MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *February 1, 1941*

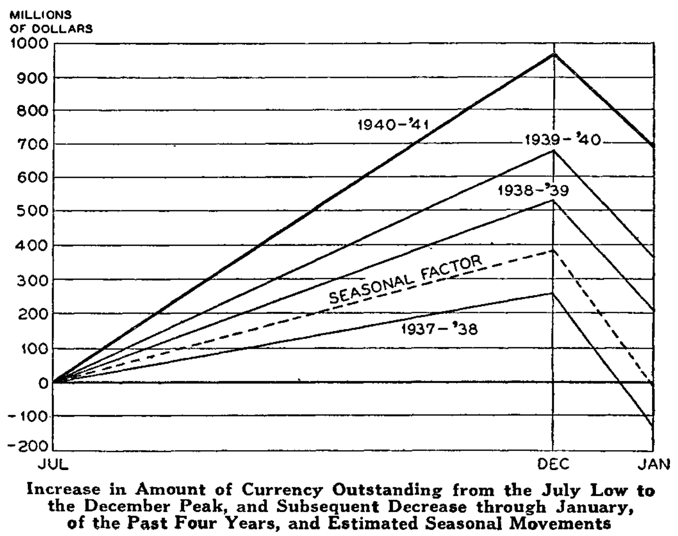
Money Market in January

A substantial increase in excess reserves of member banks has occurred since Christmas, as anticipated, but the rise has been less than in the corresponding period of several recent years. In the closing week of 1940, there was a rise of $180,000,000 in excess reserves, and in the week ended January 8 a further increase of $220,000,000 occurred, but in the week ended January 15 the rise amounted to only $60,000,000 and the excess at $6,900,000,000 remained below the peak of $6,940,000,000 which was reached last October. In the subsequent two weeks ended January 29, there was an aggregate decline of $100,000,000. The slowing up of the rise and subsequent decline in excess reserves after the first week of January is to be attributed to a rather sharp advance in the reserve requirements of the member banks which accompanied a growth in adjusted demand deposits to new high levels, and to three principal circumstances affecting reserve balances, namely, a falling off in the rate of additions to the gold stock, a comparatively small return flow of currency to the Reserve Banks after Christmas, and Treasury withdrawals of funds from depositary banks, which fully offset Treasury disbursements after January 8.

With respect to additions to the gold stock, the weekly amounts added during January averaged only about $30,000,000, as compared with nearly $50,000,000 in December, and larger amounts in the preceding months of 1940. For the month of January, it appears that the increase in the gold stock was about $120,000,000, the smallest amount for any month since August, 1938.

On December 31, 1940, a special report to the Congress was made by the Board of Governors of the Federal Reserve System, the Presidents of the twelve Federal Reserve Banks, and the members of the Federal Advisory Council representing the twelve Federal Reserve Districts, which draws attention to the need of proper preparedness in the monetary organization at a time when the country is engaged in a great defense program that requires the coordinated effort of the entire nation. This report marks the first time since the creation of the Federal Reserve System that a report to the Congress has been made jointly by the Board of Governors, the Reserve Banks, and the Advisory Council. The text of the special report is contained in a circular of this bank, copies of which have been distributed to all banking institutions in the Second Federal Reserve District; additional copies will be furnished, upon request, to anyone interested.

Net return of currency to the Reserve Banks aggregated $276,000,000 in the four weeks ended January 22, practically all of which was received in the three weeks immediately after Christmas, and in the week ended January 29 currency circulation rose slightly. The aforementioned return flow is considered light for this time of year. The accompanying diagram shows the extent of the outflow from the July low to the Christmas peak, and the subsequent return flow through January, in the recent period and in the corresponding periods of the previous three years, in relation to the seasonal movement which involves a complete return by the end of January of all of the currency paid out between July and Christmas. As the chart indicates, not only was the outflow between July and Christmas of 1940 larger than in the previous two years, but the subsequent reduction in the amount of currency outstanding has been less, both relatively and actually, than in the preceding two years. In all of these years there has been a general tendency toward an increase in the level of currency outstanding, and the lowest amounts outstanding near the end of January of each year were materially above the amounts outstanding in the preceding July. This year the net increase amounted to $687,000,000; in the 1939-40 period the net increase was $363,000,000; and in 1938-39, $207,000,000. By contrast, in the 1937-38 period, when business activity was undergoing a sharp



Increase in Amount of Currency Outstanding from the July Low to the December Peak, and Subsequent Decrease through January, of the Past Four Years, and Estimated Seasonal Movements

recession, the rise was less than the seasonal expectation and the decline after Christmas exceeded the previous rise, with the result that a net decline of $130,000,000 in currency outstanding occurred. While related to the rising volume of business activity, with concurrent expansion of payrolls and retail trade, the rise in currency outstanding has also reflected increased demands for currency for other reasons. The relative importance of the various influences, such as foreign hoarding, low level of interest rates on savings accounts, and service charges on checking accounts, which may be responsible for the additional demand for currency, is not known at the present time.

The third factor operating to restrain the rise of member bank reserve balances during much of January developed from the fact that the current high rate of Treasury expenditures reduced Treasury working balances in the Reserve Banks to only $220,000,000 by January 8, and necessitated substantial withdrawals of funds by the Treasury from "special" depositaries. Between January 9 and January 24 a total of $364,000,000 was so withdrawn from special depositaries, temporarily lodged in Treasury balances in the Reserve Banks, and subsequently largely disbursed; on January 29, Treasury balances in the Reserve Banks amounted to $258,000,000. The large withdrawals from special depositaries (of proceeds of previous Treasury issues paid for by credit on the books of the subscribing banks to "War Loan Deposit" accounts) reduced the amount left in such depositaries to $305,000,000 on January 24, and in view of the comparatively small amount of this balance and of Treasury deposits in the Reserve Banks, relative to the current rate of Government expenditure, the Treasury on January 23 made an offering of $600,000,000 of ¾ per cent National Defense Series Treasury notes due September 15, 1944. Cash payments for these notes on January 31, 1941 increased Treasury deposits in the Reserve Banks substantially and reduced member bank reserve balances correspondingly so that the prospect is that a substantial reduction in excess reserves will be shown in the Reserve Banks' statement for February 5. Deposits in special depositaries also rose moderately on January 31, as some bank subscribers elected to pay for the new securities with credits to the Treasury in their banks, rather than by immediate charges to their reserve balances.

