

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

October 1, 1941

Money Market in September

Throughout the month of September, the money market was influenced to some extent by the prospect of an increase in required reserves of member banks. When the increase in reserve requirements was actually announced, however, it appeared that the action had been rather fully discounted, at least for the present.

The announcement of the change in reserve requirements, which was made public on September 24, stated that the Board of Governors of the Federal Reserve System, after consultation with the Secretary of the Treasury, had increased reserve requirements for member banks to the present statutory limit, effective November 1, as a further step in the Government's program for combating inflation. Beginning on November 1, 1941, the new requirements will be in accord with the percentages specified in the following table, which compares them with the reserve percentages now in force.

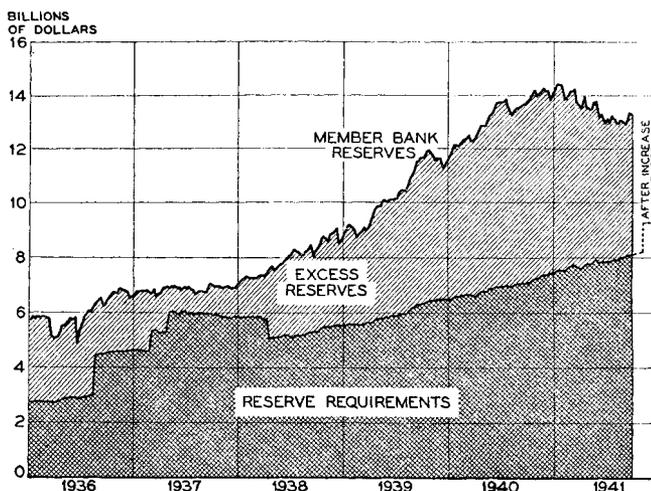
(Per cent of deposits)

Classes of deposits and banks	Present requirements	New requirements
On net demand deposits:		
Central Reserve City banks.....	22 $\frac{3}{4}$	26
Reserve City banks.....	17 $\frac{1}{2}$	20
"Country" banks.....	12	14
On time deposits:		
All member banks.....	5	6

On the basis of the present figure of about \$5,200,000,000 of excess reserves held by all member banks, and their present distribution, it is estimated that the increase in required reserves, which amounts to about one seventh, would result in a decline of about \$1,200,000,000 in excess reserves. The resulting decline in excess reserves, to about \$4,000,000,000, would, as the accompanying diagram indicates, leave excess reserves considerably higher than they were immediately after the reserve percentage adjustment effective April 16, 1938, notwithstanding the fact that the November 1 increase cancels the reduction which occurred on that date. The higher level of excess reserves, despite the higher percentages of required reserves, is to be explained principally by the large inflow of gold since 1938 (causing a great increase in member bank reserve balances), which for the whole period has been only partly offset by a large increase in money in circulation since that time, and by growth of member

bank reserve requirements accompanying expansion of deposits. Since the beginning of 1941, however, the gold inflow has been retarded, and, as a result of increases in money in circulation, member bank reserve requirements, and Treasury holdings of cash and deposits in the Reserve Banks, excess reserves have shown a declining tendency during the past nine months.

The November 1 increase in requirements, if applied to the present level and distribution of excess reserves, would reduce Central Reserve City bank excess reserves from approximately \$2,400,000,000 to \$1,700,000,000, the excess of New York City banks declining from \$1,800,000,000 to about \$1,300,000,000, without taking into account possible withdrawals of funds by out-of-town banks. At Reserve City banks, excess reserves would decline from \$1,850,000,000 to \$1,500,000,000, and at country banks from nearly \$1,000,000,000 to \$800,000,000. Thus the November 1 increase in reserve requirements will, as the Board of Governors' statement indicates, "leave the banks as a whole with ample funds to meet all credit needs of the defense program and all legitimate requirements of their customers." A survey made recently by the Board of Governors showed that a large majority of the member banks will be able to meet the increased requirements out of existing excess reserves and all but a few of the remainder by drawing upon a portion of their deposits with city correspondents.



Reserve Position of All Member Banks, Showing Required Reserves and Excess Reserves to Date, and Estimated Required Reserves after Increase in Reserve Percentages Effective November 1, 1941, Based on Present Amount of Requirements

Furthermore, the Board has announced that penalties for deficient reserves, prior to December 1, 1941, will be based upon reserve requirements in effect October 31, 1941.

The increase in member bank reserve requirements and the control of consumer credit, which became effective September 1, both constitute steps, in the monetary and banking field, aimed at supplementing other measures in the over-all program of combating inflationary developments. These other anti-inflationary measures include the program of financing as much as possible of the Government deficit by sales of Savings Bonds to individuals, thereby limiting the expansion of deposits which is involved in commercial bank purchases of Government securities, the instituting of much heavier taxes on individuals (both directly and indirectly) and on corporations, and the extension of priorities, allocations of materials, and price regulation. The increase in reserve requirements to be effective November 1 exhausts the existing statutory power of the Board of Governors over reserve requirements, and the Secretary of the Treasury and the Chairman of the Board of Governors jointly stated on September 23 that "recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments."

