

BANKING AND MONETARY DEVELOPMENTS IN JUNE 1956

Summary. Total loans and investments at all commercial banks increased somewhat in June reflecting principally a sharp expansion in business loans offset in part by reductions in holdings of U. S. Government securities. Demand deposit and currency holdings of businesses and individuals increased considerably whereas usually they decline slightly. Net borrowed reserves of member banks declined. Short-term money market rates declined in late June and early July.

Bank credit. Preliminary estimates indicate that total loans and investments of all commercial banks may have increased about \$700 million in June, as shown in Table 1. Bank credit increased sharply around the mid-month when loans, especially those to business, and bank holdings of U. S. Government securities rose reflecting mainly customers' needs for funds to meet June 15 income tax payments. Subsequently, loans and investments declined somewhat. Last year in June, total credit expansion was smaller, about \$300 million. Total loans and holdings of securities other than those of the U. S. Government increased more than this year but holdings of U. S. Government securities declined considerably more.

Total loans increased about \$1.4 billion in June 1956, with business loans accounting for about \$1.1 billion of that amount. Real estate and consumer loans rose further. Security loans increased around the mid-month but subsequently declined. Agricultural loans declined somewhat as redemptions of CCC loans more than offset new production loans. As a result of the June announcement of the Commodity Credit Corporation to redeem in advance the August 1 maturity cotton loans, about \$100 of the \$330 million of such loans outstanding was retired during the month.

Holdings of U. S. Government securities at all commercial banks declined about \$600 million in June. At weekly reporting banks, reductions in these holdings early and late in the month more than offset mid-June purchases. At banks outside leading cities, holdings of U. S. Government securities probably declined somewhat as is usual in this month.

Business loans at all commercial banks are estimated to have increased about \$1,100 million in June, about \$200 million more than a year ago but considerably less than the \$1.6 billion increase in March. As shown in Table 2, all business groups with the exception of commodity dealers and trade concerns increased their borrowing from banks in June 1956. Expansion was particularly large in the case of metals manufacturers which increased their outstanding loans almost \$400 million. Borrowing by public utilities also rose substantially as did that by petroleum and chemical concerns. Outstanding loans of sales finance companies fluctuated considerably over the month but showed little over-all change as has been the case in other recent months.

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FEDERAL RESERVE BANK  
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Table 1

Estimated Changes in Loans and Investments at All Commercial Banks

(In billions of dollars)

Item	1956	1955	1956	1955	Year ending:	
	May 31,	May 26,	Jan. 1,	Jan. 1,	June 27,	June 30,
	-	-	-	-	June 27,	June 30,
	June 27	June 30	June 27	June 30	1956	1955
<u>Total loans (excluding interbank)</u>	+ 1.4	+ 2.0	+ 4.1	+ 4.4	+11.3	+ 7.6
Business	+ 1.1	+ 0.9	+ 2.6	<u>2</u> /+ 2.0	<u>2</u> /+ 6.9	<u>2</u> /+ 2.8
Real estate	+ 0.2	+ 0.3	+ 1.1	<u>2</u> /+ 1.4	<u>2</u> /+ 2.1	<u>2</u> /+ 2.6
Security	- 0.1	+ 0.2	- 0.6	<u>1</u> /	- 0.1	+ 0.8
Agricultural	- 0.1	<u>1</u> /	- 0.2	- 0.8	- 0.1	- 0.8
Consumer	+ 0.2	+ 0.4	+ 0.9	+ 1.1	+ 1.8	+ 1.0
All other loans	+ 0.1	+ 0.2	+ 0.3	+ 0.8	+ 0.7	+ 1.4
U. S. Government securities	- 0.6	- 1.7	- 5.0	- 5.7	- 6.7	- 0.2
Other securities	- 0.1	+ 0.1	- 0.4	+ 0.5	- 0.5	+ 1.3
Total loans and investments (excluding interbank)	+ 0.7	+ 0.3	- 1.3	- 0.8	+ 4.2	+ 8.6

1/ Less than \$50 million.

2/ Level of business loans increased by, and real estate loans, decreased by \$300 million at end of October 1955 to correct classification errors. No back figures revised; most of the misclassification probably occurred during 1955.

Note: Figures for June 1956 are estimates and subject to change. Preliminary data for June will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States," available at the end of July.

