing from quarter to quarter throughout 1954 and 1955. Aside from the steady growth in demand for consumer services, recent price increases could be interpreted as a lagged adjustment to previous increases in the prices of capital goods. For example, a persistent increase in construction costs is eventually translated into increased rents.

CHART 2
INDEXES OF WHOLESALE PRICES OF SELECTED COMMODITIES—UNITED STATES, 1950-1955
(1947-49=100)



Source: United States Department of Labor, Bureau of Labor Statistics.

The prices of farm products and food

It has already been mentioned that the total demand for agricultural products has not kept pace with the expansion of supply. Domestic demand increased with population growth and increased real per capita income, but this has been more than offset by increased domestic supplies and a substantial decline in exports. According to yearly totals of the Department of Commerce, the physical quantity of crude food stuffs shipped overseas declined 42 percent from 1951 to 1954. In the same period the wholesale price index of farm products decreased 16 percent. Meanwhile productivity increases and good harvests have increased the supply of farm products.

The fall in farm prices has been irregular. A leveling that occurred in August and September was hailed as a sign that the decline had halted. However, an additional drop of 2 percent occurred in October. According to the index compiled by the Department of Agriculture, a decline of 5 percent occurred between October 1954 and October 1955 in the prices farmers received for all farm products. Declines as large as 20 percent or more were registered by wool, potatoes, feed grains, and oil-bearing crops. Meat animal prices fell more than 10 percent. Commercial vegetables and poultry and poultry products, however, increased in price 24 and 26 percent, respectively.

In the wholesale price index of the Bureau of Labor Statistics, the most spectacular price declines since July 1954 were registered by green coffee and cocoa beans. These declines occurred, however, after very rapid increases in the prices of these products, particularly in 1954, so that prices have now fallen to approximately their 1952 levels.

Falling prices for farm products have been accompanied by falling wholesale prices for processed food. The price decline of processed foods has been smaller and more recent, however. From October 1954 to October 1955 the decline measured about 3.4 percent. The biggest price declines were recorded by fats and oils, packaged beverage materials (coffee and cocoa), unprocessed fish, and meats.

In the short run a change in the supply of farm products is apt to have a pronounced effect on price since domestic demand changes rather slowly. We have noted above, however, that foreign demand for United States farm commodities does not display the same stability as domestic demand. Wheat, flour, dried foods, cotton, and rice have been particularly hard hit by the decline in farm exports in recent years.

While wholesale prices for farm products declined 7 percent since October 1954 and the wholesale price of processed foods declined 4.6 percent, food prices for consumers fell less than 1 percent from October 1954 to October 1955. Except for fresh meats, consumers see only slight evidence of falling farm prices. Retail food prices, as in the case of the wholesale price of processed food, are an amalgam of many costs. Some of these have risen, offsetting the decline in the prices of raw farm products.

The price outlook

Returning to the original question of the prospects for continued price stability, all short-run evidence seems to point towards continued high levels of income and employment. It is less certain that consumers will wish to continue spending as high a proportion of their income as they have been. Nevertheless, continued growth in income, the use of instalment credit, and possibly a cut in personal income taxes in 1956, should mean that consumer expenditures will also continue to grow. Retail stores are currently planning for record-breaking Christmas sales on the basis of an 8 percent increase in dollar volume that occurred during the first three quarters of this year.

According to polls conducted by the Securities and Exchange Commission and McGraw-Hill, business firms plan to increase their spending on plant and equipment in the fourth quarter of 1955 and to continue spending for plant and equipment at high levels in the first quarter of 1956. The future course of inventory investment is more difficult to evaluate. A seasonal inventory build-up is now in progress before Christmas. Another important factor currently influencing changes in inventory investment, and one that will continue to be influential, is the ratio of sales to output in the automobile industry. Accumulation of dealers' stocks of automobiles accounted for half of the build-up in retailers inventories that occurred in the first half of 1955.

