NOVEMBER, 1942

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Nine Billion Fighting Dollars

To finance the war effort the United States Treasury will borrow during December the unprecedented sum of nine billion dollars. The Treasury issues offered are designed for every class and type of investor, from the largest commercial banks, corporations, and insurance companies to the smallest investor or wage earner. Every American will have an opportunity to back the armed forces with bonds.

The nine billion dollars to be borrowed in December—the largest amount of money ever raised by any government in such a short time—will be raised partly through the continuing sale of Series E War Savings Bonds, Series F and G United States Savings Bonds, Series A and C Tax Savings Notes, and Treasury bills, and partly through offerings of three series of new securities. The special offerings to be sold during December will consist of 2½% Treasury Bonds of 1963-68, called the "Victory two and one-halves," 1¾% Treasury Bonds of 1948, and ⅞% Treasury Certificates of Indebtedness of 1943.

An intensive drive which will continue for several weeks is being launched by the Victory Fund Committee. The "Victory two and one-halves" will be the principal security to be sold during the drive. The 44,000 volunteer Victory Fund workers, drawn largely from the securities and banking fields, will conduct a vigorous campaign to assure the widest possible public participation in the Treasury offering.

Public borrowing by the Treasury in the fiscal year ending June 30, 1943, will amount to sixty billion dollars. It is imperative that as much as possible of the borrowing be from outside the banking system, so as to minimize the expansion in bank deposits. Purchase of Government obligations by the banking system increases the quantity of bank deposits. Purchase of Government obligations by individuals and firms other than banks does not increase the quantity of bank deposits. Almost every American citizen, firm, and organization has idle funds in the form of currency or bank deposits which can be enlisted in the war effort through the purchase of Government securities.

At the same time, the War Savings Staff will intensify its drive to sell Series E War Savings Bonds through the payroll savings plan. The 300,000 volunteer workers of the War Savings Staff will endeavor to raise the present figure of 23 million income earners now investing an average of 8 per cent of their pay to a figure of at least 30 million workers setting aside an average of at least 10 per cent of their earnings every payday. War borrowing must be done to the greatest possible extent out of current income and savings of the people. This is the soundest means of financing the war deficit.

Since the Treasury is borrowing an unprecedented sum in December, the program calls for longer intervals between loan flotations. The expectation is that no further financing will develop, after completion of the current program, until February, with the exception of the continuing sales of tax savings notes, savings bonds, and Treasury bills.

War Borrowing and the Banks

In war the banking system must be prepared to do whatever may be necessary to finance Treasury war needs. The extent to which United States Government securities will have to be bought by the banks will depend on the amounts received by taxation and through channelling into the war effort the current and accumulated savings of the people.

At best a substantial share of the war deficit will have to be financed through purchase of Government obligations by the banks. This situation necessitates wise policy and effective action, not only on the part of the Treasury and the Federal Reserve System, but also on the part of the commercial banks. The Government obligations which the Treasury offers to commercial banks are of such maturities as to preserve a maximum of liquidity in the banking system. Member banks should utilize existing excess reserves to the fullest possible extent. Additional reserve funds, as needed, will be provided to the banks through appropriate Federal Reserve action. The Federal Reserve System and the Treasury will ease any strains on the money market that develop. Banks must develop the utmost flexibility in adjustment of their own reserve positions through holdings of short-term Treasury issues, through full use of war loan deposit accounts, and through borrowing at the Federal Reserve banks.

Treasury Issues for Commercial Banks

A statement on the place of the commercial banks in the war financing program was made in an address by Daniel W. Bell, Under Secretary of the Treasury, before the Investment Bankers Association in New York on October 19. "It is our firm belief in the Treasury," stated Mr. Bell, "that we should borrow from commercial banks only on a residual basis—that is, to resort to the commercial banks only after every effort has been made to finance the deficit from other sources. We must recognize that the commercial banks will be called upon to finance a large share of the deficit—in fact, a share of unprecedented magnitude. In the months—perhaps years—to come, it is important that the banks preserve a maximum of liquidity. To help them to do so, we have decided that securities sold to the banks should have a range of maturities running from 3 months, in the case of Treasury bills, to 10 years in the case of Treasury bonds.

"Interest rates on bills have been fixed at 3/8 of 1 per cent, a rate that is designed to promote the widespread distribution of this type of security. . . . For all practical purposes, excess reserves can now be invested in Treasury bills without sacrificing liquidity. As a result, we have been able to increase steadily the amount of bills outstanding.

"In addition to this large increase in bills, we have also revived the use of another short-term security—the certificate of indebtedness. . . . Together with bills, the certificates provide a large supply of short-term paper, and thus add a large measure of liquidity to the banking system. Incidentally, it should be remembered, that this liquidity is going to be a very welcome offset to declining capital ratios, and will make it easier for banks to adjust themselves to the need of shifting deposits from area to area, a process that seems likely to continue.

"In securities of over one-year maturity, we have continued to offer the banks Treasury notes, and Treasury bonds with a term of not over ten years. This means a maximum interest rate of two per cent on Treasury bonds sold to commercial banks.