MEMBER BANK CREDIT

Commercial, industrial, and agricultural loans of weekly reporting member banks in leading cities expanded \$206,000,000 further in the four weeks ended September 24, and as some other types of loans also increased, total loans of the reporting banks rose \$257,000,000. Total investment holdings of the banks, however, declined \$244,000,000, owing to a drop of \$265,000,000 in the banks' holdings of Treasury bills which accompanied a reduction of \$300,000,000 in the outstanding volume of such securities during the period under review. As a net result of the rise in loans and reduction in security holdings, the total volume of reporting member bank credit outstanding was little changed for the four weeks ended September 24.

Adjusted demand deposits of the reporting banks showed no material net change for the four weeks ended September 24, and on September 24 were \$154,000,000 below the peak reached in the latter part of July. Domestic interbank deposits rose sharply, reflecting in part a movement of banking funds to New York. United States Government deposits continued to rise through September 24, as the result of the crediting of some of the proceeds of sales of Defense Savings Bonds and Treasury tax series notes, but on September 25 there was a substantial withdrawal by the Treasury from Government depositaries of proceeds of the Defense Savings Bonds sales.

GOVERNMENT SECURITIES

During the greater part of September the Government security market was quiet, and there was little net change in prices for the month as a whole. Both tax exempt and taxable Treasury bonds fluctuated narrowly in the first

seven trading sessions of the month, but expectations that action to raise reserve requirement percentages for member banks would be taken seem to have had a dampening effect on prices of Treasury bonds, particularly the intermediate term issues, between September 10 and 23. However, on September 24, following the actual announcement of higher reserve requirements, Treasury bond quotations moved up more than $\frac{1}{4}$ point, on the average. Firmness was also in evidence later in the month, and the ground lost in mid-September was regained.

As indicated by the movement of yields, prices of Treasury notes dipped to their low point for the month on the 23rd but recovered subsequently to show little change for September. The yield on the $\frac{3}{4}$ per cent tax exempt notes due March 15, 1945, after fluctuating only slightly in the first half of the month, moved from 0.34 per cent on the 16th to 0.40 per cent on the 23rd. By the end of the month the yield had settled back to 0.37 per cent. The yield on the $\frac{3}{4}$ per cent taxable notes, due December 15, 1945, traced a similar pattern.

Accepted bids on the four weekly issues of taxable 91 day Treasury bills during September were tendered on interest bases declining from 0.090 per cent for the issue dated September 3 to 0.037 per cent (the lowest rate since last February) for the issue dated September 24. Each of the issues was in the amount of \$100,000,000; the first three replaced maturing issues of \$200,000,000 each.

Money Rates in New York

	Sept. 30, 1940	Aug. 30, 1941	Sept. 30, 1941
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$
Prime commercial paper—4 to 6 months	$\frac{1}{2}$ — $\frac{5}{8}$	$\frac{1}{2}$	$\frac{1}{2}$
Bills—90 day unindorsed.....	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$
Average yield on Treasury notes (3-5 years)†.....	0.45	0.31	0.36†
Average yield on Treasury bonds (not callable within 12 years)†.....	2.20	1.96	1.97
Average rate on latest Treasury bill sale, 91 day issue.....	0.013	0.114	0.037
Federal Reserve Bank of New York discount rate.....	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills..	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

* Nominal.

† "Tax exempt" issues only.

‡ Change of +0.03 per cent from previous yields due to dropping from the average the 1 per cent Treasury note issue of September 15, 1944, which matures within three years.

Gold Movements

Imports of gold into the United States during September were in somewhat larger volume, but the net increase in the gold stock of about \$40,000,000 was approximately the same as in the three preceding months. Gold held under earmark for foreign account at the Federal Reserve Banks increased about \$47,000,000 during the month to approximately \$2,023,000,000.

In the five weeks ended September 24, the Department of Commerce reported the receipt of \$60,000,000 of gold in the following principal amounts: \$38,600,000 from Canada, \$5,700,000 from Russia, \$4,200,000 from the Philippines, \$2,500,000 from Colombia, \$2,100,000 from Australia, \$1,600,000 from Peru, \$1,400,000 from Chile, \$900,000 from Mexico, and \$700,000 from Nicaragua.

Membership in the Federal Reserve System

During September two additional State chartered banks and one more trust company in the Second Federal Reserve District became members of the Federal Reserve System, thereby increasing to thirty-four the number of institutions which have become members since the first of this year. Excluding savings banks, industrial banks, and private banks in the Second Federal Reserve District, none of which are now members of the Federal Reserve System, although savings banks and industrial banks may under certain conditions become members, the present membership situation in this District, with respect to numbers of member and nonmember banks, is as follows:

	Member	Nonmember	Total
National banks	583	0	583
State banks and trust companies	211	196	407
Total	794	196	990

Thus, of the "commercial" banks in this District, 80 per cent of the number are now members of the Federal Reserve System; membership of all National banks in the continental United States exclusive of Alaska is required by the Federal Reserve Act while State banks and trust companies may become members, subject to their meeting certain conditions of membership, and in this latter group nearly 52 per cent of the number of such institutions in this District are now members, accounting for approximately 87 per cent of the assets of all State banks and trust companies in the District. From the standpoint of total commercial bank assets, banks which are members of the Federal Reserve System account for approximately 92 per cent of the assets of all commercial banks in this District.

