MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York — *September 1, 1941*

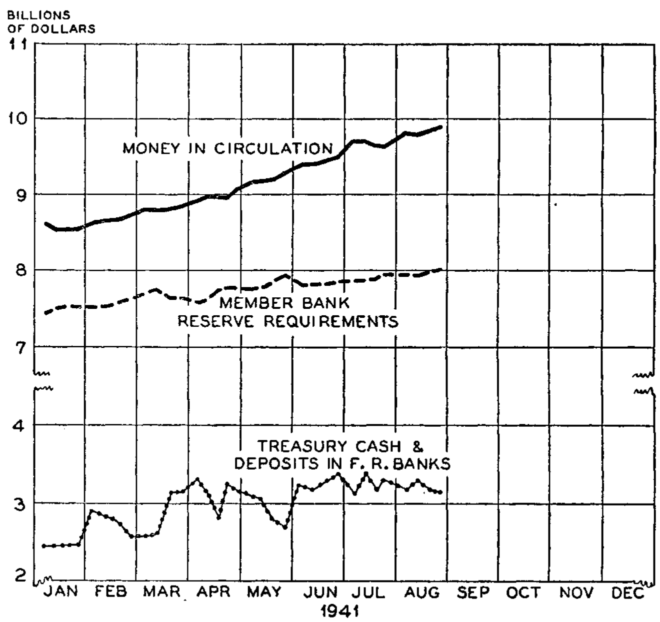
Money Market in August

Excess reserves of all member banks of the country declined somewhat further in August, reaching $4,990,000,000 on August 27, the lowest figure since December, 1939. For the period since January 15, 1941, when the surplus amounted to $6,900,000,000, or virtually the same as at the peak of October, 1940, the movement of excess reserves has been chiefly influenced by the three factors—money in circulation, member bank reserve requirements, and Treasury transactions—indicated in the accompanying diagram. The aggregate drain on excess reserves resulting from these factors has been only partly counterbalanced by credits reaching member bank reserve accounts as a result of the continued gold inflow to this country, which has been at a much slower rate than in 1940.

The volume of currency outstanding increased $200,000,000 further in the four weeks ended August 27 to reach a new high total approximately $1,350,000,000 above the amount outstanding on January 15. Thus, nearly three fourths of the decline in excess reserves since early this year may be said to have been the result of the rise in currency outstanding. For the period since the outbreak of the war the increase in currency outstanding has now mounted to approximately $2,750,000,000. Of this amount, about two thirds has been in the form of coin and bills up to $20 denomination, the classes of money which are most affected by changes in the volume of business activity, and about one third has been in larger denomination currency.

A further increase of nearly $100,000,000 occurred in the reserve requirements of member banks during August, accompanying expansion in certain types of their deposits, especially domestic interbank deposits and United States Government deposits. Since January the rise in reserve requirements has absorbed approximately $500,000,000 of excess reserves.

The other principal absorption of excess reserves has resulted from changes in Treasury funds on deposit in the Reserve Banks and cash on hand in the Treasury, which in the aggregate have increased by a net amount of $700,000,000 since January. Treasury transactions withdrew about $900,000,000 of member bank reserve funds in the period between January 15 and the early



Principal Factors Absorbing Excess Reserves of Member Banks

REGULATION OF CONSUMER CREDIT

On August 21, 1941, the Board of Governors of the Federal Reserve System adopted Regulation W to carry out the President's Executive Order of August 9, 1941, which declared the necessity for, and purpose of, regulation of consumer credit. Regulation W, most of the provisions of which become effective September 1, 1941, was prescribed with the general purpose of controlling the use of instalment credit for financing and refinancing purchases of consumers' durable goods, the production of which absorbs resources needed for National defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand, (c) to assist in restraining general inflationary tendencies, to support or supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-defense period.

There will be changes from time to time in Regulation W, particularly in the list of consumers' durable goods covered by the regulation, in the size of the minimum down payments required, and in the maximum length of time permitted for instalment contracts. Copies of Regulation W have been distributed widely and additional copies are available upon application to this bank or its Buffalo Branch. Inquiries arising in this District regarding the regulation should be addressed to this bank or its Buffalo Branch.

part of July and since that time there has been a net disbursement of less than $200,000,000, as the diagram indicates. Treasury deposits in the Reserve Banks on August 27 remained at $772,000,000, as compared with $237,000,000 on January 15. Despite the large amounts being disbursed by the Treasury for National defense purposes (such expenditures as indicated by the Treasury daily statement were $1,042,000,000 for the first 28 days of the month, as compared with $940,000,000 in July and $808,000,000 in June), Treasury deposits in the Reserve Banks have remained at a high level, because, in addition to revenue receipts, there have been large receipts from the sale of Treasury tax series notes and savings bonds. During the first 26 days of August, $596,000,000 of proceeds of tax note sales and $229,000,000 of proceeds of sales of savings bonds were entered in the Treasury daily statement, mostly having been credited to Treasury deposits in the Reserve Banks.

A concurrent increase of $110,000,000 shown in the Treasury daily statement item "Deposits in special depositaries account of sales of Government securities" between July 31 and August 26 indicates that some banks are using the "book credit" method of making payment for tax anticipation notes purchased by themselves or their customers. At the time the Treasury notes of the tax series were initially offered, it was provided that qualified depositaries would be permitted to make payment for notes applied for on behalf of themselves or their customers by establishing credits on their books in favor of the Treasury, the underlying purpose being to provide a means by which banks, if they elected to do so by virtue of their reserve position or for other reasons, could retain on deposit funds invested in tax anticipation notes until the deposits were withdrawn by the Treasury, and not suffer an immediate loss of reserves. The availability of this means of payment should help to avoid disturbance to the money market such as might result if individual banks, not possessing any excess reserves or only the amounts desired by them, were forced to make immediate cash payments to the Treasury at times when Treasury expenditures were proceeding at a rate below the rate of Treasury receipts.

