

BANKING AND MONETARY DEVELOPMENTS IN SEPTEMBER 1956

Summary. Total loans and investments at all commercial banks increased in September as continued loan expansion more than offset sales of U. S. Government securities. Demand deposit and currency holdings of businesses and individuals increased on a seasonally adjusted basis. Net borrowed reserves of all member banks declined. Some short-term money market rates rose further in late September and early October. OCT 12 1956

Bank credit. Preliminary estimates indicate that total loans and investments at all commercial banks increased \$500 million in September, reflecting a \$1,100 million expansion in loans offset in part by reductions in holdings of U. S. Government securities, as shown in Table 1. Expansion in business loans accounted for most of the loan growth, but real estate, agricultural, and security loans also increased. Last year in September, growth in total bank credit was larger, \$800 million; loans expanded more than this year, \$1,300 million, but U. S. Government securities declined about the same, \$500 million. Expansion in business loans was of about the same magnitude in the two years but that in real estate and consumer loans was larger last year.

Business loans increased \$600 million in September, about the same as a year ago, and generally comparable with increases in 1951 and 1952 and larger than those in 1953 and 1954. Banks in New York City accounted for 80 per cent of the increase as they continued to raise their share in the business loan expansion at city banks; last year in September, New York banks had accounted for 40 per cent of the growth. During the first half of 1956, New York City banks had accounted for about 45 per cent of the \$2.2 billion growth at weekly reporting banks. In the third quarter of the year, almost 75 per cent of the business loan expansion was at New York banks.

During September, total loans and investments increased \$185 million at banks in New York City whereas they declined \$50 million at banks in other weekly reporting cities. Most of the total loan expansion at city banks occurred in New York--\$450 million of the total \$610. While banks in New York City reduced their holdings of U. S. Government securities fairly substantially, \$280 million, these sales offset the loan expansion only in part. At banks in other leading cities, Government security holdings declined \$200 million.

Not for publication

Table 1

Estimated Changes in Loans and Investments at All Commercial Banks

(In billions of dollars)

Item	1956	1955	1956	1955	Year ending:	
	Aug. 30,	Sept. 1,	June 28,	July 1,	Sept. 26	Sept. 28
	Sept. 26	Sept. 28	Sept. 26	Sept. 28	1956	1955
Total loans (excluding interbank)	+ 1.1	+ 1.3	+ 1.3	+ 2.7	+10.0	+10.7
Business	+ 0.6	+ 0.6	+ 1.0	2/+ 1.6	2/+ 6.6	2/+ 4.4
Real estate	+ 0.2	+ 0.3	+ 0.5	2/+ 0.8	2/+ 1.7	2/+ 2.8
Security	+ 0.1	1/	- 0.3	- 0.3	- 0.3	+ 0.4
Agricultural	+ 0.3	1/	1/	- 0.5	+ 0.4	1/
Consumer	1/	+ 0.2	+ 0.2	+ 0.5	+ 1.6	+ 1.6
All other loans	- 0.1	+ 0.2	- 0.1	+ 0.4	+ 0.2	+ 1.5
U. S. Government securities	- 0.6	- 0.5	- 0.1	- 1.3	- 5.7	- 5.3
Other securities	1/	1/	1/	+ 0.1	- 0.5	+ 0.9
Total loans and investments (excluding interbank)	+ 0.5	+ 0.8	+ 1.1	+ 1.6	+ 3.7	+ 6.3

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

Outstanding loans in most business categories rose in September, as shown in Table 2. Petroleum concerns showed the largest growth due principally to borrowing by one large oil company for acquisition of a subsidiary. Borrowing by food processors was larger than last year while that by commodity dealers was slightly smaller. The increase in loans to commodity dealers in September, however, was much below the rapid rate of growth in these loans in July and early August, which had reflected in part the need for funds to finance exports of cotton released by the CCC. Loans to metals manufacturers increased somewhat in mid-September following steady declines which had begun in July at the onset of the steel strike. Sales finance companies were the only business category to show a reduction of any volume in outstanding borrowing during September, and this presumably reflected in part repayment of bank loans following recent long-term financing. Most of the new borrowing by petroleum concerns occurred at banks in New York City. Loans to public utility concerns and metals manufacturers also rose at these banks whereas they declined at banks in other cities.

