MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

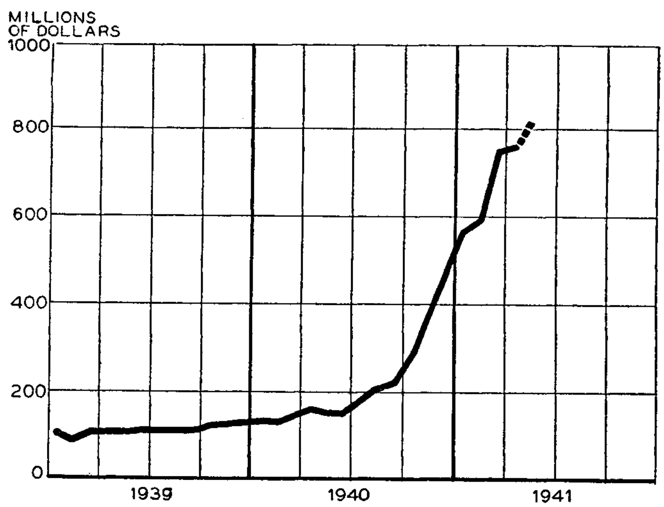
Money Market in May

Considerable interest was manifest in the money market during May as to the progress of the Treasury's program for the sale of defense savings obligations. Interest in the subject has at least two aspects: first, the sales of such securities will be a measure of the absorption of savings out of current incomes and previously accumulated idle funds, which might otherwise be used, at least in part, for the purchase of consumers' goods requiring materials and labor for their production that are needed for the defense program; and, second, sales of securities of the savings bond type will give an indication as to the amount of borrowing which will remain to be accomplished by sales of the usual types of "market" securities.

The figures that have been released by the Treasury show that completed sales of defense savings obligations from May 1 through May 24 amounted to $350,700,000, including sales of Series E, F, and G Savings Bonds as well as Defense Postal Savings Stamps. As compared with this total for the United States, sales in the Second Federal Reserve District totaled $106,000,000, not including Defense Postal Savings Stamp sales nor sales of Series E bonds through the post offices. It is expected that reports for the final week of May will show a further substantial volume of sales, as it is believed that in the latter part of May increased amounts of trust funds were invested in the Series G bonds. These latter purchases represented, in part, switches out of other securities which were deferred until late in the month because, by the terms of the Savings Bonds, purchases made any time within a month earn interest from the first of that month.

Sales of Savings Bonds in immediately ensuing months are not expected to equal the May volume, since it is likely that a part of the May sales represented investments of accumulated idle funds that cannot be repeated in the near future, and since some subscribers may have purchased in the first month their full quota for this year. On the other hand, investments of current savings in Savings Bonds may tend to increase in coming months. Arrangements for the investment in defense savings obligations of a portion of current income, as it is earned, probably have been concluded by only a limited number of the potential total of such purchasers, and substantial additions to the class of savers putting funds regularly into these obligations may occur in the future, partly through the medium of payroll deduction plans such as have been made available to the employees of some concerns. In any event, it is difficult to appraise the manner in which these factors will operate over the next few months, and it is therefore difficult to estimate the total amount of funds which may flow into the Treasury through sales of defense savings obligations over the next fiscal year.

Meanwhile, during May, Treasury expenditures for National defense purposes continued to increase. As is indicated in the accompanying diagram, payments by the Treasury on this account probably exceeded $800,000,000 for the month, judging from Treasury daily statement data for the first 29 days. In line with indications by the Secretary of the Treasury, last March, that the next public offering of "market" issues of Government securities would be in May, the Treasury on May 22 made an offering of $600,000,000 of 2½ per cent Treasury bonds of 1956-58 for cash, and in conjunction therewith offered bonds of the same issue, and also ¾ per cent Treasury notes due March 15, 1943, in exchange for Treasury bonds maturing August 1, 1941, outstanding in the amount of $834,000,000. The cash offering was heavily oversubscribed, allotments being only 8 per cent of subscriptions, and the greater part of the Treasury



United States Treasury Expenditures for National Defense Purposes (May, 1941, estimate based on Daily Statement of the Treasury figure for first 29 days of the month)

bonds due August 1, 1941, were exchanged for the new bonds rather than the notes.

The outstanding success of this financing indicated that the market for Government securities had not been appreciably affected by the substantial reduction in member bank excess reserves during recent months. In the first two weeks of May, the excess reserves of the New York City banks declined $165,000,000 further to $2,350,000,000 on May 14, and at this figure were nearly $1,200,000,000 below the year's high which was reached in January. During the period since January, the excess held by all member banks showed a decline of the same extent, so that banks outside New York City had no net change in their aggregate excess reserve position. The decline in excess reserves in New York since January is to be attributed primarily to a net loss of about three quarters of a billion dollars of reserve funds through Treasury transactions, representing the excess of sales of new Treasury securities and tax collections over Treasury disbursements in this District. Next in importance were an outflow of commercial and financial funds from New York to other parts of the country, including payments for Government securities sold in New York by holders outside New York, and a further increase in the amount of currency outstanding through New York banks. These losses of reserve funds were offset only in part by gains resulting, directly or indirectly, from gold imports, which have declined to much smaller quantities than in 1940.

For the two weeks after May 14, excess reserves, both in New York and for the country as a whole, showed a sizable net increase, reflecting chiefly heavy disbursements by the Treasury including those for redemption of maturing Home Owners' Loan Corporation bonds, a sizable part of which were held and redeemed in New York. In the week ending June 4, however, excess reserves are expected to show a large decline, owing to payments on June 2 on account of subscriptions to the new Treasury bond issue.