Reflecting the substantial cash resources of the Treasury at the present time and with funds continuing to flow into Treasury deposits at the Reserve Banks through cash payments for tax anticipation notes and savings bonds, the Treasury on August 29 sold only $100,000,000 of Treasury bills to be issued September 3, on which date a $200,000,000 issue of Treasury bills matures.

Member Bank Credit

Further expansion of reporting member bank loans and investments—to the extent of nearly $400,000,000—occurred during the four weeks ended August 20. Since the end of August, 1939 the aggregate expansion in reporting member bank credit has amounted to approximately $6,600,000,000. Commercial, industrial, and agricultural loans rose an additional $169,000,000 in the four week period to reach a total about $2,200,000,000 above the August, 1939 level. Total United States Government security holdings showed no net change for the four week period, but reporting bank holdings of other types of securities rose $195,000,000, reflecting purchases of new issues of State and municipal securities. About one half of the August expansion in commercial loans occurred at New York City banks and more than three fourths of the rise in holdings of securities other than United States Government obligations took place in New York.

Adjusted demand deposits of the reporting banks rose to a new high level of $24,544,000,000 on July 30, but in the following week showed a decline which was not fully offset by increases in the two weeks ended August 20. Time deposits, domestic interbank deposits, and United States Government deposits all tended somewhat higher during the four weeks ended August 20.

Money Rates in New York

	Aug. 31, 1940	July 31, 1941	Aug. 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	½
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)†	0.51	0.33	0.31
Average yield on Treasury bonds (not callable within 12 years)†	2.27	1.96	1.96
Average rate on latest Treasury bill sale, 91 day issue	0.028	0.094	0.114
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

The uptrend in prices of United States Government securities, which has been the prevailing tendency since last February, was interrupted by a downward reaction in the early part of August, but substantial recoveries later occurred. The average quotation for four long term tax exempt Treasury bonds dropped 1⅜ points between July 30 and August 12, but ½ point of this loss was regained by the 15th and further recovery was shown late in the month, so that the net loss for August as a whole was very slight. The three taxable Treasury issues likewise declined from peak levels early in the month and the subsequent recoveries were not so strong as in the case of the tax exempt issues.

The average yield on 3 to 5 year tax exempt Treasury notes fluctuated narrowly around 0.33 per cent during August, showing little net change for the month as a whole. On the other hand, the average yield on the taxable ¾ per cent National Defense note issues moved up 0.03 per cent from the beginning of August to the 11th, subsequently declining 0.07 per cent to 0.59 per cent, the lowest average yield so far recorded on these issues.

Accepted bids on the four weekly issues of taxable Treasury bills during August were tendered on an interest basis averaging between 0.106 and 0.116 per cent. Each of the issues was in the amount of $100,000,000 and each replaced similar maturities.

Business Profits

Despite the record level of industrial production, net profits of large industrial corporations, as measured by the figures of 167 companies which report profits quarterly, declined 6 per cent between the first and second quarters of this year. Second quarter profits were restricted by higher labor and material costs and particularly by increased provision for taxes, as many companies in this group made deductions from their second quarter net earnings for estimated tax liabilities (at the higher rates incorporated in the current tax bill) applicable to the first, as well as the second quarter. Estimates reallocating taxes reported by corporations during both the first and second quarters indicate that if taxes had been uniformly applied against their respective quarters, net profits of leading corporations would have risen somewhat between the two quarterly periods, but by less than the average for past years.

For a broader list of 376 industrial and mercantile corporations, as summarized in the accompanying table, net profits during the second quarter were about one-fourth larger than a year before but were slightly smaller than in the second quarter of 1937 when the level of business activity was well below that of the second quarter of 1941.

Net profits of 511 industrial and mercantile corporations reporting for the first six months of this year were about 22 per cent above those for the corresponding period last year and were slightly higher than in the first half of 1937. Year-to-year changes in first half earnings of the individual groups listed in the table were varied. The largest percentage gains were made by the following groups of companies: textiles, rubber and tires, heating and plumbing supplies, coal mining, steel and iron, and railroad equipment. The paper and paper products, chemical, automobile, petroleum, metal and glass container, and beverage groups recorded smaller gains, in all cases less than 10 per cent. In contrast, the gold and silver mining, bakery products, and advertising, printing, and publishing groups reported smaller profits than in the first half of 1940.

With respect to the impact of Federal taxes on earnings, it is interesting to note that for a group of 89 companies, which reported complete profit and loss data, gross sales in the first half of 1941 were 36 per cent larger than a year earlier, cost of goods sold, including State and local taxes, rose 31 per cent, and net profits before Federal taxes were 79 per cent higher. The total of deductions for Federal income and excess profit taxes and reserves for additional taxes was equal to 54 per cent of net profits before taxes, as against 26 per cent a year before. After deduction of taxes these companies reported a gain of only 12 per cent in net profits.

Class I railroads as a group reported second quarter net income (after all charges) of $103,000,000. This compares with a profit of $3,000,000 a year ago, and a profit of $24,000,000 in the 1937 second quarter. For the first six months, the Class I railroads as a group had net income after fixed charges for the second time in ten years; the total was $170,000,000, apparently the largest amount for any comparable period since 1930. Net operating income (before taxes) of large telephone companies in both the second quarter and first six months reached the highest levels for any similar periods on record. Net income of other public utilities showed gains of only minor proportions during both periods.

