MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in June

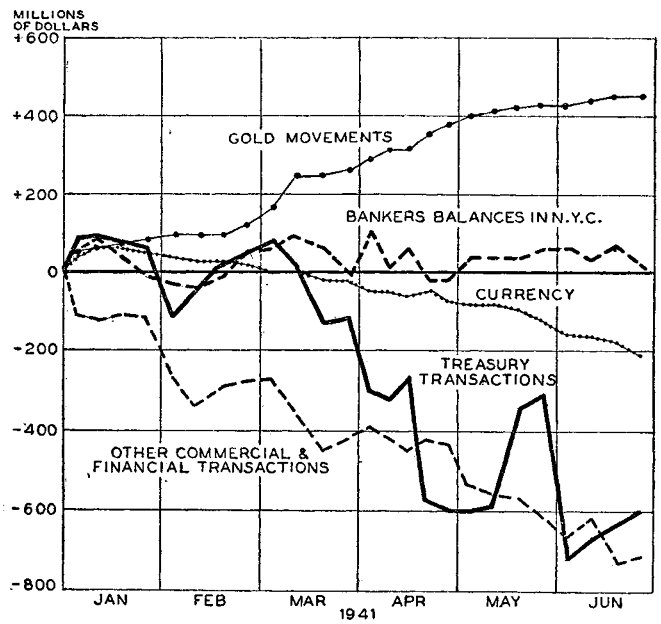
Principal developments in the money market during June were in three broad classifications: Treasury financing, changes in the reserve position of the member banks, and growth of commercial bank loans and investments.

In the field of Treasury finance, the sale of Defense Savings obligations was aided by a number of industrial and other business concerns, which made it possible for their employees to pay for Savings Bonds by payroll deduction plans. The Secretary of the Treasury on June 19 stated that the adoption of salary deduction plans on a nation-wide basis "means that thousands of working people are starting the systematic, regular buying of stamps and bonds out of earnings, and doing it of their own free will." Sales of Defense Savings obligations since May 1, which had reached $442,000,000 by the end of May, rose to a total of $630,000,000 by June 21. Sales through June 21 were composed of $185,700,000 of Series E bonds, $61,500,000 of Series F bonds, $376,800,000 of Series G bonds, and $5,600,000 of Defense Postal Savings Stamps. In the Second Federal Reserve District, total sales of the bonds, not including those sold through the post offices, reached $179,700,000 by June 21, including $37,500,000 of the Series E obligations, $17,600,000 of Series F bonds, and $124,600,000 of Series G bonds. The proportion of sales of Series F and G bonds in the Second Federal Reserve District to total sales of these series has been somewhat larger than the proportion of Series E bonds sold in this District. The Series F and G bonds are particularly attractive investments for trust funds, of which there are, of course, large amounts held in this District.

Aside from weekly issues of Treasury bills to replace maturities, the Treasury engaged in no offering of "market" issues of direct Government securities in June, although within the month—on June 2—subscribers made payment for the $2\frac{1}{2}$ per cent Treasury bond issue of 1956-58 offered on May 22. The Treasury did, however, offer on June 24, on behalf of the Reconstruction Finance Corporation, $500,000,000, or thereabouts, of Reconstruction Finance Corporation 1 per cent notes dated July 3, 1941, and due April 15, 1944, and at the same time offered to purchase on July 3, 1941, the $211,000,000 outstanding Series N Reconstruction Finance Corporation notes due July 20, 1941. This operation will provide approximately $300,000,000 of new money for the Corporation which will flow into Treasury deposits in the Reserve Banks.

Excess Reserve Position

During June, the excess reserves of member banks showed further declines. For all member banks in the country, excess reserves were reduced $670,000,000 between May 28 and June 25, to a total of $5,150,000,000, the lowest figure since December, 1939. In New York City, excess reserves dropped $370,000,000 in the four weeks ended June 25, and at $2,165,000,000 were the lowest since March, 1939. In the case of all member banks in the country, the reduction in excess reserves during June is to be explained by heavy payments into Treasury deposit accounts in the Reserve Banks, representing chiefly receipts on June 2 from the sale of the $2\frac{1}{2}$ per cent Treasury bond issue of 1956-58 offered on May 22, as well as from quarterly income tax collections which were in large volume in the ten days beginning June 16. In addition, an increase of nearly $200,000,000 occurred in the amount of currency outstanding during the four weeks ended June 25. New



Principal Factors Accounting for Movements of Funds Into and Out of Reserve Balances of Member Banks in Second Federal Reserve District (Cumulative since January 1, 1941; (+) = gain to reserve balances, (—) = loss to reserve balances)

York City bank excess reserves were reduced by the operation of the same factors, and in addition by an outflow of commercial, financial, and banking funds to other parts of the country.

Since January, when excess reserves were practically at their peak, there has been a decline of $1,750,000,000 in the excess reserves of all member banks, of which $1,380,000,000 has occurred at New York City banks. The principal factors that have caused the shrinkage in excess reserves in New York City are indicated in the preceding diagram; the shrinkage has resulted only to a relatively minor degree from expansion of reserve requirements. The data shown in the chart are for the Second Federal Reserve District as a whole, but the entire net effect of the decline has been felt by the banks in New York City.