Member Bank Credit

A further increase of $370,000,000 occurred in the total loans and investments of the weekly reporting member banks in 101 cities during the five weeks ended May 28. At $27,915,000,000, the total reached a new high, approximately $5,475,000,000 above the level prevailing before the outbreak of the war. Commercial, industrial, and agricultural loans rose $165,000,000 further during the recent five week period, and the total of such loans was $1,675,000,000 higher than in August, 1939. The reporting banks' holdings of United States Government direct obligations rose $165,000,000 during the five weeks, reflecting increases in the Treasury bill, note, and bond holdings of the New York City banks and an increase in bond holdings by banks in 100 other cities, partly offset by declines in bill and note holdings outside New York. Total direct Government security holdings on May 28 were $2,410,000,000 higher for all reporting banks than in August, 1939. Holdings of Government guaranteed securities declined $80,000,000 in the five week period, owing to the redemption of Home Owners' Loan Corporation bonds, and holdings of other securities decreased $110,000,000, also owing to maturities. As compared with August, 1939, holdings of Government guaranteed securities by reporting banks are now approximately $735,000,000 higher and holdings of other securities are $310,000,000 higher. Adjusted demand deposits of the weekly reporting banks showed a net increase of $550,000,000 during the five week period, to reach a new high level on May 28, approximately $6,200,000,000 above the August, 1939, figure.

Money Rates in New York

	May 31, 1940	Apr. 30, 1941	May 31, 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)†	0.85	0.49	0.41
Average yield on Treasury bonds (not callable within 12 years)†	2.48	2.00	2.00
Average rate on latest Treasury bill sale, 91 day issue	0.067	0.097	0.069
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. †"Tax exempt" issues only.

Government Securities

For the month of May as a whole, there was little net change in long term Government bond prices. During the first half of the month, trading was light and prices fluctuated over a comparatively narrow range. Following the disclosure on May 15 of the general nature of the Treasury's immediate financing plans, quotations for the longest term tax exempt Treasury bonds declined on the average about ½ point, over a period of several days, to reach the lowest level since the middle of April. Prices of intermediate term bonds, including prices of the two taxable issues, also drifted lower. Subsequent to the Treasury's cash and refunding offer, and especially after the allotment basis for the cash offering was announced, prices of both long and intermediate term bonds advanced. The average price of long term tax exempt Treasury bonds moved to within about ⅝ of a point of the all-time peak of last December. On May 31, the new 2½ per cent taxable bond issue due March 15, 1958 was quoted at about 103 on a "when-issued" basis.

Prices of Treasury notes, particularly tax exempt issues, strengthened markedly during May with resultant declines in yield. The average yield on 3 to 5 year tax exempt Treasury notes was reduced by 0.08 per cent to 0.41 per cent. Yields on the taxable ¾ per cent National Defense note issues of 1944 and 1945 declined 0.03 per cent and 0.01 per cent, respectively, to 0.67 per cent for the 1944 issue and 0.74 per cent on the 1945 issue.

Accepted bids for the taxable Treasury bills dated May 7 were tendered on an interest basis averaging 0.096 per cent per annum. The remaining three weekly issues were awarded at prices equivalent to an interest rate of about 0.07 per cent. Each of the four issues was in the amount of $100,000,000 and each replaced similar maturities.

Toward the end of the month, the Treasury Department disclosed plans for making available to certain of its depositaries and financial agents a special issue of United States Government bonds, the income from which will offset, at least in part, the expense incurred by such institutions because of the greater use of private banking facilities by the Government in connection with the defense program. The bonds, designated 2 per cent depositary bonds, will be issued only to banks which carry deposits of the Federal Government. They will have a maturity of twelve years from the date payment for them is received, and, though not transferable, may be redeemed at any time on thirty days' notice; they will be issued only in registered form and only for use as collateral to secure deposits of Federal funds. The Treasury Department was reported to have estimated that the total issue probably would not exceed $125,000,000.

Business Profits

Reported net profits of the 441 industrial and mercantile corporations summarized in the accompanying table showed a gain of 16 per cent for the first quarter of this year, as compared with the first three months of 1940 (profits figures for which period have been revised by some companies to reallocate last year's Federal taxes) and showed an increase of 10 per cent over 1937. In fact, it would appear that reported profits of these leading corporations for the first quarter of this year were the highest first quarter profits since 1929, despite recent increases in wage rates, material costs, and Federal taxes. During the first quarter of this year, industrial production averaged about 20 per cent higher than in the first quarter of either 1940 or 1937.

Since the second quarter of 1940, net profits reported by corporations have been somewhat distorted by varying procedures followed by individual companies in providing for current and prospective Federal taxation. For the first quarter of 1940, some companies have issued revised profits data making allowance for reallocation of Federal tax liability, and in all such cases, the revised profits figures have been lower than those shown by the initial reports. Similarly, any retroactive enactment of increased taxes this year will undoubtedly necessitate future downward revision of this year's first quarter profits of a large number of companies.

Large gains over a year ago in first quarter net profits were reported by companies in the steel, coal mining, machine tool, building materials (including heating and plumbing supplies), industrial machinery and accessories, and aircraft manufacturing industries. On the other hand, a lower level of net profits was shown by the petroleum, retail trade, textile, automobile, drug and cosmetic, and cigar company groups. The gain in profits over 1937 was concentrated in companies producing durable goods; 215 companies of this type recorded an aggregate gain of 24 per cent while 190 companies producing nondurable goods or providing services showed a decline of 8 per cent in profits, and mining company profits were slightly lower in the aggregate, despite better earnings by the coal and copper groups.

With respect to the impact of higher taxation on earnings during the first quarter of this year, it is interesting to note that for a group of 75 companies that reported complete profit and loss data, gross sales in the aggregate gained 30 per cent in the first three months of 1941 as compared with the corresponding period of a year ago. The cost of goods sold, including State and local taxes, rose 25 per cent between the two periods and net profit, before payment of Federal income taxes, increased 59 per cent. Amounts reserved for Federal taxes this year accounted for 46 per cent of net profit before Federal taxes, as against 21 per cent a year ago, and restricted the rise in net profit after all charges for these companies to 8 per cent.