"It may seem at times that banks are being discriminated against in not being permitted to subscribe for longer-term securities which bear higher interest rates than two per cent; but this is not the case. The Government would certainly be doing the banks no favor if it permitted them to load themselves with long-term issues. . . . The report of the Economic Policy Commission of the American Bankers Association, issued last April, concluded that securities sold to banks should be limited to a ten-year maturity. . . . A frozen banking system trying to become unfrozen after the war by selling long-term Government securities might create a bad situation.

"It should also be noted that a large part of the securities which will be bought by banks will be financed by increases in deposits for the banking system as a whole. It seems reasonable that the interest rate on securities financed in this manner should be kept down to a maximum of two per cent—regardless of the maturities involved—because the costs incurred by the banks in making loans direct to the Government, and in handling the increased deposits resulting from these loans, are small. Furthermore, from the point of view of the cost of financing the war, interest rates should be kept as low as is compatible with the objective of financing the war as much as possible outside of commercial banks.

"We all realize that a great deal more remains to be done in financing the deficit as far as possible from outside the commercial banking system. To the extent, however, that we must resort to the commercial banks, it is imperative that interest rates be kept at prevailing levels and that the maximum of liquidity be preserved. The success of our war financing depends upon attaining these objectives."

MEMBER BANK RESERVE REQUIREMENTS
(Per cent of deposits)

Classes of Deposits and Banks	Minimum Permitted by Law	Nov. 1, 1941-Aug. 19, 1942	Aug. 20, 1942-Sept. 13, 1942	Sept. 14, 1942-Oct. 2, 1942	Effective Oct. 3, 1942
On net demand deposits:					
Central reserve city	13	26	24	22	20
Reserve city	10	20	20	20	20
Country banks	7	14	14	14	14
On time deposits:					
All member banks	3	6	6	6	6

Bank Examination and Supervisory Policy

Bank supervisory agencies, state and Federal, issued a joint statement on November 24 of examination and supervisory policy with reference to Government financing and the banks.

"The Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Executive Committee of the National Association of Supervisors of State Banks make the following statement of their examination and supervisory policy with special reference to investments in and loans upon Government securities.

"1. There will be no deterrents in examination or supervisory policy to investments by banks in Government securities of all types, except those securities made specifically ineligible for bank investment by the terms of their issue.

"2. In connection with Government financing, individual subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowings from banks. Such loans will not be subject to criticism but should be on a short term or amortization basis, fully repayable within periods not exceeding six months.

"3. Banks will not be criticized for utilizing their idle funds as far as possible in making such investments and loans and availing themselves of the privilege of temporarily borrowing from or selling Treasury bills to the Federal Reserve banks when necessary to restore their required reserve positions."

Reserve Funds and Treasury Financing

Purchase of Government obligations in unprecedented amounts by commercial banks requires utilization of existing excess reserves to the fullest possible extent, as well as action by the Federal Reserve System to increase the supply of reserve funds.

The Board of Governors of the Federal Reserve System issued a statement on December 8, 1941, which declared, in part, that "the System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort, and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements."

In recent months the Federal Reserve System has made large purchases of Government securities in the open market. These purchases have been made for the purpose of supplying the banks with reserves and also for the maintenance of market stability. From December 31, 1941, to November 25, Federal Reserve holdings of Government obligations increased by 2,589 million dollars. Holdings of Treasury bills increased by 372 million dollars, certificates of indebtedness by 736 million, Treasury notes by 575 million, and Treasury bonds by 906 million. Bill holdings increased from April to August. Increased holdings of certificates of indebtedness have offset declines in bill holdings the last four months. Most of the increase in holdings of bonds and notes occurred in October and November.

FACTORS DETERMINING AMOUNT OF EXCESS RESERVES OF ALL MEMBER BANKS, DECEMBER 31, 1941 - NOVEMBER 18, 1942
(In millions of dollars)

Factors which decreased excess reserves:		
Increase in required reserves as a result of higher deposits (if reserve requirement against net demand deposits of central reserve city member banks were 26 per cent)	2,012	
Increase in money in circulation	3,304	
Total		5,316
Factors which increased excess reserves:		
Increase in Federal Reserve holdings of Government obligations	2,441	
Reduction in Treasury deposits with Federal Reserve banks	567	
Decrease in required reserves as a result of reduction in reserve requirement against net demand deposits of central reserve city member banks from 26 to 20 per cent	1,240	
All other operations—net	468	
Total		4,716
Decrease in excess reserves		600

In addition to reserves supplied by open-market purchases, the Board of Governors has made reserves available to central reserve city member banks in New York and Chicago by reduction in reserve requirements against net demand deposits at these banks. A first reduction in reserve requirements, from 26 to 24 per cent, became effective on August 20; a second, to 22 per cent, on September 14; and a third, to 20 per cent, on October 3. Altogether about 1,200 million dollars of reserve funds were released by this action.

Excess reserves of member banks taken as a whole were 600 million dollars lower on November 18 than on December 31, 1941. The continued increase in money in circulation and the increase in required reserves as a result of higher deposits created by bank purchases of Government securities have diminished excess reserves. As an offset to these forces, the increase in Federal Reserve holdings of Government obligations and the reduction in reserve requirements against demand deposits of central reserve city member banks have augmented the excess reserves of member banks.