(Net profits in millions of dollars)

Corporation group	Second quarter				First six months			
	1937	1938	1940	1941	1937	1938	1940	1941
Advertising, printing, and publishing	4.2	2.6	3.5	2.9	8.8	5.3	6.8	6.7
Airplane manufacturing	2.3	4.8	13.8	14.5	4.3	7.9	23.6	30.8
Automobiles	88.3	22.4	63.7	73.0	149.4	25.4	147.6	152.5
Automobile parts and accessories	17.1	—1.2	14.9	20.4	32.7	—4.4	32.5	41.3
Building supplies	14.3	3.3	9.9	12.6	30.6	6.2	21.1	28.1
Chemicals	44.1	20.1	39.3	42.3	84.2	38.7	81.3	82.9
Containers (metal and glass)	2.1	1.3	2.4	2.9	4.0	2.5	3.8	4.1
Drugs and cosmetics, including soap	11.0	9.6	10.9	16.0	29.8	21.0	28.4	34.4
Electrical equipment	27.5	9.5	24.3	28.6	51.9	20.1	46.1	55.4
Food products:								
Bakery	5.4	5.8	4.7	3.8	9.2	10.3	8.8	8.5
Beverages	11.0	10.4	12.1	13.1	18.8	18.8	21.2	22.7
Confectionery	4.7	4.1	4.5	5.2	9.2	8.4	10.0	11.3
Other food products	14.2	12.1	15.6	17.2	34.2	30.4	35.5	39.7
Heating and plumbing	5.0	0	3.1	4.7	8.4	—1.1	4.4	8.4
Household equipment	4.3	1.0	2.4	3.3	17.5	0.6	9.7	13.0
Leather and shoes	..	..	..	..	6.3	—1.1	3.8	5.1
Machinery and tools	17.9	4.3	12.0	15.0	37.8	11.2	26.6	36.3
Metal products—misc.	3.6	—0.2	2.3	4.0	8.4	—0.3	5.1	7.5
Mining:								
Coal	—0.8	—3.2	0.8	1.3	—0.4	—4.6	2.5	4.7
Copper	4.6	2.4	3.8	4.3	43.1	17.9	37.9	38.9
Gold and silver	5.3	4.0	3.5	3.2	17.5	14.1	14.0	12.1
Other mining	17.6	7.6	10.4	11.7	38.6	18.4	26.0	28.1
Motion pictures and films	6.1	3.0	2.7	4.4	24.7	14.3	15 4	20.0
Office equipment	6.1	3.4	4.0	6.0	12.5	7.5	8.8	12.4
Paper and paper products	7.5	1.2	8.1	7.6	14.3	4.0	16.5	16.7
Petroleum	47.1	28.5	26.2	37.8	161.3	100.8	107.0	113.5
Railroad equipment	14.1	—1.5	6.3	13.1	29.4	—1.3	18.4	29.7
Retail trade	..	..	..	..	21.5	9.1	18.6	23.0
Rubber and tires	..	..	..	..	21.5	2.7	12.7	25.0
Steel and iron	70.8	—10.5	47.8	68.4	145.5	—17.3	97.0	161.3
Textiles and apparel	..	..	..	..	13.0	—7.0	7.6	15.4
Tobacco (cigars)	0.4	0.5	0.8	0.8	0.7	0.8	1.5	1.4
Miscellaneous	1.0	—0.3	2.5	3.4	1.4	—1.3	3.0	3.8
Total								
376 companies 2nd quar.	456.8	145.0	356.3	441.5	......	......	.....	......
511 companies, 1st half	.....	......	.....	.....	1,090.1	358.0	903.2	1,094.7
137 Class I railroads, net income	23.5	—74.3	2.8	103.2	38.9	—180.0	—9.1	170.0
97 Telephone companies, net operating income	58.6	52.8	62.0	73.6	118.9	102.8	124.6	144.4
63 other public utilities, net income	66.3	55.5	65.4	66.4	137.0	118.2	146.0	146.8

—Deficit

Security Markets

Following the flurry in July, activity in the stock market slackened during August and stock price averages showed a predominance of declines for the month as a whole. Between July 28 and August 15 Standard's 90 stock index dropped 4 per cent to a point about midway between the year's high and low. Minor fluctuations at slightly higher levels characterized the remainder of the month.

Price movements of domestic corporate bonds were limited during August. Moody's average price of Aaa bonds was up about ¼ point for the month as a whole. Medium grade bonds continued their uptrend early in the month and the average price computed for Baa bonds by Moody's attained a new high on August 5. However, the price average subsequently receded somewhat and showed a net loss of about a half point for the month. A new record high was set by prime grade municipal bonds on August 6, according to Standard's price average, although these bonds also moved slightly lower later in the month. The average yield on high grade municipal bonds on August 27 was only 0.08 per cent higher than that for the five longest term tax exempt Treasury bonds. The spread between the yields on these investment media has been narrowing perceptibly since March.

New Financing

Owing chiefly to the offering to stockholders of $234,000,000 American Telephone and Telegraph Company convertible debentures, the aggregate of new corporate and municipal financing during August rose to $431,000,000, the highest figure since December, 1940. This same issue helped to raise the corporate total to $395,000,000 and the corporate new capital portion to $296,000,000, the largest amount of "new money" obtained by corporations through security flotations in any month in more than eleven years. Quotations for the American Telephone and Telegraph Company "rights" evidenced a favorable reception for the new issue.

Details of the principal issues included in the above totals are as follows:

$234,000,000	American Telephone and Telegraph Company 3 per cent debentures maturing September 1, 1956; convertible into stock on the basis of $140 a share; offered at par to stockholders through transferable warrants expiring August 29—in the ratio of $100 principal amount for each eight shares of capital stock held; for new capital purposes
40,000,000	Standard Oil Company of California securities, consisting of $25,000,000 of 2¾ per cent debentures of 1966, priced at 102½ to yield 2.61 per cent and $15,000,000 of 1.05 to 2.20 per cent serial notes maturing from 1946 to 1955, priced at 99¾; $15,000,000 for new capital purposes
37,000,000	Peoples Gas, Light and Coke Company first mortgage 3 and 3¼ per cent bonds of 1956 and 1966; sold privately; for refunding purposes
33,000,000	Wisconsin Power and Light Company securities, consisting of $30,000,000 of 3¼ per cent bonds of 1971, awarded at 105.5897 and reoffered at 106⅞ to yield 2.905 per cent, and $3,000,000 serial notes, sold privately; for refunding purposes
20,000,000	Atchison, Topeka and Santa Fe Railway 1⅝ per cent equipment trust certificates maturing from 1942 to 1951, awarded at 100.434 and reoffered to yield 0.25 to 1.875 per cent; for new capital purposes.