Table 2

Changes in Commercial and Industrial Loans ^{1/}

(In millions of dollars)

Business of Borrower	1956	1955	1954	1956	1955	1954
	Aug. 30,	Sept. 1,	Aug. 25,	June 28,	June 30,	July 1,
	- Sept. 26	- Sept. 28	- Sept. 29	- Sept. 26	- Sept. 28	- Sept. 2
Food processors	+187	+128	+164	+201	+123	+144
Commodity dealers	+ 81	+113	+124	+330	+208	+235
Trade concerns	+ 65	+ 62	+ 63	+ 63	+122	+ 45
Total	<u>+333</u>	<u>+303</u>	<u>+351</u>	<u>+594</u>	<u>+453</u>	<u>+424</u>
Sales finance	-108	-126	- 84	-174	+112	-142
All other - total	<u>+342</u>	<u>+231</u>	<u>- 38</u>	<u>+549</u>	<u>+672</u>	<u>-358</u>
Metal and metal products	+ 17	+ 5	-174	-242	- 9	-406
Textiles, apparel, and leather	+ 17	+ 75	+ 20	+ 94	+181	+ 96
Petroleum, coal, etc.	+228	+ 17	+ 24	+346	+ 55	- 38
Other manufacturing and mining	+ 19	+ 20	+ 9	+154	+ 66	+ 2
Public utilities	+ 50	+ 50	-	+ 73	+ 93	-104
Construction	- 14	+ 26	+ 2	- 11	+ 63	+ 37
All other types of business	+ 25	+ 38	+ 81	+135	+223	+ 55
Total - Classified	+567	+407	+229	+969	+1,237	- 79
Unclassified	<u>- 35</u>	<u>+ 82</u>	<u>+ 13</u>	<u>-115</u>	<u>2/- 78</u>	<u>3/-790</u>
Total change	+532	+489	+242	+854	2/+1,159	3/-869

1/ Data for 1955 and 1954 include agricultural loans.

2/ CCC certificates of interest may have declined about \$300 million.

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

Not for publication

During the third quarter of 1956, business loans at city banks increased \$850 million compared with about \$1,450 million (after adjustment for CCC certificates) last year. Loans to metals manufacturers, construction firms, and sales finance companies declined in 1956 whereas last year, the first two categories had increased and the third had declined only nominally. Also, loans to textile manufacturers, trade concerns, and "other businesses" increased less than last year. On the other hand, loans to petroleum concerns, food processors, and commodity dealers increased considerably more in 1956 than in 1955.

Real estate loans increased further in September but expansion continued to be at a slower rate than in 1955. Consumer loans increased only slightly in September compared with a rise of \$200 million last year. Agricultural loans, however, rose \$300 million whereas last year, they had shown little change. Security loans increased slightly in September as expansion late in the month more than offset earlier declines. These loans had been declining steadily at weekly reporting banks since late July. Press comment and other reports indicate that in this period, there was a substantial shifting of brokers' loans from main financial centers to non-reporting banks.

Total loans and investments at all commercial banks increased over \$1 billion during the third quarter of 1956, almost as much as the growth in total loans. Holdings of U. S. Government securities declined slightly, as increases in August, reflecting bank acquisitions of new Treasury certificates, were offset by prior and subsequent sales. In the third quarter of 1955, total bank credit had expanded over \$1.5 billion. Loans increased \$2.7 billion, about twice as much as this year, but holdings of U. S. Government securities declined much more.

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 businesses and individuals may have increased about \$400 million on a seasonally adjusted basis in September, as shown in Table 3. So far this year, the active money supply has increased at an annual rate of around 3/4 per cent and at the end of September was about 1/2 per cent above its year-ago level. During the third quarter of 1956, seasonally adjusted deposits and currency declined \$300 million compared with an increase of \$1,400 million in the comparable period last year.

