MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

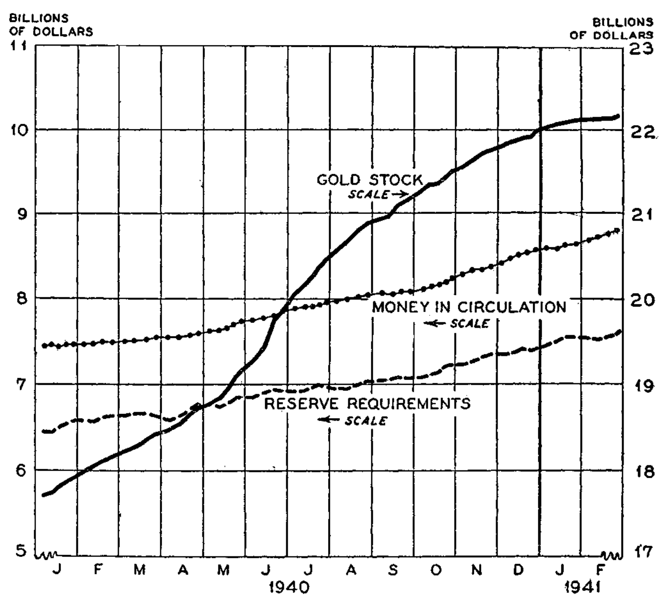
Money Market in February

Treasury receipts and disbursements have been the dominant factor affecting the reserve position of member banks during the past month. In the week ended February 5, the receipt of the cash proceeds of a new Treasury note issue, together with social security tax collections, raised Treasury balances in the Reserve Banks by $434,000,000 to $692,000,000, and, together with the month-end increase in currency circulation, reduced excess reserves of all member banks to $6,310,000,000, the lowest figure since May of last year. Of the $635,000,000 of National Defense Notes allotted, approximately $454,000,000 were paid for by subscribers immediately and $181,000,000 were paid for by subscribing banks by means of credits established on their books to the "War Loan Deposit Account."

In the succeeding three weeks of February, Treasury disbursements greatly exceeded receipts, reflecting National defense expenditures as well as other types of payments, with the result that by February 26, Treasury deposits in the Reserve Banks had been reduced to $368,000,000. Treasury payments during these weeks constituted by far the largest source of additions to member bank reserves, as the gold stock rose only slightly. Meanwhile, there were further increases in the amount of currency outstanding and in member bank reserve requirements, and while excess reserves rose $230,000,000 during the three weeks to $6,540,000,000 on February 26, they remained some $400,000,000 below recent peak figures.

Recent tendencies in factors affecting member bank reserve balances and reserve requirements have been of such character that, if maintained, a change in the previously existing trend, which expressed itself in rapidly mounting excess reserves, appears to be in prospect for the coming year, although the aggregate amount of such reserves would still be very large. These principal factors determining the level of excess reserves are shown in the accompanying diagram. No account has been taken of fluctuations in the amount of Treasury deposits in the Reserve Banks, which are important over the short term, but which over a longer period should largely balance, since large fluctuations in either direction are likely to be followed by offsetting movements in the opposite direction. The diagram indicates that the hitherto most important factor influencing member bank reserves—additions to the gold stock—has been much less important during the first two months of 1941; during the calendar year 1940, the net increase in the gold stock averaged about $360,000,000 per month, while in January of the current year the gain was $120,000,000 and in February about $115,000,000. It seems likely that additions to the United States gold stock during the coming year will be limited for the most part to newly mined gold, and that, if all of the new gold, the largest part of which is produced in British Empire countries, should reach this country, the increase in the gold stock would be only between one-fourth and one-third that of last year and the influence of gold additions on bank reserves therefore much less than in 1940.

With gold now assuming a less dominant influence on the course of member bank reserve balances, the other two principal factors—money in circulation and member bank reserve requirements—both of which increased considerably during 1940 and have shown further increases so far in 1941, will have relatively more weight in determining the course of excess reserves. The volume of money in circulation, a term which is applied to all money held outside the Treasury and the Federal Reserve Banks, whether actively circulating or not, rose more than $1,000,000,000 in 1940, and has continued to rise, seasonal factors considered, since the close of last year.



Factors Influencing Course of Excess Reserves of All Member Banks (Data for money in circulation adjusted for seasonal variation)

Member bank reserve requirements, the level of which fluctuates with the amount of deposits held by the member banks, also rose about $1,000,000,000 in 1940, and have risen over $200,000,000 further since the end of 1940. One of the chief determinants of the level of bank deposits (against which reserves are required to be maintained) is the amount of expansion or contraction in bank loans and investments, both of which may be expected to rise further during 1941 as a result of increased demand for ordinary commercial loans and bank participation in the financing of the National defense program both through loans and through the purchase of United States Government securities.

Thus, on the basis of the trends recently exhibited by money in circulation and member bank reserve requirements, and taking into account the prospect of a diminished gold inflow, there is a possibility that excess reserves of all member banks may decline somewhat during the coming year. This would be noteworthy chiefly in contrast to the large increases in excess reserves which have occurred in recent years, as it appears likely that excess reserves of member banks will still be far larger than before the war began.

Money Rates

Short term money rates were unchanged in February, with the exception of a slight advance, to a positive yield basis, in the average rates at which weekly issues of Treasury bills were sold in the latter part of February, following a number of weeks during which new issues of Treasury bills had been floated at average prices above par, because of special demands for such bills. This rise in bill rates followed the announcement of the Treasury that beginning with the issue of March 5, the amount of the weekly Treasury bill issue would be increased from $100,000,000 to $200,000,000. Yields on intermediate and long term U. S. Government securities showed little net change for the month, but yields on corporate and municipal bonds increased somewhat.