Member Bank Credit

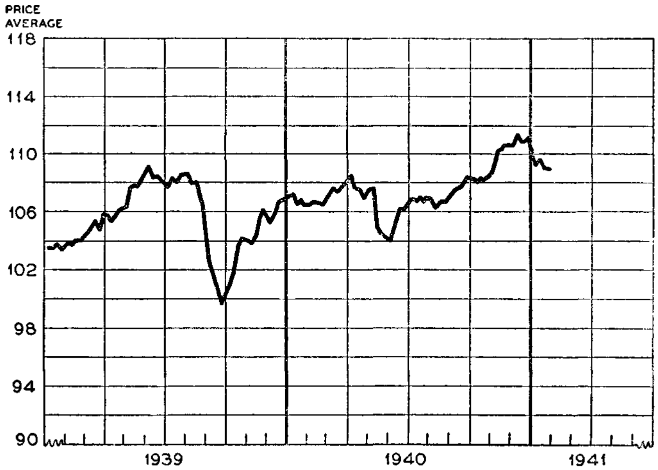
Total loans and investments of the weekly reporting member banks in 101 cities increased somewhat further during the four weeks ended January 22, thereby reaching a new high level; and adjusted demand deposits of these banks also increased considerably to reach a new high figure. Total loans and investments on January 22 were $2,500,000,000 larger than a year ago, and adjusted demand deposits were $3,700,000,000 larger.

For the four week period ended January 22, loans classified as commercial, industrial, and agricultural rose $44,000,000 further, at a time when, seasonally, some decline might be expected, and the total of such loans stands $739,000,000 above that of a year ago. Loans to brokers and dealers in securities dropped $80,000,000, thereby canceling the advance which occurred in December; most of the December advance and subsequent decline occurred in New York City. Reporting bank holdings of direct United States Government securities rose $149,000,000 further, as the result of increases of $50,000,000 in Treasury note holdings and of $105,000,000 in United States Government bond holdings, while Treasury bill holdings showed a net decline of only $6,000,000, despite a temporary sharp decline in holdings of such obligations at the year end. The increases in note and bond holdings were entirely at New York City banks; aggregate note holdings of banks in 100 other cities declined moderately and their bond holdings were unchanged. Treasury bill holdings of the New York City banks dropped $111,000,000, but the bill holdings of the Chicago reporting banks rose $132,000,000, owing to accumulation of April maturities for use by owners of large bank deposits on April 1 in that District to avoid taxes on bank deposits. Holdings of Government guaranteed and other securities by the reporting banks showed no material changes during the four weeks under review.

Government Securities

Yields on United States Treasury bonds advanced somewhat in January from the record low levels reached in December, but were still lower than at any time prior to the early part of November. A decline of more than ¼ point in the price of these issues in the last two trading sessions of December was accentuated in subsequent sessions early in the new year. During this period the President's "Arsenal of Democracy" radio talk on December 29, and his budget message on January 8, indicated the large amount of Treasury financing necessary for the National defense effort, and the Federal Reserve System's special report to the Congress on the need of proper preparedness in the country's monetary organization was issued. By January 8 the average price of long term Treasury bonds had declined about 2 points. These announcements and other statements relative to the financing of the prospective deficits served to accentuate a tendency on the part of investors to withhold purchase orders, pending further clarification of the financial problems which face the country as a result of the National defense effort, and it was the lack of buying, rather than any material selling of Government securities, which appears to have been the immediate cause of the decline in Government security prices. After a short intervening period of firmer prices, the decline was resumed on January 14, carrying the longer term bonds by the 30th to a level 2¾ points below the December high. The intermediate term Treasury bonds paralleled the movements of the longer maturities.

Treasury note prices moved lower from the beginning of January to the 8th, when the average yield on 3 to 5 year Treasury notes reached the highest level since October 15, 1940. Subsequently, the average yield declined somewhat but in the closing days of the month advanced to reach the same level as on January 8. The yield on the ¾ per cent Defense notes maturing December 15, 1945, issued last December, showed a net advance of 0.13 per cent to 0.80 per cent between the end of December and January 30. The second issue of ¾ per cent



Average Price of Long Term Treasury Bonds (Four issues not callable before 1955)

National Defense notes, maturing September, 1944, was quoted near the end of the month at about par. Subscriptions to the January issue of National Defense notes were heavy, but not so large as for the December issue, and allotments were made on a basis of 23 per cent of subscriptions.

Treasury bill financing during January consisted of five weekly issues in the National Defense Series, each in the amount of approximately $100,000,000 and each a replacement of similar maturities. Prices at which these issues were sold were subject to an extraordinary influence because of the demand for Treasury bills by banks in Illinois, which levies a tax on bank deposits held on April 1. The issues dated January 2, 8, and 15 were awarded at prices above par, and the issues dated January 22 and 29 were awarded at prices above par and at par. Tenders for the January 2 issue of Treasury bills totaled $648,200,000, a new record.

Money Rates in New York

	Jan. 31, 1940	Dec. 31, 1940	Jan. 30, 1941
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4-6 months	½–⅝	½–⅝	½–⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)	0.50	0.38	0.47
Average yield on Treasury bonds (not callable within 12 years)	2.33	1.99	2.15
Average rate on latest Treasury bill sale, 91 day issue	0.004	‡	‡
Federal Reserve Bank of New York discount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal. ‡ Negative yield.