It is evident from the chart that since the beginning of the year bank reserves in the New York area have been absorbed in large amounts by an outward movement of funds to other parts of the country through "other commercial and financial transactions," representing movements of business funds and financial transactions, the latter including payments to other parts of the country for Government securities sold in the New York market by holders in other districts. Losses of funds to New York through such transactions have been in progress since the latter part of 1938. There has also been a large net loss of funds to member bank reserves through Treasury transactions in this District since the first part of the year, reflecting sales of new Treasury securities, income tax collections, and other Treasury receipts in this District, in excess of various Treasury disbursements in this area. Following a large net loss of funds through Treasury transactions for several years prior to the middle of 1937, the New York market suffered no material net loss of funds in Treasury transactions in the period from the middle of 1937 to the end of 1940. The extent to which the losses of the first half of 1941 (which have helped to raise Treasury balances in the Reserve Banks to more than $1,000,000,000) will be restored will depend upon the level at which Treasury deposits in the Reserve Banks are maintained, and the extent to which Treasury disbursements occur in the New York area. Another important factor in the absorption of reserve funds in New York since the first part of the year has been the continued excess of withdrawals of currency over deposits of currency at the Reserve Bank.

As the diagram also indicates, there has been practically no net movement of out-of-town bank balances to New York City banks since the beginning of this year, following an inflow of bankers' balances between the latter part of 1937 and the end of 1940, aggregating approximately $1,500,000,000. Most important of all, from the viewpoint of the reserve position of the New York City banks, has been the deceleration of the gold inflow from abroad, the proceeds of which to a considerable extent have flowed, directly or indirectly, into New York banks, initially at least.

In summary, it may be said that the factors tending to reduce reserves of the New York banks have considerably exceeded the factors tending to increase them since early in 1941, and that the resulting reduction in reserve balances and excess reserves in New York has accounted for most of the decline in reserve balances and excess reserves of all member banks during this period.

Member Bank Credit

Expansion of reporting member bank loans and investments, amounting to $364,000,000 during the four weeks ended June 25, was about the same as in the preceding four weeks. The proportion of the $662,000,000 Treasury bond issue dated June 2 taken by reporting banks appears to have been somewhat smaller than the proportion taken of recent previous issues, judging from the net increase of only $142,000,000 in total holdings of Treasury bonds of the reporting banks which occurred during the week the new bonds were issued, and for the four weeks as a whole the Treasury bond holdings of the banks increased only $107,000,000. Treasury bill holdings, however, rose $169,000,000, and holdings of Treasury notes and Government guaranteed obligations rose slightly. Holdings of other securities declined somewhat for the four weeks.

In the loan category, loans for commercial, industrial, and agricultural purposes rose $152,000,000 further, extending the increase in this type of credit since the outbreak of the war to $1,829,000,000. Loans to brokers and dealers in securities declined in June but remained somewhat above the level prevailing before the large increase in the last week of May which resulted from financing requirements of Government security dealers in connection with the new Treasury bond issue announced on May 22 and dated June 2.

Money Rates in New York

	June 29, 1940	May 31, 1941	June 30, 1941
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4-6 months	½–⅝	½–⅝	½–⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)†	0.64	0.41	0.38 #
Average yield on Treasury bonds (not callable within 12 years)†	2.30	2.00	1.96
Average rate on latest Treasury bill sale, 91 day issue	0.046	0.069	0.066
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. # Change of +0.02 per cent from previous yields due to dropping from the average the ¾ per cent Treasury note issue of June 15, 1944, which matures within three years.

Government Securities

United States Government securities advanced during June to new highs for 1941. Following irregular fluctuations during the first half of the month, the average price of long term tax exempt Treasury bonds by June 26 had moved up ⅝ of a point to within ⅛ point of the record high of December 10, 1940, and on a yield basis slightly exceeded the 1940 high. Among the taxable issues, the 2½ per cent Treasury bonds of 1956-58 rose a point further to 104 during the month, and the intermediate term taxable Treasury bonds also rose to new highs since dates of issue. In the latter part of the month, Treasury bond prices eased slightly.

Prices of Treasury notes likewise advanced in June. Average yields on 3 to 5 year tax exempt Treasury notes declined on June 11 and 12 to the lowest level since last December and at the close of the month were again at this low level. Similarly, yields on the taxable ¾ per cent National Defense note issues of 1944 and 1945 reached new lows for 1941 on June 11 and 12, respectively, and toward the end of the month were quoted only slightly above these lows.

The first three of the four taxable Treasury bill issues during June were in the amount of $200,000,000, replacing similar maturities. The fourth weekly issue was for $100,000,000, also replacing a similar maturity. Accepted bids for the $200,000,000 issues of bills were tendered on an interest basis averaging between 0.100 and 0.107 per cent, while the $100,000,000 issue dated June 25 was awarded at 0.066 per cent.

Security Markets

Although trading on the New York Stock Exchange remained at low levels during June, stock prices recovered much of the declines of April and May. According to Standard's stock price averages, the industrial shares were mainly responsible for the 6½ per cent rise shown by the combined 90 stock index between May 31 and June 23, although railroad and utility equities also advanced slightly. The stock market strengthened following measures taken by the Federal Government to curb strikes and again in the session following the outbreak of war between Germany and Russia. Toward the end of June stock prices fluctuated at levels slightly below the month's high reached on June 23.

As in stocks, industrial issues pointed the way in the price gains made by domestic corporate bonds. After a minor irregular advance in the previous six weeks, the price average of Moody's high grade (Aaa) corporation bonds moved upward more steadily during June to reach on the 23rd the highest level since last January, only about 1¼ points below the record high reached in December. Prices of medium grade corporate bonds, classified as Baa by Moody's, again established a new record high, as the price average showed a net advance of ⅝ point for the month. Standard's price index of prime municipal bonds moved up slightly during June to a level less than a point below the all-time peak set last December. The volume of trading in bonds reported for June by the New York Stock Exchange was the smallest since last February.

New Financing

The volume of both corporate and municipal new security issues was considerably smaller in June than in the previous month, and the total of both classifications, at $255,000,000, was only about three quarters of the corresponding monthly average for the first five months of 1941. Corporate flotations aggregated $188,000,000 of which $77,000,000 represented "new money" borrowing —mostly on the part of railroads through the sale of equipment trust certificates.