Money Rates in New York

	Feb. 29, 1940	Jan. 31, 1941	Feb. 27, 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)	0.41	0.50	0.47
Average yield on Treasury bonds (not callable within 12 years)	2.33	2.17	2.15
Average rate on latest Treasury bill sale, 91 day issue	0.005	‡	0.043
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.

Member Bank Credit

The volume of commercial, industrial, and agricultural loans of the weekly reporting member banks increased at an accelerated pace during the four weeks ended February 19. The rise for this period, which amounted to $162,000,000, as compared with $44,000,000 in the preceding four weeks, carried the total to a figure about $350,000,000 above the peak reached in 1937, but the total of borrowings for such purposes undoubtedly remained considerably less than in the 1920's. Loans to brokers and dealers in securities by the reporting banks were reduced $47,000,000 further during the four weeks ended February 19, virtually all of the decrease occurring at New York City reporting banks whose loans of this category dropped to the lowest point since last September.

Total United States Government direct securities held by the reporting banks rose $443,000,000 during the four weeks ended February 19, of which $384,000,000 represented an increase in holdings of Treasury notes, including principally takings of the new ¾ per cent Treasury notes issued on January 31. Treasury bond holdings rose $48,000,000, about one half of which occurred in New York City and the remainder in the 100 other reporting cities; Treasury bill holdings showed a small net rise, as the result of an increase of $38,000,000 in holdings of such obligations by banks outside New York City, partly offset by a decline of $27,000,000 at New York City banks. Holdings of Government guaranteed obligations tended to increase, and holdings of other securities rose $101,000,000, of which $71,000,000 occurred at New York banks and included purchases of New York City and other municipal obligations and local housing authority notes. The aggregate expansion in total loans and investments of the reporting banks was $697,000,000 for the four weeks ended February 19, and adjusted demand deposits rose $259,000,000. Both total loans and investments and demand deposits reached new high levels considerably above the 1929 peaks.

Government Securities

The outstanding development affecting the Government security market in February was the passage of the Public Debt Act of 1941. By provisions of this Act, approved by the President on February 19, the Federal statutory debt limit was raised to $65,000,000,000; income derived from future issues of obligations of the United States or any agency or instrumentality thereof was made subject to all Federal taxes; and the Secretary of the Treasury was authorized to issue United States savings bonds, Treasury savings certificates, and stamps, the last to aid small investors in purchasing savings bonds and certificates. Owing to the fact that the Public Debt Act terminates the authority granted under other provisions of law to issue particular types and specified amounts of United States obligations, the $65,000,000,000 figure becomes an overall limitation and, in effect, removes the previously existing division between National defense and other securities. The Act also repeals the section of the (first) Revenue Act of 1940 which created a special fund for the retirement of defense obligations.

Government bond prices continued to decline in the first half of February, and on February 15 the price average for the longest term Treasury bonds was 4⅜ points below the record high of December 10, 1940. In the following days through February 27, long term Government bonds recovered more than 1½ points. Treasury note prices declined almost half a point between February 1 and 15, when the average yield on 3 to 5 year tax exempt Treasury notes reached the highest level since August, 1940. Subsequently, however, there was a decline in the average yield which on February 27 reached a point 0.17 per cent below the month's high. Yields on the taxable ¾ per cent National defense note issues of 1945 and 1944 (sold in December, 1940 and January, 1941, respectively) traced a similar course during February.

On February 25, the Treasury announced the terms of an exchange offer to holders of $545,000,000 of 3⅜ per cent Treasury bonds of 1941-43, called for redemption on March 15, and $677,000,000 of 1½ per cent Treasury notes due on March 15. Both issues were to be exchangeable, par for par, for either seven to nine year 2 per cent Treasury bonds or ¾ per cent Treasury notes maturing in two years. The new bonds and notes will be dated March 15 and will constitute the first new issues of securities of the United States Government (other than United States savings bonds and Treasury bills) to become subject to Federal taxation under the Public Debt Act of 1941. Securities not exchanged on the operation are to be redeemed in cash. Quotations on a "when issued" basis at the end of February were 101 5/32 for the new bonds and 100 25/32 for the new notes.

Accepted bids on the four weekly issues of Treasury bills during February were tendered at steadily declining prices. The February 19 issue was the first since that of December 11, 1940 on which a positive yield had been afforded. On February 20 the Secretary of the Treasury announced that, starting with the Treasury bill issue of March 5 and continuing until further notice, Treasury bills would be offered in the amount of $200,000,000 a week. Maturing bills will be paid off with $100,000,000 of these funds each week; the other $100,000,000 will represent "new money". The yield on the issue dated February 26 was 0.043 per cent, the highest since the June 26, 1940 issue, which bore an average rate of 0.046 per cent.

New Financing

Owing to sharp declines in the volume of both corporate and municipal security offerings in February, the month's total, at $156,000,000, was the lowest for any month since September, 1939. A total of $118,000,000 of new corporate issues was floated, of which "new money" financing accounted for $13,000,000. The lessened activity in the public offering of new security issues is attributable to unsettled market conditions which caused the postponement of some issues and led to the financing of others by means other than public offerings through underwriters.

The corporate total cited does not include an issue of $101,300,000 Georgia Power Company 30 year 3½ per cent bonds which are scheduled to be sold to a group of insurance companies (at a price of 103¾) as soon as the refunding operation is approved by the Securities and Exchange Commission. It had been expected that a nation-wide banking syndicate, on February 27, would receive the award of, and reoffer, a major portion (probably $90,000,000) of an issue of $136,300,000 State of Arkansas highway refunding bonds, and that the Reconstruction Finance Corporation would take the remainder. A last minute change in plans resulted in the Government agency's submitting the only bid for the issue, offering par for $18,000,000 of 3 per cent bonds due from 1969 to 1972 and $118,300,000 of 3¼ per cent bonds due from 1943 to 1968. This financing will be included in the totals only if resold by the R. F. C.