New Financing

During January new security issues by corporations, States, and municipalities totaled $340,000,000, or well above the volume of the corresponding month in any year since 1937. Corporate flotations amounted to $260,000,000, of which $65,000,000 represented funds to be used for new capital purposes.

Except in the case of one new issue, retail distribution of the better grade corporate obligations was satisfactory; on the other hand, upon the dissolution of the syndicates and removal of price restrictions for the less high grade corporate offerings, quotations for these securities declined moderately in the free market.

The month's major flotations follow.

Corporate

$50,000,000	Illinois Bell Telephone Company 2¾ per cent first mortgage bonds of 1981, priced at 103½ to yield 2.61 per cent; $5,200,000 for new capital purposes
35,000,000	Phillips Petroleum Company securities consisting of $20,000,000 1¾ per cent convertible debentures of 1951, priced at 100 (subject to prior offering to stockholders) and $15,000,000 0.25 to 1.90 per cent serial notes maturing 1941-51, priced at 100; $2,700,000 for new capital purposes
28,000,000	Jones and Laughlin Steel Corporation 3¼ per cent first mortgage bonds of 1961, priced at 100; for refunding
25,000,000	Shell Union Oil Corporation securities consisting of $15,000,000 2¾ per cent debentures of 1961, priced at 97½ to yield 2.92 per cent, and $10,000,000 0.375 to 2.50 per cent serial notes maturing 1942-53, priced at 100; for refunding

The largest municipal award was that of $6,900,000 Oklahoma City, Oklahoma, 2 and 3 per cent water works bonds maturing 1944-61, which were reoffered to yield 0.80 to 2.15 per cent. Short term State and municipal awards, not included in the $340,000,000 total, accounted for an additional $210,000,000. Included in this classification were about $100,000,000 of temporary loan notes of local housing authorities, which mature in from two and one half to twelve months and were awarded at interest rates ranging from 0.33 to 0.44 per cent; also, $35,000,000 New York City 0.25 per cent revenue bills due in May, 1941, and $33,000,000 Federal Intermediate Credit Bank 0.75 per cent debentures due in nine and twelve months, which were offered on bases of 0.25 per cent and 0.30 per cent, respectively.

Reports indicate that the following new security issues will be offered to the public or to company stockholders in the near future: approximately $100,000,000 Republic Steel Corporation securities, $26,500,000 of first mortgage bonds and 132,000 shares of preferred stock of the Wisconsin Public Service Corporation, and approximately $15,000,000 of Philip Morris and Company, Ltd., Inc., cumulative preferred stock. It is reported that equipment trust certificate issues totaling at least $15,000,000 are under consideration by various railroads.

Security Markets

The range of stock prices was somewhat wider in January than in December, but the volume of stock trading on the New York Stock Exchange was smaller. As measured by the Standard Statistics 90 stock price average, quotations of common stocks moved up about 3½ per cent between January 2 and 10—a period marked by the President's annual message to Congress, the announcement of the budget estimates, and the introduction of the "aid-to-Britain" bill. The price average on January 10 was still 5 per cent below the peak of the June-November recovery of last year. In subsequent trading sessions to January 31 common stock prices lost their earlier gains and dipped to the lowest point since August 20, 1940. At the January 31 level, the average price had lost more than half of the gain made in the June-November recovery in 1940.

The movements of railway issues featured the bond market early in January, a period when medium and lower grade rail bonds were actively traded at advancing prices. After a period of hesitation the price average of Moody's Baa rail bonds recorded further gains to successive new highs between January 22 and 28. The strength of these rail bonds was the main factor accounting for the continued irregular rise to new highs in the general price average for Baa domestic corporation bonds. The latter eased slightly at the close of the month.

A new record was also attained by the price average for high grade rail bonds on January 18 and again on five later days in the month. However, despite the firmness of its rail component, Moody's composite price average for Aaa domestic corporation bonds showed an irregular, declining tendency during most of January. Prime municipal bond prices, as measured by the Standard Statistics index, hovered about two per cent below the record high set on December 11. The daily average volume of bonds traded on the New York Stock Exchange was moderately larger than in December. On January 9 and again the next day bonds traded totaled more than $19,000,000 to reach the highest daily volumes since September, 1939.

Continuing a development in particular evidence during December, sales in the "outside market" of large blocks of stocks listed on the New York Stock Exchange increased in number and importance in January. Permission for these transactions, which were usually consummated after the close of the exchange market, has been granted by the Stock Exchange on the ground that the size of the offerings precluded handling them through ordinary channels. A number of the sales were reported to represent distribution of British security holdings.

Gold Movements

Aside from one large shipment from South Africa, gold imports into the United States during January were in reduced volume. The gold stock of the United States increased about $120,000,000 during the month, the smallest increase since August, 1938. Gold held under earmark for foreign account at the Federal Reserve Banks rose about $55,000,000 during January and reached a new high figure of approximately $1,860,000,000 at the end of the month.

In the four weeks ended January 22, the Department of Commerce reported the receipt of $127,300,000 of gold in the following principal amounts: $93,300,000 from Canada, $12,100,000 from Japan, $10,300,000 from Australia, $3,000,000 from the Philippines, $1,700,000 from Sweden, $1,000,000 from Mexico, $900,000 from Hong Kong, and $600,000 from Switzerland.

Foreign Exchanges

Following an unusual degree of stability during recent months, sizable fluctuations occurred in several foreign exchange rates during January. These movements resulted primarily from efforts to withdraw foreign funds from this country, stimulated by recurring rumors that the assets of additional foreign countries might soon be "blocked" through an extension of the present system of United States Treasury regulation, now limited to the accounts of the invaded European countries.