The award of $60,000,000 Philadelphia Company bonds and notes on June 24, marked the first completed transactions under the Securities and Exchange Commission's new regulation requiring competitive bidding for new security issues of utility companies. Bids had been scheduled to be submitted June 23 for $47,400,000 New York State Electric and Gas Company bonds and preferred stock but, since no tenders were received for the stock, neither issue was awarded. Later, the company set a higher dividend rate for the preferred stock and designated July 1 for the opening of new bids.

Temporary financing, not included in the $255,000,000 total above, amounted to $100,000,000 and included $42,500,000 New York City 0.50 per cent revenue bills maturing from July, 1941 to June, 1942 and $20,475,000 Federal Intermediate Credit Bank 0.75 per cent consolidated debentures, maturing October, 1941 and April, 1942, sold on yield bases of 0.25 and 0.40 per cent, respectively.

Corporate financing during the second quarter of 1941 averaged $199,000,000 a month, or about 20 per cent less than in the first quarter, despite the fact that the volume of flotations for raising new capital was slightly higher. During the first six months of 1941, corporations raised about one-third more new capital through security issues than in the corresponding months of 1940.

Foreign Exchanges

As a result of the Executive Order of June 14, extending United States "blocking" control to the accounts of all Continental European countries, there came to an end, at least for the time being, what remained of New York trading in Continental exchanges. Just prior to the suspension of dealings, the Swiss franc, which has been the only principal foreign currency for which an active market has existed in recent months, was quoted at $0.2321½ and the Swedish krona at $0.2385. Both of these rates were close to the levels which had prevailed for some time. The registered reichsmark closed on June 14 at $0.1180, or about 3¾ cents below the high reached on May 20. In line with the President's statement that preferential treatment would be accorded to those European countries which gave adequate assurances that any lifting of United States control would not be used to evade the purposes of the Executive Order, general licenses were issued on June 20 relaxing control over Swiss and Swedish funds in this country. On June 24 a general license was issued having the effect of terminating the control over Russian funds in the United States. Of the European neutrals, Switzerland is by far the largest holder of assets in this country, holding well over $1,000,000,000 in short and long term investments. Despite the issuance of the general licenses, New York trading remained suspended in both the Swiss franc and the Swedish krona. Although at the end of June dollars were quoted nominally in Zurich at 4.30 Swiss francs, or equivalent to about $0.2325½ per franc, no business apparently has been transacted there, pending the completion of arrangements by the Banque Nationale Suisse for transactions within the framework of the general license.

In order to supplement the new United States freezing regulations, the British authorities informed British banks on June 16 that no withdrawals from United States dollar accounts held by them for nonresidents of the sterling area could be made without the prior permission of the Bank of England.

The Latin American exchanges, which now account for the bulk of such unrestricted trading as still exists in the New York market, continued to show a generally firm tendency during the month, particularly prior to the freezing of all Continental accounts. The discount on the Cuban peso vis-a-vis the dollar continued to narrow through June 16, when it was only 5/8 per cent, the best rate since March, 1938. Although the discount subsequently widened to about 1 1/8 per cent, it nevertheless remained below that of a month earlier. The Uruguayan peso was also in rather strong demand in the noncontrolled market during most of the past month and by June 25 the New York rate had appreciated to $0.4505, as compared with $0.4063 as recently as May 7. Some reaction occurred during the remainder of the month, however, and the noncontrolled rate closed June at $0.4400. In the controlled market, the Uruguayan peso continued to be quoted at $0.6583. The free quotation for the Venezuelan bolivar, after rising to $0.2900 on June 13, closed the month at $0.2750, as against about $0.2588 a month ago. Evidencing the improved exchange position of Argentina, an Argentine decree was issued during the past month providing for the abolition on July 1 of the "prior exchange permit" system, under which the granting of exchange for most Argentine imports has been conditional upon the importer's first obtaining a permit. This liberalization in the granting of exchange will probably affect more than 80 per cent of Argentina's imports, the remaining imports being subject to quantitative regulation.

Presumably in a move to facilitate Japanese trade with the sterling area, Japan on June 1 established a "foreign exchange concentrating account" and agreed to indemnify Japanese banks against losses incurred in the exchange business in sterling currencies. This revolving fund, into which banks are required to transfer their sterling balances, was expected to amount to the equivalent of about 500,000,000 yen and for the purpose of this arrangement the pound sterling was valued at 14 pence to the yen, the same as the official rate for the past seven years. As of July 1, Japan will also concentrate all dollar and certain other foreign exchange holdings in a similar account and guarantee losses. In addition to the United States dollar, the currencies to be added to the concentration system on July 1 include those of the Philippines, Canada, Argentina, Brazil, the Netherlands East Indies, French Indochina, France, Switzerland, Sweden, Italy, and Germany.

Gold Movements

Imports of gold into the United States continued in comparatively small volume in June. Gold held under earmark for foreign account at the Federal Reserve Banks decreased about $4,000,000 during the month to approximately $1,917,000,000. For the month, the increase of about $50,000,000 in the gold stock was the smallest of any month in three years.

In the four weeks ended June 18, the Department of Commerce reported the receipt of $24,800,000 of gold, in the following principal amounts: $15,800,000 from Canada, $3,200,000 from the Philippines, $1,200,000 from Mexico, $1,200,000 from Peru, $1,100,000 from Chile, and $500,000 from the United Kingdom.

Central Bank Rate Change

Effective June 2 the South African Reserve Bank lowered its discount rate from 3 1/2 per cent to 3 per cent, the lowest rate since the fixing of the bank's first discount rate on December 29, 1922.