The movement toward membership in the Federal Reserve System has also been in progress in other Federal Reserve Districts, and for the first eight months of the year the number of banks becoming members aggregated 123. There were 39 admissions of new members in the Chicago Federal Reserve District, in which the number of nonmember commercial banks with sufficient capital stock to meet the minimum statutory requirements for Federal Reserve membership is by far the largest of any Federal Reserve District. The New York Reserve District had 31 admissions during the same period, and for the other districts the number of banks that became members varied from 1 to 12.

Security Markets

Stock prices fluctuated irregularly during September. None of the price movements was either of long duration or of great extent. Between September 2 and 10 the Standard 90 stock price average declined about 2 per cent, then recovered 3 per cent in the next six trading sessions. Another period of decline followed, under the

influence of adverse news from the Eastern Front and the Treasury proposal to limit corporation profits to 6 per cent of invested capital, and the 90 stock average by September 26 had receded to the September 10 level. At the end of the month the price average was slightly lower than at the beginning and was 6 per cent below the year's high. Industrial shares made a stronger showing in September than either rail or utility stocks. Trading activity on the New York Stock Exchange for the month as a whole continued to be restricted, although on one day, the 25th, volume was the heaviest since July 22.

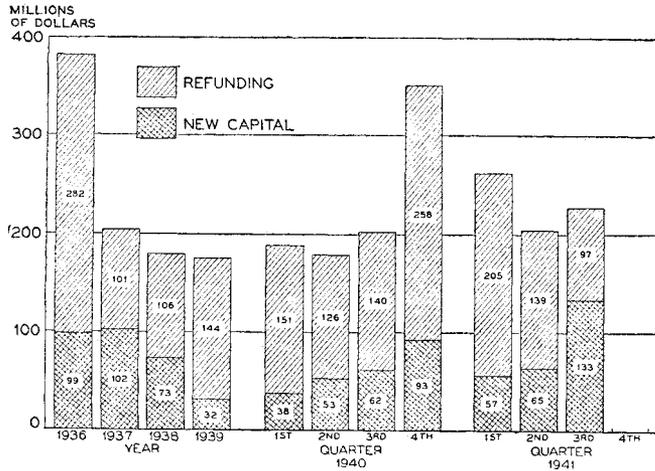
Prices of highest grade corporate bonds, as measured by Moody's index of Aaa bonds, were off somewhat in the first half of the month but subsequently recovered most of this decline. Meanwhile, medium grade bonds, rated Baa by Moody, showed an irregular decline of about $\frac{3}{8}$ of a point during September. Most of this downward movement was accounted for by continued weakness in second-grade rail bonds, which may perhaps be associated with developments in the railroad wage situation. According to Standard's price average, prime municipal bonds were steady at levels slightly below the record high set August 6, last. Sharp rises in quotations of foreign dollar bonds were reported for the first half of September. The largest gains were in bonds of German-occupied countries and in Japanese bonds.

New Financing

The award to a group of life insurance companies of \$90,000,000 American Telephone and Telegraph Company refunding debentures on September 29 raised the volume of corporate and municipal financing during September to \$201,000,000. Without this issue the month's total would have been the smallest in more than three years. Corporate flotations amounted to \$158,000,000, of which only \$26,000,000 represented "new money". The volume of municipal financing continued to decline, as it has for the last several months, and approximated the lowest levels reached since September, 1939, the first month of the war.

Details of the major flotations are as follows:

- \$90,000,000 American Telephone and Telegraph Company 2 $\frac{1}{4}$ per cent debentures maturing in 1976, awarded at 101.842 (or a net interest cost of about 2.66 per cent); for refunding purposes
- 18,000,000 Erie Railroad Company 3 $\frac{1}{4}$ per cent first mortgage bonds of 1971, awarded at a net interest cost of 3.19 per cent and reoffered at 102 $\frac{1}{2}$ (yield of 3.125 per cent) for principal amounts up to \$499,000 and at 101 $\frac{3}{4}$ (yield of 3.15 per cent) for amounts of \$500,000 and upward; for refunding purposes
- 14,700,000 Saint Paul Union Depot Company first and refunding mortgage 3 $\frac{3}{8}$ per cent bonds of 1971, awarded at a net interest cost of 3.06 per cent and reoffered at 102 $\frac{3}{8}$ to yield 3.00 per cent; for refunding purposes
- 9,000,000 State Roads Commission of Maryland 1 $\frac{3}{4}$ to 2 $\frac{1}{2}$ per cent refunding bonds maturing from 1942 to 1956, awarded at a net interest cost of 1.85 per cent and reoffered to yield from 0.30 to 2.00 per cent; for refunding purposes.



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

Temporary financing totaled an additional \$80,000,000 and included \$35,000,000 New York City 0.25 per cent revenue bills maturing November 5, 1941, and \$29,000,000 Federal Intermediate Credit Bank 5/8 per cent consolidated debentures maturing July 1, 1942 which were sold on an interest basis of 0.40 per cent.

