MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

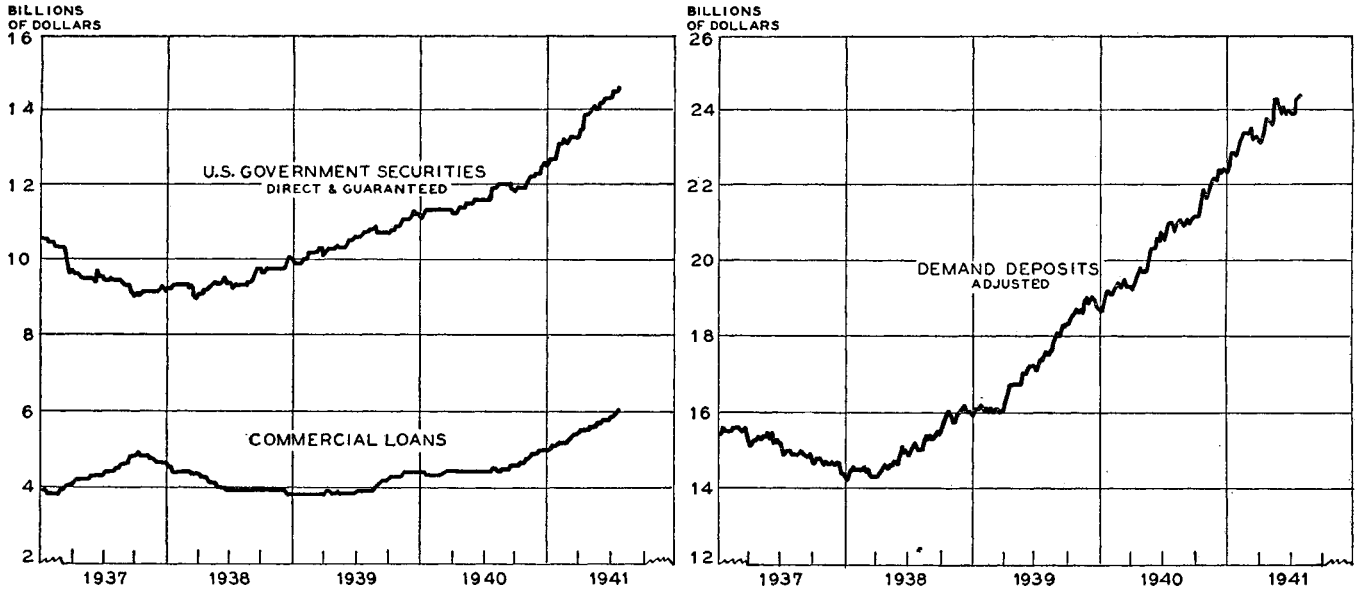
Federal Reserve Bank, New York *August 1, 1941*

Money Market in July

There was a further growth in the volume of bank credit in use during July, judging from data which became available from the weekly reporting member banks in principal cities.* On the July 23 reporting date, the outstanding total of loans and investments made by the reporting banks reached a new high figure of $28,646,000,000, or about $4,200,000,000 above the 1929 peak of the reporting banks' loans and investments. Latest available figures for all member banks and all commercial banks are for the April, 1941, call date; these figures show that all member banks' loans and investments were then approximately $3,000,000,000 above the 1929 peak, although the loans and investments of all commercial banks were still some $3,400,000,000 below the 1929 peak. The comparable figure for the weekly reporting member banks was an increase of about $2,500,000,000 over the 1929 peak. Since last April, therefore, credit expansion in the reporting member banks, alone, has amounted to approximately $1,700,000,000.

The principal elements accounting for the expansion of reporting member bank loans and investments during recent years are indicated in the left part of the accompanying diagram. Holdings of United States Government direct and guaranteed securities by the reporting banks have increased $2,100,000,000 in the period since the beginning of the current year, $2,700,000,000 since the comparable date a year ago, and $3,750,000,000 in the period since the outbreak of the European war. The other principal way in which bank credit has been extended has been through commercial, industrial, and agricultural loans. The outstanding volume of such loans has increased approximately $1,000,000,000 since the beginning of this year, $1,550,000,000 since the comparable date a year ago, and about $2,000,000,000 since August 30, 1939. There has also been an increase in so-called "other loans" of the reporting banks; such loans, which include personal and instalment credit loans, have shown an increase of about $160,000,000 since the beginning of 1941, a rise of $280,000,000 since July, 1940, and

* Such banks account for approximately three fourths of the assets of all member banks and for nearly two thirds of the assets of all commercial banks in the country.



United States Government Security Holdings, Commercial Loans, and Adjusted Demand Deposits of Weekly Reporting Banks in Leading Cities

an increase of $370,000,000 since August, 1939. Outstanding real estate loans and open market paper holdings of the reporting banks have also tended to increase somewhat, and their holdings of securities other than United States Government obligations have shown a moderate net increase for the war period. Loans to brokers and dealers in securities and other loans for purchasing or carrying securities have declined.

The right hand part of the diagram indicates the growth, which has occurred at reporting banks, in demand deposits belonging to individuals, corporations, and other depositors except banks and the United States Government. In the period since the outbreak of the war, adjusted demand deposits of the reporting banks have increased by one third to a record high level of $24,380,000,000. The rise in demand deposits has been caused by the expansion of bank loans and investments and by the inflow of funds from abroad, the effect of which has been partly offset by an increase in the amount of currency in circulation and other transactions tending to reduce deposits. For the more recent period—since the beginning of 1941—the rise of $2,080,000,000 in adjusted demand deposits has been equal to only two thirds of the rise in loans and investments of the reporting banks, owing to increased currency demands by the public, a marked decrease in the amount of funds being transferred here from abroad (reflected in the much reduced gold inflow), and to a rise in Treasury deposits in the Reserve Banks. Another possible factor is the apparent tendency for business funds to flow from New York to other parts of the country, which may have resulted in some net transfer of demand deposits from reporting banks to nonreporting banks.