In addition to the $431,000,000 of long term financing, a total of $192,000,000 of short term obligations was sold. Included in this category were $100,000,000 New York State 0.20 per cent tax anticipation notes maturing in March, 1942; $55,000,000 City of New York 0.25 per cent revenue bills due in October, 1941; and approximately $26,500,000 Federal Intermediate Credit Bank 0.625 per cent consolidated debentures, maturing in March and June, 1942, sold on bases of 0.30 and 0.40 per cent, respectively.

Among the larger issues reported to be in preparation for future offering are $94,000,000 American Telephone and Telegraph Company refunding debentures, $50,000,000 to $100,000,000 of refunding bonds of the Pacific Gas and Electric Company, about $70,000,000 Florida Power and Light Company refunding bonds, notes, and preferred stock, and $20,000,000 Tomasini Bridge Revenue bonds.

Foreign Exchanges

Such unrestricted trading as still exists in the New York foreign exchange market continues to be limited primarily to the Western Hemisphere currencies, many of which showed some strength during the past month. Stimulated by the summer tourist demand, the unofficial discount on the Canadian dollar narrowed gradually to reach 10 9/16 per cent on August 27, the best rate since November, 1939. The free rate for the Venezuelan bolivar, after declining to a low of $0.2650 on August 8 in continuation of the reaction which began on July 29, turned upward during the remainder of the month to close August at about $0.2750, but remained considerably below the rate of $0.2900 prevailing on July 28. The Argentine, Uruguayan, and Cuban pesos also showed a firmer tendency during August, the discount on the Cuban peso narrowing to slightly less than 1 per cent toward the end of the month.

With respect to the Continental European exchanges, unrestricted trading in which has been suspended since the freezing of most European accounts here, Swedish kronor continued to be quoted here at about $0.2386, or at about the same rate which prevailed prior to the freezing of Swedish accounts on June 14. Sales are only made, of course, to cover those transactions which are permitted under American and Swedish regulations.

In the Far East, the Shanghai open market rate for the Chinese yuan, in terms of the United States dollar, depreciated from 5 7/32 cents on August 4 to 4⅝ cents (nominal) on August 21, the lowest level since May, 1940. This decline apparently reflected to a large extent the covering of short term dollar positions taken prior to, and in anticipation of, the "blocking" of Japanese and Chinese funds in the United States on July 26. By the end of the month the rate had improved to 4⅞ cents. In terms of sterling, the Chinese yuan was quoted in the Shanghai open market at 2⅞ pence on August 28. On the basis of this quotation, the dollar-sterling cross rate in Shanghai was $4.04¾, as compared with the New York unofficial sterling rate of $4.03½. While the relatively lower unofficial rate in New York would seem to be likely to create a Far Eastern demand for sterling here, the available supply of unofficial sterling in New York is too limited to provide an active market.

On August 18 the Stabilization Board of China was reported to have fixed a rate of 5 11/32 United States cents for the Chinese yuan. This rate which is to be distinguished from the open market rate in Shanghai, will apparently apply to exchange granted for legitimate imports from the United States. In addition, sterling reportedly will be provided at a rate of 3 3/16 pence for legitimate imports from the sterling area.

Gold Movements

August imports of gold into the United States continued in small volume, and the increase in the gold stock of about $45,000,000 was approximately the same as in the two previous months. Gold held under earmark for foreign account at the Federal Reserve Banks increased about $30,000,000 during the month to approximately $1,975,000,000.

In the four weeks ended August 20, the Department of Commerce reported the receipt of $38,600,000 of gold, in the following principal amounts: $14,200,000 from Canada, $6,800,000 from Australia, $3,700,000 from the Philippines, $3,400,000 from Russia, $2,200,000 from Colombia, $2,000,000 from India, $1,800,000 from British Malaya, and $700,000 from Hong Kong.

Building

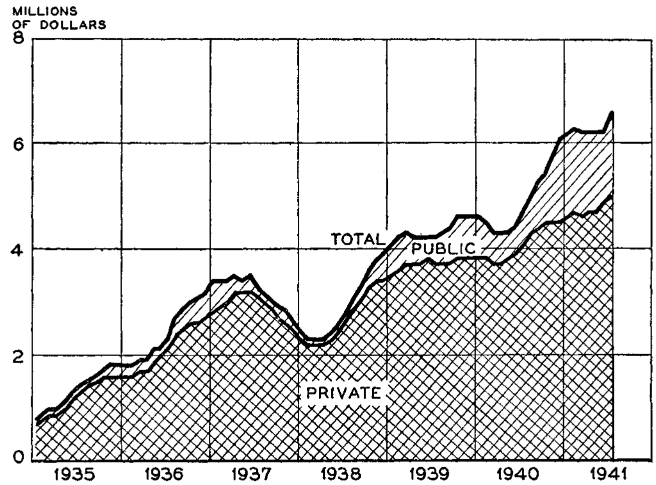
According to data prepared by the F. W. Dodge Corporation covering 37 Eastern States, construction contracts were awarded during July at a daily rate 45 per cent above the average for the corresponding month of 1940, and, with one exception in 1930, were at the highest rate for any month since July, 1929. Government contracts for defense construction accounted for 42 per cent of total awards in the month and were approximately three times as large as in July of last year when the defense program was getting under way. Awards other than for Government defense construction showed an increase of only 5 per cent over the year earlier level.

All major types of construction showed marked increases over July of 1940. The gains amounted to 59 per cent for nonresidential building awards, 27 per cent for heavy engineering projects, and 46 per cent for residential building.

As indicated in the accompanying chart, residential building contract awards have recently been running approximately 50 per cent above the level prevailing in the spring of 1940. Although both private and public residential building have increased substantially over the past three years, the gain in the latter has been relatively larger. The increase in 1939 in public residential construction resulted from operations of the United States Housing Authority, while the rise which began toward the end of 1940 has been associated with the defense program. Contract awards for public residential building in the first seven months of 1941 accounted for about one quarter of all residential building, compared with 12 per cent in the corresponding period of 1940.