Not for publication

Table 3

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

Item	1956	1955	1956	1955	Year ending:	
	Aug. 30- Sept. 26	Sept. 1- Sept. 28	June 28- Sept. 26	July 1- Sept. 28	Sept. 26, 1956	Sept. 28, 1955
<u>Seasonally adjusted data 1/</u>						
Demand deposits adjusted	+ 0.4	+ 0.7	- 0.2	+ 1.3	+ 0.4	+ 3.8
Currency outside banks	2/	- 0.1	- 0.1	+ 0.1	+ 0.4	+ 0.3
Total	+ 0.4	+ 0.6	- 0.3	+ 1.4	+ 0.8	+ 4.1
<u>Unadjusted data 1/</u>						
Demand deposits adjusted	+ 0.7	+ 1.0	+ 0.2	+ 1.7	+ 0.4	+ 3.7
Currency outside banks	2/	- 0.1	2/	- 0.2	+ 0.3	+ 0.3
Total	+ 0.7	+ 0.9	+ 0.2	+ 1.5	+ 0.7	+ 4.0
Time deposits	+ 0.3	+ 0.3	+ 0.7	+ 0.6	+ 3.4	+ 3.3
U. S. Government deposits	- 0.2	- 0.5	+ 0.2	- 0.7	+ 1.0	- 0.1
Total	+ 0.8	+ 0.6	+ 1.2	+ 1.3	+ 5.2	+ 7.1
<u>Factors affecting deposits and currency</u>	(signs indicate effect on deposits and currency)					
Bank loans and investments other than U. S. Govt. sec. 3/	+ 1.3	+ 1.4	+ 1.7	+ 3.2	+ 11.9	+ 13.9
Commercial	+ 1.1	+ 1.3	+ 1.3	+ 2.8	+ 9.5	+ 11.6
Mutual savings	+ 0.2	+ 0.2	+ 0.6	+ 0.6	+ 2.5	+ 2.3
Bank holdings of U. S. Government securities:						
Federal Reserve	- 0.7	- 0.5	- 0.1	- 1.2	- 6.4	- 6.0
Commercial	- 0.1	- 0.1	+ 0.1	+ 0.1	- 0.1	- 0.3
Mutual savings and other	- 0.6	- 0.5	- 0.1	- 1.3	- 5.7	- 5.3
Gold stock and foreign deposits at F. R. Banks	2/	2/	- 0.1	2/	- 0.6	- 0.4
Other factors	+ 0.1	2/	2/	2/	+ 0.3	2/
	+ 0.1	- 0.3	- 0.4	- 0.7	- 0.6	- 0.8

1/ 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 from the end of June 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 have been about unchanged between June 27 and June 30.

2/ Less than \$50 million.

3/ 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: Data for September 1956 are estimates and subject to change. Preliminary data for September will be shown in the Board's statement, "Assets and Liabilities of All Banks in the United States" available at the end of October.

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: August	- 189	- 139	- 61	- 342	353
September	- 285	- 127	- 114	- 409	365
October	- 360	- 150	- 137	- 416	344
November	- 491	- 265	- 67	- 501	341
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	- 195	- 33	- 111	- 356	305
July	- 139	- 108	- 48	- 344	360
August	- 339	- 158	- 72	- 382	274
September	- 194	- 204	- 93	- 296	400
1956: Aug. 29	- 427	- 205	- 106	- 299	183
Sept. 5	- 353	- 131	- 56	- 350	184
12	- 318	- 307	- 76	- 358	423
19	64	- 166	- 88	- 242	560
26	- 166	- 166	- 133	- 269	402
Oct. 3	- 292	- 218	- 108	- 324	358

Note: Data for second half of September and October are preliminary.

Demand deposits adjusted are estimated to have increased about \$700 million in September, all of which occurred at banks outside leading cities. In September of other recent years, as well, deposits have increased substantially at non-weekly reporting banks and in some years there have been large declines at reporting banks. U. S. Government deposits declined \$200 million in September as expenditures early in the month were almost offset by subsequent receipts as quarterly tax payments were processed. On September 26, U. S. Government deposits were at a level of \$6.1 billion, still relatively high. Time deposits increased \$300 million further in September. On balance, total deposits and currency rose \$800 million over the month reflecting principally credit expansion at commercial and mutual savings banks. Federal Reserve holdings of U. S. Government securities declined.

Table 5

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

Item	September		July - Sept.		Year ended September	
	1956	1955	1956	1955	1956	1955
<u>Member bank reserve balances</u>						
<u>Total</u>	<u>+ 241</u>	<u>- 17</u>	<u>+ 91</u>	<u>- 4</u>	<u>+ 313</u>	<u>+ 308</u>
Excess reserves ^{1/}	+ 39	- 13	+ 24	- 6	+ 35	- 212
Required reserves ^{1/}	+ 202	- 4	+ 67	+ 2	+ 278	+ 520
Principal factors	(signs indicate effect on reserves)					
Currency in circulation	- 153	- 131	- 267	- 370	- 383	- 429
Gold stock and foreign accounts	- 13	+ 45	+ 44	+ 32	+ 228	+ 9
Treasury operations	- 12	+ 35	- 22	- 178	+ 79	+ 39
Federal Reserve float	+ 288	+ 178	- 8	+ 46	+ 274	+ 199
Other factors	+ 38	- 44	+ 112	- 56	+ 177	-----
Federal Reserve loans and investments:						
U. S. Govt. securities:	+ 198	- 177	+ 206	+ 111	+ 19	- 232
Outright	+ 207	- 202	+ 209	+ 72	+ 27	- 260
Repurchase agreements	- 9	+ 25	- 3	+ 39	- 8	+ 28
Acceptances	-----	+ 4	+ 1	+ 2	- 3	+ 17
Discounts and advances:						
To member banks	- 106	+ 83	+ 23	+ 447	- 57	+ 781
To others	-----	- 14	- 1	- 40	- 23	- 79