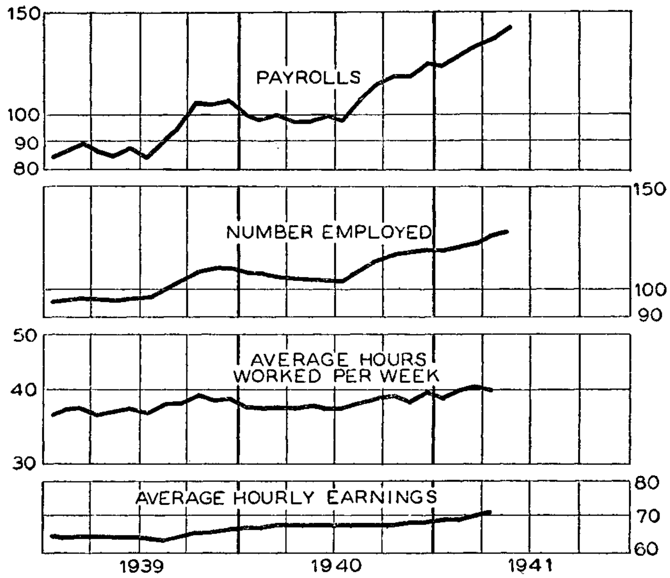
Employment and Payrolls

According to the New York State Department of Labor, factory employment in the State rose 1 1/2 per cent further between the middle of April and the middle of May; payrolls, influenced by pay increases, were up 5 per cent. The gain in employment was contraseasonal in nature, and reflected mainly continued expansion of operations at plants manufacturing defense goods, particularly firms in the automobile, airplane, and electrical machinery industries, as well as a decline in the number of workers affected by strikes. The usual sharp seasonal decreases in employment were reported by most of the companies in the clothing and millinery group, except for a few men's clothing plants engaged in work on Army orders. Compared with a year before, working forces were 28 per cent greater this May and payrolls 51 per cent higher.

Over the past year industry in up-State New York, generally speaking, has benefited relatively more from the defense activity than has New York City industry. This is largely attributable to the fact that New York City factories are primarily engaged in the production of clothing and other nondurable goods, while up-State New York firms participate to a greater extent in the manufacture of metal and other durable products—a category which has been more substantially stimulated by the defense effort.

Factory employment in the United States as a whole also increased 1 1/2 per cent in May and payrolls rose 5 1/2 per cent, according to the Bureau of Labor Statistics. The largest gains in working forces continued to be reported in the durable goods lines, particularly by the aircraft, machinery, railroad equipment, and shipbuilding industries. Among the nondurable goods industries showing substantial increases in employment were cotton goods and meat packing. The rise in payrolls reflected, in part, further increases in wage rates.

According to data of the Bureau of Labor Statistics, the increase in payroll disbursements at factories throughout the United States amounted to 45 per cent between May, 1940 and May, 1941, and 64 per cent in the two year period May, 1939 to May, 1941. These gains, as indicated in the accompanying chart, are attributable partly to the adding of new names to factory payrolls—factory employment in May is estimated to have been 22 per cent higher than in May, 1940 and 30 per cent higher than in May, 1939, four months before the present European war began. Important parts in the rise in factory payrolls



Indexes of Factory Payrolls and Employment (1923-1925 average = 100 per cent), Average Number of Hours Worked per Week, and Average Hourly Earnings (in cents)—Bureau of Labor Statistics Data Plotted on Equivalent Ratio Scales

have also been played, however, by lengthening hours of work and by increases in rates of compensation.

As indicated in the chart, working hours in plants reporting to the Bureau of Labor Statistics have reached an average of 40 hours per week, as compared with 36½ two years ago. The final line on the chart, showing the course of average hourly earnings, has been affected by increases in wage rates, frequent in recent months, and also by higher pay for overtime work. Under Federal statute, working time of individual employees in excess of forty hours a week must be compensated for at overtime rates, and, while working hours are still under forty in a number of industries, overtime is common in the machine tool, aircraft, and other plants which have felt the greatest pressure of increased output as a result of the defense program. Hourly earnings of factory workers averaged 71 cents, a record figure, in the most recent month for which data are available (April); the rise in two years amounts to 10 per cent.

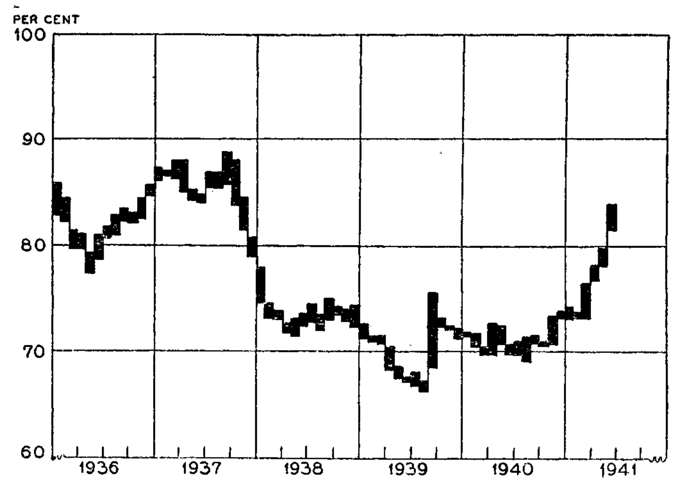
Total nonagricultural employment in the United States rose to 38,300,000 during May, an increase of 600,000 over the previous month and of 3,100,000 over May, 1940. The largest employment gain, 310,000, was shown in mining and reflected chiefly the return of bituminous coal miners to work following the settlement of the strike at the end of April. The gain in manufacturing employment amounted to 160,000 in May, following an increase of 220,000 in April. On the other hand, there was a decline in the number of persons engaged in construction, because of the completion of many new army cantonments, and in wholesale and retail trade. Meanwhile, military and naval personnel (not included in the estimates of total nonagricultural employment) increased 115,000 further during May to a total of 1,660,000; compared with May, 1940, there has been an increase of 1,200,000.