The repatriation of Swiss funds, which had been in evidence with little interruption since the defeat of France last June, continued throughout the past month. The New York rate for the Swiss franc, after having held at about $0.2321 since the latter part of October, advanced abruptly on January 24, when reports were first received that the Swiss authorities were restricting their accumulation of dollars arising from the inflow of capital. Although the Swiss National Bank continued to absorb dollar offerings from sellers domiciled in Switzerland together with dollars representing the payment for Swiss exports and other commercial payments to Switzerland, it appears to have suspended the purchase of dollars from sellers having no obligations to meet in Switzerland and seeking only to avoid a possible "blocking" of their funds in the United States. Pending a clarification of the preliminary reports of the new Swiss measure, the rate in the New York market for Swiss exchange for commercial purposes rose to as high as $0.2330 on January 25, but then receded somewhat to end the month at $0.2326, although this rate was believed not to apply to offerings by non-Swiss holders seeking to move funds from the United States to Switzerland for noncommercial purposes. In addition, a separate and much higher rate was quoted in the latter part of the month for transactions for which the Swiss authorities were reportedly unwilling to supply Swiss francs against dollars. This latter rate reached a high of about $0.2370, bid, on January 28 but eased late in the month.

Swedish exchange also was affected by the flow of foreign private capital from this country during January. Despite this movement of funds, however, the New York rate for the Swedish krona remained at about $0.2385 until the latter part of the month, when it temporarily advanced to as high as $0.2390. Some European capital also was reported to have moved to Argentina. The free rate for the Argentine peso, which had been quoted around $0.2360 during the greater part of the month, rose to $0.2375 on January 22 and subsequently remained at that level.

The discount on the Canadian dollar in the free New York market widened substantially during the month from 14 to 17¼ per cent. This weakness, which resulted from relatively small offerings, again illustrated the thinness of the unofficial market for Canadian exchange. The Cuban peso, on the other hand, improved somewhat over the month, its discount in terms of the dollar narrowing from about 8¾ to 7½ per cent. With the exception of a temporary decline in the rate for the National Chinese (Shanghai) dollar in the middle of the month, no significant changes occurred in the other principal currencies.

Central Bank Rate Change

On December 1, 1940, the discount rate of the National Bank of Bulgaria was lowered from 5½ to 5 per cent, the higher rate having been in effect since September 16, 1940.

Foreign Trade

Exports of merchandise, at a value of $322,000,000 in December, showed a slight decline from the previous month, and were 12 per cent below the comparatively high level of a year earlier. This was the first year-to-year decrease that has occurred in exports since May, 1939. On the other hand, imports, amounting to $253,000,000, exceeded the November figure by 13 per cent, and were larger than in any December since 1929.

For the calendar year 1940, exports aggregated $4,022,000,000 and general imports $2,625,000,000. The excess of exports of $1,396,000,000 for 1940, which compares with $859,000,000 in the preceding year, was the largest since 1921. The sharp rise that occurred in total exports during 1940 was entirely due to a large increase in exports of nonagricultural origin—in considerable measure a result of heavy purchases on the part of the British Empire (and France early in the year) of war materials from the United States. Nonagricultural exports, at a value of $3,418,000,000 in the past year, approximated those of 1929 and otherwise were the largest since 1920. On the other hand, agricultural exports were further reduced from the low level reached in 1939 to only $517,000,000 in 1940, which was probably the smallest total in at least fifty years.

Among the individual exports, shipments of aircraft increased to $312,000,000 in 1940 from a value of $118,000,000 in the preceding year. Exports of semimanufactures of iron and steel amounted to $371,000,000, or $202,000,000 more than in 1939, and metal-working machinery showed a gain of $138,000,000 to $256,000,000 last year. Exceptionally large percentage increases over 1939 were shown in exports of firearms and explosives. On the other hand, despite expanded European takings of American cotton early in 1940, cotton exports for the entire year were down to $214,000,000 from a value of $243,000,000 in 1939. Tobacco exports were only a little over half the 1939 value, and large reductions were recorded in shipments abroad of numerous food products, as well as in exports of petroleum and passenger automobiles. With respect to imports, unusually large increases occurred during 1940 in purchases of such strategic foreign materials as rubber, tin, nickel, and ferro-manganese. Material gains were also shown in imports of wool, undressed furs, and burlap.

Building

The daily rate of construction contract awards in New York and Northern New Jersey, which had held at a fairly constant level during the nine preceding months, rose 38 per cent in December over the previous month. Owing in part to the inclusion of a $7,500,000 contract for an airplane factory in up-State New York, the daily rate of nonresidential building awards in this district considerably more than doubled between November and December. Heavy engineering construction awards were one-fifth higher than in November, while contracts for residential building were about unchanged.

For the full year 1940, construction contract awards in New York and Northern New Jersey were 13 per cent below the total of 1939. The effects of the defense program upon construction have not been so marked in this district as in some other parts of the country, although awards for manufacturing building in 1940 were almost double the volume of 1939. Heavy engineering awards were off 22 per cent, a larger decline than that for the 37 Eastern States as a whole, and residential building, which showed an increase for the 37 States, was down 11 per cent.

The daily rate of construction contract awards in 37 States as reported by the F. W. Dodge Corporation rose 10 per cent further between November and December to another new high since June, 1930. The increase in December appears to have been due to the inclusion of a large number of defense contracts which had been awarded previously but had not been counted in the monthly totals until December, owing to the lack of detailed information; for the same reason, on the other hand, some contracts known to have been let during December were not included in the month's figures. Awards classified as for defense purposes in December were about 50 per cent larger than in November, and accounted for approximately one third of all construction contracts entering into the month's reported total. Non-defense awards rose 7 per cent over November.