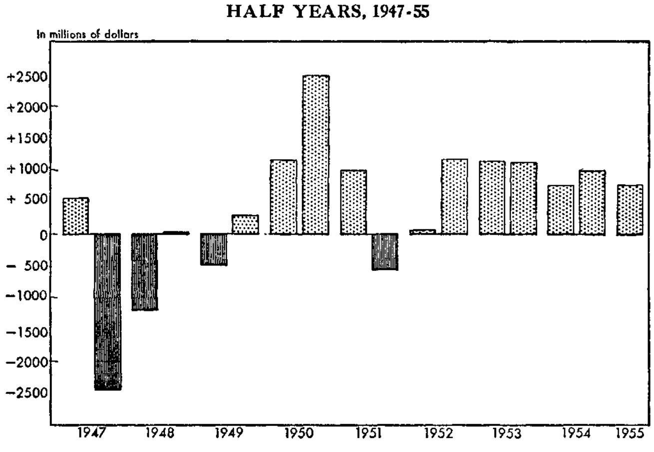
Federal Government expenditures are expected to remain fairly constant over the next few quarters. The need for schools and highway construction should increase state and local government spending in 1956.

In summary, it appears that total demand is likely to continue growing in the near future. This anticipated growth in demand presents a situation wherein increases in cost can more readily be "passed on." Under these conditions the relative stability of the wholesale and consumer price indexes which has prevailed during the past two or three years may be endangered and inflationary price increases might develop. Current monetary policy, however, is directed toward reducing some of the demands for goods and services which, if unrestrained, would be reflected in increasing inflationary pressures. The currently accruing surplus of Federal tax revenues over Federal expenditure may also serve in some degree to curtail inflationary tendencies.

THE UNITED STATES BALANCE OF PAYMENTS SINCE 1953

DURING the first half of 1955, foreign countries continued to gain gold and dollar assets from their transactions with the United States. On balance, they have gained some gold and dollar assets every half-year since the beginning of 1952 (Chart 1). Earlier in the postwar period, however, there were times when they lost large amounts of gold and dollar assets to the United States. The steady gains of the last three and a half years represent a marked improvement in the world payments situation.

CHART 1
CHANGE IN FOREIGN GOLD AND DOLLAR ASSETS THROUGH TRANSACTIONS WITH THE UNITED STATES HALF YEARS, 1947-55



Source: United States Department of Commerce, Bureau of Foreign and Domestic Commerce.

These steady gains by foreign countries represent an improvement in the sense that a sizable supply of gold and dollars in the hands of each of the major trading nations is a necessity if the world is to enjoy the full benefits of international trade. Gold and dollars are the most widely acceptable means of international payment in the world today. Without a reserve of gold and dollars to draw upon during random and minor cyclical setbacks in its balance of payments, a nation may have no alternative to exchange controls, restrictive import quotas, and other such weapons of commercial policy. An adequate supply of gold and dollars is essential to any nation participating freely in the flow of goods and services across national boundaries.

The world payments mechanism is still a long way from allowing an unhampered flow of goods and services across national boundaries. In the last few years, however, the mechanism—which is in reality a complex network of special laws, agreements, and customs—has moved in the direction of this goal, and the major trading nations have devoted a great deal of thought to the prerequisites and timing of the next large step toward unhampered international payments, the restoration of free convertibility between major foreign currencies and dollars. Whether or not current international economic trends are working for or against convertibility is therefore a pressing question in the minds of most observers studying recent developments in the United States balance of payments.

During the 1953-54 United States recession, these developments included a cyclical fall in imports and a sharp rise in exports, combining to increase the United States export surplus substantially. The increasing export surplus was offset to a large extent by increasing capital outflows, with the result that foreign holdings of gold and dollars continued to rise. During the 1954-55 recovery, imports regained their early 1953 level, so that despite a continued rise in exports, the United States export surplus decreased. United States capital outflows also slackened, however, so that the amount of foreign gold and dollar acquisitions continued although at a reduced rate. The remainder of this article is devoted to a discussion of these broad changes and their significance.