During the first quarter of 1941, Class I railroads as a group reported net income (after payment of all charges but before dividends) amounting to $69,000,000. This compares with a deficit of $12,000,000 a year ago and a profit of $15,000,000 in 1937, and is the best showing for any first quarter since 1929. Net operating income (before payment of fixed charges and income taxes) of telephone companies increased 13 per cent over 1940 and was the highest first quarter operating income on record. Net income of other public utilities increased slightly over the corresponding quarter of last year, and reached the highest level since the fourth quarter of 1931.

(Net profits in millions of dollars)

Corporation group	No. of cos.	First quarter 1937	1938	1939	1940	1941
Advertising, printing and publishing	6	3.8	2.3	2.1	2.7	3.3
Aircraft manufacturing	7	1.6	3.0	4.0	8.2	11.7
Automobiles	14	60.5	4.0	64.0	83.3	78.9
Automobile parts and accessories (excl. tires)	41	20.6	− 2.7	12.6	21.9	25.3
Building supplies	23	11.2	1.0	4.8	8.5	12.9
Chemicals	27	39.9	18.0	27.1	41.5	40.0
Containers (metal and glass)	4	1.7	1.0	0.8	1.1	1.2
Drugs and cosmetics (incl. soap)	11	17.2	9.8	15.4	16.6	16.2
Electrical equipment	22	26.4	11.7	13.9	23.3	27.1
Food and food products:						
Bakery	8	3.9	4.5	4.5	4.1	4.7
Beverages	8	7.2	7.8	7.9	8.3	8.7
Confectionery	8	4.5	4.3	5.3	5.5	6.2
Other food products	13	15.6	13.9	13.0	14.4	15.9
Heating and plumbing	6	2.2	− 0.9	− 0.4	0.7	2.3
Industrial machinery	37	16.0	4.4	4.4	11.0	15.9
Machine tools	6	1.3	0.8	0.5	1.4	2.4
Mining:						
Coal	10	1.2	− 1.2	− 0.2	1.6	2.9
Copper	5	13.1	6.0	6.8	15.0	15.4
Gold and silver	10	7.6	5.3	4.8	4.1	4.6
Other mining	11	17.3	13.0	12.0	13.9	14.9
Motion pictures	6	5.2	3.1	3.2	2.7	3.6
Office equipment	6	4.8	3.5	4.2	3.6	4.4
Paper and paper products	16	4.3	2.2	1.9	4.5	4.3
Petroleum	30	40.5	29.7	12.9	32.4	27.4
Railroad equipment	14	14.1	0.4	2.4	10.9	14.0
Retail trade	14	5.7	1.4	5.2	6.4	5.5
Steel	32	68.6	− 5.5	10.4	45.8	88.6
Textiles	11	5.2	− 0.8	2.2	5.5	4.8
Tobacco (cigars)	5	0.6	0.5	0.6	0.9	0.9
Miscellaneous	30	2.1	− 2.3	0.1	1.4	2.1
Total, 30 groups	441	423.9	138.2	246.4	401.2	466.1
Class I railroads, net income	137	15.4	-105.7	−42.8	−11.9	69.0
Telephone companies, net operating income	97	60.3	50.0	56.6	62.5	70.9
Other public utilities, net income	68	71.9	63.2	73.0	82.3	83.2

− Deficit

New Financing

The flotation during May of several new security issues of substantial size served to raise the month's aggregate of new financing to $325,000,000, a total almost one-third above the relatively low level of the previous month. Most of this increase was due to a greater volume of corporate financing, which amounted to $229,000,000 and included $50,000,000 of funds to be used for new capital purposes. On May 7, the Securities and Exchange Commission's new regulation requiring competitive bidding for public utility flotations became effective. As yet, no new public utility issues have been marketed under the new rule.

Details of the major new security issues included in the totals for May are as follows:

	Corporate
$95,800,000	Union Electric Company of Missouri securities, consisting of $80,000,000 first mortgage collateral trust 3⅜ per cent bonds of 1971, priced at 107⅜ to yield 3.00 per cent, and $15,800,000 (150,000 shares) of $4.50 preferred stock, priced at $105.50 a share; for refunding purposes
50,000,000	The Firestone Tire and Rubber Company 3 per cent debentures of 1961, priced at 99 to yield 3.07 per cent; chiefly for refunding purposes
21,300,000	Louisville Gas and Electric Company 5 per cent cumulative preferred stock, consisting of 780,792 shares priced at $27.25 a share and subject to an exchange offer to stockholders; for refunding purposes
	Municipal
51,200,000	City of Detroit, Michigan 2¼-3½ per cent serial bonds, maturing from 1943 to 1963; awarded at a net interest cost of 2.6399 per cent and reoffered to yield 0.60 to 2.65 per cent; for refunding purposes.

In addition to the above, $62,200,000 of American Viscose Corporation preferred and common stock was offered to the public on May 26; however, the sale of these securities merely constituted the final step in the transfer to United States investors of a formerly British owned direct investment in this country and therefore was not considered to represent new financing on the part of the corporation. Short term financing, not included in the $325,000,000 total above, amounted to $175,000,000, most of which was accounted for by $75,000,000 State of New York tax anticipation 0.20 per cent notes, maturing in November, 1941, $41,800,000 temporary loan notes of thirteen local housing authorities, and $36,000,000 Federal Intermediate Credit Bank consolidated debentures.

Security Markets

The security markets continued relatively inactive during May and price movements held within narrow limits. On the New York Stock Exchange, trading in stocks declined to as low as 220,000 shares for a full day, the smallest daily volume since last August. Standard's index of closing prices of 90 stocks moved within a range of only 3 per cent during May and was at practically the same level at the end of the month as at the beginning. There was a small net gain in industrial share prices accompanied by minor declines in the railroad and utility groups. The utility stock price average computed by Standard reached the lowest level in six years.

Prices of domestic corporation bonds also tended to fluctuate within narrow ranges in May. Accompanying the display of some strength among the medium grade industrial and railroad bonds early in the month, the Moody's Investors Service average of Baa bonds advanced to a new record high. As a result of a subsequent decline in prices of railroad obligations, however, the Baa price average showed little change for the month as a whole. Prime corporate bonds, those rated Aaa by Moody's Investors Service, moved slightly lower during May, while high grade municipal bond prices advanced steadily and towards the close of the month were at their highest levels so far in 1941.