The National defense program has considerably affected not only the total contract award figures but also, as might be expected, the character of construction work being initiated. Changes in the character of new construction projects are not always apparent in figures by types of construction. For example, an increase in awards for Army cantonments in December largely offset a decline of one fifth in private residential projects, both kinds of work being classified as residential building. The gain for December in contracts of the heavy engineering type reflected a large volume of contracts for Government owned projects, presumably for National defense purposes. The rise in nonresidential building awards was closely related to a particularly sharp increase in projects classified as "miscellaneous nonresidential building". This subgroup, formerly of little importance, apparently has been receiving a considerable share of National defense awards.

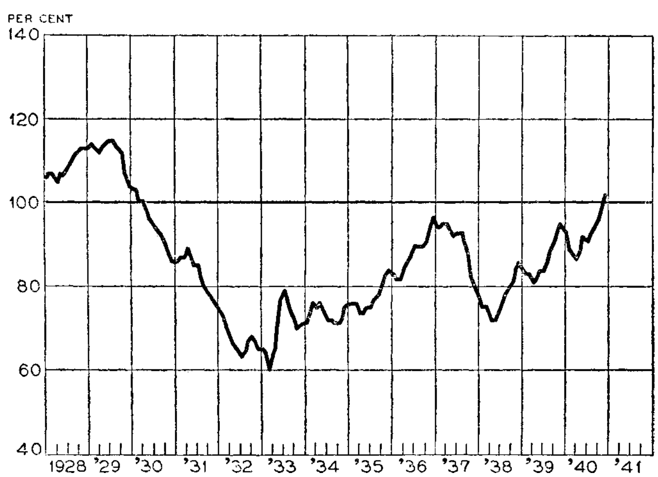
While total contract awards for New York and Northern New Jersey declined in 1940 from the level of 1939, the total for the 37 States was 13 per cent higher and the largest for any year since 1930. The increase in awards during the year just closed was due to the effects of the defense program, which began to make itself felt during the second half of the year and in that six month period accounted for one quarter of all construction. During the first half of 1940 awards were 5 per cent below the corresponding period in the previous year; in the second half, however, awards were 29 per cent above the same months of 1939.

The expansion in factory building—a considerable part of which represented defense projects under Government ownership or sponsorship—was an outstanding feature of 1940. The increase over 1939, which amounted to 153 per cent, carried the total for awards of this type up to the 1925-1929 average. This classification and miscellaneous nonresidential building were the only groups to reach that level during 1940. Residential building, the largest major group, rose 20 per cent in 1940, and was the highest for any year since 1929. Heavy engineering projects, however, declined 11 per cent during the year just ended, reflecting a decrease in public construction of this type.

During the first three weeks of January, 1941, the daily rate of construction contract awards in the 37 States was 36 per cent below the reported figures for December although 42 per cent above the level of the corresponding weeks in 1940. All major classifications shared in the month-to-month decline and all were substantially above the levels prevailing in the first three weeks of January of last year.

Production and Trade

Industrial conditions in January were similar to those which characterized the closing months of 1940. An unremitting pressure for expansion of output was felt by producers of certain key defense materials, mainly though not exclusively "producers' durable" goods. Steel mill operations were stepped up closer to calculated capacity, accompanying efforts to rehabilitate facilities which had been retired from use. However, despite the record breaking proportions of January steel production, trade reports indicate that a further increase in order backlogs took place during the month as consumers, by forward buying, sought to insure adequate supplies in future months. On January 27 the American Iron and Steel Institute announced that their calculations showed a steel producing capacity (as of December 31, 1940) for the United States of 84,148,000 net tons, an increase of 2,534,000 tons over the figure for December 31, 1939, and about 17,000,000 tons in excess of production last year. Judging from employment statistics, which are shown for some industries in the chart accompanying the "Employment and Payrolls" article in this Review, striking increases in productive capacity must be occurring in many defense industries—especially in lines where National defense requirements are much larger in relationship to formerly available capacity than in the case of steel.



Index of Production and Trade in the United States (Federal Reserve Bank of New York index, expressed as a percentage of estimated long term trend, and adjusted for seasonal variation)

The manufacture of consumers' durable goods during January continued to show a certain amount of stimulation from increasing employment and payrolls, and conceivably to some extent from concern over the possibility of shortages in the supply of such products, as the National defense effort is intensified. Automobile production in January was the largest on record for that month, although in this connection it should be pointed out that during the years of peak production in the Twenties new automobile models were introduced around the year end and January production was retarded by changeover problems.

The stimulation experienced by nondurable goods industries in January was again less marked on the whole than in the durable category, although cotton and woolen textile mills continued to maintain exceptionally high rates of operation, based upon unfilled orders carried over from 1940 together with considerable amounts of business placed in January. Incomplete figures on department store sales for the country as a whole would indicate that the reduction in the level of retail trade in January was approximately of the usual seasonal proportions.

Production and Trade in December

Statistical data for December clearly show a continuance of the upswing in the general level of business activity. The monthly index of production and trade computed by this bank—which represents a composite of 83 statistical series with adjustments for usual seasonal variation and secular trend—added three points more to the 12 point gain of the April-November period. At 102 per cent of estimated long term trend the index was at the highest level in more than a decade.

In retail trade there was the usual sharp expansion in December. Department store sales attained the largest Christmas volume since 1929, aggregate sales of chain store systems and of mail order houses (including sales of their retail stores) reached the highest levels on record, and sales of new passenger cars declined no more than seasonally from the relatively high level of November. The showing of business indexes in December was helped by the fact that industrial operations—particularly those directly affected by the National defense program—evidenced a marked resistance to the seasonal curtailment which ordinarily characterizes the month. In some instances—as in the case of steel plants, cotton mills, and manufacturers of electrical apparatus—operating rates increased to some extent contrary to the experience in most other years, and in other instances—for example, pig iron output, woolen mill activity, and shoe manufacturing—declines were measurably smaller than those which would be expected on purely seasonal grounds. Incoming business, although abated in some lines, continued in a heavy stream in others, and despite increasing production the year closed with very large order backlogs in a number of industries—steel, machine tools, aircraft, railway equipment, cotton and woolen textiles, and others closely identified with National defense. Building construction, particularly on factory and Army cantonment projects, was unusually active in December. Although seasonal contraction was definitely apparent in figures on railway loadings of bulk freight items, shipments of manufactured and semimanufactured products held up much better than in December of most other years.