Commodity Prices

Rising price tendencies, at a somewhat increased rate, continued to be manifest during June. Owing in considerable measure to further advances in food prices and in domestic agricultural products generally, the Bureau of Labor Statistics broad weekly index of wholesale prices rose progressively during the month. On June 21 this index showed an increase of 9 per cent over the level prevailing at the end of last year and an increase of 17 per cent for the war period as a whole. Additional official price control measures were adopted during June, a number of them designed to prevent increases in prices of consumer goods.

The pronounced rise in food prices in recent months reflects to some extent increased demand, accompanying the expansion in consumer incomes, but to a larger extent perhaps the effect of governmental measures to increase domestic prices of farm produce. In addition, the prices of sugar, coffee, and other imported foods have risen, accompanying anxiety over limited shipping facilities, especially for products not essential to defense needs. The Bureau of Labor Statistics weekly index of wholesale food prices, which has shown an advance of 15 per cent thus far in 1941 and of 25 per cent since August, 1939, is currently, however, still somewhat below the highest levels of 1937, as the accompanying chart indicates. Acting to check increasing food prices, the Office of Price Administration and Civilian Supply on June 16 requested leading bakeries throughout the country to refrain from advancing bread prices, and the coffee and cocoa markets were subject to official regulations.

Supplementing the effect of the assurance of liberal loans on this year's production of several major crops, the extension of the European war into Russia appears to have had some stimulating influence on agricultural prices in June. Generally unfavorable weather for the growing cotton crop was also a strengthening factor in this market. The average price of cotton in 10 Southern markets reached the highest point since 1930, closing with a net advance of about 1½ cents for the month at 14.27 cents a pound. Following the establishment of



Index of Wholesale Food Prices (Monthly range of Bureau of Labor Statistics weekly indexes; 1926 = 100 per cent; latest weekly index included is for June 21) a 14 year peak in print cloth prices, the Office of Price Administration and Civilian Supply late in the month announced a schedule of price ceilings for a variety of cotton cloths.

Winter wheat in Kansas City rose from 86⅞ cents a bushel at the end of May to $1.00½ a bushel on June 30; wheat flour prices were also advanced during the month. Partly associated with the Surplus Marketing Administration's buying program, prices of hogs and lard rose to new high levels since 1937; hogs advanced $1.50 from the end of May to $10.84 a hundredweight on June 26, although in later trading a sizable downward reaction occurred. Cottonseed oil reached the highest price in about fifteen years and a sharp increase was also recorded in soy beans. Corn quotations, however, moved within a relatively narrow range, reflecting offerings in the market of Commodity Credit Corporation holdings.

Despite fears of shortage of ocean shipping space, price advances during June in import commodities were generally less marked than in earlier months of the year. Sugar prices advanced 11 points to 3.53 cents a pound on June 20, but subsequently lost part of that gain. Silk prices showed a net gain of 15 cents to $3.03½ a pound. Announcement was made that all crude rubber would be purchased through the Rubber Reserve Company, and rubber prices were relatively steady throughout the month. On June 26 the Office of Price Administration and Civilian Supply announced that ceilings would be placed on tire quotations.

Among mineral products, price advances occurred during June in fuel oil, gasoline, and coal. The metal markets generally were unchanged, as new official measures were taken to insure supplies for defense requirements. The Priorities Division of the O.P.M. placed scrap aluminum and zinc under mandatory priorities, and ordered allocations in July of 22 per cent of zinc output for defense purposes.

Production and Trade

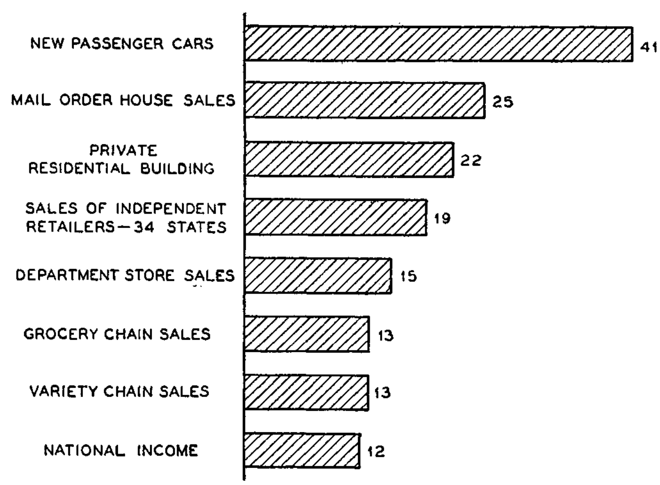
Such data as are now available for June point to a continued advance in the rate of business activity. Under the pressure of defense program needs, the usual seasonal slackening appears to have been absent in a number of important lines.

Steel mills operated at or near rated capacity throughout June. Late in May, Gano Dunn, the special consultant to the Office of Production Management, indicated in his second report to the President that steel requirements this year would exceed productive capacity by 1,400,000 tons and would be 6,400,000 tons in excess of capacity in 1942. The Office of Production Management thereafter requested the submission of plans for an increase in the annual capacity of the industry by about 10 million tons in the shortest possible time. The necessity of curtailing the use of steel for nondefense purposes was emphasized by the issuance of a general steel preference order by the Office of Production Management. Blanket preference ratings were issued during June to 24 shipbuilders; 13 steel companies were requested to curtail production of sheet and strip steel for nondefense purposes and use the released capacity to turn out plates for shipbuilding, railroad car building, and other defense needs; and railroad freight car builders were assured preference over steel necessary for car building.