Marked changes have taken place in the distribution of excess reserves among groups of member banks. In January 1941, central reserve city member banks in New York and Chicago held 57 per cent of excess reserves of all member banks, while reserve city and country member banks held 43 per cent. In September 1942, central reserve city member banks in New York and Chicago held 16 per cent of excess reserves of member banks taken as a whole, whereas reserve city and country member banks held 84 per cent.

In September 1942, reserve balances of country member banks in the nation were 51 per cent greater than their required reserves, while reserve balances of reserve city member banks exceeded required reserves by 30 per cent. Excess reserves of central reserve city member banks were only 8 per cent of those required.

In the semi-monthly period ended November 15, Seventh District country member banks held excess reserves which were 52 per cent of their required reserves. Reserve balances of Seventh District reserve city member banks were 25 per cent greater than their required reserves.

The policy of holding large amounts of excess reserves in relation to those required is not appropriate when such enormous amounts of money are needed to finance the war effort. That is particularly true in view of the measures which have already been taken by the Federal Reserve System to maintain an adequate amount of reserves and to facilitate adjustments in the reserve positions of individual member banks. To finance the war effort, all banks must participate in proportion to the funds which they have available.

Sharp fluctuations in Treasury deposits with Federal Reserve banks cause sharp fluctuations in reserve balances and excess reserves of member banks. When Treasury deposits with Federal Reserve Banks rise, usually as a result of heavy tax collections and cash payments for new Treasury issues, reserve balances decline. When Treasury deposits with Federal Reserve banks decline, chiefly as a result of heavy war expenditures, reserve balances rise. The increasing amount of war financing and the consequent large temporary shifts in reserves accompanying each financing operation make it desirable to soften, through various means, the impact of Treasury financing on bank reserves.

Treasury and Federal Reserve policy can do much to smooth out fluctuations in Treasury deposits with Federal Reserve banks and prevent, to a great extent, the wide fluctuations in bank reserves, particularly reserves of member banks in money market centers, which would otherwise occur. Moreover, the impact of Treasury financing on bank reserves emphasizes the need for utmost flexibility in adjustment of reserve positions on the part of individual member banks, through use of war loan deposit accounts to the fullest possible extent, through holdings of Treasury bills and certificates of indebtedness, and through member bank borrowing.

There are various means by which fluctuations in Treasury deposits with Federal Reserve banks and temporary shifts in reserve balances accompanying Treasury operations can be smoothed out. The use of tax savings notes to pay income taxes lessens the heavy concentration of Treasury cash receipts from income tax collections on quarterly tax dates. Heavy war expenditures, which now amount to about $1,500 million a week, serve to alleviate temporary strains on the money market caused by income tax collections and cash payment for new issues. Purchases of special one-day certificates of indebtedness by the Federal Reserve banks direct from the Treasury are used to adjust the Treasury's cash position. The Federal Reserve banks purchase such special certificates direct from the Treasury under authority granted in the Second War Powers Act of 1942. Timing of Treasury bill maturities in periods of heavy income tax collections and payment in cash without replacement was used in March and June to synchronize Treasury cash receipts and Treasury expenditures.

Use of War Loan Deposit Accounts

Use of war loan deposit accounts by member and nonmember banks in payment for Government obligations purchased, not only by themselves but by their customers as well, mitigates the sharp fluctuations in reserves caused by Treasury operations. War loan deposit accounts are accounts due to the United States Government on the books of qualified depositary banks which

(*continued on page 6*)

UNITED STATES TREASURY

Type of Issue	Date of Issue	Date of Maturity	Interest Rate	Issue Price	Denomina
Treasury Bills	Weekly	Usually 91 Days	Discount bid	Discount bid	$1,000, $5, $10,000, $100,000 $500,000 a $1,000,000
Treasury Certificates of Indebtedness	Dec. 1, 1942	Dec. 1, 1943	⅞%	Par and accrued interest	$1,000, $5,0 $10,000 and $100,000
Treasury Bonds of 1948	Dec. 1, 1942	June 15, 1948	1¾%	Par and accrued interest	$500, $1,000 $5,000, $10, $100,000 a $1,000,000
Treasury Bonds of 1963-68 [2] ("Victory 2½'s")	Dec. 1, 1942	Dec. 15, 1968 (see redemption)	2½%	Par and accrued interest	$500, $1,000 $5,000, $10, $100,000 ar $1,000,000
United States Savings Bonds Series F [3]	Dated the first day of the month in which payment is received by issuing agent	Twelve years from date of issue	Equivalent to 2.53% compounded semi-annually if held to maturity; lesser yield if redeemed at earlier date	74% of maturity value	$25, $100, $ $1,000, $5,0 and $10,000 (Maturity value)
United States Savings Bonds Series G [3]	Dated the first day of the month in which payment is received by issuing agent	Twelve years from date of issue	2.50% if held to maturity; lesser yield if redeemed at earlier date	Par	$100, $500, $1,000, $5,0 and $10,000
Treasury Tax Savings Notes Series A—1945 [5]	Sept. 1, 1942	Sept. 1, 1945	16 cents a month per $100. If not used for tax payment, no interest paid	Par and accrued interest	$25, $50, $1 $500, $1,000 and $5,000
Treasury Tax Savings Notes Series C [6]	First day of month in which purchased	Three years from date of issue	Average rate about 1.07% a year if held until maturity; lesser yield if redeemed for cash or tendered for taxes at earlier dates	Par	$1,000, $5,0 $10,000, $100,000, $500,000 ar $1,000,000
War Savings Bonds Series E [3]	Dated the first day of the month in which payment is received by issuing agent	Ten years from date of issue	2.9% a year on principal and accumulated interest if held to maturity	75% of maturity value	$25, $50, $ $500, and $

[1] Applications from commercial banks in amounts up to $100,000 will be allotted in full, and larger subscriptions on an equal percentage basis. All applications from others than commercial banks will be allotted in full.