Exports rise continuously

The rise in exports is a very clear recent development in the United States balance of payments (Chart 2). Comparing the first half of the current year with the first half of 1953, which was the last half-year before the onset of the 1953-54 recession, exports of goods and services (excluding military shipments under United States Government grants) increased by 13 percent, or more than a billion dollars. Between the same two periods, imports of goods and services increased by only 3 percent and total United States gross national product by only 4 percent. After adjustment for seasonal variation, furthermore, merchandise exports have risen still more since mid-year.

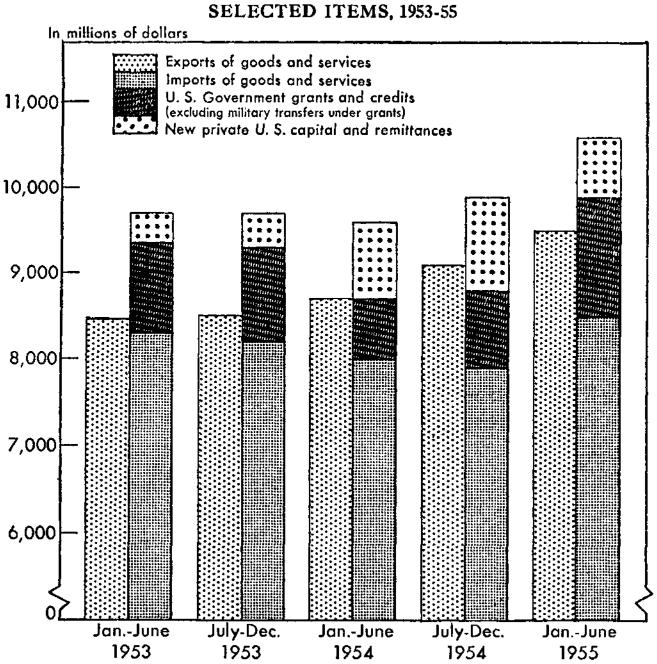
Behind the rise in exports lies the very rapid industrial growth of Europe in the last few years. Industrial production in Western Europe rose by 19 percent between the first half of 1953 and the first half of 1955—a rise even greater than the rise in total United States exports. With the European production boom have come added needs for steel, coal, wood pulp, and other raw materials and semi-manufactures exported by the United States. At the same time, a number of European countries have liberalized their barriers against dollar imports, and thus have made it possible for the rise in demand to be reflected in a rise in United States exports. About 70 percent of the rise in United States exports is accounted for by exports to Western Europe.

The combination of rising production (accompanied by rising demand for products exported by the United States) and import liberalization shows up clearly for a number of individual European countries. The Netherlands, for example, experienced a 20 percent gain in industrial production between the first half of 1953 and the first half of 1955, and merchandise imports from the United States more than doubled during the same period. In Western Germany, industrial production rose 31 percent and merchandise imports from the United States by 70 percent from the first half of 1953 to the first half of 1955. In both countries, substantial relaxations of quantitative restrictions on dollar imports took place during the two-year period.

The rise in world industrial production and in United States exports has recently been accompanied by some upward pressure on prices. Steel, copper, tin, and rubber are among the internationally traded basic commodities which have gone up in price during the past year. To some extent, declining coffee, cocoa, and tea prices have offset rising raw materials prices. Because of the pressures of internal demand, as well as rising world trade, foreign countries have found it necessary, like the United States, to adopt restrictive credit policies during 1955. Great Britain, Canada, West Germany, Japan, and seven other countries have all raised their central bank rates since the first of the year.