(Adjusted for seasonal variations and estimated long term trend; series reported in dollars are also adjusted for price changes)

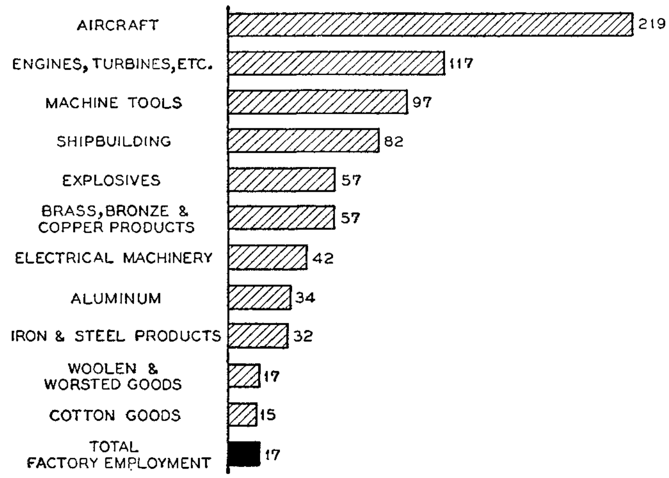
	1939	1940		
	Dec.	Oct.	Nov.	Dec.
Index of Production and Trade	95	96	99*p*	102*p*
Production of:				
Producers' durable goods	101	101	107*p*	114*p*
Producers' nondurable goods	100	101	106*p*	109*p*
Consumers' durable goods	69	86	80*p*	79*p*
Consumers' nondurable goods	98	97	101*p*	103*p*
Primary distribution	92	87	92*p*	95*p*
Distribution to consumer	98	97	101*p*	102*p*
Industrial Production				
Steel	130*r*	121	128	138
Automobiles	84	116	94	84
Bituminous coal	86*r*	79	91	92*p*
Crude petroleum	94	86	85	86*p*
Electric power	99	103	104*p*	106*p*
Cotton consumption	122	116	125	138
Wool consumption	121	134	151	164*p*
Shoes	117*r*	100	111*p*	121*p*
Meat packing	104	108	111	113
Tobacco products	96	95	95	97
Manufacturing Employment				
Employment	97	100	103	105*p*
Man-hours of employment	94	97	101	105*p*
Construction				
Residential building contracts	38	53	62	67
Nonresidential building and engineering contracts	95	77	83	103
Primary Distribution				
Ry. freight car loadings, mdse. and misc.	92	89	94	99
Ry. freight car loadings, other	83	87	95	88
Exports	98	89	87	86*p*
Imports	94	77	86	94*p*
Distribution to Consumer				
Department store sales (U.S.) *r*	93	92	99	99
Grocery chain store sales	101	97	100	98*p*
Variety chain store sales	104	95	107	107
Mail order house sales	102	94	100	104
New passenger car sales	93	105	106	106*p*
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	64	54	61	62
Velocity of demand deposits, New York City (1919-25 average = 100)	35	26	29	30
*Cost of Living and Wages**				
Cost of living (1935-39 average = 100)	103	104	104	105
Wage rates (1926 average = 100)	113	114	115	115*p*

p Preliminary *r* Revised * Not adjusted for trend

Employment and Payrolls

Working forces in New York State factories increased 1½ per cent further between November and December, and wage payments rose 5 per cent. This bank's seasonally adjusted indexes of New York State factory employment and payrolls advanced for the eighth consecutive month, and the employment index attained the highest point in over twenty years. The principal employment gains occurred at shipyards and at plants manufacturing aircraft, structural steel, machinery, electrical apparatus, and men's clothing. Compared with December, 1939, total factory employment was 12 per cent higher and payrolls were 19 per cent larger.

Factory employment in the United States as a whole during December also was 1½ per cent greater than in November, although ordinarily working forces decline somewhat at this time of year, and payrolls gained 5½ per cent. According to the Bureau of Labor Statistics,



Percentage Increases between August, 1939 and December, 1940 in Employment in Certain Industries Stimulated by National Defense and War Orders and in Total Factory Employment (Based on Bureau of Labor Statistics unadjusted indexes)

which recently adjusted its indexes of employment and payrolls upwards to harmonize with the results of the 1939 Census of Manufactures, factory working forces reached the highest level on record and factory payrolls were greater than at any time since June, 1920. Increased industrial activity attributable to the European war and the National defense program has been largely responsible for the attainment of these high levels of employment and payrolls. The accompanying diagram shows the net employment increases that have occurred since the outbreak of war in some of the industries which have been most stimulated by war and defense orders, in comparison with the over-all increase in factory employment. In December, employment increases reported by the industries shown accounted for approximately one half of the gain of 120,000 in factory employment. Other large gains during the month occurred at foundries and machine shops, shoe factories, and men's clothing concerns, while the chief reductions in employment were reported by canning factories and sawmills. Total factory employment was 8 per cent above the level of December, 1939, and payrolls were 16½ per cent greater.

It was estimated that the number of persons employed in nonagricultural occupations throughout the country increased approximately 540,000 during December and reached a total of over 37,000,000. These figures do not include about 3,000,000 persons employed by the Civilian Conservation Corps, the Works Projects Administration, and the National Youth Administration, nor do they include the military and naval forces which total nearly 900,000. The greatest part of the gain in nonagricultural employment was accounted for by increased working forces at retail and wholesale trade establishments to handle holiday business, but manufacturing plants and Federal, State, and local governments also employed more persons than in November. The number employed in construction and transportation, and by public utilities declined somewhat. Compared with December, 1939, there were approximately 1,500,000 more persons engaged in nonagricultural pursuits.