Although the volume of deposits held by individuals and corporations has shown rapid increases to successive, new high levels, the activity or velocity of such deposits has so far remained at a low rate. With demand deposits already considerably above the level of 1929, and the amount of currency in the hands of the public also much higher than in 1929, an increase in the rate of turnover of deposits, should it occur, could make the present money supply excessive relative to the volume of nondefense goods that could be produced, under conditions where the National defense program is progressively absorbing capacity and materials formerly available for such nondefense production. It is this possibility which emphasizes the importance of financing the increase in the Government debt, consequent upon the National defense effort, by sales of securities to investors other than commercial banks. Net purchases of Government issues by the commercial banks, which appear to have equaled in amount the major part of the volume of new issues of marketable Government securities during the present year, result in further increases in deposits, whereas purchases by other investors have no such effect.

Excess Reserve Position

Following the large decline of the previous month, excess reserves of all member banks held relatively stable in July. From $5,150,000,000 on June 25, the total rose to $5,270,000,000 on July 2, owing to Treasury disbursements and other transactions which more than offset the large increase in currency circulation that occurred in the week prior to the Independence Day holiday. Subsequently, the volume of excess reserves continued to fluctuate inversely with changes in Treasury balances in the Reserve Banks. The total declined to $5,120,000,000, the lowest figure since December, 1939, during the week ended July 9, owing to payments to the Treasury for the new issue of Reconstruction Finance Corporation notes, and, after a rise to $5,340,000,000 on July 16, chiefly as a result of heavy Treasury disbursements, dropped to $5,180,000,000 for the week ended July 23, reflecting payments to the Treasury for the new issue of Commodity Credit Corporation notes, and receded further to $5,160,000,000 on July 30. In New York City, excess bank reserves declined to $2,060,000,000 on July 9, the lowest for any statement date since March, 1939, and were around $2,110,000,000 toward the end of July.

Money Rates in New York

	July 31, 1940	June 30, 1941	July 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	½
Bills—90 day unindorsed	3/16	3/16	3/16
Average yield on Treasury notes (3-5 years)†	0.58	0.38	0.33
Average yield on Treasury bonds (not callable within 12 years)†	2.29	1.96	1.96
Average rate on latest Treasury bill sale, 91 day issue	0.004	0.066	0.094
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

Considerable interest in the Government security market and in financial circles, generally, developed on the subject of tax anticipation notes which the Secretary of the Treasury on July 3 announced would be issued in two series, both dated August 1, 1941 and maturing August 1, 1943, available for purchase in the remaining part of this year. In addition, it is expected that on January 1 two new series of two year notes will be offered, so that a tax payer can purchase notes during the entire year in which income is received, to be used in payment of taxes due in the following year.

The two issues of tax anticipation notes dated August 1, 1941 are to be sold at par and accrued interest, and may be used in payment of Federal income taxes (current and back personal and corporation taxes, and excess profits taxes) at any time after three months from the month of issue, but not before January, 1942. The notes will not be transferable, nor can they be used as collateral. Notes of Tax Series A-1943 will be issued in denominations of $25, $50, and $100. The amount of this series which may be used in payment of Federal income taxes will be limited to $1,200 principal amount

in any period of twelve consecutive months by any one tax payer. These notes will provide an interest return of 1.92 per cent per annum when used in payment of taxes; if not so used they are redeemable only at the purchase price. Notes of Tax Series B-1943 will be issued in denominations of $100, $500, $1,000, $10,000, and $100,000. Any amount of Federal income taxes due may be paid with notes of this series, and when so used will provide a return of 0.48 per cent a year. Provision has been made for qualified depositary banks to make payment by credit on their books to the account of the Government for notes applied for in behalf of themselves and their customers. The availability of this means of payment should serve to avoid excessive shifting of funds from member bank reserve balances to Treasury deposits in the Reserve Banks.

Again in July strength was apparent in the prices of United States Government securities and in many instances quotations reached new highs for 1941. Rising moderately in the first week of the month, the average price of four long term tax exempt Treasury bonds by July 7 had attained a position approximately equivalent to the record high of last December, and the average yield on these issues reached a new low of 1.95 per cent. After an intervening dip the price average of these issues practically regained its peak level, but as a result of a slight downward reaction on the closing day of July, there was little net change shown for the month as a whole. The persistent advance in taxable bonds also continued in July. All three issues advanced to new highs since issuance, the 2½'s of 1956-58 gaining 1⅛ points to above 105.

Advancing tendencies in prices of Treasury notes were most marked in the latter part of the month and were largely restricted to tax exempt issues. The average yield on 3 to 5 year tax exempt Treasury notes showed a net decline of 0.05 per cent to 0.33 per cent. Yields on the taxable ¾ per cent National Defense note issues were off 0.03 per cent.

Accepted bids on the five weekly issues of taxable Treasury bills during July were tendered on an interest basis averaging between 0.087 per cent and 0.098 per cent. Each of the issues was in the amount of $100,000,000 and each replaced similar maturities.