[2] Upon the death of the owner, the bonds may be redeemed at the option of the duly constituted representatives of the deceased owner's estate at par and accrued interest, for the purpose of satisfying Federal estate taxes.

[3] You may now own up to $100,000 (cost price) of Series F or Series G, or G and F combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner. Limit on Series E is $5,000 maturity value originally issued to any one person during any one calendar year.

VICTORY LOAN" SECURITIES

ns	Form	Redemption	Subscription Books Open	Who May Buy
0, d	Bearer certificates	On demand at ⅜% at Federal Reserve Banks	Each week by bid only	All types of investors
),	Bearer certificates with two coupons	Not subject to call prior to maturity	For commercial banks, Dec. 16, 17, and 18. All others from Nov. 30 for several weeks [1]	All types of investors
00 l	Bearer bonds with interest coupons attached or registered as to principal and interest. Denomination of $1,000,000 in registered form only. Interchangeable	Not redeemable prior to maturity	For banks, Nov. 30, Dec. 1, and 2. All others from Nov. 30 for several weeks [1]	All types of investors
00	Bearer bonds with interest coupons attached or registered as to principal and interest. Denomination of $1,000,000 in registered form only. Interchangeable	Not callable until Dec. 15, 1963; then and thereafter at par and accrued interest	From Nov. 30 for several weeks	All types of investors, except commercial banks which accept demand deposits
00,	Registered only	On first of any month, six months after issue date, upon one month's written notice	Continuously	All types of investors, except commercial banks which accept demand deposits[4]
),	Registered only	On first of any month, six months after issue date, upon one month's written notice	Continuously	All types of investors, except commercial banks which accept demand deposits[4]
),	Name and address of single owner inscribed as in income tax return, but not issued in names of two or more persons jointly	Not callable. May be redeemed at purchase price only, without advance notice	Continuously	Any individual, corporation, or other entity
),	Name and address of single owner inscribed as in income tax return, but not issued in names of two or more persons jointly	Par and accrued interest after six months from purchase date upon 30 days' notice, or at maturity except if inscribed in name of bank that accepts demand deposits in which case redeemable at par only	Continuously	Any individual, corporation, or other entity
00, 000	Registered only	On demand 60 days after date of issue	Continuously	Only natural persons

[4] Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other peron designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds; or in the name of an unincorporated or incorporated body, **other than commercial banks.**

[5] Acceptable at par, and accrued interest for Federal income, estate and gift taxes. Limit $5,000 principal amount Tax Series A for each taxpayer in any one year for each type of tax. Series A Notes may be presented at par and accrued interest for taxes during and after the second calendar month after date of purchase.

[6] Acceptable in unlimited amounts for Federal income, estate and gift taxes at par and accrued interest during and after the second calendar month after date of purchase.

(*Continued from page 3*)

may be credited in payment of subscriptions to most new Treasury issues purchased by these banks and their customers.

Banks need not provide immediately available funds at the time subscriptions are allotted if use is made of war loan deposit accounts, for the proceeds of such subscriptions can be retained on deposit until called for by the Treasury. The Treasury withdraws funds from war loan deposit accounts at intervals, as needed, by calls on war loan depositaries for a percentage of the balance, notice of which is given several days in advance by the Federal Reserve bank.

Use of war loan deposit accounts allows the Treasury to keep a lower level of deposits with the Federal Reserve banks and permits a closer synchronization of war expenditures with withdrawal of funds from war loan deposits. The transfer of Treasury funds from war loan accounts in commercial banks to the Federal Reserve banks in itself causes a decline in member bank reserve balances. Such effects, however, are usually offset by war expenditures made at the same time, which in themselves cause a rise in member bank reserve balances. For this reason, withdrawal of war loan deposits accompanied by Treasury expenditures causes little change in the level of reserve balances for member banks taken as a whole.

To be sure, even with the use of the war loan procedure, Treasury financial operations exercise a major influence in the distribution of reserves among various classes and groups of member banks. Member banks in areas where Treasury cash disbursements, chiefly war expenditures, are greater than Treasury cash receipts, chiefly income tax receipts and proceeds from sale of new issues, tend to gain reserves and deposits. Member banks in areas where Treasury cash expenditures are less than Treasury cash receipts tend to lose reserves and deposits. Although withdrawal of war loan deposits accompanied by Treasury expenditures does bring about significant changes in the distribution of reserves, the disturbing effects of Treasury financing on reserve positions of banks are reduced to a minimum by the use of war loan deposit accounts in payment for purchases of new Treasury issues purchased by banks, and by their customers.

War loan deposit accounts must be secured by collateral deposited with the Federal Reserve bank, for which all issues of negotiable Government securities are eligible as well as various other municipal and corporate securities under conditions and limitations set forth by the Treasury Department. The amount for which a special depositary can qualify may, upon the recommendation of the Federal Reserve bank, be any amount which in its opinion is justified to meet the requirements of the depositary bank and its customers.