As in May, automobile production in June proceeded at the highest rate since the spring of 1937 and retail demand continued strong. Mill sales of cotton gray goods were brisk during the first three weeks of the month, but subsequently decreased sharply following rumors that price ceilings would be placed on cotton goods generally. Mill activity held at an exceptionally high rate. Loadings of railway freight continued in large volume; during the week ended June 21 the total of all cars loaded exceeded last fall's peak by 48,000 cars, and was the highest for any week since November 4, 1930. Electric power production appears to have reached a record high level during the month.

In May this bank's seasonally adjusted index of production and trade advanced five points over the February-April level to 109 per cent of estimated long term trend. The unusually large increase in the index reflected in considerable part the resumption of large scale operations in lines of industry that had been affected by labor disputes.

Advancing tendencies in production and trade were general during May, and each of the component group indexes moved upward. The index of producers' durable goods production, which includes important defense lines such as steel, aircraft, shipbuilding, and machinery, rose four points further to a level about 50 per cent above that of May, 1940, and the recovery in bituminous coal output resulted in a particularly sharp rise in the producers' nondurable goods index. A marked gain was indicated in the rate of flow of merchandise through primary distribution channels. Production of consumers' goods, particularly those in the durable category, was at a considerably higher level than in May, 1940, and it is estimated that retail trade expanded somewhat further between April and May, seasonal



Percentage Increase in Estimated National Income and in Certain Types of Consumer Expenditure for First Five Months of 1941, as Compared with Corresponding Period of 1940

factors considered. Retail sales of passenger cars exceeded those of any previous month.

The accompanying chart presents some indications of the disposition which consumers have been making of their increased incomes. Total income payments to individuals during the first five months of this year are estimated at a rate of almost $80,000,000,000 a year, 12 per cent above the level in the corresponding period of 1940. Larger increases, in some cases substantially larger, are shown by the other items in the chart which reflect consumer expenditures. New passenger car sales in the first five months of this year were the greatest for any similar period on record, 41 per cent ahead of the total for the first five months of 1940. Combined sales of two major mail order houses ran 25 per cent above the first five months of last year, and private residential building contract awards were 22 per cent greater. Year-to-year increases in the other items—sales of department stores, independent retailers (other than department stores), grocery and variety chain store systems—ran 13 to 19 per cent higher.

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

	1940	1941		
	May	Mar.	Apr.	May
Index of Production and Trade	89*r*	104	104*p*	109*p*
Production of:				
Producers' durable goods	80	115	117*p*	121*p*
Producers' nondurable goods	93	113	109*p*	119*p*
Consumers' durable goods	73*r*	88	90*p*	95*p*
Consumers' nondurable goods	96*r*	102	102*p*	104*p*
Primary distribution	85	98	98*p*	106*p*
Distribution to consumer	92	103	104*p*	106*p*
Industrial Production				
Steel	86	117	116	121
Automobiles	89	106	90	121
Bituminous coal	97*r*	120	19	122*p*
Crude petroleum	91	85	86	87*p*
Electric power	98	109	107*p*	110*p*
Cotton consumption	99	136	146	148
Wool consumption	88	183*r*	178	190*p*
Shoes	92*r*	116	119*p*	125*p*
Meat packing	101	108	108	111*p*
Tobacco products	94	99	101	100
Manufacturing Employment				
Employment	92	107	110	112*p*
Man-hours of employment	86	107	110	113*p*
Construction				
Residential building contracts	46	47	51	59
Nonresidential building and engineering contracts	53	94	76	94
Primary Distribution				
Ry. freight car loadings, mdse. and misc.	82	99	99	102
Ry. freight car loadings, other	91	100	80	117
Exports	100	104	116	..
Imports	71	86	93	..
Distribution to Consumer				
Department store sales (U.S.)	88	100	101	102
Grocery chain store sales	96	101	100	99*p*
Variety chain store sales	96	105	106	110*p*
Mail order house sales	98	103	107*r*	112*p*
New passenger car sales	75	113	113	117
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	58	60	57	58
Velocity of demand deposits, New York City (1919-25 average = 100)	27	25	24	25
*Cost of Living and Wages**				
Cost of living (1935-39 average = 100)	104	105	106	106*p*
Wage rates (1926 average = 100)	114	117	118	119*p*

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

Building

The daily rate of construction contract awards in New York and Northern New Jersey, according to the F. W. Dodge Corporation survey, was 42 per cent higher in May than in the previous month. Part of this increase resulted from the inclusion of a large volume of defense contracts awarded in New Jersey during previous months, but not included in the reported totals, owing to the lack of detailed data. Awards for nonresidential building rose 71 per cent and awards for residential building and for heavy engineering construction also increased, though by considerably smaller amounts. Compared with May, 1940, the rate of contract awards of all classes was up 22 per cent. Nonresidential building awards, mainly responsible for this favorable showing, were about double the figure for the same month of the previous year, while residential building showed little change and heavy engineering projects declined by one third.

For 37 Eastern States the daily rate of construction contract awards during May rose to the highest level since June, 1930; it was 25 per cent higher than in April and 67 per cent above the average for May, 1940. One quarter of the month's reported total was for Government contracts in connection with the defense program.

Nonresidential building awards in the 37 States were more than double the figure for May, 1940. Large public and private contracts for factory buildings to handle defense production were mainly responsible for this increase. Awards for heavy engineering construction were 56 per cent above the same month last year. Reflecting a high level of private residential building and progress on the Government's program for housing defense workers, awards for residential building were 38 per cent above May of last year and the highest for any month since July, 1929.

