

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

April 1, 1941

Money Market in March

Treasury announcements and operations relating to the financing of the defense program together with income tax collections were the dominant influence in the money market during March.

During the past month the Treasury made two major announcements concerning the financing of the budgetary deficit, arising in large part from the National defense program. The first of these announcements was in the form of an offering of \$500,000,000 or thereabouts of 2½ per cent Treasury bonds of 1952-54 for cash subscription, coupled with an offer to exchange for the 1⅜ per cent Treasury notes maturing June 15, 1941, outstanding in the amount of \$504,000,000, Treasury bonds of the new issue or ¾ per cent Treasury notes, dated March 15, 1941 and due March 15, 1943. The offering of new bonds was heavily oversubscribed and allotments were made on the basis of 8 per cent of subscriptions, except that subscriptions for amounts up to and including \$5,000, where the subscribers specified that delivery be made in registered bonds 90 days after the issue date, were allotted in full; likewise, 95 per cent of the Treasury notes maturing June 15, 1941, were exchanged for the new issues—to a very large extent for the new bonds.

Shortly after this "market" financing was announced, the Treasury issued a statement regarding new issues of United States Savings Bonds and Stamps which have been planned to help in financing the National defense program. Sales of Government securities to individuals afford an opportunity for more active use of the existing large volume of idle deposits in the banks (and possibly of some of the currency outstanding in the hands of the public), and avoid the creation of additional deposits in the banks which occurs when Government securities are purchased by the banking system. The new securities will also provide a means of employing new savings in the financing of the defense program. On this point, the Secretary of the Treasury, when announcing the program of sales of Savings Bonds and Stamps, stated, "the Government must do more than find billions of dollars. It must find these dollars in a way that will best safeguard the nation against the evils of inflation, and will give all American citizens a sense of taking a direct part in the defense of the country." The announcement of the Savings Bond program received widespread favorable comment in the press, and it is expected that sales of the bonds will be steady and sub-

stantial. Three kinds of United States Savings Bonds will be sold beginning May 1:

1. A Defense Savings Bond (similar to the present United States Savings Bond, which it will be replacing) will be offered at a discount, with a maturity of 10 years, and will provide an interest return of 2.9 per cent per annum, compounded semiannually, if held to maturity; it is intended chiefly for people of small income, ownership being restricted to individuals in their own right, with a limit upon holdings of \$5,000 maturity value of bonds issued in any one calendar year. These bonds will be in denominations of from \$25 to \$1,000 maturity value.

2. A Series F Savings Bond, also sold at a discount, with a maturity of 12 years, providing a yield of approximately 2.53 per cent a year if held to maturity; it can be held not only by individuals but by trustees, associations, pension funds, and corporations, with a limit of \$50,000 cost price of bonds issued in any one calendar year, alone or in combination with Series G bonds. Denominations will be from \$100 to \$10,000.

3. A Series G Savings Bond, to be issued at par, with 2½ per cent interest payable semiannually during its 12 year term; it may be purchased by individuals and others, the same as the Series F, up to a total of \$50,000 cost price issued in any one year, alone or in combination with Series F bonds. Denominations of this series also will be \$100 to \$10,000.

The bonds of these three series are not transferable but may be redeemed prior to maturity in accordance with redemption values which have been fixed to give inducement to holders to retain their bonds to final maturity; if redeemed prior to maturity, yields will be less than if the bonds are held to maturity. The Savings Stamps, announced at the same time as the new issues of Savings Bonds, represent a new series of Postal Savings Stamps, priced at 10 cents, 25 cents, 50 cents, \$1, and \$5 which, when accumulated by holders in sufficient amounts, can be exchanged for the Defense Savings Bonds.

Market movements of bond prices in March reflected further adjustments between the "tax exempt" and "taxable" classes of Government securities and between these obligations and corporate and municipal securities, as well as a reappraisal by investors of the appropriate interest rate levels, under present circumstances, for Federal Government and other issues. The net result of these movements was some rise for the month in average prices of "tax exempt" Treasury bonds, strong advances in the two market issues of taxable Treasury bonds dated March 15 and March 31, and a decline in average prices of high grade domestic corporate bonds.

With respect to Treasury transactions during March affecting the reserve position of the member banks, the principal operation was quarterly income tax collections

which, on the basis of figures through the first 27 days of the month, apparently approximated \$1,200,000,000 for the month, or some 80 per cent more than was collected in the same period of last year. The size of the March tax collections gives striking evidence of the substantial yield of existing income tax rates and provisions at the rising levels of National income. If collections continue at the same rate during the remainder of the current fiscal year, it appears that the total for the year ended June 30, 1941 will be some \$350,000,000 more than was estimated in the budget presented to Congress last January.

Largely as a result of income tax collections during the week ended March 19, supplemented by the sale of \$100,000,000 more of Treasury bills than matured, Treasury receipts far exceeded Treasury disbursements, including payment of interest on the public debt, and consequently Treasury deposits in the Reserve Banks rose \$490,000,000 to a total of \$913,000,000 on March 19. The flow of funds into Treasury deposits in the Reserve Banks and some loss of reserve funds through other transactions resulted in a decrease in excess reserves of the member banks to \$6,010,000,000 on March 26, the lowest figure since April of last year.

A further large rise in Treasury deposits in the Reserve Banks, and concurrent decline in excess reserves of the member banks, occurred on March 31, when payment was due for the new issue of approximately \$500,000,000 of 2½ per cent Treasury bonds of 1952-54, but in forthcoming weeks Treasury deposits in the Reserve Banks are expected to decline fairly rapidly, as National defense expenditures and the other running expenses of the Government are met. Consequently, bank reserves should tend to rise again. However, the amount of currency outstanding has continued to increase, rising above the Christmas peak of last year to new high levels, and reserve requirements of the banks may be expected to rise, following the temporary decline during the week ended March 19, as further increases in bank deposits are in prospect owing to expansion of bank loans and investments and to Government expenditures. These two factors will probably operate partly to offset the effect on member bank excess reserves of the disbursement of funds by the Treasury and of moderate gold imports.