Gold Movements

Imports of gold into the United States during May were in considerably reduced volume. The increase of about $70,000,000 in the gold stock was the smallest since July, 1938. Gold held under earmark for foreign account at the Federal Reserve Banks rose about $5,000,000 during the month to approximately $1,920,000,000.

In the four weeks ended May 21, the Department of Commerce reported the receipt of $38,500,000 of gold in the following principal amounts: $19,300,000 from Canada, $4,200,000 from Australia, $3,500,000 from South Africa, $2,800,000 from Colombia, $2,600,000 from the Philippines, $1,500,000 from Hong Kong, $1,000,000 from Chile, and $600,000 from Mexico.

Foreign Exchanges

In showing a generally firm tendency, Latin American currencies provided the only significant development in the past month's foreign exchange trading in the New York market. The Cuban peso, which had shown a steady recovery from the early April reaction, received considerable stimulus from the announcement on May 6 of a $25,000,000 Export-Import Bank credit to the Cuban Government to be used for agricultural development and diversification and for public works. On May 7 the discount on the Cuban peso vis-à-vis the dollar, at 2¼ per cent, was the narrowest in several years. Approximately this level was maintained through the end of the month. The Argentine peso was also in some demand in the thin free market during the first half of May, apparently reflecting a movement of foreign funds from this country induced by renewed rumors of a possible extension of the "blocking" regulations in this country. By May 12 the free rate for Argentine exchange had reached $0.2380 and held near this level during the subsequent days of May to show a gain of 30 points for the month. The uncontrolled rate for the Uruguayan peso rose to $0.4212½ during the month, extending to about 6 per cent the appreciation since mid-April.

Among the currencies of the belligerent countries, the New York quotation for the registered reichsmark continued to decline through May 13, when it was $0.1170, or 3 cents below the level prevailing in early March. Subsequently, however, the rate showed a marked recovery, rising about 3¾ cents in the space of one week to \$0.1550, a new high for the war period. It should be noted, however, that the market here for this exchange remained extremely thin and, therefore, unduly sensitive to relatively small changes in supply and demand. At the end of the month the registered mark was quoted at \$0.1450. On May 27 the official rate for the Italian lira was raised from \$0.0505 to \$0.0526¼, thereby reestablishing the rate prevailing prior to August 31, 1939, when a gradual decline to the \$0.0505 level began. While this change is interesting, particularly in view of the fact that the lira has thus returned to its theoretical par value, its significance would not appear to be great. Trading in unofficial sterling was restricted further during the past month by the British action in adding a group of 12 Latin American countries, mostly in the Caribbean area and including Cuba, Venezuela, Mexico, and Panama (except the Canal Zone), to the list of those countries holding "special accounts" in sterling under the British exchange regulations. The procedure to be followed for these countries will be the same as that now in effect for other countries with "special accounts," except that the area will be treated as a unit and transfers between sterling accounts within the group will be freely permitted. In the unofficial market in New York, the pound sterling held steady around \$4.03½, the same as the official London buying rate for dollars.

Central Bank Rate Change

On May 29 the Swedish Riksbank lowered its discount rate from 3½ to 3 per cent, the higher rate having been in effect since May 17, 1940.

Production and Trade

Preliminary data for May indicate a renewed rise in the general level of business activity following a temporary decline in April resulting from strikes in the bituminous coal and automobile industries.

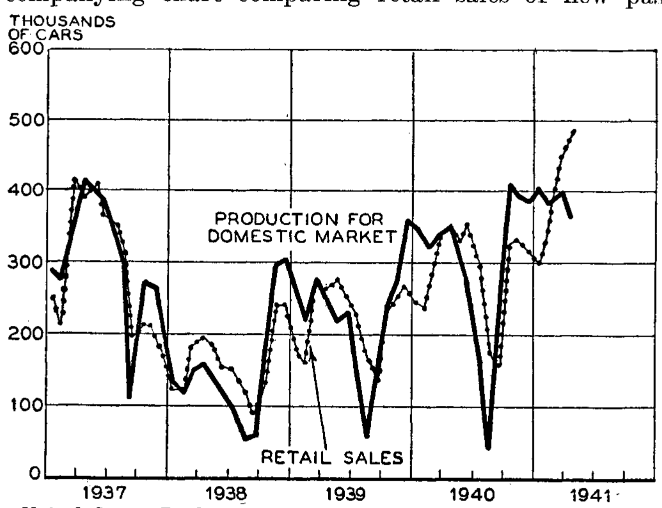
From about 94½ per cent of capacity at the end of April steel mill operations recovered to practically full capacity by the middle of May. Orders for steel required directly or indirectly in defense work continued in large volume during May, but some decline was reported in the demand for steel for nondefense purposes. Bituminous coal production recovered sharply following the reopening of the mines at the end of April and by the middle of May output was running about 30 per cent ahead of a year ago. Railroad loadings of coal and coke likewise increased rapidly, and, as shipments of other classes of freight continued heavy, total car loadings moved up to a point somewhat above last fall's peak. Seasonally adjusted figures for electric power production indicate a recovery in the first three weeks of May from a decline in April.

Automobile production in May ran at the highest rate in four years, and consumer demand continued exceptionally large. During the first half of May the cotton gray goods market was active, but following the announcement on May 19 that price ceilings would be set on combed yarns by the Office of Price Administration and Civilian Supply, the volume of sales fell off sharply. Nevertheless, cotton mill activity was reported to have been maintained at a high level.

This bank's monthly index of production and trade for April declined one point from the level of February and March to 103 per cent of estimated long term trend. In April, 1940, when the general level of business activity was at the low ebb of the war period, the index was 87. While operations in many lines of business were maintained at or above March levels during April, work stoppages resulting from labor disputes led to the decline in the index.