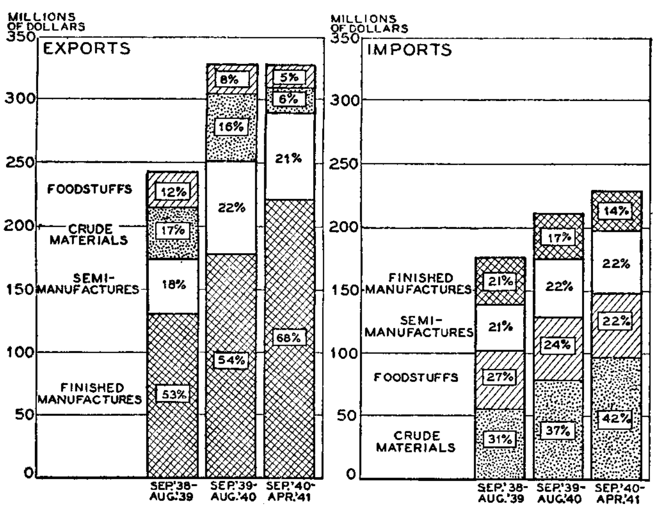
Owing primarily to the stimulating effect of the year old defense program, the total volume of contract awards in the 37 States during the twelve months ended May 31, 1941, was 37 per cent greater than in the preceding twelve months. The largest gain (83 per cent) occurred in the field of nonresidential building, reflecting, for the most part, construction of, and additions to, factory buildings. Residential building awards were up 32 per cent; awards for heavy engineering projects increased only 8 per cent. The relatively small increase in this latter category is due in part to the fact that defense construction of this type has to a certain extent taken the place of the civilian public works program rather than representing a net addition.

During the first half of June the daily rate of construction awards showed little change from the average for May. Compared with the corresponding period of 1940, contracts were up 75 per cent, and all major classifications recorded substantial increases.

Foreign Trade

Despite numerous disruptions since the outbreak of the present European war, including stringency that has developed in the ocean shipping situation, this country's foreign trade has been substantially above the prewar levels, both in aggregate dollar values and in estimated quantities. The monthly average value of domestic merchandise exports in the first eight months of the second year of the war (September, 1940—April, 1941) was $326,000,000, an amount about equal to the average of the first war year, when France was drawing heavily upon the United States for war materials, and 35 per cent above the rate in the twelve months prior to the war. Shipments of American products to British Empire countries, which have increased sharply during the war period, have played the dominant part in the expansion of our export trade. The average value of imports for consumption in the September, 1940—April, 1941 period, at $229,000,000, exceeded the monthly average for the first year of the war as well as the average for the twelve months preceding the war. The gain in imports reflected increased receipts of strategic materials for defense purposes, and greater industrial activity generally.

The expansion in this country's foreign trade since August, 1939 has been accompanied by wide shifts in the types of commodities exported and imported, as is indicated in the following chart. A marked gain has occurred in exports of finished manufactures, which increased from a monthly average value of $130,000,000 in the prewar year, or 53 per cent of all exports, to $221,000,000 in the first eight months of the second war year, or 68 per cent of the total. The increase in this type of exports is accounted for largely by the accelerated shipments abroad of airplanes and other manufactured products for military use. On the other hand, as Continental Europe became virtually closed to all outside markets and as the British Empire demands were concentrated more and more in war materials in advanced stages of manufacture, exports of crude materials and of foodstuffs were reduced to small proportions. Exports of crude materials, including cotton and tobacco, decreased from a monthly average value of $42,000,000 to one-half that volume in the first eight months of the second war year. Exports of foodstuffs, already at low levels in the prewar period, declined to comparatively negligible amounts.



Major Economic Classifications Composing United States Exports and Imports (Department of Commerce data)

Changes in the different types of imports have not been so pronounced as in the case of exports, although imports of crude materials rose from a monthly average of $55,000,000, or 31 per cent of all imports in the prewar year, to $97,000,000 or 42 per cent of the total in the September, 1940—April, 1941 period. Large factors in the gain were increased receipts of rubber, wool, and other industrial raw materials included in this category.

Department Store Trade

Sales of the reporting department stores in the Second Federal Reserve District during the four weeks ended June 28 were about 9 per cent larger than in the corresponding weeks of 1940, and the daily rate of sales for this portion of June appears to have averaged slightly higher than in May.

In May, sales of the reporting department stores in this District were 16 per cent higher than in May, 1940, but the daily rate of sales declined more than seasonally from the high April level, the changing date of Easter and other seasonal factors considered. During May substantial year-to-year advances were reported in sales of housefurnishings, clothing, and silverware and jewelry.

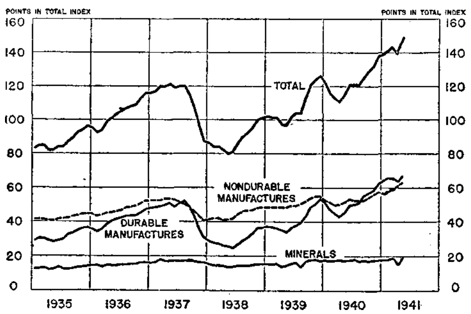
Retail stocks of merchandise on hand in the department stores at the end of May continued 9 per cent higher than a year ago, but remained low relative to the current rate of sales.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	May, 1941	Jan. through May, 1941	May, 1941
New York City (includes Brooklyn)	+14	+10	+ 8
Northern New Jersey	+16	+13	+ 9
Newark	+15	+12	+ 9
Westchester and Fairfield Counties	+25	+19	+12
Bridgeport	+28	+24	+16
Lower Hudson River Valley	+20	+13	+ 2
Poughkeepsie	+21	+15	—
Upper Hudson River Valley	+21	+18	+ 4
Albany	+17	+14	—
Central New York State	+24	+22	+19
Mohawk River Valley	+26	+27	+25
Syracuse	+24	+21	+17
Northern New York State	—	—	—
Southern New York State	+19	+20	+ 4
Binghamton	+22	+20	—
Elmira	+22	+32	—
Western New York State	+20	+17	+11
Buffalo	+24	+22	+11
Niagara Falls	+13	+ 6	+12
Rochester	+15	+13	+11
All department stores	+16	+12	+ 9
Apparel stores	+14	+ 8	+ 4