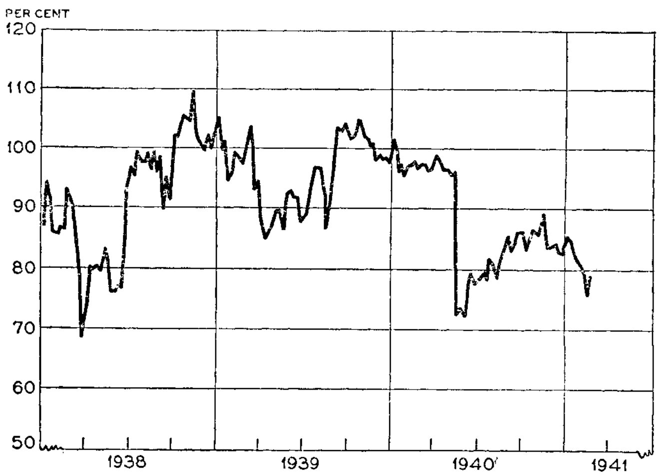
Details of the month's principal flotations are as follows:

$40,400,000	Wisconsin Public Service Corporation securities consisting of $26,500,000 3¼ per cent first mortgage bonds of 1971, priced at 106 to yield 2.95 per cent, and 132,000 shares (of which 118,500 shares were offered first to stockholders) of 5 per cent preferred stock priced at 105; for refunding purposes
24,800,000	Chesapeake and Ohio Railway Company 0.35 to 2.90 per cent serial bonds maturing from 1942 to 1966, of which $11,000,000 was publicly offered at par, $7,300,000 was offered to dealers at 99¾ and 99⅝, and $6,500,000 was sold privately at par; for refunding purposes
11,400,000	Monongahela Railway Company 3¼ per cent first mortgage bonds of 1966, priced at 102½ to yield 3.11 per cent, for refunding purposes
10,900,000	New York Central Railroad Company 1⅞ per cent equipment trust certificates, maturing 1942-51, awarded at a net interest cost of 1.865 per cent; first four maturities reoffered to yield 0.40 to 1.25 per cent, remainder privately placed; for new capital purposes.

Temporary financing amounted to $155,000,000 and included $100,000,000 New York State 0.20 per cent notes maturing in four months, and $24,700,000 Federal Intermediate Credit Bank 0.75 per cent consolidated debentures, dated March 1, due in six and ten months and sold at prices to yield 0.35 and 0.50 per cent, respectively. The latter represented the first sale by a Federal agency of securities which will be fully taxable under the Public Debt Act of 1941, and this fact apparently accounted for a slight increase in the interest cost to the issuer.

Security Markets

Declining prices and "thin" markets on the security exchanges during the first part of February reflected apprehension over war developments, especially in the Far East and the Balkans. Stocks were particularly weak, as prices failed to be stimulated by favorable domestic business prospects apparently in view of the



Movements of Stock Prices (Standard Statistics Company 90 stock index; 1926=100 per cent) increasing tax burden. Continuing the irregular decline which began in the latter part of January, the Standard Statistics price average for 90 common stocks by February 14 had declined to the lowest point since June 11, 1940 and had lost almost four fifths of the advance which occurred during the recovery movement of June—November, 1940, as the foregoing chart indicates. Trading on February 14, when the severest price weakness occurred, amounted to only 930,000 shares, though this was by far the heaviest day's trading in the month. In the two weeks following the 14th, stock prices were somewhat firmer and by the end of the month had recovered to within a point of the level prevailing on February 1, principally as a result of strength in the industrial and railroad shares.

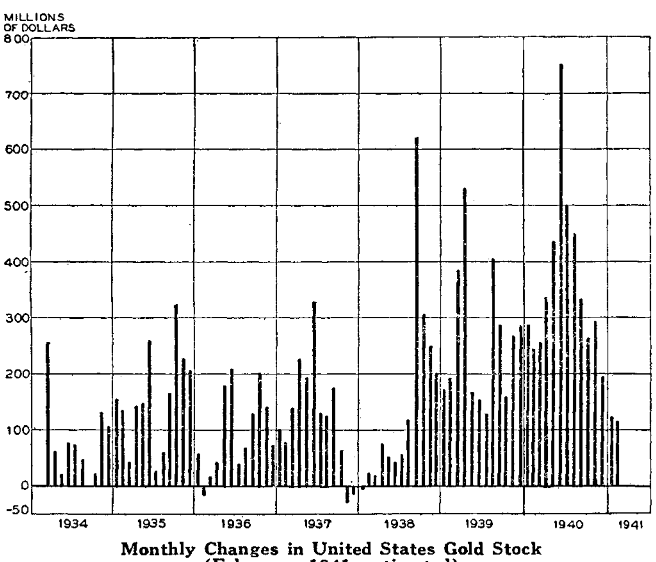
Domestic corporation bond prices showed considerably more resistance to the general declining tendency than did stocks. The highest grade bonds, as measured by Moody's composite price average for Aaa bonds, held steady during the early part of the month. However, between February 13 and 19 the average was off almost a point. A quarter point recovery occurred late in the month.

Prices of medium grade corporation bonds (Moody's Baa group) hovered within a point of the record high (reached on January 28) between February 1 and 11. However, by the 19th the Baa price average had declined more than a point, mainly as a result of weakness in the railroad group. Slightly higher levels were reached later in the month. Prices of prime municipal bonds, according to the Standard Statistics Company index, continued the decline in effect since January 15 and on February 26 were 5½ points below the record high set on December 11, 1940.