During the first seven months of this year about two thirds of the Government contracts for residential building connected with the defense program were for one and two-family dwellings for workers in defense industries; the remainder were primarily for military barracks. According to data prepared by the Division of Defense Housing Coordination, as of August 2 funds had been allocated for 110,000 family dwelling units, of which 78,000 had been placed under contract and 26,000 had been completed. Private funds are also helping to solve the problem of housing shortages, as a large portion of recent private construction has been in areas where available housing is inadequate as a result of unusual concentration of defense workers.

With the exception of residential building, the daily rates of awards for most types of construction in New York and Northern New Jersey during July were below the levels prevailing a year before. Awards of all classes were off 10 per cent owing primarily to a decrease in the volume of heavy engineering projects. Awards for factory buildings, which had shown a marked increase during the first half of this year, in July fell below the comparable month of 1940. On the other hand, residential building was almost one-third higher.



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

Employment and Payrolls

New York State factory employment rose 2 per cent further between June and July, and payrolls increased 2½ per cent, whereas ordinarily both tend to decline at this time of year. Again the largest gains in employment were concentrated in defense industries. Of the 10,000 additional workers hired during the month by firms reporting to the State Department of Labor, 7,000 were employed by metal and machinery factories. Substantial increases in employment, of a seasonal nature, were also reported by shoe plants and manufacturers of food, although in the latter case the rise was less pronounced than usual.

Employment in New York State factories during July is estimated to have approached 1,600,000, approximately equal to the March, 1920 peak, 15 per cent above the October, 1929 figure, and a third higher than in July of last year. Average weekly payrolls exceeded $50,000,000, a gain of 57 per cent over July, 1940, and substantially above the 1920 and 1929 peaks.

According to the Bureau of Labor Statistics, factory employment in the United States as a whole rose 2 per cent and payrolls increased somewhat less than ½ per cent during July. The largest gains in working forces were reported by firms engaged on defense orders, particularly those in the shipbuilding and aircraft industries. Employment in automobile manufacturing plants declined, though less than usual, while canneries, in response to seasonal influences, added substantially to working forces. Employment in manufacturing as a whole in July was 26 per cent above the year earlier level and payrolls were 55 per cent greater.

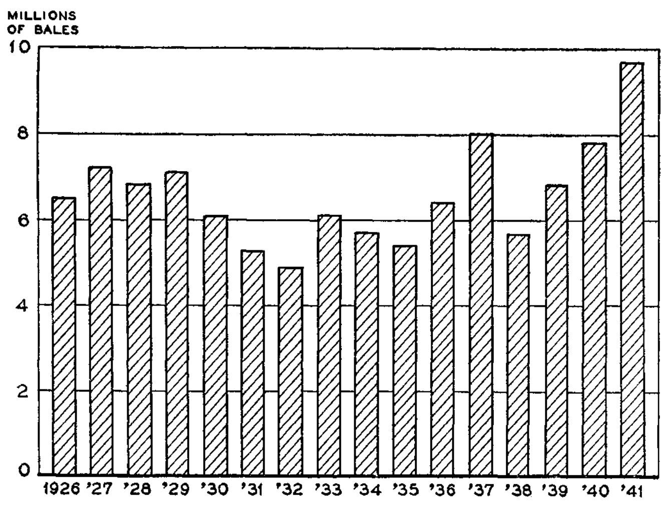
In the two years between July, 1939 and July, 1941, factory employment in the United States expanded 35 per cent. Three fourths of this gain resulted from the increase in working forces at plants manufacturing durable goods. The number of persons employed in the manufacture of iron and steel and nonferrous metals and their products increased over 50 per cent during the period; automobile, foundry and machine shop, and electrical apparatus firms increased their working forces by two thirds or more. Machine tool companies more than doubled the number of their workers during the two year period, shipbuilding firms tripled the number of theirs, and aircraft plants had a fivefold increase.

Though employment in nondurable goods industries increased between July, 1939 and July, 1941, the gains were generally of smaller magnitude. Employment in rubber manufacturing rose about 40 per cent; in the textile and chemical industries the increases amounted to 16 and 25 per cent, respectively. Paper mills and printing establishments employed 12 per cent more workers, and manufacturers of food products increased working forces to the extent of 7 per cent.

Production and Trade

Judging from preliminary data now at hand, business activity in August appears to have held close to the advanced level reached in July. The steel mills again operated within a few percentage points of capacity during August. Early in the month the Office of Production Management issued an order placing steel in all its forms under full priority control, defense demands being put "uncompromisingly ahead of non-defense needs." Recent additions to steel mill capacity and plans for further expansion were reported during August. The American Iron and Steel Institute estimated that in the first six months of 1941 annual capacity increased approximately 2 million tons to over 86 million tons and the Office of Production Management announced that various steel producers had submitted proposals which would add over 12 million tons more to the country's annual ingot capacity.

In connection with the shift to production of new models, automobile production was materially reduced in August. It was reported, however, that many plants completed the changeover in record time this year, and it is estimated that output was more than double that of August, 1940. Late in the month defense officials announced that passenger car production for the period August through November will be cut 26½ per cent from the output in the corresponding period of 1940. On this basis, approximately 817,000 cars would be produced during the four month period. The rate of curtailment after November will be progressively greater and will depend on the availability of material supplies and upon the ability of the industry to transfer employees to defense work. The curtailment program for the whole model year of 1942 may involve a cut of as much as 50 per cent, as compared with the originally announced reduction of around 20 per cent. No restrictions were placed upon production of trucks or buses, and the Priorities Division of the O. P. M. announced a high priority rating (A-3) to aid manufacturers of medium and heavy vehicles of these types in obtaining scarce materials promptly. Truck production recently has been running approximately 60 per cent ahead of last year and has been accounting for about a fifth of total automobile production.