The Treasury offered on July 10, on behalf of the Commodity Credit Corporation, $400,000,000 or thereabouts of Commodity Credit Corporation 1⅛ per cent Series G notes dated July 21, 1941 and due February 15, 1945, and at the same time offered to purchase on July 21, 1941 the $203,000,000 outstanding Series D Commodity Credit Corporation notes, maturing August 1, 1941, to the extent that the holders of such maturing notes subscribed for the new notes. The offering was heavily oversubscribed. Subscriptions from holders of about $201,000,000 of the Series D notes, tendering the latter for purchase, were allotted in full, and all other subscriptions were allotted 4 per cent. This operation provides about $211,000,000 of new money for the Commodity Credit Corporation.

New Financing

During July, the volume of corporate and municipal new security flotations declined to $161,000,000, the smallest monthly total since September, 1939, the first month of the war. Corporate financing, at $117,000,000, reached the lowest volume in more than a year and only $41,000,000 of this amount represented funds to be employed as new capital.

The principal issues publicly offered or privately sold during the month were:

$47,800,000	New York State Electric and Gas Corporation securities, consisting of $35,400,000 first mortgage 3¼ per cent bonds of 1971, sold privately at a net interest cost of 3.04 per cent, and 120,000 shares ($12,400,000) of 5.1 per cent cumulative preferred stock, priced at $103.50 a share; $6,400,000 for new capital purposes
19,500,000	McKesson and Robbins, Inc. securities, consisting of $13,700,000 sinking fund 3½ per cent debentures of 1956, priced at 104¾ to yield 3.10 per cent, and 56,000 shares ($5,800,000) of 5¼ per cent cumulative preferred stock, priced at $103 a share; $3,800,000 for new capital purposes
15,000,000	Remington Rand, Inc. sinking fund 3½ per cent debentures of 1956, priced at 103¾ to yield 3.18 per cent, all for refunding purposes.

Temporary financing, not included in the $161,000,000 total, amounted to $256,000,000 and included $135,000,000 Commonwealth of Pennsylvania tax anticipation notes, $40,000,000 New York City revenue bills, $29,500,000 notes of ten local housing authorities, and $15,900,000 Federal Intermediate Credit Bank consolidated debentures.

New issues indicated for the future include $234,000,000 American Telephone and Telegraph Company 3 per cent convertible debentures currently being offered to stockholders through warrants, $52,000,000 Florida Power and Light Company refunding bonds, and $33,000,000 Wisconsin Power and Light Company bonds and notes.

Security Markets

The lethargy which had affected trading on the stock market during several previous months was broken in July as stock prices, measured by Standard's 90 stock average, moved up more than 6 per cent in the first three weeks of the month to reach the highest level since January, 1941. The largest gains in stock quotations were made on July 7 and 8, apparently reflecting favorable news from the Russian front and the announcement of the occupation of Iceland by United States military forces. The market also showed a substantial rise on July 21, and on that date the 90 stock price average was only 3½ per cent below the high for the year attained on January 10. After a period of adjustment in the sessions following July 21, the market again moved upward near the end of the month, and stocks

closed the month showing a net price gain of about 5 per cent. All major groups shared in the July advance. The railroad shares on July 31 set a new 1941 high. The utility shares, which had been lagging behind other sections of the market in recent months, showed persistent strength in July. The volume of trading on the New York Stock Exchange during July was the heaviest reported since December, 1940.

Domestic corporate bond prices continued to tend upward during July. The price average of high grade bonds of this type, those classified Aaa by Moody's Investors Service, showed irregular gains through July 14 when the highest level since early January was reached, only ¾ point below the record high of December, 1940. Both the railroad and utility bond groups reached record levels during the month. However, the combined Aaa price average drifted somewhat lower in the latter half of July. Rail bonds were a feature in the ½ point average gain shown for medium grade (Moody's Baa) bonds during July. The price average of prime municipal bonds attained a record high toward the close of the month.

Foreign Exchanges

New York trading in the Continental European currencies, which had been suspended following the freezing of the accounts of most European countries on June 14, continued practically at a standstill during July, even in the currencies of those neutral Continental countries now covered by general licenses. However, it is understood that the Swiss National Bank is now prepared to purchase dollars against Swiss francs provided the dollar offerings represent proceeds of the export of Swiss goods, revenue from Swiss investments in the United States, or payments for living expenses in Switzerland. In addition, Swedish banks appear to be furnishing Swedish kroner against dollars at a rate of 4.19 to the dollar (equivalent to $0.2386).

Latin American exchanges for the most part fluctuated within narrow limits. Having risen from $0.2750 on July 1 to $0.2900 on July 28, the free rate for the Venezuelan bolivar declined to $0.2725 on July 31, accompanying advices that a new decree had been promulgated by the Venezuelan Government on July 23, 1941, establishing the official rate at 3.35 bolivars to the dollar (equivalent to $0.2985) instead of 3.19 (equivalent to $0.3135), which had been in effect since April, 1937. The new decree also abolished all export premiums and instead fixed different rates for various export products; in addition it authorized a free exchange market in Venezuela along with the controlled exchange market there.

On July 1, the Japanese buying rate for the dollar was changed from $0.2344 to $0.2356. This action was presumably taken in order to bring the dollar rate more in line with the official quotation for sterling. As a result, the yen was quoted in the New York market, until July 26, at $0.2358, as compared with $0.2345 which had prevailed from October, 1939 to July 1, 1941. In the Shanghai market, the dollar rate for the Chinese yuan, which had been holding steady at about 5⅜ cents for somewhat over a month, turned downward on July 3, reaching a low of 5 3/16 cents on July 8. This reaction appeared to result from Far Eastern political and military developments at the time. By July 17, however, this entire loss had been regained, presumably owing to large sales by Japanese interests of United States dollar exchange against Chinese yuan. Subsequently, the Chinese yuan again declined until the July 8 low of 5 3/16 cents was reached, remaining at that level on Monday, July 28.