CHART 2

THE INTERNATIONAL TRANSACTIONS OF THE UNITED STATES SELECTED ITEMS, 1953-55



Note: During each half-year, the first column shown represents dollars spent by foreign countries; the second, dollars received by foreign countries. The difference equals net additions to foreign gold and dollars through transactions with the United States plus a small item of errors and omissions.
Source: United States Department of Commerce, Bureau of Foreign and Domestic Commerce.

Imports follow recession and recovery

Coupled with the rising level of United States exports illustrated by the Dutch and German experience has been a fluctuating level of United States imports. As in previous United States recessions, imports dropped during the 1953-54 downswing and increased during the 1954-55 recovery and boom. On balance, from the first half of 1953 to the first half of 1955 there was a slight drop in merchandise imports and a rise in imports of services. The merchandise drop was a result largely of the low level of coffee imports in the first half of this year, when domestic coffee inventories were being reduced. By September and October, total imports had risen above the levels of the early months of 1955. The rise in "invisible" imports has been influenced heavily by the current boom in foreign travel by United States citizens. Since 1950, United States foreign travel expenditures have grown faster than personal disposable income; foreign travel expenditures, however, are still a smaller proportion of income than they were in 1929. Another factor in "invisible" imports has been the rise in United States military expenditures abroad, including offshore procurement for military aid.

Fluctuations in imports during the last two and a half years have been significant, as Chart 2 shows. The drop in imports of goods and services from the first half of 1953 to the first half of 1954 was about three times again as severe, percentagewise, as the drop in gross national product. In the second half of 1954, exports rose more rapidly than before, while imports lagged; in comparison with the first half of 1953 the United States export surplus (excluding military exports under United States Government grants) increased by more than a billion dollars. The surplus declined somewhat in the first half of the current year, but it remains far above the January-June 1953 level.

It has often been observed that even mild United States recessions tend to produce dangerous gold and dollar drains abroad—that "when the United States sneezes, the rest of the world catches pneumonia." And yet, even though imports dropped and exports increased from 1953 to 1955, there has been no world payments crisis comparable, for example, to the one during the 1949 recession. Though certain areas, particularly the sterling area, were losing gold and dollars during the first half of 1955 at a rate which was cause for some concern, recently these losses have greatly diminished. Other areas, especially continental Western Europe, are building up gold and dollar reserves very rapidly, and on the whole, as Chart 1 shows, foreign countries continued to gain gold and dollars from the United States throughout the past three years. Thus, even though the rising exports and the fluctuating behavior of imports since 1953 might seem to offer some ground for pessimism about the world payments situation, there have been offsetting factors which might support a more optimistic view of recent balance of payments developments.

United States capital outflow offsets changes in export surplus

A major reason why the growth in the United States export surplus did not reduce foreign gold and dollar holdings in 1954 is that United States private investment abroad grew very rapidly. Direct investment—that is, investment in foreign enterprises owned by Americans—remained fairly stable, about $700 million a year, but the movement of portfolio and short-term capital changed from an inflow to a substantial outflow. In the first half of 1953, Americans reduced their investment in long and short-term foreign paper by $268 million. In the next half-year the amount of the reduction dropped to $84 million. In 1954, there were increases in private portfolio and short-term loans of $266 million and $594 million in the first and second halves of the year, respectively. In the first half of 1955, however, such foreign lending declined sharply, to a negligible figure. United States lending abroad thus behaved in an offsetting manner to the United States export surplus, which rose from 1953 through the last half of 1954 and then declined in the first half of the current year.

There are reasons why this offsetting behavior of private United States capital might be expected to take place. In a recession confined to the United States, domestic interest rates are likely to fall relative to interest rates in other countries. United States lenders thus may have an incentive to invest funds abroad, where interest rates have not fallen, and foreign borrowers may have an incentive to borrow in the United States, where interest rates are low. The same recessionary forces which cause an export surplus—a fall in imports relative to exports—may in this way exert some influence in the direction of an increased United States capital outflow. This type of behavior was found to exist during the minor United States recessions of the middle 1920's. After the onset of the Great Depression, however, private capital—above all, short-term capital—was much more sensitive to a wide variety of economic and political expectations and events than to interest rates. The 1953-54 experience represents in part a return to the pattern of the 1920's, especially with regard to capital movements to Canada and Europe.