GOVERNMENT SECURITIES

Treasury bond prices continued to move irregularly upward in the first half of March, and on the 15th the price average for the longest term "tax exempt" Treasury bonds was only 13½ points below the record high of December 10, 1940. Subsequently quotations for tax exempt bonds tended somewhat lower as the main buying interest shifted to the newly offered taxable 2½ per cent bonds and to some extent to the 2 per cent Treasury bonds of 1948-50 which were issued March 15 in exchange for maturing Treasury notes, and there were indications of switching transactions involving the sale of tax exempt issues. Later in the month, however, a firm tone developed in both the taxable and tax exempt bonds. The average price of tax exempt issues closed with a net gain of 1 point for the month, and the newly issued

2 and 2½ per cent taxable issues closed at 101⅞ and 102¼, respectively.

The average yield on 3 to 5 year tax exempt Treasury notes fluctuated within a comparatively narrow range during March, but was somewhat lower in the second half of the month after the Treasury financing was announced. Similar movements occurred in yields of the taxable ¾ per cent National Defense note issues of 1944 and 1945.

The Treasury bill issues of March 5, 12, and 19 were offered in the amount of \$200,000,000 a week. Of the funds so obtained, \$100,000,000 each week was used to retire maturing bills, the other \$100,000,000 representing "new money." The issue dated March 5 was awarded at an average rate of 0.086 per cent, that of March 12 at 0.120 per cent, and that of March 19 at 0.117 per cent. In the following week the Treasury bill offering was reduced to \$100,000,000, the amount of currently maturing bills. This issue, dated March 26, was awarded at 0.065 per cent.

Money Rates in New York

	Mar. 30, 1940	Feb. 28, 1941	Mar. 31, 1941
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1¼	*1¼	*1¼
Prime commercial paper 4-6 months...	¼-⅝	⅛-⅝	¼-⅝
Bills—90 day undorsed.....	⅞	⅞	⅞
Average yield on Treasury notes (3-5 years).....	0.40	0.49	0.50†
Average yield on Treasury bonds (not callable within 12 years).....	2.21	2.16	2.09
Average rate on latest Treasury bill sale, 91 day issue.....	‡	0.043	0.065
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.

† Change of +0.01 per cent from previous yields due to dropping from the average the 1 per cent Treasury note issue of March 15, 1944, which matures within three years.

Security Markets

No major change occurred in prices of domestic stocks and medium grade bonds during March. Fluctuations in the average price of common stocks included in Standard's 90 stock index were within the narrowest monthly range since December, the spread between the March high and low amounting to only 3 per cent. Reflecting particularly firmer tendencies in second grade railroad obligations, medium grade corporate bonds (as measured by Moody's price average for Baa issues) moved up during the month to attain a new high. Daily average sales of stocks of about 430,000 shares were at around the same low level as in February.

Prices of the highest grade corporation bonds receded. After showing little change in the first part of the month, the average price of domestic corporate bonds, classified as Aaa by Moody's Investors Service, dropped 17⅞ points between March 18 and 27 to reach the lowest level since September, 1940, but at this point the average price was only 3¼ points below the record high of last December. Prime municipal bond prices strengthened somewhat during March. The volume of bond trading, accelerating towards the end of the month, was heavier than in February.

Central Bank Rate Changes

The discount rate of the Bank of France, as well as the rate for thirty day loans on the collateral of Government securities, was lowered from 2 to $1\frac{3}{4}$ per cent, effective March 17. The higher rate had been in force since January 4, 1939, and the present rate is the lowest since the bank was founded.

Effective March 31, the discount rate of the Bank of Portugal was lowered from $4\frac{1}{4}$ to 4 per cent, the former rate having prevailed since February 20, 1941.

Recent publications report that the Bank of Mexico on January 2 established uniform rates of 4 per cent for first class bills (more than one solvent signature, or one such signature with collateral), and 5 per cent for second class paper (one solvent signature without collateral, or collateraled paper with no solvent signature), with a maximum maturity of 180 days. Previously there had been sixteen different rates, ranging from 3 to 7 per cent, for paper maturing within 180 days.

Gold Movements

March imports of gold into the United States were somewhat larger than in the previous month, and the increase in the gold stock was about \$135,000,000. Gold held under earmark for foreign account at the Federal Reserve Banks at the end of the month, amounted to approximately \$1,905,000,000, unchanged from the figure at the end of February.

For the four weeks ended March 19, the Department of Commerce reported the receipt of \$192,300,000 of gold in the following principal amounts: \$160,800,000 from Canada, \$11,200,000 from Russia, \$6,700,000 from Australia, \$3,600,000 from the Philippines, and \$2,700,000 from South Africa.

Foreign Exchanges

Aside from the extension during March of the Treasury's "freezing" regulations to cover all Bulgarian, Hungarian, and Yugoslavian property in this country and the elimination of the currencies of these countries from the list of those still traded in here, the principal foreign exchange development of the past month was provided by the Cuban peso, which appreciated substantially against the dollar. The discount on the Cuban currency, after having been as much as $7\frac{1}{8}$ per cent during the latter part of February, narrowed steadily to $3\frac{1}{4}$ per cent on March 28, the smallest discount on the peso since May, 1939. This improvement appears to have reflected several factors, including expectations of an Export-Import Bank loan to finance the sugar surplus and seasonal strength associated with the export of sugar. Considerable stimulus was offered toward the end of the month by reports that the British were negotiating for the purchase of 200,000 tons of Cuban raw sugar. The amount would represent about one-half this year's estimated surplus.

The free rate for the Argentine peso, which had declined to \$0.2345 at the end of February as the result of new Argentine exchange regulations limiting the

scope of the free market, continued to decline sharply during the early part of the past month, touching a five month low of \$0.2295 on March 5. Some renewed demand subsequently became evident, however, and the free rate for the peso held at about \$0.2315 throughout the second half of the month. On March 7 the first auction of foreign exchange available for "nonessential" imports into Argentina was held in Buenos Aires under the new exchange regulations. Average bids of 4.521 and 4.714 pesos to the dollar (equivalent to \$0.2212 and \$0.2121 per peso, respectively) were reported for the tenders; the dollar exchange for which tenders were invited was apparently divided into two categories according to the degree of desirability of the imports involved. These rates compared with official selling rates for foreign exchange, applicable to "essential" imports, corresponding to \$0.2680 and \$0.2365 per peso.