Commodity Prices

Although movements were mixed, the general tendency in wholesale commodity markets during most of January was toward somewhat higher price levels. Owing especially to advances in the prices of certain foodstuffs, the Bureau of Labor Statistics daily index of 28 basic commodities showed a small net advance during the month, closing at 119.8 per cent of the August, 1939 base. As is indicated in the accompanying table, there has been an increase of nearly 14 per cent from the low level of last August in the composite index, accompanying an advance of 17 per cent in the average price of foodstuffs. The other major subgroups of the index, however, have also advanced substantially above their respective low points of August, 1940.

	Indexes January 30, 1941 (Aug., 1939 = 100)	Percentage change from		
		Dec. 31, 1940	Lows of Aug., 1940	Prewar Aug., 1939
Bureau of Labor Statistics daily price index of 28 basic commodities	119.8	+1.1	+13.6	+19.8
Subgroups				
Raw industrial commodities	121.4	+0.3	+12.2	+21.4
Foodstuffs	117.6	+2.1	+17.0	+17.6
Import commodities	121.7	+1.8	+16.2	+21.7
Domestic commodities	118.7	+0.7	+13.0	+18.7

Reflecting reports of favorable weather for the growing wheat crop, combined with dulness in the flour trade, wheat prices weakened during January. Winter wheat in Kansas City at 79⅜ cents a bushel on January 30 was 6⅜ cents lower than at the end of December. Corn, while fluctuating irregularly, showed a slight net decline for January as a whole. In response to small marketings, hog quotations in Chicago advanced sharply to $8.75 a hundredweight on January 15—approaching the high point reached immediately after the outbreak of war in September, 1939—and, while losing part of that gain in subsequent days' trading, closed on January 30 at $8.16 a hundredweight with a net advance of $1.27 for the month. Although steers rose 83 cents further in the first half of January to $12.96 a hundredweight, this gain was almost canceled in a later downward reaction.

Though holding to a restricted range, cotton quotations moved in inverse relationship to the amount of "free" offerings on the market. Of the 11,931,000 bales of the 1940 cotton crop reported as ginned up to the middle of January, about 2,850,000 bales are recorded by the Commodity Credit Corporation as having gone into the Government loan stock. The average spot price of cotton at 10.10 cents a pound in 10 Southern markets on January 30 was little changed from the end of December. Wool tops showed considerable strength, advancing 9 cents during the month to $1.27 a pound on January 30, and silk quotations in New York were firm.

Although quotations for scrap steel were reduced under the influence of the National Defense Advisory Commission—the Iron Age composite price dropping $1.41 to $20.42 a ton—the metal markets generally were steady during January. The Iron Age composite price indexes of finished steel and pig iron remained unchanged and nonferrous metals quotations held relatively steady throughout the month.

Department Store Trade

For the four weeks ended January 25, total sales of the reporting department stores in this District increased about 5½ per cent from the corresponding 1940 period, and the daily rate of sales for this portion of January appears to have declined somewhat more than usual from the high December level.

Average daily sales showed an increase in December over the November level of slightly more than the customary seasonal proportions, and total sales during the month were about 4½ per cent higher than in December, 1939. Department stores in practically all localities continued to report increases in sales over the previous year, and sales of the leading apparel stores in this District were approximately 2 per cent higher than in December, 1939.

Total sales of the reporting department stores in this District for the year 1940 were 5 per cent higher than in 1939, as compared with an increase of about 2 per cent from 1938 to 1939. Apparel store sales were approximately 1 per cent higher in 1940 than in 1939, compared with an increase of 2 per cent between 1938 and 1939.

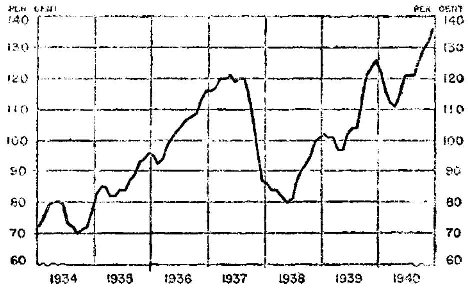
Stocks of merchandise in the department and apparel stores, at retail valuation, were moderately higher at the end of December, 1940 than at the end of December, 1939.

Locality	Percentage change from a year ago			Per cent of accounts outstanding November 30 collected in December	
	Net sales		Stock on hand end of month		
	Dec.	Jan., to Dec.		1939	1940
New York and Brooklyn	+ 4.9	+ 4.3	+ 8.4	41.9	42.4
Buffalo	+ 6.9	+ 5.6	+ 6.0	45.1	40.2
Rochester	+ 0.9	+ 5.8	+11.2	46.0	43.1
Syracuse	+ 7.7	+11.2	+ 9.8	39.3	39.1
Northern New Jersey	+ 4.2	+ 6.5	+10.8	39.8	36.8
Bridgeport	+11.4	+10.9	+10.1	45.4	44.6
Elsewhere	+ 0.3	+ 4.2	+ 6.3	38.0	36.7
Northern New York State	+ 8.9	+ 7.9	....	....	....
Southern New York State	+ 2.8	+ 5.3	....	....	....
Central New York State	+ 3.3	+ 7.4	....	....	....
Hudson River Valley District	+ 1.2	+ 2.8	....	....	....
Capital District	+ 3.2	+ 3.9	....	....	....
Westchester and Stamford	—17.0	— 3.0	....	....	....
Niagara Falls	— 1.4	+ 7.2	....	....	....
All department stores	+ 4.6	+ 5.0	+ 8.7	41.9	40.6
Apparel stores	+ 1.9	+ 0.8	+ 8.3	45.4	44.7