Member and nonmember banks not already qualified are urged to apply for designation as special depositaries. Member and nonmember banks now qualified are urged to make full and effective use of their war loan deposit accounts. Extensive use of the war loan procedure becomes more and more important as the magnitude of war financing mounts to higher and higher levels.

Longer Reserve Computation Period for Central Reserve and Reserve City Member Banks

The effect of sharp day-to-day fluctuations in deposits and reserve balances is lessened by the amendment to Regulation D, effective February 28, 1942, which provides that member banks in all central reserve and reserve cities shall make their computations of required reserves on a weekly basis. Under the Board's regulation, as it has been in the past and as it remains, a member bank is not required to maintain its reserves at the legal minimum every day, but its average reserves held over a prescribed period of time must equal or exceed the average amount required over that period.

The amendment was made for the convenience of member banks in central reserve and reserve cities in adjusting their reserve positions. Wide fluctuations may occur from day to day in the deposits and reserves of such banks. The amendment provides that deficiencies in reserve balances of member banks in all central reserve and reserve cities shall be computed on the basis of average daily net deposit balances covering weekly periods. Until February 28, deficiencies in reserve balances of member banks in cities where Federal Reserve banks or branches are located and in a few other reserve cities had been computed on the basis of average daily net deposit balances covering semi-weekly periods.

Member banks located outside of central reserve or reserve cities continue as heretofore to compute deficiencies in reserve balances on a semi-monthly basis.

Loans and Dividends of Member Banks with Deficient Reserves

Member banks are no longer restricted from making new loans or paying dividends even though their reserves are below the minimum requirements. The provision of law which had prohibited member banks from making loans or paying dividends while reserves are deficient was repealed in the Act of Congress, approved by the President on July 7, 1942. Regulation D was amended by the Board of Governors on July 14 to conform to the change made in the law. The regulation retains the provisions prescribing penalties for deficiencies in reserves.

Treasury Bills and Certificates

In recent months a substantial part of the Government securities offered by the Treasury to commercial banks has taken the form of Treasury bills and certificates of indebtedness. On November 25, the amount of Treasury bills outstanding was 5,722 million dollars, more than three times the amount outstanding at the end of March this year. The four issues of certificates of indebtedness now outstanding total 6,739 million dollars, and a fifth issue of over 2 billion dollars will be offered in December.

The Federal Reserve banks stand ready to buy all Treasury bills offered at a rate of 3/8 of 1 per cent. Moreover, if desired by the seller, any such purchases shall be upon the condition that the Federal Reserve bank upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of a like amount and maturity at the same rate of discount. For all practical purposes these arrangements—the buying rate and the option to repurchase Treasury bills—make Treasury bills as liquid as excess reserves.

Effective October 17, the Federal Reserve Bank of Chicago established a discount rate of 1/2 of 1 per cent on advances to member banks secured by direct or fully guaranteed United States Government obligations maturing or callable in one year or less. This rate supplements the rate of 1 per cent on advances to member banks secured by other direct obligations of the United States or by eligible paper and on discounts on eligible paper. The discount rate of 1/2 of 1 per cent on advances to member banks secured by Government securities maturing or callable within one year or less provides an additional means for member banks to obtain reserve funds, as occasion requires.

Continuing the policy which was announced following the outbreak of war in Europe, Federal Reserve banks stand ready to advance funds on United States Government securities at par to all banks. A major traditional function of central banks is to loan to member banks to meet temporary needs. Member banks borrowing at Federal Reserve banks provides a desirable means of adjustment of reserve positions.

It is most desirable that wide distribution of short-term Government securities among commercial banks be achieved, that full and effective use be made of war loan deposit accounts, and that member banks borrow at Federal Reserve banks to meet temporary losses of funds. Investment in Treasury bills and certificates provides a reasonable return on otherwise idle bank funds and makes for liquidity of bank portfolios. Bank holdings of Treasury bills and certificates, use of war loan accounts, and member bank borrowing at Federal Reserve banks together provide for flexibility in adjustment of reserve positions, facilitate the smooth functioning of the money market, and are important factors in the financing of the war.

REGIONAL OFFICES

UNITED STATES TREASURY VICTORY FUND COMMITTEE

SEVENTH FEDERAL RESERVE DISTRICT

ILLINOIS

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INDIANA

1117 CIRCLE TOWER, INDIANAPOLIS

WILLIS B. CONNER, JR., *Regional Manager*
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IOWA

508 IOWA-DES MOINES BANK BLDG., DES MOINES

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METROPOLITAN CHICAGO

541 FEDERAL RESERVE BANK BLDG., CHICAGO

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MICHIGAN

FEDERAL RESERVE BANK BLDG., DETROIT

EDWIN K. HOOVER, *Regional Manager*
Telephone: Cadillac 6880

WISCONSIN

336 FIRST WISCONSIN NATIONAL BANK BLDG., MILWAUKEE

HAROLD F. DICKENS, *Regional Manager*
Telephone: Broadway 3955

COST OF LIVING

Indexes of the Cost of Goods Purchased by Wage Earners and Lower-Salaried Workers by Groups of Items
October 15, 1942
(1935-1939 average=100)