As a consequence of the Executive Order of July 26, 1941, extending the United States "blocking" control to Chinese and Japanese accounts, New York trading in the currencies of these countries was suspended. The British authorities took parallel steps and issued regulations freezing Chinese and Japanese assets.

Gold Movements

Imports of gold into the United States continued in small volume during July, and the increase in the United States gold stock of about $50,000,000 was approximately the same as in June. Gold held under earmark for foreign account at the Federal Reserve Banks increased about $30,000,000 during the month to approximately $1,945,000,000.

In the five weeks ended July 23, the Department of Commerce reported the receipt of $41,900,000 of gold in the following principal amounts: $20,100,000 from Canada, $9,600,000 from Australia, $3,700,000 from the Philippines, $2,100,000 from Colombia, $1,200,000 from Mexico, $700,000 from Nicaragua, $600,000 from Peru, and $500,000 from the United Kingdom.

Foreign Discount Rate Change

According to a press report, via Berlin, the institution operating in Amsterdam in the name of the Netherlands Bank reduced its discount rate from 3 per cent to 2½ per cent on June 27.

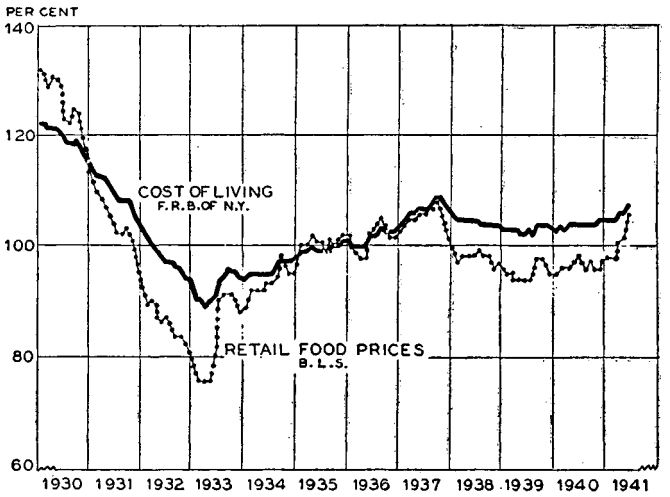
Commodity Prices

Accompanying extensive discussion of legislation relative to Federal price control powers, which culminated in the President's message of July 30 to the Congress on the subject, together with increasing tension in the Far East, irregular price advances characterized the wholesale commodity markets during July. Judging from the Bureau of Labor Statistics comprehensive weekly index, the general level of wholesale prices surpassed the 1937 peak and reached the highest point since early 1930. For the war period (since August, 1939) this index has advanced almost 20 per cent; the index of farm products alone has risen somewhat more than 40 per cent.

Reflecting among other things the announcement by the Department of Agriculture that cotton acreage under cultivation this year is the smallest since 1895, together with reports of generally unfavorable weather for crop development, cotton quotations advanced sharply during July. The average price of spot cotton in 10 Southern markets rose nearly 2¾ cents to as high as 16.92 cents a pound on July 26, or about the general level prevailing late in 1929, but declined almost a cent on July 30-31. An announcement on July 18 of upward revisions in price ceilings previously established on cotton cloths served as an additional stimulus to the advance in raw cotton prices. During the month it was reported that the Office of Price Administration and Civilian Supply reached an agreement with rayon producers respecting prices for rayon fabrics.

Wheat prices fluctuated irregularly during July, but showed small net changes for the month as a whole. Following publication of higher official estimates of this year's crop based on recent conditions, wheat quotations were depressed by reports of a scarcity of available warehouse space. The Department of Agriculture announced on July 13 that wheat producers exceeding their 1941 marketing quotas would be allowed to store their wheat for another year, and later made provisions for farmers to obtain release of this grain without penalty by agreeing to plant below their 1942 acreage allotment. Corn prices moved within a relatively narrow range, continuing to reflect the large volume of Commodity Credit Corporation holdings overhanging the market. Accompanying further purchases by the Surplus Marketing Administration, hog prices rose $1.06 to $11.59 a hundredweight on July 17—a new high since 1937; in subsequent trading, however, over a third of this gain was canceled. Likewise, cottonseed oil, lard, and soy beans rose sharply early in the month and later showed downward reactions. Quotations for steers advanced irregularly from $10.63 a hundredweight at the end of June to $11.42 a hundredweight on July 31.

Import prices in July were considerably disturbed by political developments in the Far East and by the adoption of economic measures affecting trade with Japan, especially the freezing on July 26 of Japanese assets in this country. Silk prices in New York were up 54 cents to $3.57½ a pound on July 26, most of the rise occurring late in the month. On July 27 official orders were issued prohibiting the movement of raw silk stocks in this country and suspending futures trading; also, it was announced that a ceiling price would be imposed on raw silk. Owing in part to lack of shipping space, burlap prices advanced to the highest level since 1920. Quotations for rubber moved up 1 cent to 23¼ cents a pound, apparently reflecting limited supplies of "free" rubber in this country, and cocoa prices advanced substantially late in the month. Coffee prices were higher, and quotations on sugar showed a moderate advance for the month, despite action by the Department of Agriculture on July 19 increasing permissible sugar imports.