Gold Movements

Imports of gold into the United States during February were in considerably reduced volume and the increase in the gold stock of the United States of about $115,000,000 was the smallest for any month since July, 1938. The amount of gold held under earmark for foreign account at the Federal Reserve Banks rose about $45,000,000 during February to a new high figure of approximately $1,905,000,000.

For the four weeks ended February 19, the Department of Commerce reported the receipt of $189,600,000 of gold in the following principal amounts: $149,600,000 from South Africa (which arrived in the week ended January 29), $18,100,000 from Canada, $4,500,000 from British India, $3,200,000 from Colombia, $3,000,000 from Japan, $2,800,000 from the Philippines, $1,200,000 from the United Kingdom, $1,100,000 from Peru, $900,000 from Mexico, and $800,000 from Australia.



Monthly Changes in United States Gold Stock (February, 1941, estimated)

Foreign Exchanges

During February exchange rates continued to be affected by the withdrawal of certain foreign funds from this country, accompanying fears of additional United States "blocking" measures. Such apprehensions were heightened toward the middle of the month when developments in both the Far East and the Balkans pointed to a possible extension of warfare in those areas.

The political crisis in the Pacific area appears to have inspired a considerable desire for liquidity in Far Eastern markets, leading to a repatriation of funds. As a result, the rate for Shanghai exchange rose from 5 5/16 cents on February 7 to as high as 5¾ cents on February 18, and the Hong Kong dollar appreciated from about 23¾ cents to 24⅝ cents between February 5 and 19. The Shanghai dollar subsequently displayed a somewhat easier tendency, however.

Among the Latin American exchanges, the "free" rate for the Argentine peso, after having closed the previous month at the high level of $0.2375, fluctuated during February between that rate and $0.2350, to which it declined at the end of the month. Effective February 26, certain new Argentine exchange regulations were adopted, which should have the effect of somewhat further restricting the scope of the free market. The proceeds of certain export products which heretofore have been sold in the free market must in the future be sold to the Argentine authorities at the fixed rate of 4.2182 pesos to the dollar ($0.2371). As a result of these regulations, the free market will be restricted almost exclusively to financial transactions. The New York rate for the Venezuelan bolivar advanced further to about $0.2625 on February 20, extending to 3½ cents the rise shown in the Venezuelan currency since the upward movement started at the beginning of January. By the end of the month, however, the rate had reacted to about $0.2575.

The rate for the Swiss franc, which reached a high of $0.2330 during January, held within a relatively narrow range of $0.2323—$0.2324 during the past month as far as commercial and most other transfers were concerned. The rate for certain financial transactions, such as the movement of non-Swiss capital to Switzerland, however, was quoted at $0.2330 at the end of February, as against $0.2370 in the latter part of January.

Owing apparently to the difficulty of purchasing registered marks against dollars in Switzerland, the New York rate for such marks rose by about 2⅛ cents between the latter part of January and February 17, when a new high for the war period of $0.1450 was reached. Following the establishment of this high, the rate declined to $0.1395. Among the currencies of the other belligerent countries, the unofficial discount on the Canadian dollar narrowed from 17¼ to about 14¾ per cent, accompanying a moderate seasonal tourist demand. Free market sterling continued to hold near parity with the official rates set by the London control.

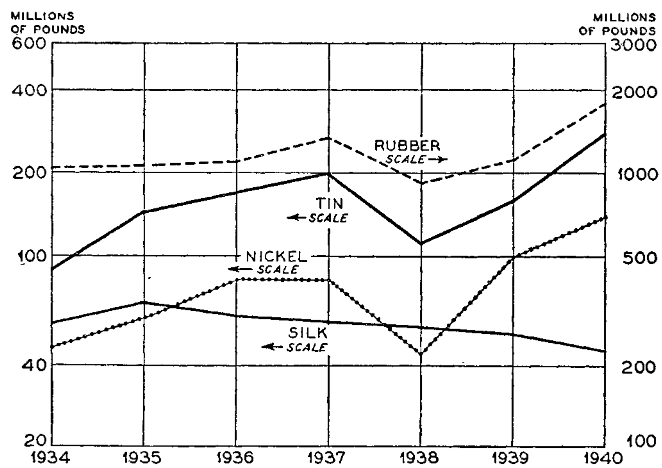
Central Bank Rate Change

The Bank of Portugal lowered its discount rate on February 20 from 4½ to 4¼ per cent, the former rate having prevailed since May 12, 1936.

Foreign Trade

According to the data published by the United States Department of Commerce, imports into this country of a number of strategic raw materials showed large gains during 1940, reflecting both increasing consumption and accumulation of reserves for National defense purposes. As is indicated in the accompanying chart, there were sharp advances compared with 1939 in the quantities of rubber, tin, and nickel received; silk imports, however, continued the declining tendency that has prevailed for a decade, as a result of the displacement of silk by synthetic fibers.

Receipts of crude rubber—the commodity of by far the largest dollar value in this country's imports—amounted to 1,825,000,000 pounds in 1940. This represented an increase of 64 per cent over 1939 and more than four times the average volume in 1917-18, which included the period that the United States was engaged in the World War. Owing in some degree to purchases of tin by the Metals Reserve Company, tin imports into the United States last year reached 280,000,000 pounds, 78 per cent above the 1939 figure, and were about twice the average quantity imported in 1917-18. Imports of nickel rose 42 per cent over 1939, the record year up to that time. On the other hand, receipts of silk were 13 per cent less than in 1939 (although the value was slightly higher) and only about half as large as those of 1929—the peak year for silk imports.



Annual Imports of Certain Strategic Commodities into the United States (Plotted on ratio scale to show proportionate changes)

Member Bank Operating Ratios for 1940

The regular compilation of operating ratios of member banks in the Second Federal Reserve District for 1940 has been completed recently. These data show the average earning and expense ratios of member banks in various groupings, according to size of deposits and proportionate holdings of time deposits. The table below gives a number of the more important ratios for banks in this District.