^{1/} Data for September 1956 are preliminary.

In the third quarter of 1956, total deposits and currency increased \$1,200 million, almost as much as in the third quarter last year. While the increase in privately-held deposits and currency was much less than last year, U. S. Government deposits increased whereas last year they declined. Bank credit growth was somewhat less this year than last, as noted earlier, but changes in other miscellaneous factors, tended to drain a smaller volume of deposits this year.

Not for publication

Bank reserves. Net borrowed reserves of all member banks averaged \$190 million in September, considerably below the \$340 million average in August, as shown in Table 4. Borrowings declined to \$790 million and excess reserves rose to \$600 million. On balance, however, all the easing occurred at reserve city banks, \$90 million, and at country banks, \$130 million. At central reserve city banks, and especially in New York, reserve pressures increased, and net borrowed reserves rose \$70 million.

During early September, reserve pressures continued and net borrowed reserves remained close to their late August level. In mid-September, however, increases in Reserve Bank float, currency inflows, and reductions in Treasury and foreign deposits at the Reserve Banks supplied reserves in a volume larger than that absorbed by System sales of U. S. Government securities and increases in required reserves. Reflecting a positive shift of \$380 million, free reserves averaged \$65 million in the week of September 19, the first time since the summer of 1955 that excess reserves had exceeded borrowings. Subsequently in September and early October, reserve positions tightened again due principally to reductions in Reserve Bank float.

Over the month of September, as compared with August, as shown in Table 5, the principal factors supplying reserves to banks were a larger-than-usual rise in Reserve Bank float and an increase in System holdings of U. S. Government securities. These reserves were absorbed only in part by a currency outflow and substantial expansion in required reserves. The increase in required reserves, however, reflected the carry-over on an average basis of the mid-August rise associated with bank purchases of Treasury certificates. Subsequently in August and September, required reserves showed little over-all change.

System holdings of U. S. Government securities, held outright, declined \$240 million in September. On an average basis, as noted in Table 5, they were \$210 million higher than in August, as a result of purchases of \$410 million late in August when declines in Reserve Bank float and increases in currency in circulation, associated with month-end and holiday needs, drained reserves. System holdings remained unchanged in early September, and then between September 12 and September 21, when Reserve Bank float expanded, they declined \$275 million. Later in the month, when reserve pressures again increased, the System purchased \$35 million of securities outright. Substantial amounts of repurchase agreements were acquired and sold during the month to meet temporary market pressures.

Interest rates. In late September and early October the rate on 3-6 month directly-placed finance paper rose to 3-3/8 per cent from 3-1/8 per cent, and that on 4-6 month prime commercial paper, to 3-5/8 per cent from 3-1/2 per cent. The effective trading rate on Federal funds was generally 3 per cent during September and early October.

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: 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	$\frac{1}{30.8}$	$\frac{1}{20.8}$	4.4	4.0	12.5	7.0
Nov. 30	158.2	61.4	16.6	80.2	32.3	20.7	4.5	4.3	12.6	7.0
Dec. 31	160.3	61.6	16.7	82.0	33.2	20.8	5.0	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	34.8	21.4	4.4	4.3	13.2	7.1
May 30p	158.3	57.2	16.4	84.7	34.8	21.6	4.5	4.4	13.4	7.2
June 27p	159.0	56.4	16.4	86.2	36.1	21.8	4.4	4.3	13.7	7.3
July 25p	158.1	55.9	16.2	86.0	35.9	21.9	4.3	4.2	13.8	7.3
Aug. 29p	159.6	56.9	16.4	86.4	36.5	22.1	4.0	4.0	13.9	7.3
Sept. 26e	160.1	56.3	16.4	87.5	37.1	22.3	4.1	4.3	13.9	7.2

p - Preliminary e - Estimated

$\frac{1}{1}$ 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.

Banking Section, Board of Governors

October 9, 1956