Indexes of Cost of Living and Retail Food Prices (1935-39 average=100 per cent)

In general prices of metals of domestic origin held steady throughout July. Coal and fuel oil prices, however, continued to rise. Tin at 55.25 cents a pound on July 25 was up 2½ cents from the end of June to the highest level in over a year, but later lost the entire gain. Recent acquisitions of Canadian and Mexican lead were reported by the Metals Reserve Company. The Priorities Division of the Office of Production Management placed cutting tools under a full priorities system, and the Office of Price Administration and Civilian Supply put prices of brass scrap under a ceiling schedule.

In recent months, especially since March, rising tendencies have become apparent in retail prices. Available indexes of the cost of living, computed to measure changes in the cost of living of wage earners and lower salaried employees in the larger cities, show increases of 3 to 4 per cent between December of last year and June of this year. The increase in retail food prices on the average has amounted to about 9 per cent over the same period and since food usually constitutes the largest single item in family budgets, frequently accounting for as much as one third of total expenditures, the increase in food prices has played an important part in the recent rise in the cost of living. As the accompanying chart indicates, retail food prices and cost of living currently are approaching the high levels reached in 1937—which followed a period of droughts and small crops—and these indexes are otherwise at the highest levels since 1931.

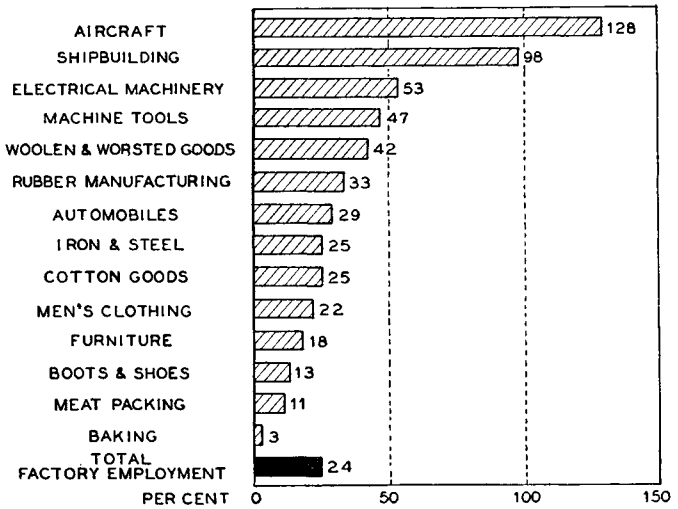
Employment and Payrolls

Working forces in New York State factories increased nearly 2 per cent further during June, and aggregate wage payments advanced 4 per cent, although ordinarily both employment and payrolls decrease somewhat at this time of year. Continued expansion in the number

of employees at plants with defense contracts was again the major factor in the gains. In the metals and machinery group gains in both employment and payrolls were shown for the fourteenth consecutive month. During the past year total payrolls for this group have almost doubled, and employment has increased over 60 per cent. Employment in consumers' goods industries during June generally responded to usual seasonal factors; women's clothing and millinery firms reduced working forces, while all branches of the food and tobacco group took on additional employees during June. Compared with June, 1940, factories in New York State employed 30 per cent more persons and payroll disbursements were 55 per cent greater.

Factory employment in the United States as a whole, according to the Bureau of Labor Statistics, rose 2 per cent during June and payrolls increased 5½ per cent. The largest gains were again mainly concentrated in durable goods industries, particularly aircraft, shipbuilding, machinery, lumber, and furniture. In response to seasonal factors, food manufacturers hired additional workers, while sizable increases in employment, of a contraseasonal nature, were shown by firms in the shoe and rubber industries.

Considering the National defense effort as having been initiated on a major scale shortly after the organization of the National Defense Advisory Commission, June, 1941 marks the end of the first year of the program. During the year factory employment as a whole rose 24 per cent and factory payrolls increased 53 per cent. Although gains in employment over this period were common to all the more important fields of manufacturing, there was considerable variation in the magnitude of increases in employment from one industry to another. As the accompanying chart indicates, industries which have been mainly devoted to defense work, and whose capacities have been greatly expanded to meet those needs, have shown especially large gains; airplane factories and shipyards doubled their working forces during the period and some branches of the machinery industry were employing half again as many workers as a year ago. In other lines, such as automobiles and men's clothing, employment increases over the year were attributable in part to defense work and in part to expanded consumer demand. However, in consumers' nondurable goods industries such as meat packing and baking, additions to working forces were considerably smaller than in manufacturing as a whole; such industries experience a relatively stable demand for their products and have been little affected, relatively speaking, by the defense program.



Percentage Increases Between June, 1940 and June, 1941 in Employment in Certain Industries and in Total Factory Employment (Based on Bureau of Labor Statistics indexes)

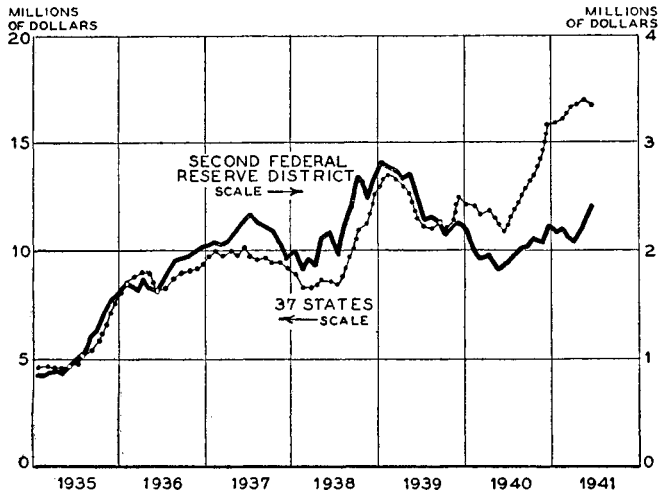
Total nonagricultural employment in the United States increased to 38,800,000 persons during June, almost 500,000 more than in May and 3,400,000 above the figure for June, 1940. Working forces in nonagricultural occupations reached an all-time high in June and were 1,300,000 above the highest point reached in 1929. An increase of over 200,000 workers in manufacturing was the most important factor in the May-June gain; employment in wholesale and retail trade rose 100,000, and all other major categories of employment reported larger working forces. Military and naval personnel (not included in the estimate of nonagricultural employment) increased 80,000 further in June, reaching a total of over 1,700,000 persons, more than 3½ times as great as in June, 1940.