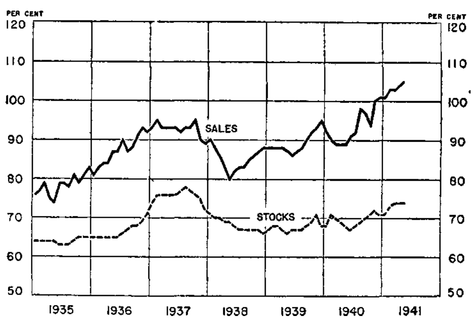
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923–25 average = 100)

	1940	1941		
	May	Mar.	Apr.	May
Sales (average daily), unadjusted	84r	84	100	95
Sales (average daily), seasonally adjusted	88r	98	103	99
Stocks, unadjusted	81r	87	89	88
Stocks, seasonally adjusted	79r	86	87	86

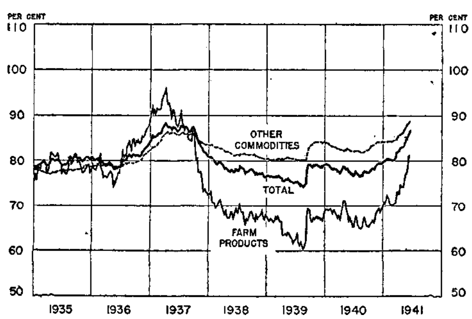
r Revised.



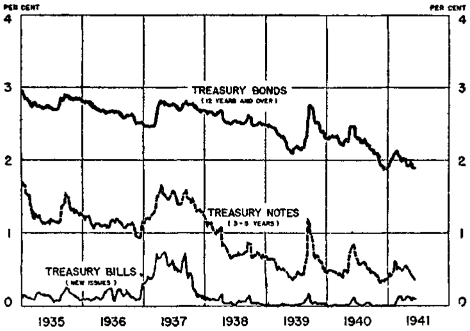
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average = 100 per cent; durable manufactures, nondurable manufactures, and minerals expressed in terms of points in total index)



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



Indexes of Wholesale Prices Compiled by United States Bureau of Labor Statistics (1926 average = 100 per cent)



Money Rates in New York City

Business Conditions in the United States

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

After a slight decline in April industrial activity increased sharply in May and the first half of June. Wholesale commodity prices showed a further considerable advance and retail prices also increased. Distribution of commodities to consumers was maintained in large volume.

Production

Volume of industrial output increased sharply in May, following a decline in April, and the Board's seasonally adjusted index rose to 149 per cent of the 1935-1939 average, as compared with 140 in April and 143 in March. The decline in April had reflected mainly reduced output of bituminous coal and automobiles occasioned by shutdowns accompanying industrial disputes. These were settled during the month and in May and the first half of June output in these industries rose to the high levels prevailing earlier.

In a number of other lines activity increased steadily throughout the spring months, particularly in the machinery, aircraft, and shipbuilding industries. Steel production was maintained at 99 per cent of capacity, except for a short period during late April and early May when output was reduced somewhat owing to a shortage of coal. Output of nonferrous metals also continued near capacity; deliveries of foreign copper in May increased to 49,000 tons, amounting to about one third of total deliveries to domestic consumers. Toward the end of the month, as it became apparent that combined military and civilian need for these metals would soon greatly exceed available supplies, a General Preference Order covering all iron and steel products was issued by the Priorities Division of the Office of Production Management and in June mandatory priority controls were established for copper and zinc.

Textile production rose further in May, reflecting increased activity at cotton, wool, and rayon mills. A continued rise in output of manufactured food products was likewise reported and activity in the chemical and shoe industries was maintained at earlier high levels, although usually there is a considerable decline at this season. Petroleum production increased, and output of anthracite also advanced following some curtailment in April. Iron ore shipments amounted to 11,000,000 tons in May, a new record level and near the shipping capacity of the present Lake fleet.

Value of construction contract awards rose sharply in May, reflecting increases in both public and private construction, according to F. W. Dodge reports. Awards for private residential and nonresidential building increased more than seasonally, and contracts for defense projects continued in large volume.

Distribution

Distribution of commodities to consumers was sustained at a high level in May. Department store sales showed a further rise, while sales at variety stores declined by slightly more than the usual seasonal amount. Retail sales of new automobiles continued at the high April level and sales of used cars rose further.

Freight car loadings increased sharply in May, reflecting a marked rise in coal shipments and a further expansion in loadings of miscellaneous freight. In the first half of June total loadings were maintained at the advanced level of other recent weeks.

Commodity Prices

Wholesale prices of a number of agricultural and industrial commodities showed further increases from the middle of May to the middle of June and the general index of the Bureau of Labor Statistics advanced two points to 87 per cent of the 1926 average. Federal action to limit price increases was extended to some consumer goods, principally new automobiles, hides, and certain cotton yarns. In retail markets prices of most groups of commodities have advanced, reflecting in part increases in wholesale prices earlier this year.

Bank Credit

Commercial loans at reporting banks in 101 cities continued to rise during the four weeks ended June 11. Bank holdings of United States Government securities increased further, chiefly through the purchase of bills by New York City banks and of bonds by banks in other leading cities. As a result of the expansion in loans and investments bank deposits continued to increase.

United States Government Security Prices

Following a rise in the latter part of May Treasury bond prices declined slightly in the first half of June. On June 14 the 1960-65 bonds were $\frac{7}{8}$ of a point below the all-time peak in prices of December 10. Yields on both taxable and tax exempt 3 to 5 year notes declined slightly from the middle of May to the middle of June.