Production of bituminous coal during April was reduced to one eighth of the rate of March, reflecting the shutdown of most mines for virtually the entire month. As a result, railway freight traffic was reduced, and industries such as coke, pig iron, and steel, which are particularly dependent upon coal, were increasingly affected by the strike as the month progressed. With these exceptions, defense industries generally expanded operations further during April. Judging from estimates of man-hours of employment, operations in aircraft plants ran about two and one-half times the level of April, 1940, shipyards expanded operations to double the rate of a year before, and there were large increases over April, 1940 in activity at plants producing machinery, electrical apparatus, chemicals, and railway equipment. Construction work, judging from data on the production of construction materials and on contract awards, remained well above the level of a year ago, production of agricultural implements recovered sharply, and cotton and woolen textile mills continued to run at exceptionally high levels.

A two weeks' suspension of operations by a major producer curtailed automobile output during April, but retail sales, totaling 557,000 units for passenger cars and trucks combined, were at a record high and new car stocks were cut substantially. As indicated in the accompanying chart comparing retail sales of new pas-



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)

senger cars with production for the domestic market, dealers' stocks of passenger cars, which had been built up to a high level during the winter, were reduced to the extent of approximately 50,000 units in March and 120,000 during April. Production of consumers' goods in general ran 10 or 15 per cent higher in April than in the corresponding month of 1940. Retail trade on the whole appears to have shown a year-to-year increase of approximately similar magnitude.

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

	1940	1941		
	Apr.	Feb.	Mar.	Apr.
Index of Production and Trade	87	104	104*p*	103*p*
Production of:				
Producers' durable goods	75	115	115*p*	117*p*
Producers' nondurable goods	92*r*	108	112*p*	107*p*
Consumers' durable goods	72*r*	89	88*p*	90*p*
Consumers' nondurable goods	94	100	102*p*	102*p*
Primary distribution	82	97	98*p*	95*p*
Distribution to consumer	92*r*	108	103*p*	104*p*
Industrial Production				
Steel	71	119	117*r*	116
Automobiles	85	115	106	90
Bituminous coal	101	99	120	19*p*
Crude petroleum	94	86	85	84*p*
Electric power	96	107	109	107*p*
Cotton consumption	98	132	136	146
Wool consumption	78*r*	159	189	177*p*
Shoes	90*r*	116	115*p*	119*p*
Meat packing	101	102*r*	108	108
Tobacco products	96	97	99	101
Manufacturing Employment				
Employment	92	107	107	109*p*
Man-hours of employment	86	106	107	110*p*
Construction				
Residential building contracts	45	64	47	51
Nonresidential building and engineering contracts	56	68	94	76
Primary Distribution				
Ry. freight car loadings, mdse. and misc.	80	100	99	99
Ry. freight car loadings, other	84	90	100	80
Exports	100	98	104	..
Imports	70	84	86	..
Distribution to Consumer				
Department store sales (U. S.)	88	103	100*r*	101
Grocery chain store sales	96	100	101	100*p*
Variety chain store sales	93	107	105	106
Mail order house sales	92	104*r*	103*r*	108
New passenger car sales	83*r*	142	113	113
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average=100)	57	57	60	57
Velocity of demand deposits, New York City (1919-25 average=100)	28	24	25	24
*Cost of Living and Wages**				
Cost of living (1935-39 average=100)	104	105	105	106*p*
Wage rates (1926 average=100)	114	116	117*p*	118*p*

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

Department Store Trade

Sales of the reporting department stores in the Second Federal Reserve District during May were about 12½ per cent higher than in the corresponding month of last year, but the daily rate of sales appears to have declined somewhat more than seasonally from the high April level, the changing date of Easter and other seasonal factors considered.

During April, sales of the reporting department stores were 21 per cent higher than in April, 1940, owing in some part to the fact that Easter fell in March last year, and in April this year. Even so, the daily rate of sales increased more than usual from March to April, taking account of the date of Easter and other seasonal factors. For the first four months of the year average daily sales were 11 per cent higher this year than in 1940 and about 3½ per cent greater than in 1937.

Retail stocks of merchandise on hand in the department stores at the end of April were 9 per cent higher than a year ago, but remained low relative to the current rate of sales.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	Apr. 1941	Jan. through Apr. 1941	Apr. 1941
New York City (includes Brooklyn)	+18	+ 8	+ 9
Northern New Jersey	+25	+12	+ 8
Newark	+25	+12	+ 8
Westchester and Fairfield Counties	+36	+18	+11
Bridgeport	+43	+22	+13
Lower Hudson River Valley	+25	+11	0
Poughkeepsie	+25	+13	—
Upper Hudson River Valley	+25	+17	+ 3
Albany	+19	+12	—
Central New York State	+30	+22	+13
Mohawk River Valley	+35	+28	+17
Syracuse	+29	+20	+12
Northern New York State	—	—	—
Southern New York State	+30	+20	+ 1
Binghamton	+30	+19	—
Elmira	+37	+37	—
Western New York State	+23	+16	+ 8
Buffalo	+27	+22	+10
Niagara Falls	+21	+ 4	+ 9
Rochester	+18	+12	+ 6
All department stores	+21	+11	+ 9
Apparel stores	+20	+ 7	+ 5

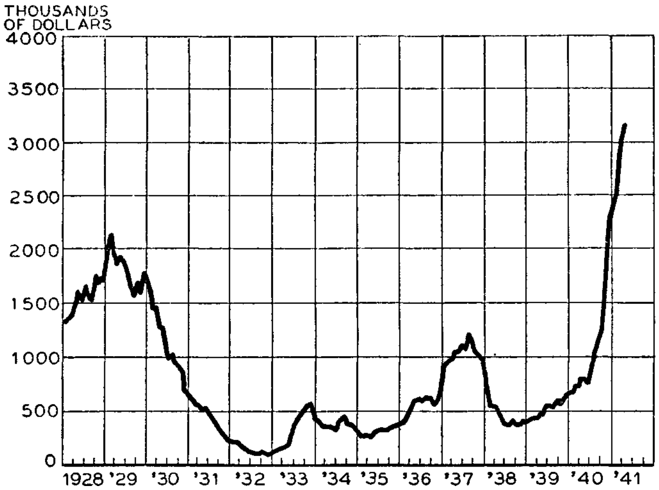
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average=100)