City	All Items	Food	Clothing	Rent	Fuel, Electricity, and Ice	House Furnishings	Miscellaneous
Chicago	118.9	128.9	121.3	114.4	103.6	119.5	111.0
Detroit	119.9	128.2	127.2	114.5	107.3	120.6	113.6
Average: Large Cities	119.0	129.6	125.9	108.0	106.2	123.6	111.7
Percentage Changes from October 15, 1941 to October 15, 1942							
Chicago	+ 7.9	+13.6	+10.8	+ 2.1	+ 0.5	+ 4.9	+ 5.0
Detroit	+ 7.1	+15.4	+12.0	− 1.9	+ 1.9	+ 4.7	+ 3.3
Average: Large Cities	+ 8.8	+16.1	+11.6	+ 0.5	+ 2.1	+ 7.6	+ 4.4

Source: Bureau of Labor Statistics.

MONTHLY BUSINESS INDEXES

Data refer to Seventh District and are not adjusted for seasonal variations unless otherwise indicated. 1935-39 average=100	Oct. 1942	Sept. 1942	Aug. 1942	Oct. 1941	Sept. 1941	Aug. 1941
Manufacturing Industries:						
Durable Goods:						
Employment	160	156	153	157	156	153
Payrolls	243	229	228	192	186	180
Non-Durable Goods:						
Employment	119	123	122	120	125	123
Payrolls	157	153	155	140	142	139
Total:						
Employment	146	145	143	144	146	143
Payrolls	216	205	205	176	172	167
Furniture Manufacturing:						
Orders in Dollars	137	202	197	186	203	183
Shipments in Dollars	177	151	144	233	206	190
Paper Manufacturing:*						
Tonnage Production	134	121	114	144	137	135
Petroleum Refining—(Indiana, Illinois, Kentucky Area):*						
Crude Runs to Stills	173	175	168	168	169	161
Gasoline Production	146	147	140	165	166	152
Bituminous Coal Production:*						
Illinois, Indiana, Iowa, and Michigan	142	144	132	126	127	117
Building Contracts Awarded:						
Residential	256	190	121	263	237	303
Total	266	422	535	200	155	302
Department Store Net Sales:*						
Chicago	138	129	104	122	134	118
Detroit	169	203	130	118	195	124
Indianapolis	192	179	139	153	161	139
Milwaukee	167	168	125	137	154	126
Other Cities	157	156	130	123	143	132
Seventh District—Unadjusted	153	155	117	124	152	123
Adjusted	146	141	148	118	138	155

*Daily average basis.

BANK DEBITS

Debits to deposit accounts, except interbank accounts

	(In thousands of dollars)			Per Cent Change October 1942 from	
	Oct. 1942	Sept. 1942	Oct. 1941	Sept. 1942	Oct. 1941
Illinois:					
Aurora	16,385	15,463	15,697	+ 6	+ 4
Bloomington	19,328	17,883	15,365	− 8	+26
Champaign-Urbana	24,387	17,495	18,489	+39	+32
Chicago	4,727,568	4,511,519	4,138,286	+ 5	+14
Danville	15,998	14,432	13,286	+11	+20
Decatur	62,239	31,082	27,327	+100	+128
Elgin	11,245	10,619	10,764	+ 6	+ 4
†Joliet	33,850	33,281	....	+ 2	....
Moline	13,829	11,464	13,583	+21	+ 2
Peoria	87,617	80,803	83,355	+ 8	+ 4
Rockford	49,185	46,927	42,746	+ 5	+15
Springfield	40,482	35,927	30,533	+13	+33
Indiana:					
Fort Wayne	65,797	59,796	47,027	+10	+40
Gary	30,939	24,584	25,550	+22	+18
Hammond	13,567	13,138	13,267	+ 3	+ 2
Indianapolis	368,334	323,474	319,596	+14	+15
†Lafayette	16,508	14,222	....	+16	....
†Muncie	22,425	20,836	....	+ 8	....
South Bend	59,984	62,000	59,721	− 3	*
Terre Haute	43,478	40,762	33,993	+ 7	+28
Iowa:					
†Burlington	12,990	12,555	....	+ 3	....
Cedar Rapids	42,051	37,584	37,623	+12	+12
Clinton	11,034	9,465	8,540	+17	+29
Davenport	30,621	31,963	28,675	− 4	+ 7
Des Moines	128,427	142,752	117,936	−10	+ 9
Dubuque	14,566	13,293	13,842	+10	+ 5
Mason City	16,855	13,878	14,112	+21	+19
Muscatine	5,439	4,796	5,238	+13	+ 4
†Ottumwa	20,097	16,692	....	+20	....
Sioux City	67,450	62,150	59,206	+ 9	+14
Waterloo	29,530	25,968	27,625	+14	+ 7
Michigan:					
Adrian	6,857	5,883	6,140	+17	+12
Battle Creek	23,342	22,101	18,669	+ 7	+25
Bay City	19,670	19,746	17,493	**	+12
Detroit	1,929,745	1,838,647	1,474,252	+ 5	+31
Flint	38,652	36,885	35.596	+ 5	+ 9
Grand Rapids	86,127	83,556	76,939	+ 3	+12
Jackson	28,554	24,556	23,183	+16	+23
Kalamazoo	33,423	29,426	33,177	+14	+ 1
Lansing	51.678	46,949	33,070	+10	+56
†Muskegon	33,129	30,298	....	+ 9	....
†Port Huron	14,733	13,737	....	+ 7	....
Saginaw	33,753	33,040	32,701	+ 2	+ 3
Wisconsin:					
Green Bay	22,718	20,586	21,892	+10	+ 4
†Madison	51,343	53,253	....	− 4	....
Manitowoc	12,796	12,354	10,581	+ 4	+21
Milwaukee	442.678	436.823	364,463	+ 1	+21
Oshkosh	13,260	12,191	12,298	+ 9	+ 8
†Racine	31,553	27,334	....	+15	....
Sheboygan	27,803	25,724	27,480	+ 8	+ 1
Total 41 Centers	8,766,491	8,307,694	7,410,316	+ 6	+18
Total 50 Centers	9,402,422	8,894,247	....	+ 6	....
United States: 274 Centers	55,057,000	52,715,000	50,869,000	+ 4	+ 8