In the case of private portfolio capital exports to Canada, the influence of interest rates appears to have been considerable. New issues of Canadian bonds bought by United States investors declined to almost zero in the second half of 1954, after having reached $157 million in the first half. The reason commonly cited for the decline was the fall in Canadian long-term interest rates to a level which eliminated the usual premium over United States rates. United States liquidation of Canadian bonds rose from $35 million in the first half of 1954 to $110 million in the second half of 1954, reflecting the same interest rate changes. And, after seasonal influences are eliminated, the United States export surplus with Canada appears to have declined from the first to the second half of 1954 (contrary to the United States surplus with all foreign countries as a group).

In the case of short-term capital exports to Britain, interest rates also appear to have played a role. Short-term sterling deposits and claims owned by Americans rose by nearly $100 million in 1954, at least partly in response to the widening margin of British short-term rates over United States rates. Sterling claims fell in early 1955, however, despite the fact that rises in Britain's short-term interest rates widened the British margin over United States rates. Uncertainty about the possible repercussions of the fall in Britain's gold and dollar holdings was an important cause of the fall. Interest rates, in other words, were not the only factor determining capital movements from the United States to the United Kingdom.

In the case of Brazil, the other major borrower of United States funds, both long- and short-term, interest rates do not appear to have been a major factor in inducing capital movement. A combination of inflation and the frost damage to the 1953 coffee crop made it necessary for Brazil to borrow in order to meet her foreign obligations. In addition to a substantial increase in short-term commercial credit, two large loans were arranged in 1954 and 1955. One was a $200 million, five-year advance from private United States banks in November 1954; the other was a $75 million loan from the Export-Import Bank in February 1955. Both loans were made in view of the emergency situation and for other reasons than a differential in interest rates.

United States private portfolio and short-term loans abroad increased by a very small amount during the first half of 1955. Nevertheless, the increase contrasts substantially with the net contraction in foreign loans during the first half of 1953. During this two-year period United States investors seem to have become increasingly willing to hold bankers' acceptances and foreign dollar bonds; Australia, Belgium, and Norway have all recently floated issues of dollar bonds.[1] These facts may be a sign that international capital movement in response to financial incentives, which was only one of a number of factors influencing capital during the 1953-55 period, is gaining in importance.

Decline and upturn in United States grants and credits

Grants and credits to foreign nations and international institutions by the United States Government fell from 1953 to 1954 and rose again in early 1955. Many special factors combined to produce these changes. In 1953 the total was increased by a special $300 million Export-Import Bank loan to Brazil and by emergency shipments of wheat to Pakistan. In 1954, the end of United States military relief in Korea and the reduction of United States contributions to the Korean Reconstruction Agency of the United Nations held down the foreign grant and credit total. The recent reversal reflects in large part special aid to France in support of its military budget, other increases in aid to a few Far and Middle Eastern countries, and large-scale disposal of surplus agricultural commodities.

New obligational authority conferred by Congress for expenditures on international affairs and finance in fiscal year 1956 is lower than the 1955 figure by some $200 million. Actual expenditures are also expected to be lower in 1956, but by only about $60 million. The greatest decrease, in accordance with the trend of recent years, is expected in the economic and technical, as opposed to the military, portion of the mutual security program.

Strong and weak points in the United States balance of payments

Of all the recent developments in the United States balance of payments, one of the least favorable, from the point of view of the international payments situation, has been the behavior of imports. As in the past, imports have proved highly sensitive to changes in income. Raw material supplies and luxury consumer goods constitute a large share of total United States imports, and therefore imports drop more rapidly during a recession and gain more rapidly in a recovery than total United States income. These fluctuations increase the short-term risks of international trade and are a major problem to nations which depend heavily on sales in the United States market.