According to public announcements, a number of corporations are planning to issue securities to raise new capital, but only in a few cases are substantial amounts involved. The Dow Chemical Company has offered its stockholders of record September 26, 113,519 shares of common stock through transferable subscription warrants expiring October 6, and the Westinghouse Electric and Manufacturing Company will offer 534,426 shares of common stock to its stockholders of record October 15, through rights which will expire on October 28. The Union Pacific Railroad has requested that bids be submitted on October 8 for an issue of \$13,250,000 of equipment trust certificates.

As indicated in the accompanying diagram, corporate financing averaged about \$230,000,000 a month during the third quarter of this year. The volume of corporate refundings declined to a low level, but the \$132,000,000 monthly average for new capital flotations exceeded that of any quarter since the second quarter of 1937. Chiefly responsible for this rise in the volume of new capital financing was the flotation in August of \$222,000,000 American Telephone and Telegraph Company debentures.

Foreign Exchanges

During the past month interest in the New York market for foreign exchange continued to be centered in the Western Hemisphere currencies. The Canadian dollar, which had been in demand in the unofficial market in recent months, improved further during early

September, when the unofficial discount narrowed to $10\frac{1}{4}$ per cent, the smallest since November, 1939. The discount subsequently widened, however, to $11\frac{7}{8}$ per cent on September 23, as the seasonal tourist demand slackened; at the end of the month it stood at $11\frac{1}{8}$ per cent, as against $10\frac{5}{8}$ per cent a month earlier. Among the Latin American exchanges, the free rate for the Argentine peso continued to hold around \$0.2380 until mid-September, when some reaction developed and by the end of the month the rate had receded to \$0.2343, the lowest since last April. This reaction may have been due, in part at least, to a decline in the buying of pesos, under license here, to be used for the purchase in Argentina of Italian lire to cover remittances to Italy. Some demand for dollars in the Argentine free market, in anticipation of the payment of third quarter profits on American direct investments in Argentina may also have been a factor in the reaction in the peso during the latter part of September. After holding at about \$0.2750 during most of the month, the free rate for the Venezuelan bolivar declined to \$0.2685 on September 26 but ended the month at \$0.2700. The favorable outlook for Cuban sugar exports, accompanying the recent increase in American import quotas for Cuban sugar, appears to be largely responsible for some further improvement in the Cuban peso early in this month, when the discount narrowed from $\frac{7}{8}$ per cent to about $\frac{3}{8}$ per cent, the smallest in several years.

In the Far East, the most significant foreign exchange development was the action taken by the principal non-Axis banks in Shanghai which had the effect of virtually suspending all unrestricted trading in the Shanghai open market. It was reported on September 8 that branches in China of the American, British, Dutch, and Chinese banks, to whom general licenses have been granted under our freezing regulations, had agreed to cooperate fully with the newly created Stabilization Board of China. In line with this policy, the Chinese yuan is now quoted in Shanghai at $5\frac{11}{32}$ cents and $3\frac{3}{16}$ pence, the same as the rates fixed by the Stabilization Board for cover for legitimate merchandise imports from the United States and the sterling area. On September 24 the New York market was advised that the Reserve Bank of India had changed its buying rate for dollars from the equivalent of about \$0.3030 per rupee, which had been in effect since April 2, to the equivalent of about \$0.3035. The Reserve Bank's selling rate for dollars for spot delivery was also changed to the equivalent of about \$0.3010; since May, 1940 this rate has been \$0.3003.

Commodity Prices

Advancing prices again predominated in wholesale commodity markets during September, although, as in August, the rate of rise was less rapid than in the spring and early summer. Hearings on the price control bill

were resumed about the middle of the month and a variety of proposals was offered for checking general price inflation. The Secretary of the Treasury recommended that part of the large Government holdings of such agricultural commodities as cotton, wheat, and corn, be sold to halt price advances. The Price Administrator advocated a selective system of price fixing, limiting the establishment of price ceilings to "75 to 100 principal commodities or fabricated products of industry."

In the latter part of September some reaction occurred in the prices of a number of commodities not under ceiling regulations, especially farm and food products. Large price gains recorded early in the month in cotton and hogs were more or less offset by subsequent declines, although wheat quotations showed net gains of around five cents for the month. Prices of industrial raw materials, over which ceiling quotations have been widely established, moved within narrow ranges but toward slightly higher levels. During September the Office of Price Administration issued schedules of maximum prices for several additional products, including Douglas fir lumber, two types of coke, waste paper, and ethyl alcohol, thereby increasing to over 30 the total number of price ceilings effective as of October 1. There were also revisions in certain ceiling regulations, among which was the announcement of a plan whereby cotton textile prices would be changed in direct relationship to the average price of raw cotton in 10 Southern markets.

According to the Bureau of Labor Statistics weekly index, wholesale commodity prices generally have risen 22 per cent since the outbreak of the war, and 18 per cent within the last year. While all major categories of commodities have shown some price advances over these periods, the degree of participation in the general rise has varied greatly, as the accompanying table indicates. Increases from August 26, 1939 to September 20, 1941 ranged from 6 per cent for metals and metal products to 49 per cent for farm products. Differences in the extent of price advance reflect, on the one hand, early and effective measures to restrain prices of metals and other commodities of critical importance to the de-

fense program. On the other hand, several factors have operated to increase farm and food prices; among these are expanding consumer demand and the passage in May of legislation requiring the Commodity Credit Corporation to make loans on major 1941 crops at 85 per cent of parity prices. Advances in prices of imported foods have been due largely to a tightening shipping situation.