Average Ratios of All Member Banks in the Second Federal Reserve District

	1939	1940
Ratios to total current earnings		
Interest and discount on loans	47.2	50.8
Interest and dividends on bonds, stocks, etc.	36.6	32.8
Service charges on deposit accounts	6.3	6.9
All other earnings	9.9	9.5
Total current earnings	100.0	100.0
Salaries and wages	28.7	29.8
Interest on time and savings deposits	19.8	18.2
All other expenses	25.9	27.3
Total expenses	74.4	75.3
Net current earnings	25.6	24.7
Net charge-offs	9.5	8.3
Net profits	16.1	16.4
Ratios to total capital accounts		
Net current earnings	7.1	6.8
Net profits	4.0	4.3
Cash dividends	1.9	1.9
Ratios to total assets		
Total current earnings	3.5	3.3
Total expenses	2.6	2.4
Net current earnings	0.9	0.9

The average net return on capital funds of Second District member banks for 1940 was not much changed from the previous year, 4.3 per cent compared with 4.0 per cent for 1939. The slight improvement in net profits was chiefly the result of a larger volume of loans outstanding, a larger amount of income from service charges on deposit accounts, and a smaller proportion of total earnings absorbed by losses and depreciation of assets.

A copy of this bank's circular, number 2179, giving all ratios compiled, may be obtained upon request.

Building

During January there was a decline from the exceptionally high level of December, 1940, of more than one third in the daily rate of construction contract awards in the 37 Eastern States covered by the F. W. Dodge Corporation survey. Two factors—usual seasonal influences and a decline in the amount of reported contracts associated with the defense program—accounted for this decrease. Although contracts related to National defense continue to be awarded on a substantial scale, the inclusion of a number of projects in the reported figures was delayed owing to the unavailability of adequate details. National Defense contract awards actually included in January were less than one tenth of their December volume which was swollen by the inclusion of such contracts awarded in previous months but not classified until December. On the other hand, the daily rate of awards for other than defense purposes was off only 4 per cent from the December average.

In spite of the sharp decline from the previous month, construction contracts reported during January were at an average rate 50 per cent above the comparatively low level of January a year ago and were the highest for any January since 1930. Reflecting especially the expansion in manufacturing and commercial building, the daily rate of private construction awards was 80 per cent above the average for the corresponding month of 1940. Contracts in the nonresidential building group as a whole continued to be awarded in large volume and were more than double the value of such contracts awarded in January of last year. The rate of residential building awards also showed a substantial increase over the corresponding month of the previous year, amounting to 38 per cent, but heavy engineering awards were up only 9 per cent.

In the first three weeks of February, construction contracts were awarded at a daily rate about equal to the January average, and 52 per cent above the level of the corresponding weeks in 1940.

The daily rate of reported construction contract awards in New York and Northern New Jersey during January declined 34 per cent from the average for December, about the same percentage decrease as for the 37 States as a whole. Awards for nonresidential building and heavy engineering construction in this area were reduced sharply, but in the residential building category a decline of only 12 per cent occurred. Compared with the corresponding month of 1940, the rate of awards in January of this year was about one-fifth higher. Most of this increase was accounted for by a 43 per cent rise in residential building, as nonresidential building showed little change and engineering projects increased but slightly. Continuing recent tendencies, contracts for factory buildings in January were awarded at about double the rate for the corresponding month of the previous year.

Commodity Prices

Accompanying growing apprehension over the international political situation, prices tended to strengthen in many of the domestic wholesale commodity markets during February. Owing principally to substantial increases in the prices of several imported products, the Bureau of Labor Statistics daily index of 28 basic commodities advanced on February 26 to the highest point in over a year.

The depressive influences prevailing in the wheat market since the first of the year continued throughout most of February; however, following an announcement of a wheat marketing quota referendum for May 31, and discussions of new Government loan plans for the 1941 crop, wheat prices rallied considerably and closed on February 27 slightly above the levels at the end of January. Spring wheat in Minneapolis touched the lowest level on February 17 in about five months—80¾ cents a bushel—but advanced to 86¾ cents a week later. Despite the large volume of Government owned grain still overhanging the market, corn displayed relative stability. Quotations for livestock fluctuated irregularly during February but were generally below the high levels reached in January. On the other hand, in part reflecting fears of shipping difficulties from the Philippines, raw sugar in New York advanced 15 points during February to 3.10 cents a pound—the highest price since October, 1939.

The cotton market showed weakness up to the middle of February, apparently in response to developments abroad; subsequently, however, as marketings were reported to have been well below the record-breaking rate of current domestic consumption and as legislation was proposed for altering the loan system, cotton prices regained the losses sustained earlier in the month. The average price of spot cotton at 10.22 cents a pound in 10 Southern markets on February 27 was 8 points higher than at the end of January. Owing both to strength in the primary markets and to political tension in the Far East, silk quotations in New York advanced irregularly to $2.70½ a pound on February 27, a gain of 20 cents over the January 31 level. Spot quotations for rubber in the local market moved up 1⅛ cents during the month to 21 cents a pound, and wool prices were firm. Hides in Chicago, however, were reduced in February from 13½ to as low as 12 cents a pound, the level of five months ago.

While some further reductions occurred in scrap steel prices, the metal markets as a whole were firm during February. Tin prices in New York advanced further to as high as 54⅛ cents a pound on February 20, but closed the month at 51⅜ cents; the buying price of the Metals Reserve Company for tin was maintained at about 50 cents. In response to trade reports of exceptionally heavy sales, lead was advanced 15 points on February 10 to 5.65 cents a pound, the first change in lead quotations since the end of November.