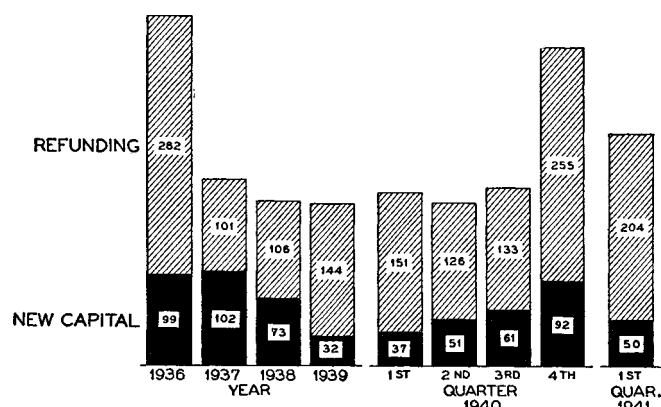
Among the Far Eastern currencies, the Shanghai or National Chinese yuan showed an easier tendency throughout the month, receding from $5\frac{5}{8}$ to about $5\frac{1}{4}$ cents.

New Financing

Corporate and municipal new security flotations during March aggregated \$290,000,000. Corporate financing, which totaled \$175,000,000, included about \$64,000,000 of issues for new capital purposes. In general, the corporate security offerings moved somewhat slowly but the larger municipal flotations were rapidly taken up by investors.

Unsettled conditions in the security market were cited as the reason for abandonment by the Standard Oil Company of Ohio of a proposed issue of 150,000 shares of preferred stock and for the continued deferment by the Republic Steel Corporation of a public offering of \$90,000,000 of bonds and debentures. Toward the close of the month, the Pacific Gas and Electric Corporation issued \$20,000,000 of bonds for new capital purposes, having decided against its earlier plan of a \$110,000,000 operation, primarily refunding in nature. Among the other issues sold to raise new capital were \$15,000,000 Commercial Investment Trust Corporation notes, \$14,900,000 Philip Morris and Company preferred stock, and \$7,800,000 Monsanto Chemical Company preferred stock. Issues for refunding purposes included \$30,000,000 Wheeling Steel Corporation bonds and \$24,800,000 Public Service Company of Oklahoma bonds and preferred stock. The \$35,000,000 State of Arkansas issue publicly offered on March 19 represented a portion of the \$90,000,000 of bonds sold to date by the Reconstruction Finance Corporation from its original block of \$136,000,000 purchased last month.

The Columbia Gas and Electric Corporation has filed with the Securities and Exchange Commission an application for approval of the issuance of \$120,000,000 of new securities chiefly for the purpose of refunding outstanding 5 per cent obligations. The trustees of the Associated Gas and Electric Corporation have been authorized by a Federal court to take the necessary steps toward effecting the refinancing of about \$37,000,000 of Virginia Public Service Company securities.



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (In millions of dollars; first quarter 1941 data preliminary)

As is indicated in the accompanying chart, the monthly average volume of corporate financing in the first quarter of 1941 was considerably less than in the preceding quarter, \$254,000,000 as compared with \$347,000,000, but still well above the monthly average of every full year since 1936. A less favorable comparison is shown by the monthly average of issues for new capital purposes which amounted to only \$50,000,000, or about one-half the volume of the previous quarter.

Business Profits

The high level of business activity which prevailed during 1940 was only partially reflected in increased corporate profits, owing primarily to the heavier tax burden imposed on corporations under the two revenue acts of 1940. Aggregate net profits during 1940 for 1,099 industrial and mercantile corporations, shown in the accompanying table, were 19 per cent higher than in 1939 and were about equal to net profits in 1937. Largely as a result of higher tax deductions, profits of a list of companies whose figures are available on a quarterly basis, which had shown large increases over a year previous in the first half of 1940, were slightly smaller in the last quarter of the year than in 1939, despite the higher level of business activity.

The statements of a selected list of 154 industrial and mercantile corporations, whose figures were readily available, indicate that reserves for Federal taxes set aside in 1940 were over two and one-half times the 1939 total and accounted for 33 per cent of aggregate net profits before taxes, as against approximately 18 per cent in each of the three preceding years. Compared with the year 1937, net profits before Federal taxes of the 154 companies were 25 per cent greater, Federal taxes were 124 per cent higher, and net profits after taxes increased only 3 per cent.

With respect to the individual groups listed in the accompanying table, sharp year-to-year profit gains were recorded by those durable goods industries such as automobile parts, aircraft manufacturing, building supplies, copper and brass fabricators, electrical equipment, machinery and machine tools, railroad equipment, shipbuilding, and steel and iron, in which the normal sales were greatly augmented by orders connected with the National defense program. In the case of some com-

panies in the durable goods groups it was not necessary to make provision for excess profits taxes, owing to the large amounts of invested capital on which an 8 per cent return is allowed under the Second Revenue Act of 1940 before an excess profits tax must be paid. On the other hand, in some other companies in the durable goods industries, and in many companies in the nondurable goods groups where fewer defense orders were placed, taxes were relatively more burdensome and net profits were either lower than a year previous or only slightly higher. Most of the groups of companies producing food products, household supplies, leather and shoes, metal and glass containers, and silk and rayon showed profits somewhat below those of 1939, and profits of the chemical, clothing, petroleum, and tobacco com-

(Net profits in millions of dollars)