Building

As a result of a particularly large volume of awards included in the June total, construction contracts awarded during the second quarter of 1941 in New York and Northern New Jersey were half again as large as in the second quarter of 1940. For the past year quarterly figures for the 37 Eastern States covered in the F. W. Dodge Corporation reports have been showing year-to-year increases ranging from 25 per cent to almost 60 per cent, but until the second quarter of this year awards in the New York and Northern New Jersey region had remained close to the levels of the previous year.

The recent gain in this area is attributable in large part to a growing volume of public contracts for defense projects, primarily for the construction and expansion of factory buildings. While only 1 per cent of all Government defense construction awards included in the first quarter total for the 37 States was for projects in this section of the country, during the second quarter 17 per cent went for work in the New York and Northern New Jersey area. Also contributing to the second quarter gain was an increased volume of private nonresidential building; private residential building was about unchanged from the second quarter of 1940.

The accompanying chart, which presents six month moving averages of seasonally adjusted contract award figures, indicates that despite the second quarter ad-



Average Daily Construction Contracts Awarded in 37 States and in Second Federal Reserve District (6 month moving averages of F. W. Dodge Corporation data, adjusted for seasonal variation)

vance, the level of construction activity in the Second Federal Reserve District (including in addition to New York State and Northern New Jersey, a section of Connecticut) has remained below the rate prevailing during the first months of 1939, and is only about a third above the low level in the spring of 1940.

In the 37 States, by way of contrast, a sharp increase stimulated by the start of the defense program occurred during the second half of 1940, and since then construction work has tended to run at a level about 20 per cent above the previous peak in 1939 and is currently about 50 per cent above the volume in the first half of 1940. Throughout the past year the largest gains have been concentrated in public construction, especially in the nonresidential building field, with generally smaller increases in private residential and nonresidential projects.

Production and Trade

While the summer is usually characterized by marked curtailment of business activity, preliminary data for July this year indicate strong resistance to seasonal influences in many lines, owing to the continued pressure of defense demands.

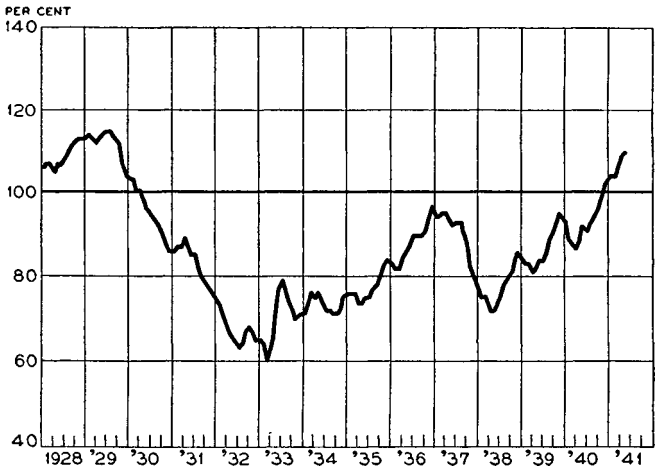
Steel mills continued to operate close to rated capacity during July and it has been estimated that domestic defense orders, directly or indirectly, were consuming somewhat over half of current output. Nevertheless, growing concern was expressed in the steel industry over actual or potential shortages of steel scrap and pig iron. With the approach of restrictions on production, automobile output declined considerably less in connection with model changeovers than in July of 1939 and 1940. The original agreement between the automobile industry and the Office of Production Management called for an average reduction in 1942 model schedules of approximately 20 per cent. It now appears, however, that defense agency officials contemplate a considerably larger reduction in passenger car output as well as substantial curtailment in production of certain other consumers' durable goods which require scarce materials such as steel, nonferrous metals, and rubber.

Cotton textile mill activity is reported to have continued at an exceptionally high rate in July. Operations were carried on primarily against heavy order backlogs, for mill sales of gray goods were at a virtual standstill until the latter part of the month when the cotton textile price ceilings, originally established on June 28, were revised upwards by the Office of Price Administration and Civilian Supply. Electric power production, in mounting to further record levels during the month, appears to have increased more than seasonally over June. Bituminous coal output, on the other hand, fell off from the high level of the preceding month.

Production and Trade in June

During June this bank's index of production and trade advanced one point further to 110 per cent of estimated long term trend. The month marked the end of the first year of the defense program and during this period the index rose 18 points to the highest level since October, 1929, as is shown in the accompanying diagram.

Producers' goods industries continued to operate at high levels during June and the group index for this category advanced to the highest point for the entire period covered by the index (1919 to date). Steel output, again averaging around 98 per cent of capacity, was at an annual rate of almost 83 million tons as compared with a rate of a little under 69 million tons in June, 1940. Bituminous coal output increased further, the steady building up of working forces continued in vital defense industries such as aircraft, shipbuilding, and machinery, and textile production was at a record rate, seasonal factors considered.