Mill Consumption of Cotton (Crop years ended July 31)

According to trade comments, cotton textile mills continued record operations during August. There was an active demand for cotton gray goods, but sales were restricted by the unwillingness of mills to add to their order backlogs. Electric power production rose further in August and the output of bituminous coal appears to have increased somewhat more than usual. Loadings of railway freight during the first three weeks of the month were maintained at about the same rate as in July.

Production and Trade in July

Owing to the continued pressure of defense demands, resistance to the usual summer contraction was shown in many lines of business activity in July, and this bank's seasonally adjusted index of production and trade advanced to 111 per cent of estimated long term trend. This figure compares with 110 in June and 91 in July, 1940. Seasonal factors considered, the most marked gains over June occurred in the production of durable goods, both in the producers' and consumers' categories.

Steel mill operations continued to run at a high rate in July, despite growing concern in the industry over actual or potential shortages of steel scrap and pig iron, and other durable goods industries vitally affected by the defense program, such as aircraft, machinery, and shipbuilding, showed still further gains. The prospect of material shortages and forthcoming curtailment programs spurred activity in consumers' durable goods industries.

Activity in nondurable goods industries was little changed from June, seasonal factors considered, but was substantially higher than in July, 1940. The rate of mill consumption of cotton was slightly higher in July than in June, although in most years a pronounced decline occurs.

During the crop year ended July 31, 1941 mill consumption of cotton exceeded that in the previous peak year (ended July 31, 1937) by more than 20 per cent, as the accompanying diagram indicates. Wool consumption, on the other hand, appears to have been somewhat lower than in June, although more than half again as large as in July, 1940. As reflected in the figures for railway freight car loadings, seasonally adjusted, the rate of flow of goods through primary distribution channels was about unchanged from June to July.

Retail trade made a favorable showing in July, considering the usual midsummer slackness. Sales of department stores and mail order houses were off considerably less than seasonally, while about the expected decline occurred in the case of variety chain store sales. Retail sales of automobiles, although lower than in June, reached the largest volume for any July since 1929.

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

	1940	1941		
	July	May	June	July
Index of Production and Trade	91	109	110p	111p
Production of:				
Producers' durable goods	90r	121	124p	129p
Producers' nondurable goods	97r	119	121p	122p
Consumers' durable goods	68	95	104p	108p
Consumers' nondurable goods	96r	105	106p	105p
Primary distribution	89	106	104p	104p
Distribution to consumer	93r	107	104p	106p
Industrial Production				
Steel r	114	127	131	133
Automobiles	78	121	131	150
Bituminous coal	98r	122	125	117p
Crude petroleum	86	86	87	85p
Electric power	99	111	113p	115p
Cotton consumption	113	148	152	167
Wool consumption r	103	198	196	182p
Shoes	103r	126	133p	132p
Meat packing	97	112	105	106
Tobacco products	89	100	99	96
Manufacturing Employment				
Employment	95r	112	116	120p
Man-hours of employment	89	115	119	121p
Construction				
Residential building contracts	55	59	67	73
Nonresidential building and engineering contracts	71	94	88	93
Primary Distribution				
Ry. freight car loadings, mdse, and misc.	84	102	103	103
Ry. freight car loadings, other	95	117	117	116
Exports	108	117	103	..
Imports	81	96	94	..
Distribution to Consumer				
Department store sales (U.S.)	91	102	99	108
Grocery chain store sales	96	99	99	98p
Variety chain store sales	95	110	109	108
Mail order house sales	94	112	108p	111p
New passenger car sales r	88	131	118	100
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	53	58	60	57
Velocity of demand deposits, New York City (1919-25 average = 100)	24	25	27	26
*Cost of Living and Wages**				
Cost of living (1935-39 average = 100)	104	107	108	109p
Wage rates (1926 average = 100)	114	120	122	123p

p Preliminary. *r* Revised; in the cases of steel, wool, and new passenger car sales, the series have been revised. * Not adjusted for trend.

Commodity Prices

Advancing price tendencies in wholesale commodity markets were less pronounced during August than in immediately preceding months. The Office of Price Administration was active in placing price ceilings on a wide variety of products; imported commodities, that had shown marked price increases accompanying fears of inadequate supplies, were particularly the object of control measures in August. Price advances, however, continued to occur among many domestic commodities on which maximum price levels were not in force.

The Bureau of Labor Statistics weekly index of wholesale commodity prices rose about one and a half per cent between July 26 and August 23 to a new high level since 1930; for the two year period since the war began, this index has shown an increase of 20 per cent. All the major commodity groups have participated to greater or less extent in the general advance since August, 1939, although pronounced gains in the prices of raw materials, especially farm products, have been a leading factor.

Owing in some measure to uncertainty regarding the outcome of agricultural legislation, farm prices fluctuated irregularly in August but as a group showed only small net changes for the month. Following the announcement early in August of the Commodity Credit Corporation loan rate for the 1941 cotton crop, a rate substantially below prevailing market quotations, cotton prices declined somewhat, but subsequently developed renewed strength. On August 8 the Department of Agriculture published its first estimate of this year's cotton crop as 10,817,000 bales, which would be the smallest harvest since 1935. The average price of cotton in 10 Southern markets showed a net rise of nearly a cent for the month, closing at 16.71 cents a pound on August 30. In spite of favorable weather for harvesting the spring wheat crop and large supplies, wheat quotations showed substantial gains for the month. Spring wheat in Minneapolis rose 6¼ cents to $1.06½ a bushel during August. Corn was relatively steady and other grains were firm. Late in August hog quotations rose sharply to a new high since 1937; the closing price in Chicago on August 30 was $11.63 a hundredweight, up 44 cents for the month. Partly owing to purchases by the Surplus Marketing Administration, lard and cottonseed oil also displayed considerable strength.