Over the first half of 1956, total credit at all commercial banks declined \$1.3 billion, as a sharp loan growth was more than offset by sales of U. S. Government and other securities. In the comparable period last year, total credit declined only about \$800 million. Growth in loans was slightly larger and holdings of securities other than those of the U. S. Government increased; holdings of U. S. Government securities declined more than this year.

Business loans rose more in the first half of 1956 than in the same period a year ago and they also accounted for a considerably larger share of the total loan growth. (Last year's increase, however, may be somewhat understated as misclassifications in reporting, most of which probably occurred during early 1955, resulted in revising business loans upward and reducing

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Table 2

Changes in Commercial, Industrial, and Agricultural Loans 1/

(In millions of dollars)

Business of Borrower	1956	1955	1953	1956	1955	1953
	May. 31,	June 2,	June 4,	Jan. 5,	Jan. 6,	Jan. 8,
	- June 27	- June 29	- July 1	- June 27	- June 29	- July 1
Food processors	+ 23	- 20	- 50	- 256	- 471	- 631
Commodity dealers	- 92	- 44	- 65	- 371	- 437	- 611
Trade Concerns	- 39	+ 44	+ 13	+ 205	+ 202	+ 237
Total	- 108	- 20	-102	- 422	- 706	-1,005
Sales finance	+ 64	+200	+ 13	- 376	+ 545	- 59
All other - total	<u>+1,056</u>	<u>+546</u>	<u>+ 23</u>	<u>+2,908</u>	<u>+1,561</u>	<u>+ 700</u>
Metal and metal products	+ 391	+100	+ 40	+1,358	+ 173	+ 420
Textiles, apparel, and leather	+ 61	+ 33	+ 46	+ 242	+ 222	+ 155
Petroleum, coal, etc.	+ 172	+ 40	-105	+ 388	+ 303	- 36
Other manufacturing and mining	+ 103	+ 41	+ 29	+ 368	+ 160	+ 103
Public utilities	+ 224	+217	- 32	+ 314	+ 387	+ 16
Construction	+ 21	+ 51	+ 15	+ 58	+ 134	+ 23
All other types of business	+ 84	+ 64	+ 30	+ 179	+ 181	+ 19
Total - Classified	+1,012	+727	- 66	+2,115	+1,401	- 466
Unclassified	+ 70	<u>2/+138</u>	<u>- 39</u>	<u>+ 162</u>	<u>3/- 154</u>	<u>- 82</u>
Total change	+1,082	<u>2/+865</u>	-105	+2,277	<u>3/+1,247</u>	- 548

1/ Data for 1956 exclude agricultural loans.

2/ CCC certificates of interest may have declined about \$50 million.

3/ CCC certificates of interest may have declined about \$500 million.

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real estate loans by \$300 million in October 1955, as noted on Table 1.) In the January-June 1956 period, loans to metals manufacturers increased sharply, almost \$1,400 million compared with \$200 million last year. Also, the reduction in seasonal borrowing was less this year than last, \$600 million compared with \$900 million. On the other hand, borrowing by sales finance companies declined \$375 million in the 1956 period compared with an increase of \$550 in the 1955 period.

Consumer loans increased \$900 million in the January-June 1956 period, almost as much as in the same period last year. Real estate loans rose \$1,100 million compared with \$1,400 million last year, but after allowance for some overreporting last year, there may be little difference between the two periods. Agricultural loans declined only slightly this year, whereas last year, when CCC certificates of interest were being redeemed, they dropped substantially. Security loans, however, declined \$600 million in the first half of 1956 whereas in the same period last year, they were about unchanged as increases in the second quarter of the year offset the usual first quarter decline.

The appended table, "Loans and Investments at All Commercial Banks", shows types of outstanding loans and investments monthly for recent years and quarterly or annually for previous years.

Deposits and currency. Preliminary estimates indicate that demand deposits and currency held by the public may have increased about \$800 million in June, as shown in Table 3. Usually, they decline slightly during the month, so on a seasonally adjusted basis, the increase was about \$1 billion. So far this year, growth has been at an annual rate of about 1-1/4 per cent, and at the end of June, the privately-held money supply was about 1-3/4 per cent above its year-ago level.

Time deposits increased about \$500 million in June; these deposits tend to expand more in June and December, when interest payments generally are credited, than in any other month. U. S. Government deposits declined somewhat over June, whereas in other recent years, with the exception of 1955, they increased substantially.

In addition to the net credit expansion at commercial banks discussed above, loans continued to increase at mutual savings banks and the Federal Reserve purchased U. S. Government securities. On balance, the total money supply increased \$1 billion during June.