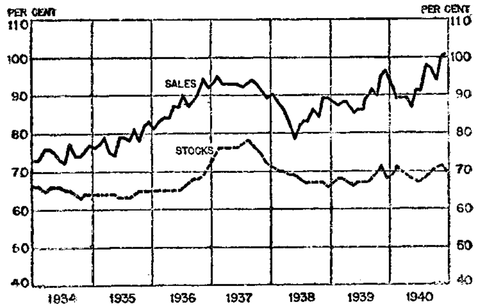
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1939	1940		
	Dec.	Oct.	Nov.	Dec.
Sales (average daily), unadjusted	172	108	120	184
Sales (average daily), seasonally adjusted	95	95	101	102
Stocks, unadjusted	75r	93	100	82
Stocks, seasonally adjusted	77r	82	84	83

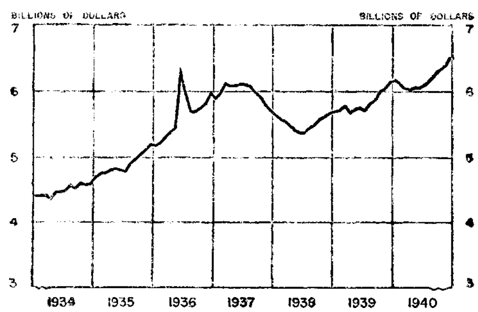
r Revised.



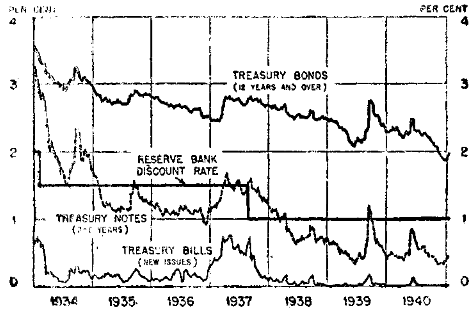
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1923-1925 average=100 per cent)



United States Department of Commerce Estimates of the Amount of Income Payments to Individuals, Adjusted for Seasonal Variation



Money Rates in New York City

Business Conditions in the United States

(Summarized by the Board of Governors of the Federal Reserve System)

INDUSTRIAL activity continued at a high rate in December and the first half of January and distribution of commodities to consumers was maintained in large volume. There was some increase in wholesale commodity prices.

Production

Volume of industrial production showed little change from November to December, although usually there is a decline at this season, and consequently the Board's adjusted index rose further by four points to 136 per cent of the 1935-39 average. Steel ingot production was sustained at about 96 per cent of capacity. New orders for steel continued large, according to trade reports, and were equal to or slightly greater than production; consequently the volume of unfilled orders remained at about the peak level reached in November. In the first half of January steel output increased to around 98 per cent of capacity. Activity in the machinery, aircraft, and shipbuilding industries continued to increase sharply and working forces were expanded further. In these lines and in some others, such as wool textiles, unfilled orders are exceptionally large, owing in the main to the defense program.

Automobile production declined somewhat more than seasonally in December following an unusually large volume of output in November and October. Retail sales of new cars during the last quarter of 1940 were about one-fourth greater than in the corresponding period last year and used car sales also were large. In the nonferrous metals industries activity increased further in December and output of lumber and cement showed less than the usual seasonal decline.

Textile production, which in November had exceeded the previous record levels reached a year ago, continued at this high rate in December, not showing the usual seasonal decrease. At cotton and rayon mills, activity increased somewhat further and at wool textile mills output was sustained at peak rates. In the shoe industry, where output had been in reduced volume during the first ten months of the year, there was less than the usual seasonal decline in November and December and, on a seasonally adjusted basis, production was close to earlier peak levels.

At mines bituminous coal production declined less than seasonally and anthracite production increased. Output of crude petroleum showed a reduction in December owing mainly to the fact that wells in Texas were closed for ten days as compared with nine days in November. Output of metals continued in large volume.

Value of construction contract awards, as reported by the F. W. Dodge Corporation, increased contraseasonally in December, reflecting further sharp increases in awards for defense construction and private nonresidential building. Contracts for private residential building declined by somewhat less than the usual seasonal amount.

Distribution

Distribution of commodities to consumers increased more than seasonally in December. Department and variety store sales showed the customary sharp expansion during the Christmas season and sales at mail order houses rose more than is usual at this time of year.

Freight car loadings showed a seasonal decline from November to December. Shipments of forest products and miscellaneous freight decreased less than seasonally, while ore loadings, which had been unusually large in November, declined sharply.

Wholesale commodity prices

Basic commodity prices generally increased from the middle of December to the middle of January, following little change during the preceding four weeks. Currently these prices are substantially above the level prevailing last summer. Increases in the past month were most marked for foodstuffs, especially hogs, pork, lard, and cottonseed oil, but there were advances also in a number of industrial materials, particularly pig iron, cotton, cotton goods, paint materials, and hides. Steel scrap prices, after increasing during most of the period, subsequently declined and lumber prices also decreased somewhat from the sharply advanced peak reached in November.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities continued to increase substantially during the six weeks ended January 8, reflecting principally increases in holdings of United States Government obligations at New York City banks. Commercial loans rose somewhat further while loans to New York security brokers and dealers, which had increased in December, subsequently declined somewhat.

Excess reserves, after declining during the first half of December, have since increased to about $6,900,000,000. The increase reflected reductions in Treasury deposits with the Reserve Banks, a continued inflow of gold, and since Christmas a seasonal return flow of currency from circulation.

United States Government security prices

Prices of United States Government securities reacted somewhat after reaching record high levels early in December. Bonds of 1960-65 showed on January 8 a net decline of about 2⅜ points from the all-time peak of December 10 but subsequently fluctuated somewhat above this level. The yield on this issue, which was 2.03 per cent at the peak in prices, was 2.16 per cent on January 14.