	1940	1941		
	Apr.	Feb.	Mar.	Apr.
Sales (average daily), unadjusted	83	79	84	100
Sales (average daily), seasonally adjusted	90	97	98	103
Stocks, unadjusted	81*r*	80	87	89
Stocks, seasonally adjusted	80*r*	85	86	87

r Revised

Building

The daily rate at which construction contracts were awarded in New York and Northern New Jersey during April was 22 per cent above the comparatively low level of the previous month, and was slightly higher than in April, 1940. With the exception of public and private utilities, increases over March were recorded in contract awards in each of the principal construction categories. The most striking gain occurred in the case of awards for factory buildings, which were 88 per cent higher than in March and nearly two and a half times as large as in April, 1940. Although a third greater than in March, contracts for residential building in this area were considerably below the level of a year ago.



Daily Average Contracts Awarded for Industrial Building in 37 States (F. W. Dodge Corporation data; six month moving averages of monthly, seasonally adjusted data)

In contrast to the March to April advance in the New York and Northern New Jersey area, daily average construction contract awards for April in the 37 States covered by the F. W. Dodge Corporation report declined about 8 per cent from March. Government contracts for defense construction included in the April figures were considerably lower than those reported in March and this decline mainly accounted for the reduction in total contract awards between the two months. As compared with April, 1940, however, total contract awards in the 37 States were 35 per cent higher. Contracts for publicly financed projects were 63 per cent larger than a year earlier and privately financed work advanced 21 per cent. Reflecting an active demand for one and two family dwellings, including homes to be constructed under Government sponsorship for defense workers, contract awards for residential buildings in April were higher than in any month since July, 1929. Awards for this type of building were about one-fifth greater than in either the previous month or in April a year ago.

During the first three weeks of May the daily rate of construction contract awards in the 37 States increased 10 per cent from the average for April. The gain was due to increases in heavy engineering projects and nonresidential building work. Residential building was slightly lower than in April. Compared with the corresponding period of 1940 awards during the first three weeks of May were up 49 per cent; all three principal construction categories showed substantial year-to-year gains, the most pronounced of which was in nonresidential building.

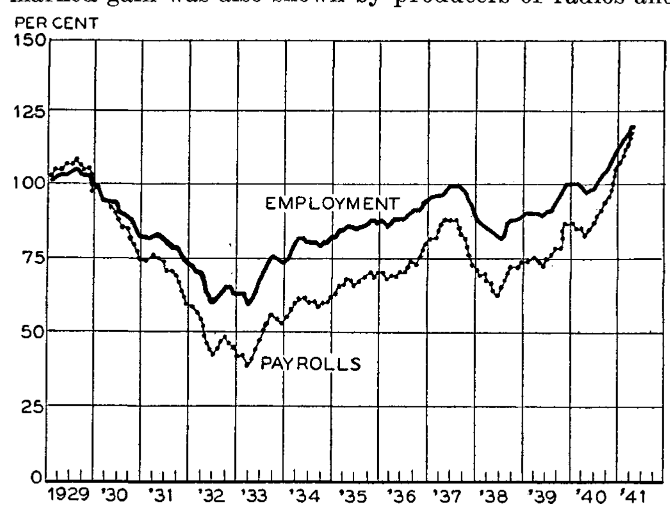
One of the outstanding features in the construction industry over the past year has been a steep rise in the volume of industrial building, much of it arising directly or indirectly from the National defense program. As the accompanying chart shows, industrial building was increasing slowly prior to the outbreak of the war in September, 1939, and continued a gradual upward movement until the middle of 1940. Then, with the inauguration of the National defense program, a very rapid expansion began. It appears probable that the volume of industrial building recently has exceeded all previous levels.

Employment and Payrolls

According to the New York State Department of Labor, factory employment in New York State rose 1½ per cent between March and April and payrolls increased 3 per cent, although ordinarily both employment and payrolls tend to decline in April. These gains principally reflected maintenance of a high level of employment and payrolls in the men's clothing industry (at a time of year when decreases ordinarily occur) and continued expansion in the airplane, shipbuilding, firearms, railway equipment, and other durable goods industries particularly stimulated by defense orders. All industrial areas of the State showed considerable increases in factory employment over April, 1940, ranging from 7½ per cent for the Binghamton-Endicott-Johnson City area to 42½ per cent in Buffalo.

As the accompanying diagram indicates, this bank's seasonally adjusted index of New York State factory employment in April was 14 per cent above the highest point reached in 1929, and the index of payrolls exceeded its 1929 peak by 13 per cent. Both indexes have attained the highest levels in more than twenty years. Over the course of the past year, the payrolls index has consistently advanced at a more rapid rate than the employment index, largely as a result of longer working hours and increases in wage rates. In the twelve months ended April, 1941, payrolls rose 45 per cent, while employment increased 23 per cent.