†New reporting centers for which figures were not collected before May 1942.
*Increase of less than one per cent. **Decrease of less than one per cent.

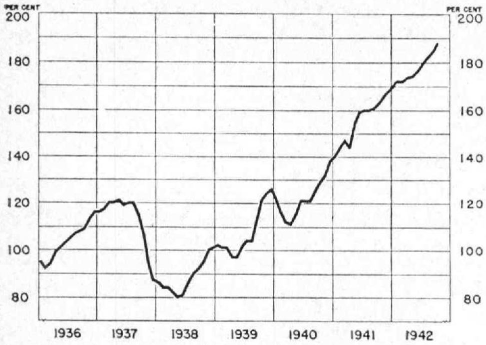
DEPARTMENT AND APPAREL STORE TRADE

Seventh Federal Reserve District

Locality	Total Net Sales: Per Cent Change October 1942 from September 1942	Total Net Sales: Per Cent Change October 1942 from October 1941	Total Net Sales: Per Cent Change January through October 1942 from January through October 1941	Per Cent Change October 1942 from October 1941: Open Book Sales	Per Cent Change October 1942 from October 1941: Instalment Sales	Per Cent Change October 1942 from October 1941: Cash and C.O.D. Sales	Stocks on Hand (End of Month) Per Cent Change October 1942 from September 1942	Stocks on Hand (End of Month) Per Cent Change October 1942 from October 1941	Orders Outstanding Per Cent Change October 1942 from September 1942	Orders Outstanding Per Cent Change October 1942 from October 1941
Chicago	+18.3	+16.0	+ 5.4	*	−17.8	+35.5	− 2.5	+19.5	+24.1	− 3.0
Peoria	+ 8.2	+20.4	+ 3.1	− 9.6	−50.0	+53.2	+ 2.1	+31.0	+26.0	+39.7
Fort Wayne	+10.3	+31.4	+22.6	+13.3	....	+69.0	− 2.8	+ 4.6	....	....
Indianapolis	+17.3	+26.8	+15.8	+ 5.2	− 7.8	+61.0	− 2.7	+14.6	+20.4	+11.7
Des Moines	+ 2.8	+23.4	+ 7.4	....	....	....	....	....	....	....
Sioux City	+13.0	+31.2	+ 5.1	....	....	....	....	....	....	....
Detroit	− 6.2	+41.3	+17.3	+14.2	− 7.5	+72.2	− 3.6	+32.2	+ 7.3	+10.2
Flint	+25.5	+25.2	− 4.4	....	....	....	....	....	....	....
Grand Rapids	+ 8.8	+20.4	+ 4.3	+ 8.4	....	+43.1	− 6.4	+15.9	+31.7	−20.3
Lansing	+17.4	+31.1	+ 6.6	....	....	....	....	....	....	....
Milwaukee	+ 8.4	+23.0	+15.1	+10.8	−10.9	+48.2	+ 0.7	+30.0	+24.1	+44.3
Other Cities	+19.6	+20.6	+ 6.1	+ 6.0	−18.5	+47.0	+ 3.2	+ 7.9	+ 6.5	+13.8
District total	+10.6	+23.7	+ 9.7	+ 5.5	−14.8	+48.3	− 1.7	+20.6	+14.0	+11.4
Apparel stores	+12.0	+30.6	+13.2	− 3.8	+40.7	+70.3	+ 2.2	+23.2	− 1.9	−30.8

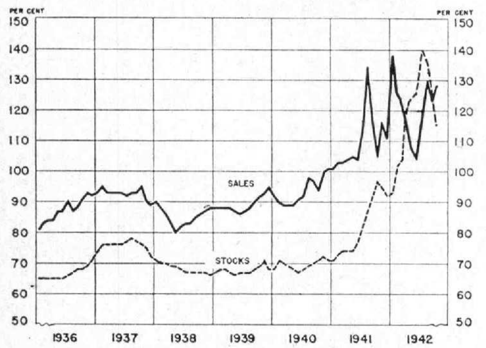
*Increase of less than one per cent.