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Table 3  
Estimated Changes in Deposits and Currency  
(In billions of dollars)

Item	1956	1955	1956	1955	Year ending:	
	May 31 - June 27	May 26 - June 30	Jan. 1 - June 27	Jan. 1 - June 30	June 27, 1956	June 30, 1955
<u>Seasonally adjusted data</u> <sup>1/</sup>						
Demand deposits adjusted	+ 1.0	+ 0.1	+ 0.9	+ 2.1	+ 1.8	+ 5.2
Currency outside banks	<u>2/</u>	+ 0.1	<u>2/</u>	+ 0.1	+ 0.5	<u>2/</u>
Total	+ 1.0	+ 0.2	+ 0.9	+ 2.2	+ 2.3	+ 5.2
<u>Unadjusted data</u> <sup>1/</sup>						
Demand deposits adjusted	+ 0.8	- 0.1	- 4.9	- 3.3	+ 1.8	+ 5.1
Currency outside banks	<u>2/</u>	+ 0.6	- 0.9	- 0.5	<u>2/</u>	+ 0.3
Total	+ 0.8	+ 0.5	- 5.8	- 3.8	+ 1.8	+ 5.4
Time deposits	+ 0.5	+ 0.6	+ 1.7	+ 1.8	+ 3.0	+ 3.8
U. S. Government deposits	- 0.3	- 0.1	+ 1.5	+ 0.7	+ 0.1	- 1.0
Total	+ 1.0	+ 0.9	- 2.6	- 1.2	+ 4.9	+ 8.2
<u>Factors affecting deposits and currency</u> (signs indicate effect on deposits and currency)						
Bank loans and investments other than U. S. Govt. sec. <sup>3/</sup>	+ 1.5	+ 2.4	+ 4.7	+ 6.1	+13.1	+11.5
Commercial	+ 1.3	+ 2.1	+ 3.7	+ 4.9	+10.8	+ 8.9
Mutual savings	+ 0.2	+ 0.2	+ 1.3	+ 1.2	+ 2.4	+ 2.4
Bank holdings of U. S. Government securities	- 0.5	- 1.7	- 6.4	- 7.2	- 7.3	- 2.3
Federal Reserve	+ 0.1	<u>2/</u>	- 1.3	- 1.3	- 0.1	- 1.4
Commercial	- 0.6	- 1.7	- 5.0	- 5.7	- 6.7	- 0.2
Mutual savings and other	<u>2/</u>	<u>2/</u>	<u>2/</u>	- 0.2	- 0.4	- 0.6
Gold stock and foreign deposits at F. R. Banks	<u>2/</u>	<u>2/</u>	+ 0.2	+ 0.1	+ 0.2	- 0.1
Foreign bank deposits, net, at commercial banks	- 0.1	- 0.1	<u>2/</u>	<u>2/</u>	+ 0.1	- 0.2
Other factors	+ 0.1	+ 0.3	- 1.1	- 0.2	- 1.2	- 0.7

<sup>1/</sup> Seasonally adjusted data are for last Wednesday throughout; unadjusted data are for last Wednesday except in case of June and December call dates, when available. Unadjusted data are not strictly comparable in view of the fact that June 27, 1956 is being compared with June 30, 1955. Usually, however, demand deposits adjusted decline and currency outside banks increase in roughly comparable amounts between the last Wednesday and the 30th of June; therefore, the total privately-held money supply may be about unchanged between June 27 and June 30.

<sup>2/</sup> Less than \$50 million.

<sup>3/</sup> Total includes foreign loans on gold and holdings of bankers' acceptances at the Federal Reserve; changes in these items are generally relatively small. In addition, even if there were no changes in these items, changes at commercial and mutual savings banks would not necessarily add exactly to total change, which is "net" because of bookkeeping discrepancies between various banking records.

Note: Figures for June 1956 are estimates and subject to change. Preliminary data for June will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States", available at the end of July.

Table 4

Free Reserves

(Excess reserves minus member bank borrowings;  
based on average of daily figures; in millions of dollars)

Period	All member	New York	Chicago	Reserve City	Country
1954: December	459	- 50	- 16	- 26	550
1955: May	212	19	- 25	- 127	345
June	168	2	- 43	- 167	377
September	- 285	- 127	- 114	- 409	365
December	- 245	- 161	- 83	- 338	338
1956: January	- 255	- 198	- 83	- 353	379
February	- 266	- 138	- 103	- 336	310
March	- 408	- 174	- 256	- 298	319
April	- 533	- 167	- 262	- 429	324
May	- 504	- 88	- 153	- 468	205
June	- 196	- 33	- 111	- 360	307
1956: May 30	- 389	- 37	- 49	- 341	38
June 6	- 290	- 48	- 118	- 420	296
13	- 226	- 11	- 129	- 334	248
20	- 144	- 18	- 139	- 389	402
27	- 165	- 33	- 83	- 342	293
July 3	- 170	- 98	- 47	- 312	286

Note: Data for second half of June and July are preliminary.