Employment and Payrolls

During January, New York State factories increased working forces and payrolls about 1 per cent further, although in the past there has almost always been a decrease in both employment and payrolls at this time of year. According to the New York State Department of Labor, the usual January employment reductions were offset this year by increases in working forces at firms holding defense contracts. Most of the largest gains were made at plants in the metals and machinery industrial group; shipyards, airplane factories, steel mills, and electrical machinery plants all hired more workers in January. Large employment decreases occurred at women's clothing firms, brickyards, canning factories, and textile mills. Compared with January, 1940, employment was 15 per cent higher, and wage payments were 25 per cent greater.

In the United States as a whole, the decreases of 1 per cent in factory employment and 2 per cent in payrolls between December and January were less than the declines ordinarily expected at this time of year. On a seasonally adjusted basis, the January indexes of both employment and payrolls reached the highest levels for any month on record. Although defense-stimulated industries, such as shipbuilding, aircraft, machine tool, and electrical machinery, continued to add to their working forces, these gains were more than offset by employment losses in other lines, including the manufacture of food and tobacco products and furniture. Total factory employment in January was 10 per cent higher and payrolls were 20 per cent greater than in the corresponding period of 1940.

During January, the number of persons engaged in nonagricultural pursuits throughout the country was nearly one million less than in December, according to estimates of the Bureau of Labor Statistics. Most of the decrease was caused by the seasonal lay-off of 700,000 persons at wholesale and retail trade establishments, but all major employment categories shared in the decline. However, as the accompanying table indicates, nonagricultural working forces were substantially above the level of January, 1940, largely because of employment gains in manufacturing and construction. Military and naval forces (not included in the estimates of nonagricultural employment) increased further in January to more than double those of a year before.

Employment Estimates of the Bureau of Labor Statistics and the Bureau of Agricultural Economics (000 omitted)

Activity	Estimated number employed January, 1941	Increase over January, 1940
Manufacturing and mining	11,324	773
Trade	6,187	125
Construction	1,618	606
Federal, State, and local government	3,921	227
Transportation and public utilities	3,010	75
Total nonagricultural employment*	36,343	1,868
Agriculture	8,698	13‡
Military and naval forces	958	523
W.P.A., C.C.C., and N.Y.A.	2,628	320‡

*Includes certain employment classifications in addition to those listed above.
‡Decrease.

Production and Trade

Available statistical data for February indicate that general business activity held at approximately the January level. Steel mill operations continued at 97 per cent of capacity during the first half of February, subsequently declining moderately as a result of strikes and shutdowns for repairs, but rising to 96½ per cent in the last week of the month. Shortages of certain nonferrous metals—zinc and aluminum in particular—were encountered by some manufacturers, partly, no doubt, owing to uneven distribution of available supplies. The first mandatory industry-wide priorities under the defense program, applying to producers of aluminum and machine tools, were imposed February 24 by the Office of Production Management.

Automobile production in the United States and Canada was stepped up from 23,800 cars daily in January to upwards of 25,000 cars a day in February. Electric power production and railway freight traffic during the first three weeks of February approximately held their January levels after adjustments for usual seasonal changes. Figures for the same period on department store sales and retail automobile sales showed considerable increases over the preceding month and over February, 1940.

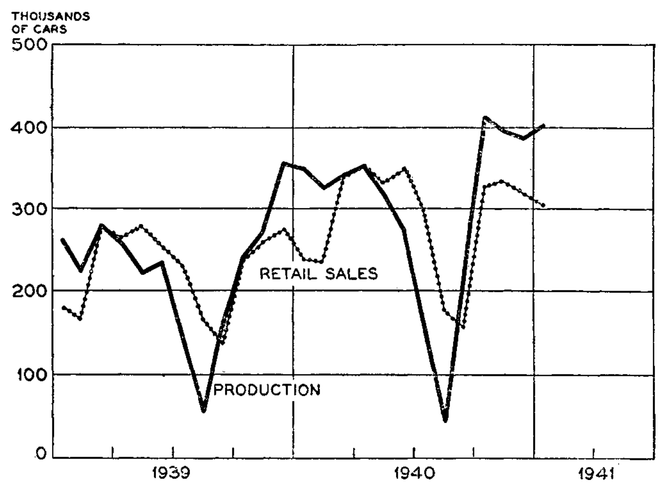
Production and Trade in January

During January the index of production and trade computed at this bank continued at the December level of 102 per cent of estimated long term trend. The failure of the index to rise further in January was traceable in considerable part to the retarding effect of seasonal adjustments in certain industries, such as steel and cotton textiles, where current output was being pushed in the ordinary low month of December and hence where seasonal expansion in January was virtually a physical impossibility. In addition, there were recessions in a number of consumers' nondurable goods lines.

In producers' durable goods industries—many of them of key importance in the National defense program—conditions during January were similar to those which characterized the closing months of 1940. Steel mill operations moved up to 97 per cent of calculated capacity, but despite the record volume of steel production a further increase in order backlogs was reported during the month. Construction work was unusually active, considering weather conditions, and operations continued to rise steadily in branches of industry where direct National defense needs are most powerfully felt—for example, aircraft, machinery of many different classes, and shipbuilding. Production of airplanes of military types was reported to have reached 957 in January compared with 799 in December.

The manufacture of consumers' durable goods, especially passenger automobiles, showed marked stimulation from increasing employment and payrolls, and to some extent from concern over the possibility that intensification of the National defense effort will lead to a diversion of productive facilities to military needs. Field stocks of passenger cars were built up to an unusually high level, partly in anticipation of such a diversion and partly in anticipation of heavy spring sales. The accompanying chart portrays the high level of production, and of retail sales also; the substantial excesses of production over sales, September through January, reflect the rate of accumulation of car stocks.