Factory employment in the United States as a whole increased 2 per cent during April, and payrolls rose 2½ per cent. Although increases in both working forces and payrolls were general, the largest gains continued to be concentrated in lines closely allied with the defense program, such as foundries, machine shops, electrical manufacturing, and aircraft. There was a sharp recovery in employment in the agricultural implements industry, reflecting the settlement of labor difficulties, and a marked gain was also shown by producers of radios and



Factory Employment and Payrolls in New York State, Adjusted for Seasonal Variation and to Census Data (1925-27 average=100 per cent)

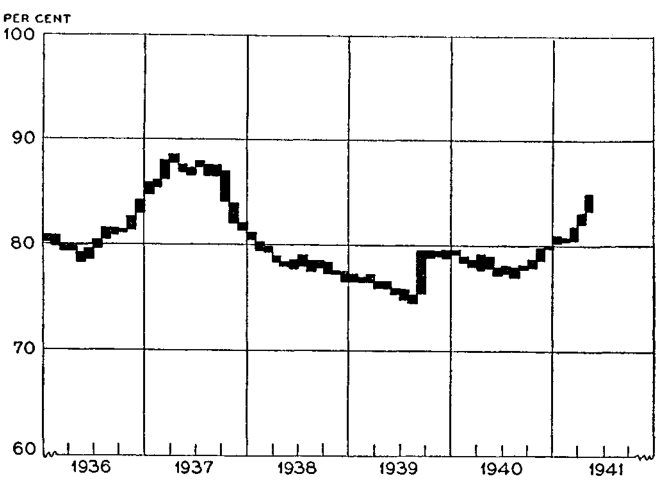
phonographs. Wage rate increases in April were reported to have affected more workers than in any month since April, 1937. Of the 5,300,000 factory workers whose wages are included in the United States Department of Labor survey, 500,000 received pay increases averaging 8½ per cent. Among others, employees in the steel, cotton goods, aircraft, woolen and worsted goods, and electrical machinery industries were affected. Compared with April, 1940, factory working forces were 18½ per cent larger and payrolls 37½ per cent greater.

According to the estimates of the Department of Labor, total nonagricultural employment in the United States rose to 37,600,000 during April, 150,000 greater than the peak month of 1929. There was an increase over March of 390,000 and over April, 1940 of 2,700,000. The largest month-to-month gains were reported in trade, manufacturing, and construction; mining employment, however, showed a decrease of over 300,000, owing to the bituminous coal strike. Military and naval personnel, which is not included in the estimate of nonagricultural employment, rose 189,000 during April to a peak of over 1,500,000. Military and naval forces a year earlier totaled 461,000.

Commodity Prices

Further price advances occurred in many of the uncontrolled wholesale commodity markets, particularly the domestic agricultural markets, during May. Despite the controls which have been placed on the prices of many industrial materials important to the defense program, the Bureau of Labor Statistics weekly wholesale price index rose 2½ per cent further from April 26 to May 24, to a point 14 per cent above the level prevailing at the outbreak of war. The index for May 24 approached the upper range prevailing in 1937, as the accompanying diagram indicates, and was otherwise the highest since 1930.

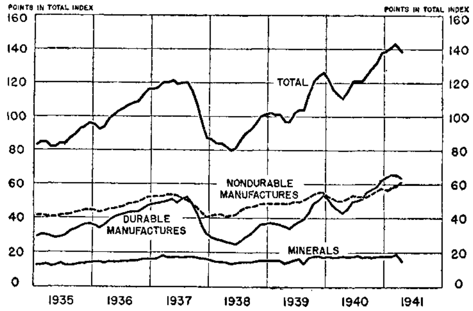
The dominating influence during May in the general strength of farm prices was the final passage of legislation requiring the Commodity Credit Corporation to make loans on the 1941 crops of cotton, corn, wheat, tobacco, and rice at 85 per cent of parity prices—a substantial increase over rates on previous years' crops. Reflecting not only enactment of the loan legislation, but also reports of unfavorable weather in the growing areas, cotton prices rose to new highs since 1937. The price of spot cotton in 10 Southern markets averaged 12.86 cents a pound on May 31, a net gain of about a cent and a half from the end of April. Wheat prices advanced sharply up to the middle of the month, but, responding to favorable new crop prospects and freer movement of the grain at the attractive prices attained, subsequently lost a considerable part of the early gain. Spring wheat in Minneapolis, after selling as high as $1.00⅞ a bushel, closed on May 31 at 94¾ cents a bushel—up 2⅛ cents for the month. Despite sales of corn from holdings of the Commodity Credit Corporation, corn prices advanced 3⅝ cents during the month to 73¼ cents a bushel on May 31. Accompanying sizable purchases of hog products by the Surplus Marketing Administration, hogs rose to $9.46 a hundredweight on May 26—the highest price in about three years—and closed the month at $9.34 a hundredweight, a net advance of 86 cents from the end of April. Further strength was also shown in prices of lard and cottonseed oil.



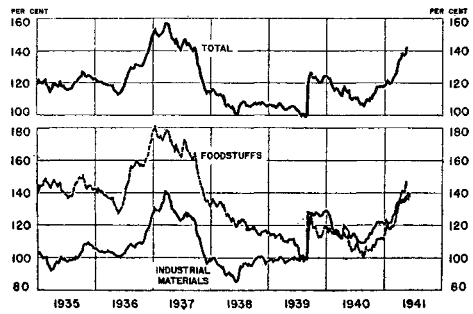
Index of Wholesale Commodity Prices (Monthly range of Bureau of Labor Statistics weekly indexes; 1926 average=100 per cent)

Following the announcement by the Maritime Commission of the creation of a 2,000,000 ton shipping pool for making cargo space available for British and United States defense needs, trade anxiety over adequate shipping facilities for other purposes developed and as a result prices of import commodities generally moved to appreciably higher levels. Subsequently, however, possibly reflecting the expectation of official controls over such commodities, these prices weakened somewhat. Rubber prices in New York advanced to 25 cents a pound on May 12 but closed on May 31 at 22⅜ cents a pound, the lowest level since early April. Silk prices in New York advanced 12 cents to $2.93½ a pound on May 21, but half of that gain was canceled in subsequent days' trading. Coffee prices moved gradually upwards throughout the month, and on May 28 the Inter-American Coffee Board increased quotas for importation of coffee into the United States. Sugar prices also tended higher.