Bank reserves. Net borrowed reserves of member banks averaged \$200 million in June compared with \$500 million in May, as shown in Table 4. The June level was below that of any other month since late last summer. Borrowings averaged \$770 million and excess reserves \$570 million.

Reserve positions eased at all classes of banks in June. Net borrowed reserves declined about \$100 million at central reserve city banks as well as at reserve city banks, and free reserves rose about \$100 million at country banks.

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Table 5

Changes in Member Bank Reserves, with Relevant Factors  
(Monthly average of daily figures; in millions of dollars)

Item	June		Jan. - June		Year ended June	
	1956	1955	1956	1955	1956	1955
<u>Member bank reserve balances</u>						
<u>Total</u>	+198	- 31	- 307	- 564	+218	- 955
Excess reserves	+106	- 11	- 21	- 133	+ 4	- 287
Required reserves	+ 92	- 20	- 286	- 431	+214	- 667
<u>Principal factors</u> (signs indicate effect on reserves)						
Currency in circulation	-214	-188	+ 729	+ 700	-486	+ 155
Gold stock and foreign accounts	+ 43	- 20	+ 250	- 8	+216	- 574
Treasury operations	+ 82	+ 87	- 28	+ 113	- 78	- 486
Federal Reserve float	+278	+ 80	- 183	- 114	+328	- 66
Other factors	+ 9	+ 56	+ 82	- 10	+ 9	- 125
Federal Reserve loans and investments:						
U. S. Govt. securities	+200	- 68	- 1,080	-1,319	- 76	+ 750
Outright	+223	- 21	- 833	-1,292	-111	+ 731
Repurchase agreements	- 24	- 47	- 248	- 27	+ 34	+ 19
Acceptances	+ 1	+ 2	- 2	+ 16	+ 1	---
Discounts and advances:						
To member banks	-202	+ 33	- 70	+ 156	+368	- 277
To others	+ 1	- 13	---	- 97	- 63	+ 10

Over June, as shown in Table 5, a substantially larger volume of reserves was supplied to banks principally through System purchases of U. S. Government securities and expansion in Reserve Bank float than was absorbed largely by currency drains and increases in required reserves. Reserve bank float rose considerably more than usual in mid-June and tended to remain at a higher than normal level during the rest of the month. Required reserves, however, also increased substantially in mid-June reflecting deposit growth associated with tax-period bank credit expansion.

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System holdings of U. S. Government securities increased \$200 million on an average basis and almost \$300 million on a month-end to month-end basis. In late May and early June, when currency outflows and reductions in Reserve Bank float were absorbing reserves, the System purchased about \$300 million of U. S. Government securities. There were no further net outright purchases until late in the month although some securities were acquired under repurchase contracts from time to time. Between June 27 and July 3, the System purchased about \$350 million of Government securities, largely outright.

Interest rates. The effective trading rate for Federal funds was generally  $2\frac{3}{4}$  per cent during June but it occasionally dropped to  $2\frac{1}{2}$  per cent or  $2\frac{1}{4}$  per cent. Such funds were reported to be more readily available than in the preceding month. Effective June 19, rates on 90-day bankers' acceptances declined from  $2\frac{1}{2}$  per cent to  $2\frac{3}{8}$  per cent. Effective July 5, the rate on prime commercial paper declined to a range of  $3\frac{1}{4}$ -- $3\frac{3}{8}$  per cent from  $3\frac{3}{8}$  per cent. Also, the rate on 3-6 month directly placed finance paper dropped to  $2\frac{7}{8}$ --3 per cent from 3 per cent.