Among producers' nondurable goods industries, cotton



United States Production of Passenger Automobiles for Domestic Market and Retail Sales of Passenger Cars (Production data are Department of Commerce figures, and retail sales are figures of Automobile Manufacturers' Association)

textile mills increased operations less than usual over December and woolen mill activity decreased somewhat from its exceptionally high December level. In a number of consumers' nondurable goods lines, most of which also had operated at comparatively high rates in the preceding month, there was a tendency for production to decline. Reduced marketings led to a pronounced contraction in meatpacking operations; tobacco manufacturing and shoe production increased less than usual; and wheat flour production was curtailed. In retail trade changes in business volumes more or less followed the usual seasonal patterns, except for the exceptionally large consumer demand for motor cars.

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

	1940			1941
	Jan.	Nov.	Dec.	Jan.
Index of Production and Trade	93	99	102*p*	102*p*
Production of:				
Producers' durable goods	94	107	115*p*	116*p*
Producers' nondurable goods	98	105	109*p*	105*p*
Consumers' durable goods	77	80	80*p*	89*p*
Consumers' nondurable goods	98	101	103*p*	98*p*
Primary distribution	90	92	95*p*	95*p*
Distribution to consumer	95	101	102*p*	103*p*
Industrial Production				
Steel	108*r*	128	138	127
Automobiles	89	94	84	101
Bituminous coal	94	91	94	93*p*
Crude petroleum	93	85	87	87*p*
Electric power	99	104	106*p*	106*p*
Cotton consumption	110	125	138	127
Wool consumption	110	151	164	145*p*
Shoes	111	112	124*p*	115*p*
Meat packing	103	111	113	96
Tobacco products	88	95	97	94
Manufacturing Employment				
Employment	97	103	105	106*p*
Man-hours of employment	91	101	105	105*p*
Construction				
Residential building contracts	42	62	67	55
Nonresidential building and engineering contracts	45	83	103	69
Primary Distribution				
Ry. freight car loadings, mdse. and misc.	88	94	99	100
Ry. freight car loadings, other	88	95	88	88
Exports	107*r*	87	87	....
Imports	86	86	92	....
Distribution to Consumer				
Department store sales (U. S.)	90	99	99	100*p*
Grocery chain store sales	99	98*r*	99	100*p*
Variety chain store sales	96	107	107	102*p*
Mail order house sales	95	99*r*	103*r*	101
New passenger car sales	100	106	106	125
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	59	61	62	57
Velocity of demand deposits, New York City (1919-25 average = 100)	28*r*	29	30	23
*Cost of Living and Wages**				
Cost of living (1935-39 average = 100)	103	104	105	105*p*
Wage rates (1926 average = 100)	113	115	115	115*p*

p Preliminary *r* Revised * Not adjusted for trend

Department Store Trade

For the three weeks ended February 22, total sales of the leading department stores in this District were about 14 per cent higher than in the corresponding period of 1940, and the daily rate of sales for this portion of February advanced about as usual from the January level.

Total January sales of the reporting department stores in this District were about 6 per cent higher than last year, but the daily rate of sales during the month declined somewhat more than usual from the relatively high December level. Percentage change comparisons of department store sales in this District (shown in the following table) are now based on a larger number of stores than formerly, owing particularly to the inclusion of the retail department stores in this District of Montgomery Ward and Company and Sears, Roebuck and Company, in addition to about seventy independent department stores.

Stocks of merchandise on hand in the department stores, at retail valuation, were about 6 per cent higher at the end of January, 1941, than at the end of January, 1940.

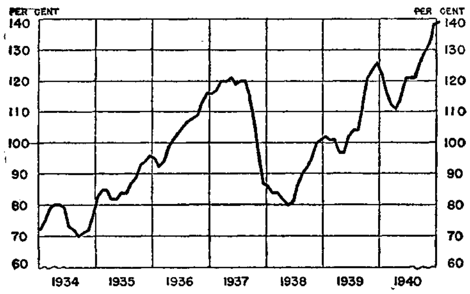
	Number of reporting stores	Jan., 1941 compared with Jan., 1940	
		Net sales	Stock on hand, end of month
New York City (includes Brooklyn)	14	+ 6	+ 6
Northern New Jersey (Newark, Asbury Park, East Orange, Hackensack, Paterson, Plainfield, Rutherford, Union City)	12	+ 4	+ 8
Newark	*5*	*+ 3*	*+ 9*
Westchester and Fairfield Counties (Bridgeport, Mount Vernon, Stamford, White Plains, Yonkers)	7	+ 5	+12
Bridgeport	*3*	*+12*	*+13*
Lower Hudson River Valley (Poughkeepsie, Kingston, Middletown, Newburgh, Saugerties)	7	— 2	+ 2
Poughkeepsie	*3*	*0*	—
Upper Hudson River Valley (Albany, Glens Falls, Schenectady, Troy)	6	+ 7	— 5
Albany	*3*	*+ 2*	—
Central New York State (Syracuse, Gloversville, Herkimer, Rome, Utica)	11	+14	+11
Mohawk River Valley	*6*	*+20*	*+11*
Syracuse	*5*	*+12*	*+11*
Northern New York State (Ogdensburg, Saranac Lake, Watertown)	4	+13	—
Southern New York State (Binghamton, Elmira, Ithaca, Norwich, Oneonta)	10	+ 8	+ 3
Binghamton	*3*	*+ 5*	—
Elmira	*4*	*+22*	—
Western New York State (Buffalo, Niagara Falls, Rochester, Batavia, Olean)	20	+ 9	+ 6
Buffalo	*8*	*+16*	*+ 4*
Niagara Falls	*4*	*— 2*	*+12*
Rochester	*5*	*+ 5*	*+10*
All department stores	91	+ 6	+ 6
Apparel stores	12	— 2	+ 2