Corporation group	No. of cos.	1937	1938	1939	1940
Advertising, printing, and publishing	14	14.3	11.5	16.6	17.6
Automobiles	13	259.1	103.1	228.6	249.3
Automobile parts and accessories	73	61.0	2.0	52.4	76.4
Aircraft manufacture	15	9.9	16.3	21.7	53.9
Building supplies:					
Brick, glass, and gypsum	20	39.6	16.2	31.6	37.0
Cement	14	8.7	4.9	10.2	10.2
Hardware	11	7.5	1.8	5.9	7.0
Heating and plumbing	14	27.5	3.0	16.8	22.4
Lumber and roofing products	16	11.6	4.5	9.5	12.4
Paints and varnishes	9	10.4	5.0	10.0	9.9
All other	9	8.8	4.7	7.0	7.4
Chemicals	39	190.0	114.7	180.1	184.5
Containers (metal and glass)	9	43.3	30.1	42.5	40.7
Copper and brass fabricators	9	6.0	-2.8	6.0	11.4
Drugs and cosmetics	14	32.2	30.6	34.5	34.2
Electrical equipment	35	129.2	55.5	93.1	135.6
Food and food products:					
Bakery	14	22.2	25.8	24.3	21.5
Beverages	25	64.4	61.8	70.3	67.5
Confectionery	11	20.0	18.4	22.7	20.8
Dairy products	11	22.0	23.6	28.1	25.5
Flour milling and cereal products	10	25.4	36.1	38.0	34.5
Meat packing	13	9.7	-3.4	14.3	16.9
All other	21	31.4	26.6	29.9	34.1
Household supplies:					
Electrical goods	15	9.1	3.4	7.6	6.9
Furniture and floor covering	11	14.3	1.3	14.1	13.3
All other	20	37.2	27.4	39.8	36.5
Leather and shoes	15	10.7	3.8	13.2	10.5
Machinery:					
Agricultural	9	74.3	38.0	31.9	52.7
Machine tools	12	9.1	2.4	6.8	14.7
Store and office equipment	16	30.5	20.9	21.3	26.9
Industrial machinery and accessories	103	82.1	29.1	53.2	77.5
Mining:					
Coal	18	2.5	-4.5	-2.5	10.3
Copper	13	138.6	69.1	103.2	127.9
Gold and silver	17	40.5	35.7	35.7	33.1
All other	15	83.7	50.9	68.8	66.0
Motion pictures	10	50.6	33.8	39.2	45.9
Paper, pulp, and allied products	44	35.6	17.1	27.5	36.2
Petroleum	55	262.5	131.4	151.7	162.3
Railroad equipment	24	54.8	-0.9	21.1	42.6
Retail trade:					
Department and apparel stores	13	24.1	23.2	29.1	30.3
Food stores	17	11.5	11.0	17.9	15.7
Mail order houses	5	53.9	45.7	67.3	62.1
Variety stores	11	62.8	51.7	58.3	52.8
All other	17	10.9	6.7	12.6	12.7
Rubber and tires	13	27.2	23.1	40.6	40.6
Shipbuilding	7	2.4	3.9	7.3	16.3
Steel and iron	57	246.7	-4.2	155.2	291.0
Textiles:					
Clothing	22	5.6	0.7	8.9	9.4
Silk and rayon	24	13.3	7.1	16.3	15.4
All other	20	5.5	-9.3	11.7	14.4
Tobacco	19	97.1	93.3	96.2	99.6
Transportation:					
Aircraft	6	-1.5	-1.3	1.9	2.6
Shipping	4	2.3	0.4	2.3	5.0
Miscellaneous	48	17.0	12.2	18.2	15.8
Total, 54 groups	1,099	2,569.1	1,312.7	2,170.5	2,577.7
Class I railroads, net income	136	98.7	-121.3	94.7	191.1
Telephone companies, net operating income	94	226.8	209.8	239.3	243.3
Other public utilities, net income	69	252.5	226.9	256.0	265.2

- Deficit.

panies were only slightly higher. Coal mining companies as a group had a substantial net profit in 1940, whereas they showed an aggregate deficit in the previous year.

Generally speaking, those industries in which defense contracts are largest also showed sizable gains in profits as compared with 1937. In addition, however, net profits of most of the food manufacturing groups, although below 1939 levels, were higher than in 1937. Gains over that year were also shown among the textile and retail trade groups. In summary, of the 1,099 companies listed, 500 producing durable goods had net profits in 1940 some 7 per cent above 1937, 128 concerns providing services showed a similar gain, while net profits of 408 companies producing nondurable goods and 63 mining companies were 5 per cent and 11 per cent, respectively, lower than in 1937.

Reflecting a considerably higher level of traffic, net income of 136 Class I railroads in 1940 totaled \$191,000,000, an amount more than twice as large as the 1939 earnings and the largest for any calendar year since 1930. Net operating income of large telephone companies and net income of other public utilities increased moderately during the year and reached the highest levels since 1931.

Employment and Payrolls

According to the State Department of Labor, factory employment in New York State increased $3\frac{1}{2}$ per cent during February and payrolls rose about 5 per cent; in both cases the increases were greater than usual and this bank's seasonally adjusted indexes of New York State employment and payrolls reached the highest levels in over twenty years. Increases in employment and payrolls occurred in all industrial areas of the State during the month. As is common in February, the largest gains were reported in the clothing and millinery industries, but working forces also expanded in every branch of the metals and machinery group, including shipbuilding, aircraft, and other defense industries, as well as many enterprises supplying principally civilian needs. Another factor leading to favorable comparisons was the settlement of certain strikes which began in January. There were 18 per cent more workers employed this February than in the corresponding month last year, and payroll disbursements were 31 per cent larger. Over the two year period, February, 1939 to February, 1941, employment in New York factories increased 31 per cent and payrolls 48 per cent.

During February factory employment in the United States as a whole showed a rise of 2 per cent and payrolls increased $4\frac{1}{2}$ per cent—about the usual gains. In both cases the gains were well distributed; 80 per cent of the industries surveyed employed more workers and almost 90 per cent reported larger payrolls. The aircraft, electrical machinery, shipbuilding, and machine tool industries continued to show exceptionally large increases in both working forces and payrolls. Compared with February, 1940, total factory employment was 12 per cent higher and payrolls were 27 per cent larger.