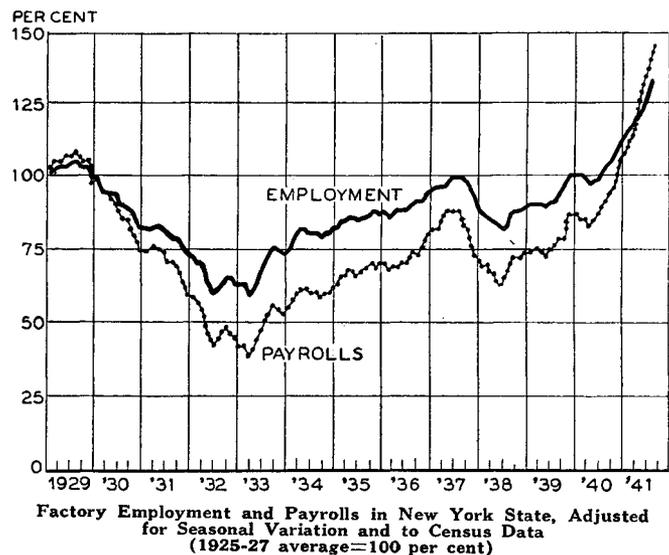
Employment and Payrolls

Employment in New York State factories rose 4 per cent further in August, and payrolls increased 6½ per cent. These gains were due not only to continued large-scale hiring at plants with defense orders but also to expansion of working forces at firms manufacturing civilian goods. Women's clothing and millinery concerns made large seasonal additions to working forces, and men's clothing firms continued to operate at a high level. All branches of the metals and machinery industrial group employed more workers in August; shipyards and plants producing airplanes, firearms, and tool steel reported the largest gains. This bank's seasonally adjusted indexes of employment and payrolls in New York State factories, which are based on data reported by the State Department of Labor, continued their steady rise, as is shown by the accompanying diagram; by August both indexes had advanced for 16 consecutive months. Factory employment has risen 42 per cent since August, 1939, just prior to the outbreak of war, whereas the increase in payrolls over the two year period has been 85 per cent or approximately twice as much, owing to the combination of larger working forces, higher wage rates, and longer working hours. Both indexes are now at the highest levels on record; the employment index in August was 26½ per cent above the 1929 peak, and the index of payrolls was 36 per cent higher.

Factories in the United States as a whole reported increases of 1½ per cent in working forces and 3 per cent

United States Bureau of Labor Statistics
Weekly Indexes of Wholesale Commodity Prices

	Index September 20, 1941 (1926=100)	Percentage change Sept. 20, 1941 compared with	
		Sept. 21, 1940	Aug. 26, 1939
Farm products.....	91.2	+38.8	+49.3
Foods.....	88.5	+24.4	+32.7
Textile products.....	89.2	+23.9	+32.3
Hides and leather products.....	111.7	+12.8	+20.6
Building materials.....	106.2	+11.6	+18.4
Chemicals and allied products.....	87.8	+14.3	+18.3
Housefurnishing goods.....	98.0	+ 8.9	+12.6
Fuel and lighting materials.....	80.0	+11.3	+ 9.3
Metals and metal products.....	98.7	+ 3.6	+ 5.6
Miscellaneous.....	85.0	+11.4	+16.3
All commodities.....	91.5	+17.8	+22.3
Raw materials.....	89.8	+28.1	+35.6
Semimanufactured articles.....	90.1	+16.3	+21.1
Manufactured products.....	92.8	+13.6	+17.0



in wage payments between July and August. In neither case were the gains so large as those experienced in ordinary years, because of the exceptionally high rate to which industrial activity had already risen by July. There were further employment increases in the aircraft, machine tool, and electrical machinery industries, but shipyards reported a much smaller gain than in preceding months owing to a labor dispute at an East coast yard. Automobile factories laid off large numbers of workers during August in connection with model changeovers, while radio manufacturers increased working forces seasonally. Canneries, whose business has been stimulated by large Government purchases, added even more workers than usual in August. Factory employment as a whole was 23 per cent above the level of August, 1940 and payrolls were 49 per cent greater.

Total civil nonagricultural employment in the United States is estimated by the Labor Department to have risen 260,000 in August to a total of approximately 39,500,000 persons. A large part of the increase occurred in manufacturing industries, but wholesale and retail trade establishments and construction firms also made sizable additions to working forces. Compared with August a year ago, 3,600,000 more persons were employed in nonagricultural occupations. The armed forces (not included in the above estimates) totaled 1,950,000 in August, an increase of 1,400,000 over August, 1940.