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

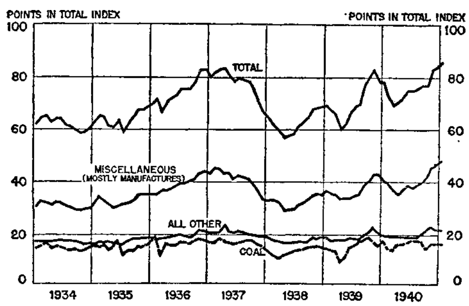
	1940			1941
	Jan.	Nov.	Dec.	Jan.
Sales (average daily), unadjusted	74*r*	120	184	78
Sales (average daily), seasonally adjusted	93*r*	101	102	99
Stocks, unadjusted	69	100	82	73
Stocks, seasonally adjusted	77	84	83	81

r Revised.

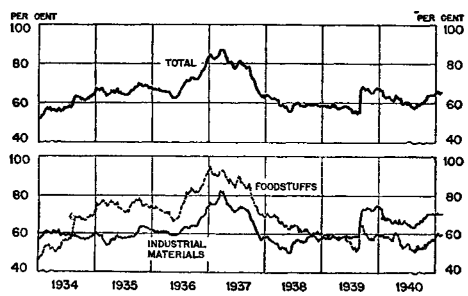
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, MARCH 1, 1941



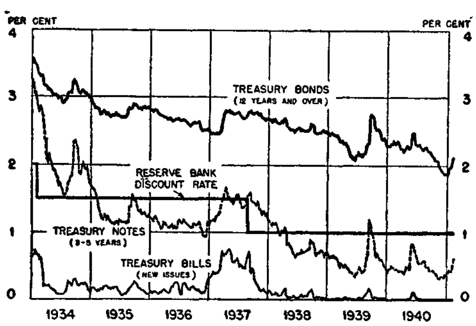
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



Index of Total Loadings of Revenue Freight, Adjusted for Seasonal Variation (1923-1925 average=100 per cent; miscellaneous, coal, and all other car loadings expressed in terms of points in total index)



Federal Reserve Groupings of Wholesale Prices of Industrial Materials and Foodstuffs, Computed from Bureau of Labor Statistics Data (1926= 100 per cent)



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 level in January and distribution of commodities was maintained in large volume.

Production

In January volume of industrial production declined less than seasonally and the Board's adjusted index rose one point further to 139 per cent of the 1935-39 average. There were further considerable increases in activity in industries making machinery, aircraft, ships, and similar products important in the defense program, and output of industrial materials, such as steel and nonferrous metals, continued at near capacity rates. Lumber production also was in unusually large volume owing to demand arising from construction under the defense program as well as from private building.

Automobile production, which ordinarily declines considerably at this time of year, was maintained at a high rate in January and the first half of February. This reflected in part an unusually large volume of retail sales and in part the industry's efforts to build up dealers' stocks of cars as much as possible with a view to having an adequate supply on hand in case priorities or work on defense orders should necessitate curtailment of automobile production. Currently dealers' stocks of new cars are probably near record levels.

In the cotton textile industry, activity in January showed some further increase from the record level reached in December but the rise was less than usually occurs at this season. At wool textile mills there was some decline from the high level of November and December, while output at rayon mills was maintained in large volume. Defense program orders for textiles, particularly wool and cotton products, have been substantial for some time, and these combined with considerable civilian demand have resulted in the accumulation of large order backlogs at most mills. Activity at meatpacking establishments was reduced in January owing chiefly to a sharp decline in hog slaughter, which had been exceptionally large in the latter part of 1940. Shoe production advanced by less than the usual seasonal amount following a high rate of output in November and December.

At mines output of most metals continued at record levels in January. Production of fuels was sustained in large volume but was not at such high levels as output of other minerals owing in part to the existence of considerable stocks, particularly of petroleum products.

Value of construction contracts, as reported by the F. W. Dodge Corporation, declined in January. The decrease reflected chiefly a sharp reduction in awards for public construction from the exceptionally large December total, which had included a number of defense projects not previously reported by the Dodge Corporation for lack of detailed information. Contracts awarded for private nonresidential building declined somewhat in January but as in December were twice as large as the amount awarded in the corresponding period a year ago. Awards for private residential building increased and on a seasonally adjusted basis were at the highest level since the middle of 1929.

Distribution

Distribution of commodities to consumers in January was maintained at the high level reached in the latter part of 1940. Sales at department and variety stores declined seasonally following an unusually large amount of Christmas trade, while sales of automobiles continued near the rate prevailing in December. In the early part of February department store sales were sustained in large volume.

Total freight car loadings, which usually decline from December to January, showed little change this year and the Board's seasonally adjusted index rose two points further to 86 per cent of the 1923-25 average.

Wholesale Commodity Prices

Prices of industrial materials and foodstuffs generally showed little change from the middle of January to the middle of February. Some imported commodities, principally coffee, cocoa, rubber, and tin, rose slightly and there were increases also in prices of lard and wool tops, while declines were reported for livestock and meats, hides, grains, lumber, and scrap metals. Prices of some finished commodities, particularly textile products, showed advances in this period.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities increased substantially during January and the first half of February, reflecting largely purchases of new Defense Notes issued by the Government. Commercial loans at these banks increased further while loans to New York security brokers and dealers declined.

United States Government Security Prices

Prices of United States Government securities continued to decline in the latter half of January and the first half of February, more than canceling the gains from the end of October to the peak on December 10. The 1960-65 bonds on February 14 were selling on a yield basis of 2.28 per cent, compared with a low of 2.03 per cent on December 10.