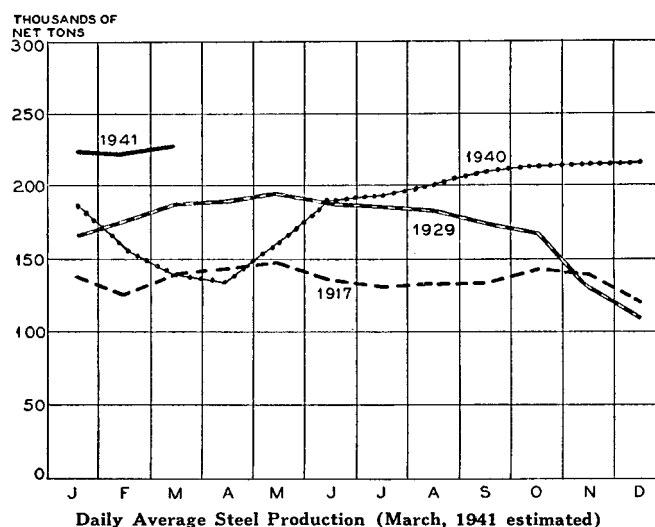
According to the estimates of the Bureau of Labor Statistics, total nonagricultural employment in the

United States increased by over 260,000 persons during February, reaching a total of 36,600,000. The estimate for February, 1940 was 34,400,000. Although most of the rise over January is attributable to the gains in factory employment, all major employment categories shared in the increase. In each of the forty-eight States employment was at a higher level than a year ago. Military and naval forces (not included in the estimates of non-agricultural employment) increased 187,000 during the month to 1,145,000. There were 450,000 persons attached to the military and naval forces in February, 1940.

As strikes in defense industries mounted in frequency and importance, President Roosevelt announced on March 19 the creation of a National Defense Mediation Board "to assure that all work necessary for National defense shall proceed without interruption and with all possible speed." The Board, which is to aid in the settlement of labor disputes only after other agencies have failed to secure an adjustment, has no power to force the settlement of a controversy, but if mediation or arbitration fails it may make public its findings and recommendations.

Production and Trade

From early indications it appears that business activity moved steadily higher in March. Owing to the fact that near capacity production had already been attained in many important lines, however, the seasonal rises characteristic of the month probably were not fully realized in certain cases. The volume of new orders for steel continued to exceed shipments from the mills and production mounted to virtually 100 per cent of reported capacity by the end of the month. As the accompanying chart indicates, in each month since last July daily average production of steel has exceeded the previous high point reached in May, 1929. Production during the first quarter of this year ran a third above the average level of 1929 and almost two-thirds above that of 1917, the peak year for steel production during the World War. First quarter output was equivalent to an annual rate

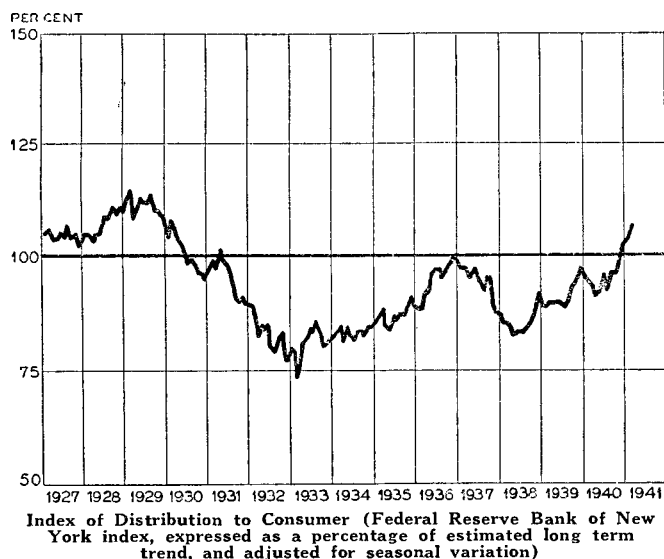


of 82,100,000 net tons a year as compared with actual production of 67,000,000 net tons during 1940.

In March, all supplies of nickel, magnesium, and neoprene (a synthetic rubber product) were placed under mandatory priorities by the Office of Production Management. Similar action in respect to aluminum and machine tools had been taken in February.

The automobile industry again was extremely active in March; the weekly production rate around the middle of the month was higher than at any time since the spring of 1937. Heavy mill sales of cotton textiles were reported during March and gray goods prices were advanced. It is believed that on the basis of orders already booked, the current high rate of mill operations could be maintained through the summer. Bituminous coal mining expanded with the approach of the expiration date of the present wage agreement, March 31, while scattered labor disputes interrupted production in a number of different lines of industry.

During February this bank's index of production and trade advanced further to 104 per cent of estimated long term trend, the highest level since December, 1929. The figure for January was 103 (revised from 102), and for February a year ago 90. Aside from continuing pressure for increased output in defense and allied industries, February was marked by active consumer demand for durable goods and relatively high rates of operation at plants producing such goods. Both production and retail sales of passenger cars were unusually large for February, and demand for household furnishings and appliances was considerably larger than in the corresponding month a year ago. The accompanying diagram indicates the extent of the rise during recent months in the distribution of goods to consumers. Among producers' goods industries, particularly large gains over a year ago occurred in aircraft and machine tool plants, in shipbuilding, and in the production of iron and steel, nonferrous metals, building materials, electrical apparatus, motor trucks, and textiles. Electric power production and railway freight traffic in February held at approximately their January levels after adjustments for seasonal changes.