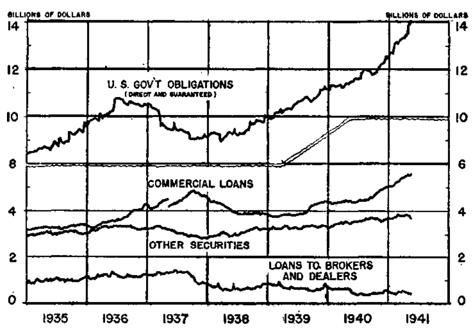
Excepting the slight fluctuation in tin prices, the metal markets were generally unchanged throughout May. The Office of Production Management issued an order early in the month requiring tin can and tin plate manufacturers to make a reduction of 10 per cent in the amount of tin coating used for most food containers, and also added approximately forty-five new items to the "priorities critical list." The Office of Price Administration and Civilian Supply revised maximum prices for aluminum, scrap iron and steel, and requested makers of machine tools not to raise prices at this time. Reflecting heavy demands for aluminum and nickel, the Priorities Division of the Office of Production Management has put heavy restrictions on civilian use of these metals, and recently has also announced a further increase in the percentage of zinc production allocated to the pool for defense.



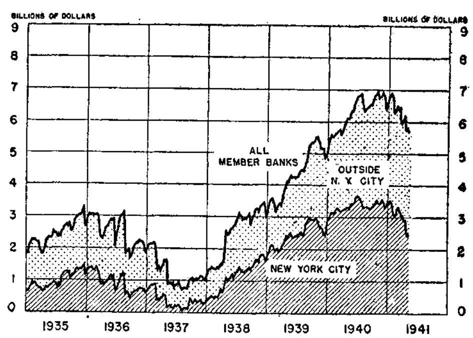
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent; durable manufactures, nondurable manufactures, and minerals expressed in terms of points in total index)



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 May 7)



Wednesday Figures of Estimated Excess Reserves of All Member Banks (Latest figures are for May 7)

Business Conditions in the United States

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

WHOLESALE commodity prices advanced sharply in April and the first half of May, with the exception principally of metals for which maximum prices had been established. Industrial production declined in April, owing to reduced output of coal and automobiles, but increased rapidly in the first half of May as operations in these industries were resumed.

Production

In April the Board's seasonally adjusted index of industrial production declined to 139 per cent of the 1935-1939 average, a drop of 4 points from March. The decline reflected chiefly a sharp reduction in output of bituminous coal, as most mines were closed during the entire month. The mines were reopened on April 30 and in the first half of May coal output increased rapidly.

Automobile production also declined in April, owing to stoppage of work at plants of the Ford Motor Company during an industrial dispute. This was settled about the middle of the month and domestic output has since advanced to a high monthly rate of over 500,000 cars and trucks. Announcement by the Office of Production Management that output in the twelve months ending July 31 would approximate 5,290,000 units indicates that a rate close to that now prevailing should be maintained through July, although there is usually a considerable decline in this period.

Steel production was curtailed somewhat in the latter half of April by shortages of coal and coke and output declined from a level of 100 per cent of capacity to 94 per cent at the month end. Subsequently output increased, reaching 99 per cent by the middle of May.

In most other lines activity continued to increase during April and the first half of May. Machinery production rose further and activity in the aircraft and shipbuilding industries continued to expand rapidly. Consumption of nonferrous metals also advanced, and, as in March, domestic sources of copper were supplemented by large supplies from Latin America. Textile production rose further from the high rate prevailing in March. Consumption of raw cotton in April amounted to 920,000 bales, a new record level, and rayon deliveries also rose to a new peak. At wool textile mills activity was maintained near the high March rate. Continued advances were reported in the chemical, paper, and food industries.

Anthracite production declined considerably in April, owing to a delay by dealers in placing usual spring orders, but increased in the first half of May. Output of crude petroleum showed little change from the March rate, following some increase from the reduced level of the winter months. Iron ore shipments in April amounted to about 7,000,000 tons, an exceptionally large amount for this time of year, and mine output of nonferrous metals continued at near capacity rates.

Value of construction contract awards in April declined somewhat from the high March total, owing principally to a smaller volume of defense plant contracts, according to F. W. Dodge Corporation reports. There was an increase in contracts for publicly financed defense housing, and awards for private residential building rose by about the usual seasonal amount.

Distribution

Sales of general merchandise at department and variety stores showed about the usual seasonal rise from March to April, making allowance for the changing date of Easter. Retail sales of new automobiles, which had amounted to 526,000 cars and trucks in March, rose further in April and sales of used cars were at peak levels.

Freight car loadings declined sharply in April, reflecting a reduction in shipments of coal and coke, but increased in the first half of May when coal mines were reopened. By the middle of the month total loadings had risen to a weekly rate one-fourth higher than in the corresponding period last year and about the same as the seasonal peak reached in the autumn of 1940.

Commodity Prices

Prices of most basic commodities, both domestic and imported, advanced sharply further in the first half of May following a short period of little change during the latter part of April. Price increases were most pronounced for agricultural commodities reflecting in part the prospect of legislation raising Federal loan rates for basic farm crops. Prices of a number of semimanufactured industrial products, including petroleum products, coke, leather, textile yarns and fabrics, and building materials, also advanced. Metal prices, now for the most part subject to Federal control, remained at the maximum levels established earlier.

Bank Credit

Bank loans and investments have shown a marked rise since last summer the increase at reporting banks in 101 leading cities amounting to $4,000,000,000. In April and early May holdings of investments by these banks increased considerably, mostly at New York City banks, reflecting substantial purchases of newly issued Reconstruction Finance Corporation notes. Increases in commercial loans in this period were somewhat smaller than during the preceding two months.

Excess reserves of member banks were $5,700,000,000 on May 14. Since January they have declined by about $1,100,000,000, owing largely to increases in Treasury deposits with the Reserve Banks and in currency in circulation. The decrease has occurred entirely at New York City banks.

United States Government Security Prices

Prices of United States Government securities, which had risen sharply from April 9 to April 21, subsequently declined irregularly through May 15. On that date the 1960-65 bonds were ¾ of a point lower than on April 21 and about 1¼ points below the all-time peak reached on December 10, 1940. The yield on this issue is currently about 2.09 per cent, compared with 2.03 per cent on December 10.