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

Partly in anticipation of compulsory curtailment of production during the coming model year, and also in response to continued heavy consumer demand, passenger car production continued at the May level, although a decline was to be expected at this time of the year. The output of consumers' nondurable goods showed a considerable increase over June, 1940, although the year-to-year gain in this category was not nearly so great as that in the consumers' durable goods lines where the prospect of future shortages resulted in particularly sharp increases in operating rates.

Railway freight traffic increased further in June and reached the highest level since 1930. There was a dip, however, in the volume of retail trade. Sales of department stores and mail order houses declined more than usual and retail sales of new passenger cars fell off from the record level of May. The latter decrease was apparently due more to the inability of dealers to maintain sufficient stocks than to a slackening of consumer demand.

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

	1940	1941		
	June	Apr.	May	June
Index of Production and Trade	92	105	109*p*	110*p*
Production of:				
Producers' durable goods	87*r*	119	123*p*	126*p*
Producers' nondurable goods	95	109	119*p*	121*p*
Consumers' durable goods	74*r*	89	95*p*	103*p*
Consumers' nondurable goods	97	102	105*p*	105*p*
Primary distribution	91*r*	98	106*p*	107*p*
Distribution to consumer	96	104	106*p*	104*p*
Industrial Production				
Steel*r*	111	123	127	131
Automobiles	93	90	121	131
Bituminous coal	93	19	122	125*p*
Crude petroleum	88	86	86	87*p*
Electric power	100	107	110*p*	111*p*
Cotton consumption	104*r*	146	148	152
Wool consumption	97	179*r*	195	198*p*
Shoes	97*r*	119	126*p*	134*p*
Meat packing	102	108	112	105
Tobacco products	99	101	100	99
Manufacturing Employment				
Employment	93	110	112	115*p*
Man-hours of employment	87	110	115	119*p*
Construction				
Residential building contracts	48	51	59	67
Nonresidential building and engineering contracts	54	76	94	88
Primary Distribution				
Ry. freight car loadings, mdse. and misc.	85	99	102	103
Ry. freight car loadings, other	93	80	117	117
Exports	114	116	117	..
Imports	82	93	96	..
Distribution to Consumer				
Department store sales (U.S.)	90	101	102	99
Grocery chain store sales	97	100	99	99*p*
Variety chain store sales	102	106	110	109
Mail order house sales	100	107	112	108*p*
New passenger car sales	92	113	117	115
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	54	57	58	60
Velocity of demand deposits, New York City (1919-25 average = 100)	24	24	25	27
*Cost of Living and Wages**				
Cost of living (1935-39 average = 100)	104	106	106	108*p*
Wage rates (1926 average = 100)	115	118	120	121*p*

p Preliminary. *r* Revised (In the case of steel, the series has been revised).
* Not adjusted for trend.

Department Store Trade

During the four weeks ended July 26, sales of the reporting department stores in the Second Federal Reserve District were about 21 per cent larger than in the corresponding weeks of 1940. Comparisons for July weeks, however, are affected by variations between 1940 and 1941 summer closing schedules. On the basis of the weekly figures, sales during July appear to have been reduced considerably less than is usual in that month.

In June, total sales of the reporting department stores in this District were 10 per cent higher than in June, 1940, and the daily rate of sales for June averaged higher than in May. As in May, substantial year-to-year advances were reported in sales of housefurnishings, silverware, and jewelry.

The total dollar volume of sales of the reporting department stores in this District for the first half of 1941 was 12 per cent higher than in the corresponding period of last year, compared with an increase of 2½ per cent between the first half of 1939 and 1940.

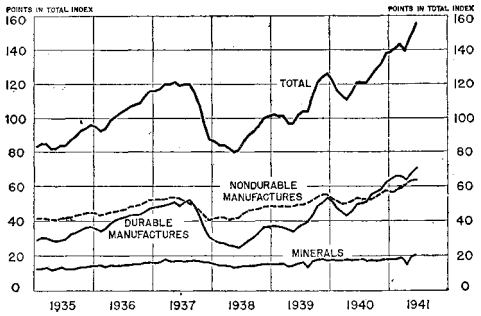
Retail stocks of merchandise on hand in the department stores at the end of June were 13 per cent higher than a year ago, and this bank's seasonally adjusted index of department store stocks in this District advanced four points to 90 per cent of the 1923-25 monthly average.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	June, 1941	Jan. through June, 1941	June, 1941
New York City (includes Brooklyn)	+ 8	+ 9	+13
Northern New Jersey	+ 9	+12	+ 9
Newark	+ 9	+12	+ 8
Westchester and Fairfield Counties	+18	+19	+20
Bridgeport	+23	+24	+19
Lower Hudson River Valley	+ 4	+11	+ 9
Poughkeepsie	+ 4	+13	—
Upper Hudson River Valley	+11	+17	+15
Albany	+ 8	+12	—
Central New York State	+17	+21	+23
Mohawk River Valley	+17	+25	+28
Syracuse	+18	+20	+22
Northern New York State	—	—	—
Southern New York State	+16	+19	+ 9
Binghamton	+15	+19	—
Elmira	+21	+30	—
Western New York State	+18	+17	+13
Buffalo	+26	+23	+14
Niagara Falls	+12	+ 8	+17
Rochester	+11	+12	+12
All department stores	+10	+12	+13
Apparel stores	+ 8	+ 8	+25

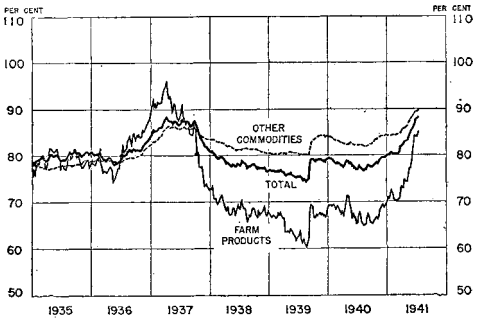
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923–25 average = 100)