Offsetting this weak point has been a strong point, the recent behavior of private United States capital. To the extent that private capital moves in response to interest rate differentials, it acts as a stabilizing force in international trade, flowing out when the foreign import surplus rises and returning when the surplus falls. The interest rate factor was one of a number of influences on capital flows during 1953-55, and there are signs that the importance of this factor may be increasing.

The sum of all the recent movements in imports, exports, capital flows, and grants and credits has been a fairly steady gain in gold and dollar assets from the United States by the rest of the world. From January 1953 through June 1955 the gain amounted to $4.8 billion, or 20 percent of total foreign and international gold and dollar holdings at the start of 1953. This gain has not been shared equally by all nations and areas; rising imports from the United States and price increases for certain raw materials have contributed to balance-of-payments difficulties for a number of countries. Most of these countries are relying heavily on monetary policy to overcome their difficulties. If they are successful in restraining their imports and in building up their gold and dollar reserves, the world will probably continue to move toward a freer flow of goods and services across national boundaries.

[1] For a discussion of the recent growth of bankers' acceptance financing, see the article, "The Role of Bankers' Acceptances in International Trade and Finance" in the *Monthly Review*, July, 1955.

BUSINESS INDEXES—TWELFTH DISTRICT[1]

(1947-49 average=100)

Year and month	Industrial production (physical volume)[2] Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power	Total nonagricultural employment	Total mf'g employment[4]	Car-loadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 5]	Waterborne foreign trade[3, 6] Exports	Waterborne foreign trade[3, 6] Imports
1929	95	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	50	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	40	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1935	54	62	56	33	86	37	87	30	....	47	66	24	48	135	109
1937	73	71	65	56	114	88	84	38	....	60	81	30	50	170	119
1939	71	67	63	56	93	80	91	40	....	55	77	31	47	163	95
1940	78	67	63	61	108	94	87	43	....	63	82	33	47	132	101
1941	92	69	68	81	109	107	87	49	....	83	95	40	52	....	....
1942	92	74	71	96	114	123	88	60	....	121	102	49	63	....	....
1943	89	85	83	79	100	125	98	76	100	164	99	59	69	....	....
1944	88	93	93	63	90	112	101	82	101	158	105	65	68	....	....
1945	75	97	98	65	78	90	112	78	96	122	100	72	70	....	....
1946	80	94	91	81	70	71	108	78	95	97	101	91	80	89	57
1947	97	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	104	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	100	99	103	100	101	93	88	108	99	97	94	98	100	85	121
1950	113	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	113	106	112	128	89	115	95	136	111	122	100	109	113	186	157
1952	116	107	116	124	86	112	96	144	118	132	101	114	115	171	200
1953	118	109	123	130	74	111	96	161	122	139	100	115	113	140	308
1954	112	106	119	132	70	101	99	173	120	136	96	113	113	131	260
1954															
September	110	105	121	138	69	97	108	174	120	137	97	114	113	115	262
October	125	104	116	143	70	110	105	176	121	138	102	116	113	112	277
November	121	104	119	132	73	116	104	177	121	139	98	115	111	118	196
December	133	105	119	132	69	114	101	173	122	140	106	118	111	113	313
1955															
January	134	105	116	119	74	118	107	173	122	140	106	125	112	163	287
February	134	105	122	131	76	130	112	179	122	140	99	118	112	184	263
March	121	106	120	137	82	130	108	188	123	140	103	118	112	163	240
April	120	106	118	149	77	127	97	191	124	141	105	120	113	149	290
May	120	106	115	155	78	131	96	189	124	143	110	118	113	162	280
June	121	106	120	153	76	129	97	200	125	145	111	118	112	152	299
July	119*r*	106	128	157	72	40	94	191	125	145	99	123	113	171	368
August	123	106	127	160	67*r*	91*r*	101	196	126	144	106*r*	122*r*	111	....	....
September	117	106	132	159	69	127	108	196	126	146	107	126*p*	112	....	....