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

	1940		1941	
	Feb.	Dec.	Jan.	Feb.
<i>Index of Production and Trade</i>	90r	102	103p	104p
Production of:				
Producers' durable goods.....	84r	115	117p	114p
Producers' nondurable goods.....	94r	109	106p	107p
Consumers' durable goods.....	75	80	89p	90p
Consumers' nondurable goods.....	96r	105	100p	101p
Primary distribution.....	85r	95	95p	96p
Distribution to consumer.....	94r	102	104p	108p
<i>Industrial Production</i>				
Steel.....	85	138	127	119
Automobiles.....	93	84	101	115
Bituminous coal.....	89	94	92	98p
Crude petroleum.....	94	87	87	88p
Electric power.....	97	106	106	107p
Cotton consumption.....	106	138	127	132
Wool consumption.....	101	168r	148	158p
Shoes.....	105	124	119p	117p
Meat packing.....	103	113	96	100
Tobacco products.....	91	97	94	97
<i>Manufacturing Employment</i>				
Employment.....	95	105	106	107p
Man-hours of employment.....	88	105	105	104p
<i>Construction</i>				
Residential building contracts.....	42	67	55	64
Nonresidential building and engineering contracts.....	57	103	69	68
<i>Primary Distribution</i>				
Ry. freight car loadings, mdse. and misc..	84	99	100	100
Ry. freight car loadings, other.....	81r	88	88	90
Exports.....	107	87	95	97p
Imports.....	69	92	81	82p
<i>Distribution to Consumer</i>				
Department store sales (U. S.).....	88	99	100	103
Grocery chain store sales.....	99	99	100	100p
Variety chain store sales.....	96	107	102	107
Mail order house sales.....	95	103	101	105
New passenger car sales.....	95	106	125	142
<i>Velocity of Deposits*</i>				
Velocity of demand deposits, outside New York City (1919-25 average = 100).....	58	62	57	57
Velocity of demand deposits, New York City (1919-25 average = 100).....	26r	30	23	24
<i>Cost of Living and Wages*</i>				
Cost of living (1935-39 average = 100).....	104	105	105	105p
Wage rates (1926 average = 100).....	113	116r	116	116p

p Preliminary. r Revised. * Not adjusted for trend.

Building

During February construction contracts were awarded in the 37 States covered by the F. W. Dodge Corporation survey at a daily rate 41 per cent above the average for the same month of last year. The February rate was slightly greater than that prevailing in January.

The daily rate of residential building awards was 63 per cent higher than in February, 1940, and the highest for any February since 1929. Awards for one and two family dwellings, which constituted 78 per cent of all residential awards, were the highest for any February since 1928. Nonresidential building awards were one-third greater than in the corresponding month of the previous year, and heavy engineering awards were up one fifth.

In the first three weeks of March, owing primarily to sizable gains in building contracts other than residential, the daily rate of construction contract awards in the 37 States was 34 per cent above the average for February and 63 per cent above the corresponding weeks of 1940.

The defense program continues to be the most im-

portant single factor contributing to the present high level of construction activity. Since last July awards for industrial building for defense purposes have accounted for a large share of the total volume of this type of building. During the period from July, 1940, through February, 1941, total awards for industrial building were more than triple the volume in the period, July, 1939, through February, 1940. According to the Office of Production Management, by March 1 contracts had been awarded or letters of intent had been issued for the construction or expansion of 302 Government plants, certificates of necessity (entitling owners to special depreciation rates for tax purposes) had been approved for 421 privately financed plants, and the expansion of 61 plants had been undertaken with British funds. Government contracts for construction at army cantonments and for housing of defense workers have also contributed substantially to the high level of residential building activity. The defense housing program is still in the early stages. On March 15 funds had been allocated for 72,300 family dwelling units, contracts had been awarded for 41,000 units, and 3,900 had been completed.

In the first important change since 1937, construction costs as a whole advanced 5 per cent from August through December, 1940, according to the index of construction costs compiled by the American Appraisal Company, but showed no further rise in January or February. The advance in the latter part of 1940 reflected primarily higher lumber prices and to some extent increased labor costs.

In New York and Northern New Jersey the daily rate of construction contract awards during February was about one-quarter higher than in the same month of last year and only slightly below the average for January. Awards for residential building, which were up 53 per cent from February, 1940, accounted for most of the year-to-year increase. The daily rate of awards for nonresidential building was up only 9 per cent, as a large increase in manufacturing building was offset to a considerable extent by a sharp decline (55 per cent) in public purpose building, including educational, hospital, public, religious, and social building. Heavy engineering awards were off 14 per cent from the previous year.

Foreign Trade

Total exports of merchandise from the United States during February, valued at \$303,000,000, showed a decline of 7 per cent from the previous month, but on a daily average basis there was an increase of 3 per cent. Compared with February, 1940, exports were 13 per cent lower, because of smaller shipments of agricultural products. On the other hand, general imports, valued at \$234,000,000, were 2 per cent higher than in January (13 per cent higher on a daily average basis) and 17 per cent above the total for February, 1940. The resulting excess of exports in February was \$69,000,000, as compared with \$97,000,000 in January and \$147,000,000 in February a year ago. In the comparisons with figures for February, 1940, the intervening loss of important export markets in Scandinavia, the Low Countries, and France appear to have more than counterbalanced

the increased shipments to Britain, while the sharply expanded scale of industrial operations in the United States, in conjunction with the National defense program, accounts for enlarged imports, particularly imports of vital raw materials.

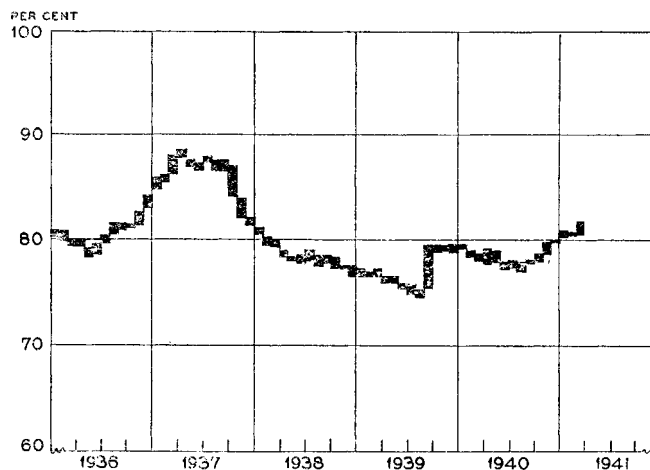
Exports of nonagricultural commodities during February were \$22,000,000 lower than in the previous month, but were \$15,000,000 higher than a year earlier. Shipments of machine tools, steel in ingot and other crude forms, and aircraft were not so large as in January, while exports of finished steel products were about the same in both months. On the other hand, exports of firearms and ammunition in February were nearly twice as large as in January and about fifteen times as great as in February, 1940.

Exports of agricultural products, valued at \$24,000,000, were up slightly from January but were much lower than a year earlier when \$80,000,000 of such products were shipped abroad. Raw cotton exports for the first seven months of the 1940-41 crop year (August through February) amounted to only 397 million pounds, as compared with an average of 2,210 million pounds in the similar period of the five preceding crop years.