	1940	1941		
	June	Apr.	May	June
Sales (average daily), unadjusted	88*r*	100	95	98
Sales (average daily), seasonally adjusted	92*r*	103	99	102
Stocks, unadjusted	76*r*	89	88	85
Stocks, seasonally adjusted	80*r*	87	86	90

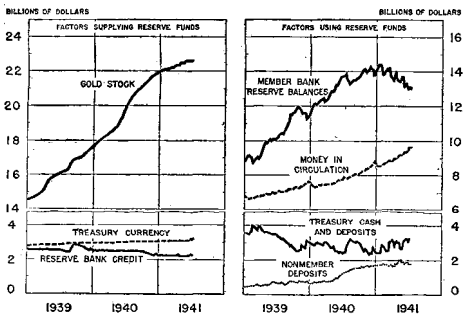
r Revised



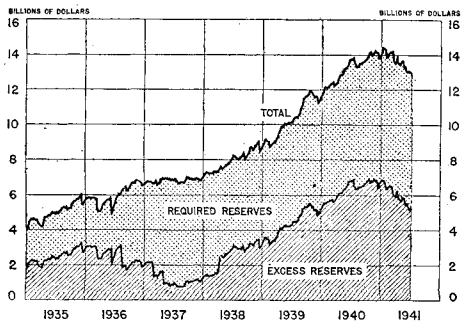
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent; durable manufactures, nondurable manufactures, and minerals expressed in terms of points in total index)



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



Member Bank Reserves and Related Items (Latest figures are for July 9)



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves

Business Conditions in the United States

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

INDUSTRIAL production increased further in June, continuing the rapid advance that began about a year ago. Commodity prices, both in retail and in wholesale markets, rose considerably between the early part of June and the third week of July.

Production

Reflecting the continued advance in industrial activity at a time when output ordinarily declines, the Board's adjusted index advanced from 150 per cent of the 1935-1939 average in May to 156 in June and preliminary estimates indicate a further rise in July. The current level compares with 104 before the start of the European war and 111 in the spring of 1940, when the current advance in industrial activity began.

Further increases in output were reported in June for a considerable number of industries, particularly those associated closely with the defense program, and there were no important declines. As in other recent months, activity in the aircraft, shipbuilding, machinery, and railroad equipment industries rose sharply. Automobile production was maintained at the high level of May, owing mostly to unusually large retail sales. Output of iron and steel and nonferrous metals, already close to capacity, did not show an increase to correspond with the rise in output of finished metal products and official statements indicated growing concern over shortages of numerous materials. Steel ingot production remained close to 99 per cent of capacity during June, but the rate in the middle of July was slightly lower. For the year to date output of steel has averaged 98 per cent of the rated capacity as of December, 1940.

Output of textiles and most other nondurable manufactures in June continued at recent advanced levels, which in some instances represent capacity production. Output of chemicals continued to increase rapidly. Also, there was a sharp rise in rubber consumption, reflecting continued heavy demand for rubber products and the fact that June was the last month before curtailment of rubber consumption by industry was to go into effect and was the month to be used in apportioning July consumption among various manufacturers.

Mineral production increased in June, with a marked rise in output of anthracite, some further increase in output of bituminous coal, and a continued advance in crude petroleum production to a new high level.

Value of construction contract awards in June continued at the high level reached in May and was nearly two-thirds above a year ago, according to figures of the F. W. Dodge Corporation. Awards for public construction again increased sharply, reflecting continued expansion in the volume of defense construction projects. Private residential building contracts declined somewhat more than seasonally, following an increase in May.

Distribution

Sales of general merchandise showed little change from May to June. Department store sales decreased more than seasonally, while rural retail and variety store sales remained at the May level, although a decline is usual at this time of the year. In the early part of July sales at department stores rose somewhat and were 24 per cent higher than a year ago.

Loadings of revenue freight increased further in June, reflecting continued expansion in shipments of coal and miscellaneous merchandise, and by the end of the month were in larger volume than at any time during the seasonal peak last autumn.

Commodity Prices

Wholesale prices of most groups of commodities continued to advance from the early part of June to the middle of July. Prices of foodstuffs showed large increases and there were substantial advances in prices of a number of industrial raw materials and finished products. Following earlier marked advances, prices of hides and cotton gray goods were reduced by Governmental action. Retail prices for foods and many other commodities have been rising and in June the cost of living was about 4 per cent higher than 4 months earlier. Preliminary figures indicate further advances in July.

Bank Credit

Holdings of United States Government securities by member banks in 101 leading cities increased further during June and early July, reflecting in part new offerings by the Treasury. Commercial loans continued to rise sharply.

Notwithstanding the greater volume of bank loans and investments, deposits of city banks declined somewhat over the period, reflecting mainly a growing demand for currency and a building up of Treasury deposits at the Reserve Banks. These developments also resulted in a decrease in the volume of excess reserves, which amounted to about $5,300,000,000 on July 16, compared with $6,900,000,000 a year earlier.

United States Government Security Prices

United States Government securities advanced further during the latter part of June. Partially tax exempt 1960-65 bonds on June 26 were at an all-time peak, on a 2.02 yield basis. Since that time they have declined slightly. Taxable bonds generally continued to advance to successive, new high levels. Yields on Treasury notes showed little change during the latter part of June and the first half of July.