Production and Trade

Preliminary data for September indicate a continuation of the high rate of business activity. Despite increasing concern over actual and prospective shortages of steel scrap, the steel mills continued to operate close to full rated capacity in September. Production of new model automobiles rose steadily in September, following the changeover period in August, but, owing to Government restrictions on the output of passenger cars, total assemblies were considerably lower than in September, 1940. The Office of Production Management announced that December production of passenger cars has been set at 48½ per cent less than output in December, 1940. This quota, together with the 26½ per cent cut previously ordered for the August-November period, will result in an over-all curtailment for the first five months of the 1942 model year of 32 per cent. Production of light trucks for nonmilitary purposes for the period August through November has been limited to 91 per cent of the output in the corresponding months of last year.

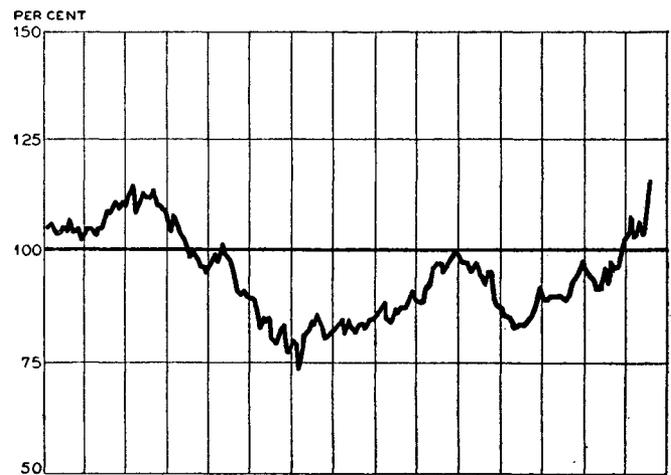
Cotton textile mills are reported to have maintained operations at an extremely high rate in September, although the volume of sales of gray goods was small, owing to the unwillingness of mills to book additional orders and uncertainties over price ceilings. Around the middle of the month loadings of railway freight reached the highest weekly total since the fall of 1930, and electric power production and output of crude petroleum rose to new record levels.

PRODUCTION AND TRADE IN AUGUST

During August the index of production and trade computed at this bank rose two points further to 113 per cent of estimated long term trend—within striking distance of the highest level reached in 1929. In the two year period from August, 1939 (the month just preceding the outbreak of the war) to August of this year the index advanced 27 points.

The rise in the general index in August reflected primarily a sharp (and probably largely temporary) spurt in retail trade from the already high level of July. As indicated by the accompanying chart, the group index measuring distribution to consumer advanced nine points over July. Department store sales increased considerably more than usual in August and were about a third larger than in the corresponding month of last year. Combined sales of the two major mail order houses ran nearly 50 per cent ahead of August, 1940, and sales of variety and grocery chain systems were about 25 per cent greater. Although retail sales of new passenger cars were somewhat higher than in the previous August, there was a sharp decline from July, owing to changeover to new models.

Reflecting the continued impetus of the defense program, output of producers' durable goods advanced into new high ground in August; the aircraft, machinery, and other "defense" industries showed further gains, and the steel mills continued to operate at near capacity. On the other hand, output of producers' nondurable goods and of consumers' durable goods declined between July and August, seasonal factors considered. Production of cotton and wool textiles was somewhat lower than in the preceding month and deliveries of silk to domestic mills fell off to only about one tenth of the July rate following the freezing of silk stocks by the Office of Production Management early in the month. Passenger car output was sharply reduced in connection with the changeover to production of new models, and operations in the furni-



Index of Distribution to Consumer (Federal Reserve Bank of New York index, expressed as a percentage of estimated long term trend, and adjusted for seasonal variation)

ture industry increased less than usual over the relatively high July level.

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

	1940	1941		
	August	June	July	August
<i>Index of Production and Trade</i>	93	110	111p	113p
Production of:				
Producers' durable goods.....	93r	123	126p	131p
Producers' nondurable goods.....	97r	121	121p	117p
Consumers' durable goods.....	73	104	103p	96p
Consumers' nondurable goods.....	94	105	105p	104p
Primary distribution.....	90	104	105p	105p
Distribution to consumer.....	98r	104	107p	116p
<i>Industrial Production</i>				
Steel.....	112	126r	126r	125
Automobiles.....	56	131	150	104
Bituminous coal.....	96r	125	130	117p
Crude petroleum.....	86	87	86	90p
Electric power.....	100	113	112	115p
Cotton consumption.....	111r	149r	155r	152
Wool consumption r.....	109	196	179	164p
Shoes.....	101r	133	133p	119p
Meat packing.....	97	105	106	110
Tobacco products.....	89	99	96	97
<i>Manufacturing Employment</i>				
Employment.....	97r	116	120	119p
Man-hours of employment.....	93r	119	122	121p
<i>Construction</i>				
Residential building contracts.....	60	67	73	82
Nonresidential building and engineering contracts.....	75	88	93	137
<i>Primary Distribution</i>				
Ry. freight car loadings, mdse. and misc.....	85	103	103	103
Ry. freight car loadings, other.....	94	117	116	114
Exports.....	113	103	114p	
Imports.....	80	94	91p	
<i>Distribution to Consumer</i>				
Department store sales (U.S.).....	96	99	108	125
Grocery chain store sales.....	99	99	99	103p
Variety chain store sales.....	106	108r	108	126
Mail order house sales.....	103	108	111	131
New passenger car sales r.....	80	118	104r	90p
<i>Velocity of Deposits*</i>				
Velocity of demand deposits, outside New York City (1919-25 average = 100).....	53	60	57	61
Velocity of demand deposits, New York City (1919-25 average = 100).....	23	27	26	27
<i>Cost of Living and Wages*</i>				
Cost of living (1935-39 average = 100).....	104	108	109	110p
Wage rates (1926 average = 100).....	114	122	123	