As a result of the price ceilings placed on a number of import commodities during August, import prices as a whole were somewhat below the high levels of the preceding month. On August 3 the Office of Price Administration and Civilian Supply announced a schedule of maximum quotations on raw silk about 50 cents a pound lower than the peak prices reached before the freezing of Japanese assets in this country. Following an advance in raw sugar quotations in New York from 3.65 to 3.80 cents a pound, an official ceiling price was set at 3.50 cents a pound, effective as of August 14. Maximum prices were also announced for tin and burlap, the latter of which was 20 per cent below the prevailing level. The prices of coffee, cocoa, and of "free" rubber were about unchanged for the month. Cooperating to speed up the accumulation of a rubber reserve in this country, the International Rubber Regulation Committee raised the export quota for the fourth quarter of 1941 from 100 per cent to 120 per cent of basic quotas.

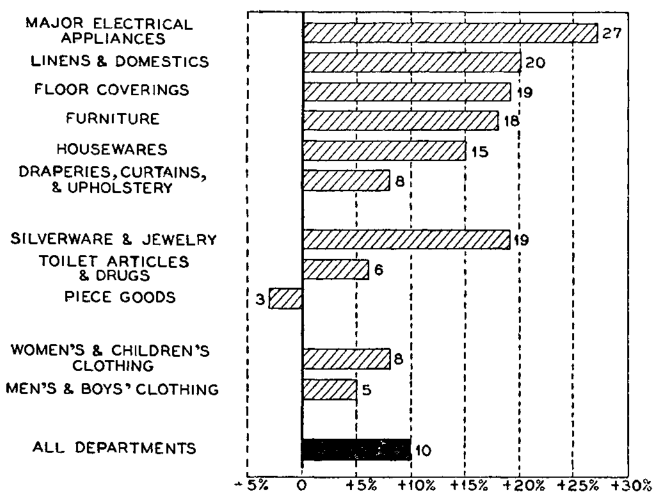
Lumber was placed under mandatory control by the Priorities Division of the Office of Production Management, and the Office of Price Administration and Civilian Supply established ceilings for Southern pine lumber, following an eighteen year peak in average wholesale prices of lumber reached early in August. Maximum prices were also announced on additional cotton textile items and on rayon gray goods. On August 27 a schedule was published of suggested "fair maximum" retail prices for gasoline in forty Eastern cities.

The metal markets generally held steady throughout August. All private purchases of copper were limited to 12 cents a pound, although the Metals Reserve Company may purchase high cost copper above this level. Ceiling prices on scrap copper were issued at 2 to 4 cents under the 12 cents per pound maximum on new copper. The Priorities Division of the Office of Production Management placed pig iron, all forms of steel, and copper under full priorities control.

Department Store Trade

During the three weeks ended August 23, sales of the reporting department stores in the Second Federal Reserve District were about 40 per cent greater than in the corresponding weeks of 1940. The unusually large increase is traceable to a number of special factors, in addition to the basic influence of expanding consumer incomes and the accompanying tendency to purchase more expensive types of merchandise. The threatened silk shortage resulted in exceptionally large sales of hosiery, silk underwear, and silk yard goods. Sales of housefurnishings, including furniture, electrical appliances, floor coverings, and linens, were also substantially ahead of last year, owing in part to expectations of further price advances and difficulties in obtaining such items. Sales of furs and fur-trimmed coats, as in July, were at unusually high levels, to some extent at least reflecting the prospective excise tax on furs.

A large gain in sales was also reported for July; total sales of the reporting department stores in this District were 22 per cent higher than in July, 1940, and this bank's seasonally adjusted index of department store sales advanced 12 points over June to 114 per cent of the 1923-25 average, the highest level in over ten years. Reports from a group of the larger stores on sales by



Percentage Changes in Certain Classes of Department Store Trade and in Total Sales of Reporting Department Stores in Second Federal Reserve District, First Seven Months of 1941 Compared with Corresponding Period of 1940

departmental classifications have been tabulated for the first seven months of this year and the results are summarized in the accompanying chart in the form of percentage changes over 1940 for selected departmental groupings. Aggregate sales for this list of stores were 10 per cent larger in the first seven months of this year than in the corresponding period of 1940, and sales increases were shown in practically all major departments. Large gains were common in housefurnishing lines—furniture, floor coverings, electrical appliances, and linens and domestics (including towels, sheetings, blankets, etc.)—and in most cases have widened considerably since the middle of the year. Sales increases in clothing departments and in toilet articles and drugs were smaller than the gain in aggregate sales. Piece goods (dress and coat goods of various fabrics) were sold in smaller volume than in the first seven months of last year.

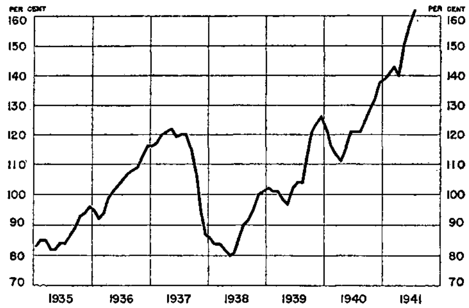
Retail stocks of merchandise on hand in the reporting department stores at the end of July were 19 per cent higher than a year before, and a further advance of 6 points over June was indicated in this bank's seasonally adjusted index of department store stocks. Returns from a limited number of department stores in this District indicate that outstanding orders for merchandise purchased by the stores but not yet delivered were twice as large at the end of July as those of a year ago. Year-to-year increases of similar proportions were reported also for the end of May and the end of June.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	July, 1941	Jan. through July, 1941	July, 1941
New York City (includes Brooklyn)	+22	+11	+20
Northern New Jersey	+21	+13	+14
Newark	+22	+13	+13
Westchester and Fairfield Counties	+28	+20	+20
Bridgeport	+33	+25	+17
Lower Hudson River Valley	+15	+12	+14
Poughkeepsie	+18	+14	—
Upper Hudson River Valley	+25	+18	+23
Albany	+23	+14	—
Central New York State	+14	+20	+31
Mohawk River Valley	+22	+25	+38
Syracuse	+18	+20	+29
Northern New York State	—	—	—
Southern New York State	+28	+20	+15
Binghamton	+29	+20	—
Elmira	+34	+30	—
Western New York State	+24	+18	+19
Buffalo	+31	+24	+19
Niagara Falls	+21	+ 9	+21
Rochester	+18	+13	+20
All department stores	+22	+13	+19
Apparel stores	+22	+10	+15