The small gain in the value of imports in February over January was concentrated largely among the foodstuffs, notably cane sugar and coffee. February entries of coffee into this country were at a record level and continued the heavy movement in immediately preceding months. Imports of strategic raw materials such as rubber, tin, and nickel, although smaller than in January, showed large increases over a year ago. Receipts of wool approximated the January volume and were nearly double those of February, 1940.

Commodity Prices

Price advances again predominated in the principal wholesale commodity markets during March. As the accompanying diagram indicates, the Bureau of Labor Statistics weekly index of nearly 900 quotations rose to a new high since December, 1937. On March 22, the index stood at a level 3 per cent above the 1939 high, established soon after the outbreak of war.



Index of Wholesale Commodity Prices (Monthly range of Bureau of Labor Statistics weekly indexes; 1926 average = 100 per cent)

As a result of transportation difficulties, prices of imported raw materials continued to show marked gains. Although raw sugar is placed high on the list of commodities voluntarily given priority in shipping space, and although the marketing quota was increased $3\frac{1}{2}$ per cent, the price of raw sugar rose 30 points to 3.45 cents a pound on March 24, a new high since the flurry immediately after the outbreak of war. The quotation for raw silk in New York advanced on March 31 to \$2.95 a pound, the highest level in a year, reflecting in part strong primary markets and in part a reduction of stocks here. Despite the announcement by the International Rubber Regulation Committee that permissible rubber exports would be maintained at 100 per cent of basic quotas during the second quarter, and despite an arrangement to ship 113,000 tons of rubber from the Far East during April, the spot quotation rose to $23\frac{1}{8}$ cents a pound on March 27. The present tin export quota of 130 per cent of standard tonnage was extended for the remainder of the year by the International Control Committee, but the spot quotation showed a small net gain for the month as a whole. The rise of 20 points in the price of lead to 5.85 cents a pound during March reflected, in part at least, the increased cost of transporting foreign lead into this country. This is the highest quotation for lead since October, 1937.

The metals became increasingly subject to regulation during March. The Commodity Exchange restricted trading in zinc futures after March 4 to liquidating positions open on that date. At the instance of the Office of Production Management, a stock pile of zinc to be allocated to defense needs is to be built up from 5 per cent of production beginning in April. In the latter part of the month ceilings were set on prices of zinc scrap and aluminum scrap by the Price Stabilization Division of the National Defense Advisory Commission, and it was announced that the Office of Production Management would keep aluminum inventories of fabricators near current requirements through control of deliveries by producers. Following Copper Institute reports that stocks of refined copper in the hands of producers at the end of February were equivalent to less than one month's requirements at the February rate, the Metals Reserve Corporation released part of its copper holdings to domestic consumers. The Director of the Bureau of Mines reported, after an investigation of deposits in this country, that domestic supplies of mercury and antimony were adequate for all needs in sight, but urged the development of stock piles of manganese, nickel, tin, tungsten, and chromite. The Office of Production Management on March 18 listed 220 critical materials which are subject to preferential ratings by the Army and Navy Munitions Board. Despite official efforts to prevent scrap steel prices from rising, moderate advances in quotations occurred at several centers.

Domestic agricultural commodity prices advanced somewhat accompanying discussion in Congress of larger loans on 1941 crops. The cash quotation for winter wheat increased $7\frac{3}{4}$ cents for the month to $88\frac{3}{4}$ cents a bushel. Reports of cold weather in growing areas were a factor in the price rise. Private estimates of the

winter wheat crop as of March 1 average 616,000,000 bushels, compared with the Government estimate of 633,000,000 based on December 1 conditions. By March 29, cash corn had moved up 7 cents to $68\frac{3}{4}$ cents a bushel. In addition to current record activity at cotton textile mills, intimations that about \$100,000,000 of the Lend-Lease appropriation would be expended for cotton contributed to a net rise of 86 points in the spot average at 10 Southern markets to 11.11 cents a pound.

Department Store Trade

For the four weeks ended March 29, sales of the reporting department stores in this District were about 2 per cent higher than in the corresponding weeks of 1940, although sales in these weeks included a smaller part of the Easter trade this year than last. Sales during this portion of March averaged higher than in February, although the gain was no more than usual, the date of Easter and other seasonal factors considered.

For the month of February, total sales of the reporting department stores were 10 per cent higher than in February, 1940, and after allowing for one less shopping day this year, the increase in average daily sales amounted to about 14 per cent. Compared with January, however, the daily rate of sales failed to advance as much as usual. Sales by departmental classifications during February indicate that substantial year-to-year gains occurred in housefurnishings, women's ready-to-wear and accessories, silverware, and jewelry.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month Feb. 1941
	Feb. 1941	Jan. and Feb. 1941	
New York City (includes Brooklyn).....	+ 7	+ 7	+ 4
Northern New Jersey.....	+14	+ 9	+ 4
Newark.....	+13	+ 8	+ 4
Westchester and Fairfield Counties.....	+16	+12	+13
Bridgeport.....	+19	+15	+11
Lower Hudson River Valley.....	+18	+ 8	- 6
Poughkeepsie.....	+22	+11	—
Upper Hudson River Valley.....	+18	+13	- 1
Albany.....	+12	+ 7	—
Central New York State.....	+19	+16	+ 7
Mohawk River Valley.....	+23	+21	+14
Syracuse.....	+18	+15	+ 5
Northern New York State.....	+23	+21	—
Southern New York State.....	+20	+14	0
Binghamton.....	+20	+12	—
Elmira.....	+42	+31	—
Western New York State.....	+12	+11	+ 3
Buffalo.....	+15	+15	+ 2
Niagara Falls.....	+ 4	+ 1	+ 7
Rochester.....	+10	+ 7	+ 4
All department stores.....	+10	+ 8	+ 4
Apparel stores.....	+ 8	+ 2	0

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

	1940		1941	
	Feb.	Dec.	Jan.	Feb.
Sales (average daily), unadjusted.....	69	184	78	79
Sales (average daily), seasonally adjusted.....	86	102	99	97
Stocks, unadjusted.....	77r	82	73	80
Stocks, seasonally adjusted.....	82r	83	81	85

r Revised.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, APRIL 1, 1941

Business Conditions in the United States

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

INDUSTRIAL activity and employment increased further in February and the first half of March. Buying by producers and consumers continued in large volume and wholesale commodity prices, particularly of imports, advanced.