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

Building

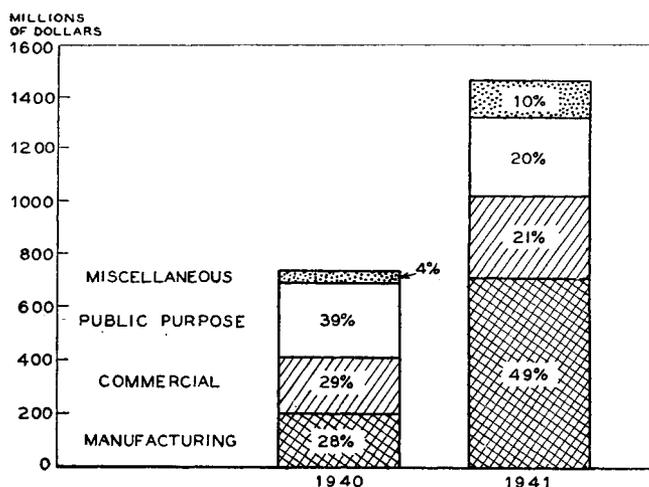
During August the daily rate of construction contract awards for 37 Eastern States rose 83 per cent above the figure for August, 1940 to the highest level in any month covered by the F. W. Dodge Corporation records which began in 1925. Awards for residential building were the largest since April, 1929, and nonresidential building contracts were awarded at the highest rate on record.

Contract awards for defense purposes have been accounting for an increasing proportion of new construction projects. A little over half of the contracts included in the totals for August were Government awards connected with the defense program. This compares with 42 per cent for such awards in July and 22 per cent in August of last year.

Although almost all classifications have shown increases in volume during the past year, there has been a shift in the relative importance of various types of construction work owing to the nature of defense requirements. For example, awards for residential building and public works projects have accounted for smaller percentages of all contracts awarded so far this year than in the corresponding period of 1940. On the other hand, the proportions of all contracts which have been awarded for utilities construction (particularly electric power and light projects and airports) and for nonresidential building have shown increases.

Within the nonresidential building group, wide changes in the relative importance of various types of building have occurred, as is shown in the accompanying chart. While the dollar value of awards for public purpose building showed little net change between the first 8 months of 1940 and the comparable period of 1941, other nonresidential building awards were almost four times as large. From January through August of 1940 public purpose building accounted for the largest single share of nonresidential building (39 per cent); commercial and manufacturing building each amounted to a little under one third of the group total. In the first eight months of this year, however, awards for public purpose and commercial building have each represented only one fifth of all nonresidential building contracts, while factory construction (nearly half of which was accounted for by Government contracts) has made up approximately 50 per cent of the total. Government defense awards primarily account for the increase in the miscellaneous classification from 4 to 10 per cent of the total.

As a result of the heavy demand on building supplies, caused by the defense program, an order granting priorities on critical materials for certain types of private residential building in defense areas and for Government housing projects for workers in defense industries was



Nonresidential Building Contracts Awarded in 37 States During First Eight Months of 1940 and 1941, Classified by Major Groups (Based on F. W. Dodge Corporation data)

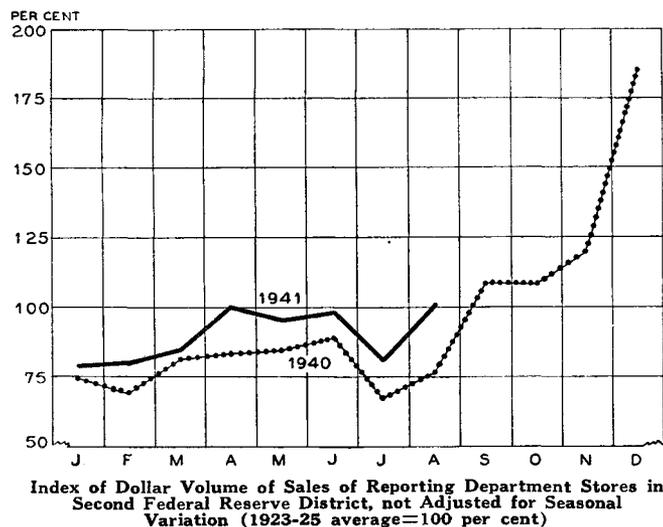
announced on September 19 by the Office of Production Management. Priorities under this order are scheduled for approximately 200,000 privately financed dwelling units and 100,000 units financed by the Government, which together are equal to more than half the estimated number of new nonfarm dwelling units provided in 1940 for the entire country. In the nonresidential building field the Supply Priorities and Allocations Board has taken the position that the expansion of projects for non-defense purposes is undesirable if they require large amounts of materials needed in the defense program.