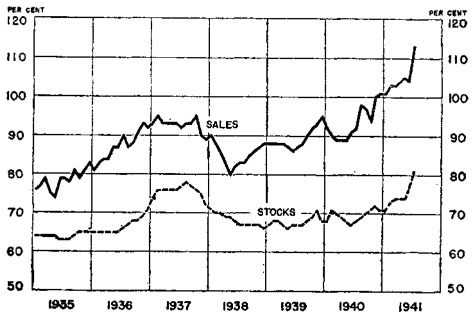
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1940	1941		
	July	May	June	July
Sales (average daily), unadjusted	67	95	98	81
Sales (average daily), seasonally adjusted	94	99	102	114
Stocks, unadjusted	70r	88	85	83
Stocks, seasonally adjusted	81r	86	90	96

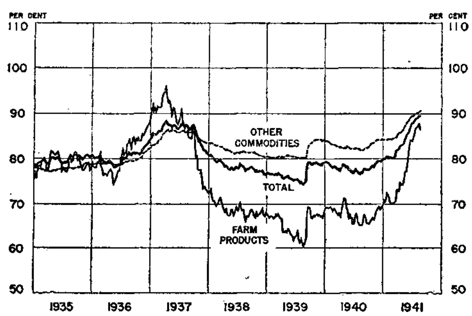
r Revised



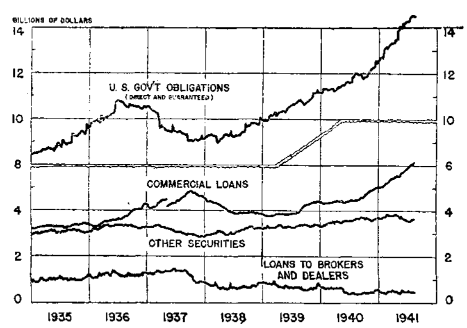
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for August 13)

Business Conditions in the United States

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

INDUSTRIAL activity in July and the first half of August was maintained at the high level reached in June. Wholesale commodity prices advanced further and distribution of commodities to consumers was in exceptionally large volume.

Production

Volume of industrial output showed little change from June to July. Reductions in activity at automobile factories and steel mills were largely offset in the total by further increases in the machinery, aircraft, shipbuilding, and lumber industries. The Board's adjusted index, which includes allowance for a considerable decline at this season, advanced from 157 to 162 per cent of the 1935-1939 average.

Steel production, which in June had been at about 98 per cent of capacity, declined to 96 per cent in July, owing in part to holiday shutdowns at some mills. In the first half of August steel output was again at about 98 per cent of capacity. Automobile production in July declined less than usual but in the first half of August there was a sharp reduction as most plants were closed to prepare for the shift to new model production. Activity in the nonferrous metals industries continued at a high rate. Early in August copper, pig iron, and all forms of steel were placed under complete mandatory priority control as it became evident that actual demand for these metals could not be fully met.

In the wool, cotton, and rayon textile industries and at shoe factories activity in July was maintained at or near the peak levels of other recent months and production of chemicals rose further. Output of manufactured foods increased less than seasonally from the high level reached in June.

Coal production declined slightly in July but as in June was unusually large for this time of year. Crude petroleum production was maintained at about the high rate that had prevailed in the previous two months.

Value of construction contract awards in July increased further to a level more than two-fifths higher than a year ago, according to F. W. Dodge Corporation reports. The rise reflected chiefly a continued increase in contracts for public construction, mostly defense projects. Private residential building contracts increased somewhat, although there is usually some decline at this season, while awards for other private building declined further from earlier high levels.

Distribution

Sales at department stores and in rural areas declined by much less than the usual seasonal amount in July and variety store sales increased further. In the first half of August department store sales rose sharply.

Total loadings of revenue freight in July and early August showed little change from the advanced level reached in June. Grain shipments, which had been larger than usual in May and June, increased less than seasonally and loadings of coal declined somewhat.

Commodity Prices

The general index of wholesale prices advanced about 2 per cent further from the middle of July to the middle of August, reflecting sharp increases in prices of a number of agricultural and industrial commodities. Federal action to limit price increases was extended to additional basic materials, including burlap, silk, rayon fabrics, rubber, and sugar, and in the early part of August prices of these commodities in domestic markets showed little change or were reduced. On the other hand, prices for paper-board, automobile tires, and cotton yarns and gray goods were advanced with Federal approval; prices of textile products not under Federal control continued to rise; and there were considerable increases in prices of lumber, other building materials, and chemicals. On August 16 it was announced that for Southern pine maximum prices somewhat below recent high levels would become effective on September 5.

Agriculture

Agricultural production in 1941 may exceed that in any previous year, according to indications on August 1, and carryovers of major crops are unusually large. Crops of wheat and other leading foodstuffs are expected to be exceptionally large, while substantial declines in production are indicated for the major export crops—cotton and tobacco. Although the cotton crop is estimated at 10,600,000 running bales, or 1,800,000 bales less than last season, total supplies of cotton will be about the same owing to a larger carryover on August 1. Marketings of livestock and livestock products, except hogs, will be substantially above last year.

Bank Credit

Total loans and investments at reporting banks in 101 leading cities rose further during the five weeks ended August 13. Commercial loans continued to increase substantially, while holdings of United States Government obligations showed little change. Bank deposits remained at a high level.

United States Government Security Prices

After advancing to the highest levels on record, prices of both taxable and partially tax exempt Treasury bonds declined somewhat in the first part of August. On August 15 the partially tax exempt 2¾ per cent 1960-65 bonds yielded 2.06 per cent, compared with the all-time low of 2.02 per cent on July 29. Yields on Treasury notes showed little change in the period.