PRODUCTION

In February volume of industrial output, on a daily average basis, rose more than seasonally, and the Board's adjusted index advanced from 139 to 141 per cent of the 1935-39 average.

Increases in February, as in other recent months, were largest in the durable goods industries where a large proportion of defense program orders have been placed. Activity continued to rise sharply at machinery plants, aircraft factories, shipyards, and in the railroad equipment industries. Steel production fluctuated around 96 per cent of capacity in January and February and rose to 99 per cent in the first half of March. New orders for steel continued large and, despite the high rate of output, unfilled orders increased further. Many orders have been placed for delivery in the second half of this year, reflecting the prospect of heavy consumption and some uncertainty on the part of steel users regarding future availability of supplies. Output of pig iron, coke, and nonferrous metals was likewise at near capacity rates in February and unfilled orders for these products, too, were at exceptionally high levels. Demand for lumber continued large owing to a high rate of construction activity and output was sustained in large volume for this time of year. Automobile production increased in February and the first half of March to about the peak rate attained last November. Retail sales of new and used cars advanced to unusually high levels.

In industries manufacturing nondurable goods, activity continued at the record levels reached in the latter part of 1940. There were further increases in the cotton textile, rubber, and chemical industries and activity at woolen mills also increased, following a temporary reduction in January. In most other lines activity was maintained at the high levels of other recent months.

Coal production rose less than seasonally in February but increased considerably in the first half of March when, according to trade reports, there was some inventory accumulation in anticipation of a possible shutdown on April 1 at the expiration of the present contract between the mine operators and the miners' union. Copper and zinc production increased in February and recently domestic supplies of copper have begun to be supplemented by imports from South America. Output of crude petroleum continued at about the rate that had prevailed during the three preceding months.

Value of construction contract awards in February declined somewhat more than seasonally, reflecting decreases in both public and private work, according to reports of the F. W. Dodge Corporation. Awards for public construction, although sharply reduced from the high levels reached in the latter half of 1940, were somewhat above those of a year ago, and awards for private construction were nearly half again as large as in February of last year.

DISTRIBUTION

Distribution of commodities to consumers increased more than seasonally from January to February. Sales at variety stores and by mail order houses were the largest on record, making allowance for usual seasonal changes, and department stores sales were also at a high level.

Freight car loadings increased by about the usual seasonal amount. Shipments of miscellaneous freight, consisting mostly of manufactured products, showed an increase while loadings of forest products rose less than seasonally and grain shipments declined.

WHOLESALE COMMODITY PRICES

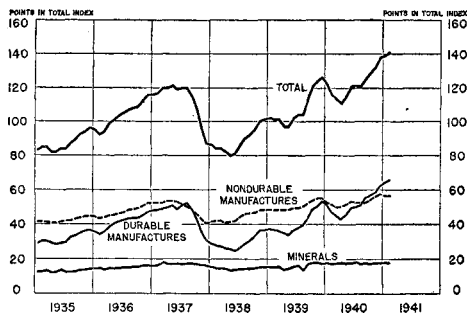
Prices of a number of basic imports rose sharply from the early part of February to the middle of March. Cotton yarns and gray goods and nonferrous metal scrap showed further increases in this period and there were also advances in prices of some other domestic commodities, including lead, wheat, cotton, and oils and fats.

BANK CREDIT

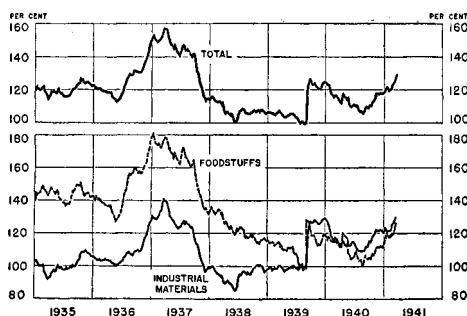
Commercial loans continued to increase at member banks in 101 leading cities in February and the first half of March and these banks also purchased additional Treasury notes and bills issued in connection with the defense program. As a result of the increase in loans and investments, bank deposits showed a further marked advance.

UNITED STATES GOVERNMENT SECURITY PRICES

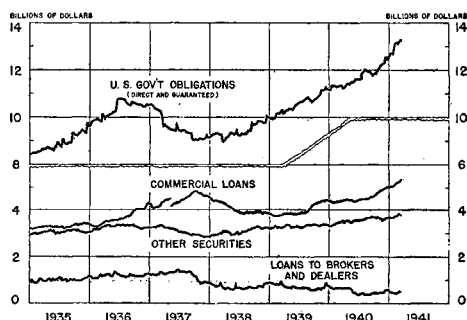
Prices of Government securities increased after February 15, following a sharp decline in the preceding ten weeks. The 1960-65 bonds on March 15 were about $3\frac{1}{4}$ points above their price on February 15 and about $1\frac{1}{4}$ points below the all-time peak of December 10. The yield on this issue, which increased from 2.03 per cent at the peak in prices on December 10 to 2.30 per cent on February 15, had declined to 2.14 per cent on March 15.



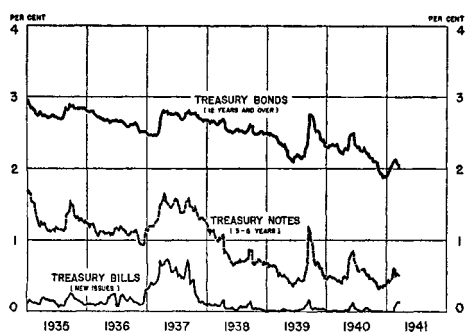
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent; durable manufactures, nondurable manufactures, and minerals expressed in terms of points in total index)



U. S. Bureau of Labor Statistics Indexes of Wholesale Prices, Based on 12 Foodstuffs and 16 Industrial Materials (August, 1939 = 100 per cent)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for March 12)



Money Rates in New York City