INDUSTRIAL PRODUCTION



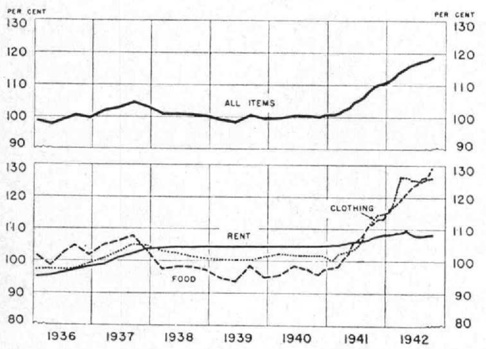
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Latest figures shown are for October, 1942.

DEPARTMENT STORE SALES AND STOCKS



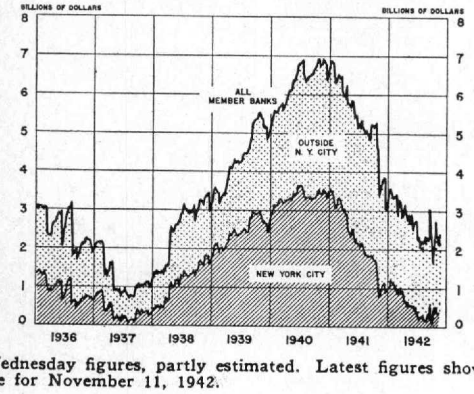
Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25=100. Latest figures shown are for October, 1942.

COST OF LIVING



Bureau of Labor Statistics' indexes, 1935-39 average=100. Fifteenth of month figures. Last month in each calendar quarter through September, 1940, monthly thereafter. Latest figures shown are for October, 1942.

EXCESS RESERVES OF MEMBER BANKS



Wednesday figures, partly estimated. Latest figures shown are for November 11, 1942.

National Summary of Conditions

(By Board of Governors of Federal Reserve System)

Industrial output expanded further in October and the first half of November. Retail food prices continued to advance while prices of other commodities generally showed little change. Distribution of commodities to consumers was maintained in large volume.

Production—Industrial production continued to advance in October and the Board's seasonally adjusted index rose 3 points to 188 per cent of the 1935-1939 average. Gains in armament production accounted for most of the increase, and it is estimated that currently well over 50 per cent of total industrial output is for war purposes. In lines producing durable manufactures, approximately 80 per cent of output now consists of products essential to the war effort.

Steel output reached a new high level in October as production expanded to 100 per cent of rated capacity. In the first half of November output declined slightly to around 99 per cent, reflecting some shutdowns for furnace repairs, according to trade reports. Activity in industries producing nondurable goods declined less than seasonally in October. Production of foods, especially canning, was unusually large for this time of year and output of textiles continued at a high level. Mineral production, which usually increases in October, declined slightly this year owing chiefly to a decrease in coal production which had been maintained in large volume throughout the summer.

Value of construction contracts awarded in October increased somewhat over that of September, according to reports of the F. W. Dodge Corporation. Publicly-financed projects continued to account for over 90 per cent of total awards.

The Department of Commerce estimates that, in the third quarter of 1942, expenditures for new construction amounted to 4.2 billion dollars, of which 3.5 billion came from public funds. For the first nine months of this year the corresponding figures were 10.2 and 7.7 billion dollars. Construction of military and naval facilities and of industrial buildings accounted for the bulk of the expenditures.

Distribution—Department store sales increased in October and the Board's seasonally adjusted index rose to 129 per cent of the 1923-1925 average as compared with 123 in September and 130 in August. In the first half of November sales increased further and were 17 per cent larger than in the corresponding period last year, reflecting in part price advances of about 10 per cent.

Railroad shipments of freight were maintained in large volume during October and declined seasonally in the first half of November.

Commodity Prices—Retail food prices continued to advance sharply from the middle of September to the middle of October and further increases are indicated in November. Prices of most other goods and services increased slightly in this period. In the early part of October maximum price controls were established for a number of additional foods. Maximum price levels for many other food products have been raised, however, and the Office of Price Administration reports on the basis of a recent survey that in numerous instances sellers are not complying fully with the regulations now in effect.

Bank Credit—Excess reserves of member banks were 2.5 billion dollars in the middle of November, a somewhat higher level than generally prevailed in the preceding four months. At New York City banks excess reserves amounted to about 500 million dollars.

Additions to member bank reserve balances during the four weeks ending November 18 were the net result of an increase of 500 million dollars in Reserve Bank holdings of Government obligations, which approximately covered the continued heavy currency drain, and a decrease of 200 million in Treasury balances at the Reserve Banks.

Holdings of Government securities by reporting banks in 101 cities increased by 1.9 billion dollars to 24 billion during the four weeks ending November 11. Almost half of the increase occurred at New York City banks. There were substantial increases in holdings of Treasury notes, bonds, and certificates, and a smaller increase in Treasury bills, while holdings of guaranteed obligations declined. These changes reflected new offerings and retirements by the Treasury during the period.

Commercial and industrial loans at reporting member banks in leading cities increased somewhat during the first two weeks of November. Brokers' loans in New York City increased around Government financing dates, but subsequently declined.

United States Government Security Prices—Prices of United States Government securities were steady in the four weeks ending November 18. Long-term taxable bonds yielded 2.32 per cent, and 3-month Treasury bills sold at a yield of 0.37 per cent.

SEVENTH FEDERAL

RESERVE DISTRICT