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7] Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits	Bank rates on short-term business loans[9]	Member bank reserves and related items[10] Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	Bank debits Index 31 cities[3, 13] (1947-49=100)[2]
1929	2,239	495	1,234	1,790	......	− 34	0	+ 23	− 6	175	42
1931	1,898	547	984	1,727	......	+ 21	− 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	......	− 2	− 110	+ 150	− 18	185	18
1935	1,537	1,275	1,389	2,064	......	+ 2	− 163	+ 219	+ 14	287	25
1937	1,871	1,270	1,740	2,187	......	− 1	− 90	+ 157	− 3	549	32
1939	1,967	1,450	1,983	2,267	......	+ 2	− 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	......	+ 2	− 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	......	+ 4	− 596	+1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	......	+ 107	−1,980	+2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	......	+ 214	−3,751	+4,486	+ 708	1,462	60
1944	2,254	8,263	6,950	4,144	......	+ 98	−3,534	+4,483	+ 789	1,706	66
1945	2,663	10,450	8,203	5,211	......	− 76	−3,743	+4,682	+ 545	2,033	72
1946	4,068	8,426	8,821	5,797	......	+ 9	−1,607	+1,329	− 326	2,094	86
1947	5,358	7,247	8,922	6,006	......	− 302	− 510	+ 698	− 206	2,202	95
1948	6,032	6,366	8,655	6,087	......	+ 17	+ 472	− 482	− 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	− 930	+ 378	− 65	1,924	102
1950	7,093	6,415	9,254	6,302	3.35	+ 39	−1,141	+1,198	− 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	− 21	−1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	−1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	− 14	−3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.01	+ 2	−2,448	+2,328	− 30	2,505	153
1954											
October	9,048	8,014	10,749	8,651	......	+ 9	− 138	+ 142	+ 23	2,364	150
November	9,343	8,089	10,937	8,596	......	− 1	− 244	+ 342	+ 27	2,440	158
December	9,422	7,973	11,158	8,663	4.01	0	− 127	+ 175	− 23	2,505	173
1955											
January	9,510	7,998	11,246	8,725	......	− 34	− 150	+ 77	− 79	2,481	161
February	9,612	7,693	10,945	8,765	......	+ 15	+ 26	− 57	+ 13	2,447	166
March	9,696	7,390	10,733	8,837	3.98	+ 10	− 401	+ 362	− 1	2,418	177
April	9,657	7,756	11,060	8,833	......	+ 60	− 306	+ 261	+ 15	2,432	165
May	9,810	7,690	10,951	8,885	......	− 55	− 51	+ 195	+ 50	2,476	170
June	10,102	7,446	11,023	9,026	3.99	+ 27	− 449	+ 429	+ 35	2,439	178
July	10,191	7,557	11,212	8,995	......	+ 10	− 193	+ 217	− 9	2,495	166
August	10,392	7,407	11,163	9,021	......	− 23	− 253	+ 200	+ 8	2,415	177
September	10,559	7,375	11,312	9,054	4.17	+ 17	− 148	+ 276	+ 18	2,541	173
October	10,665	7,487	11,465	9,067	......	− 43	− 245	+ 174	+ 15	2,417	171

[1] Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, various lumber trade associations; petroleum, cement, copper, and lead, U.S. Bureau of Mines; wheat flour, U.S. Bureau of the Census; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. [2] Daily average. [3] Not adjusted for seasonal variation. [4] Excludes fish, fruit, and vegetable canning. [5] Los Angeles, San Francisco, and Seattle indexes combined. [6] Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. [7] Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. [8] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [9] Average rates on loans made in five major cities during the first 15 days of the month. [10] End of year and end of month figures. [11] Changes from end of previous month or year. [12] Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. [13] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except Federal Government and interbank deposits from 1942. *p*—Preliminary. *r*—Revised.