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Loans and Investments at All Commercial Banks  
(In billions of dollars)

Date	Loans and investments	U. S. Gov't. securities	Other securities	Total loans	Business	Real estate	Secu- rity	Farm	Con- sumer	All other
1947: Dec. 31	116.2	69.2	9.0	37.9	18.3	9.4	2.1	1.7	3.8	2.9
1948: Dec. 31	114.2	62.6	9.2	42.4	18.9	10.8	2.3	2.9	4.8	3.1
1949: Dec. 31	120.1	67.0	10.2	42.9	17.1	11.5	2.6	3.1	5.8	3.4
1950: Dec. 31	126.6	62.0	12.4	52.2	21.9	13.5	2.9	2.9	7.4	4.2
1951: Dec. 31	132.5	61.5	13.3	57.6	25.9	14.6	2.6	3.4	7.5	4.5
1952: Mar. 26	132.1	61.1	13.6	57.4	25.8	14.7	2.3	3.4	7.6	4.4
June 30	134.3	61.2	14.0	59.1	25.3	15.0	3.1	3.7	8.3	4.6
Sept. 24	136.4	61.6	14.3	60.5	26.2	15.4	2.5	3.9	8.7	4.7
Dec. 31	141.5	63.3	14.1	64.0	27.9	15.7	3.2	3.9	9.4	4.9
1953: Mar. 25	139.2	60.5	14.3	64.4	27.9	15.9	2.7	3.9	10.0	4.9
June 30	137.8	58.6	14.3	64.9	27.4	16.2	2.8	3.7	10.6	5.1
Sept. 30	142.6	62.2	14.5	65.9	27.9	16.5	2.9	3.9	10.9	4.9
Dec. 31	145.5	63.4	14.7	67.4	27.2	16.7	3.6	5.0	10.9	5.1
1954: Mar. 31	142.5	60.7	15.1	66.8	26.7	16.8	3.0	5.8	10.6	5.0
June 30	146.2	63.5	15.5	67.2	26.1	17.2	3.7	5.1	10.8	5.2
Sept. 29	150.1	67.3	16.0	66.8	26.1	17.8	3.8	3.9	10.7	5.5
Dec. 31	155.7	69.0	16.3	70.4	26.9	18.4	4.5	5.2	10.7	5.8
1955: Jan. 26	155.5	69.0	16.7	69.8	26.6	18.6	4.0	5.2	10.7	5.8
Feb. 23	153.8	66.8	16.8	70.2	26.8	18.8	3.9	5.2	10.8	5.9
Mar. 30	152.4	64.2	17.0	71.2	27.4	19.0	4.1	4.9	11.0	6.0
Apr. 27	154.4	65.6	17.0	71.8	27.6	19.2	4.3	4.4	11.2	6.2
May. 25	154.5	65.0	16.7	72.8	28.0	19.5	4.3	4.4	11.4	6.4
June 30	154.8	63.3	16.8	74.8	28.9	19.8	4.5	4.4	11.8	6.6
July 27	155.8	63.7	16.7	75.4	29.1	20.0	4.5	4.2	11.9	6.7
Aug. 31	155.6	62.5	16.9	76.2	29.9	20.3	4.2	3.9	12.1	6.8
Sept. 28	156.4	62.0	16.9	77.5	30.5	20.6	4.2	3.9	12.3	7.0
Oct. 26	158.1	62.9	16.8	78.4	30.8	20.8	4.4	4.0	12.5	7.0
Nov. 30	158.2	61.4	16.6	80.2	1/31.1	1/20.5	4.5	4.3	12.6	7.0
Dec. 31	160.3	61.6	16.7	82.0	32.3	20.7	4.5	4.5	12.7	7.0
1956: Jan. 25p	158.3	60.9	16.5	80.9	32.7	20.9	4.6	4.4	12.8	6.9
Feb. 29p	157.1	59.2	16.6	81.2	32.9	21.0	4.5	4.5	12.8	6.9
Mar. 28p	158.5	58.5	16.6	83.3	34.5	21.2	4.5	4.4	13.0	7.0
Apr. 25p	158.6	58.1	16.6	83.9	34.7	21.4	4.4	4.3	13.2	7.1
May 30p	158.3	57.2	16.4	84.7	34.7	21.7	4.5	4.4	13.4	7.2
June 27e	159.0	56.6	16.3	86.1	35.8	21.9	4.4	4.3	13.6	7.3

p - Preliminary

e - Estimated

1/ Level of business loans increased by, and real estate loans decreased by \$300 million at the end of October 1955 to correct classification errors. No back figures revised; most of the misclassification probably occurred during 1955.

Note: Data exclude interbank loans. Total loans are after and types of loans before deductions for valuation reserves. Consumer and "other loans" are partly estimated for all dates. Other data are partly estimated on all but June and December dates.