In New York and Northern New Jersey the daily rate of construction contract awards during August was about one-third above the corresponding month of last year. Of the major classifications, awards for residential building, which made up a little over half of all awards, showed the largest year-to-year increase, amounting to 40 per cent. Awards for nonresidential building were up one third, while heavy engineering projects were about unchanged.

Of the contracts included in the month's total for New York and Northern New Jersey, only 14 per cent represented Government contracts for defense purposes. This compares with 46 and 18 per cent, respectively, for June and July.

Department Store Trade

As in other sections of the country, retail trade in the Second Federal Reserve District was exceptionally active during August. Sales of department stores reporting to this bank, on an average daily basis, were approximately one-third larger than in August of last year and about 25 per cent greater than in July, as indicated on the accompanying chart. While moderate increases in sales characteristically occur between July and August, the month-to-month advance this year was the largest recorded since this bank began its work of collecting department store sales figures more than twenty years ago.



From weekly reports gathered from a smaller list of stores, it appears that the gains over a year previous were largest early in August and thereafter receded gradually through the remainder of the month and into September. An acceleration of sales again occurred in the latter part of September in anticipation of excise taxes effective October 1, but for the month as a whole sales failed to show as much expansion over August as usually occurs, although it is estimated that average daily sales exceeded those of September of last year by approximately 13 per cent.

The most substantial increases in sales between August, 1940 and August of this year occurred in sales of hosiery, underwear, furs and fur-trimmed coats, home furnishings, and household appliances.

Retail stocks of merchandise on hand in the reporting department stores at the end of August were 26 per cent higher than at the end of August, 1940, and were also considerably larger than at the end of July despite the high rate of sales in August. 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 over twice as large as those of August 31, 1940.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	August, 1941	Jan. through August, 1941	August, 1941
New York City (includes Brooklyn) . . .	+26	+12	+25
Northern New Jersey	+30	+16	+25
Newark	+29	+15	+23
Westchester and Fairfield Counties . . .	+38	+23	+47
Bridgeport	+43	+27	+39
Lower Hudson River Valley	+22	+13	+22
Poughkeepsie	+23	+15	—
Upper Hudson River Valley	+32	+20	+35
Albany	+29	+16	—
Central New York State	+40	+23	+35
Mohawk River Valley	+38	+27	+34
Syracuse	+41	+23	+36
Northern New York State	—	—	—
Southern New York State	+44	+23	+23
Binghamton	+43	+23	—
Elmira	+60	+34	—
Western New York State	+38	+21	+25
Buffalo	+45	+27	+27
Niagara Falls	+37	+13	+21
Rochester	+30	+15	+24
All department stores	+30	+15	+26
Apparel stores	+39	+12	+29

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

	1940	1941		
	August	June	July	August
Sales (average daily), unadjusted	76	98	81	101
Sales (average daily), seasonally adjusted . . .	101	102	114	134
Stocks, unadjusted	79r	85	83	98
Stocks, seasonally adjusted	83r	90	96	103

r Revised

FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, OCTOBER 1, 1941

Business Conditions in the United States

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

INDUSTRIAL activity increased further in August and the first half of September, and commodity prices continued to advance. Distribution of commodities to consumers expanded considerably.

PRODUCTION

In August industrial output increased somewhat more than seasonally and the Board's adjusted index advanced from 160 to 161 per cent of the 1935-39 average. There were sharp further advances in activity in the machinery, aircraft, shipbuilding, and railroad equipment industries. Lumber production also increased, while furniture production, which had been unusually large in July, showed less than the customary seasonal rise in August. Output of steel and nonferrous metals continued at near-capacity rates.

In the automobile industry output of finished cars declined sharply as plants were closed during the changeover to new model production and output in factories producing bodies and parts also was reduced considerably. In the first half of September automobile assemblies increased as production of new models was begun but from now on, owing to Government restriction on passenger car production, output will be considerably below that during the previous model year.

In most nondurable goods industries production in August continued around the high levels reached earlier this year. At cotton mills activity declined slightly from the record level reached in July, while at woolen mills there was some increase. Rayon output continued at peak levels. In the silk industry operations were curtailed sharply, as the Government requisitioned all supplies of raw silk, and deliveries of silk to mills declined from 28,000 bales in July to 2,000 in August. Rubber consumption also decreased, owing to a Government curtailment program. Shoe production, which had been unusually large, increased less than seasonally in August, and output of manufactured food products and chemicals showed seasonal increases from the high levels prevailing in June and July.

At mines coal production in August, as in other recent months, was unusually large for the season, and output of crude petroleum rose to a record level of 4,000,000 barrels daily in the latter part of the month. Iron ore shipments down the Lakes amounted to 11,500,000 tons, the largest monthly total on record.

Value of construction contract awards showed a further sharp increase in August and was about four-fifths larger than a year ago, according to F. W. Dodge Corporation reports. The rise from July was substantial for all general types of construction but was most pronounced for publicly financed projects. Awards for residential building continued to increase.

DISTRIBUTION

Sales of general merchandise rose sharply in August and were at an extremely high level for this time of year. The Board's seasonally adjusted index of department store sales advanced to 133 per cent of the 1923-25 average as compared with 115 in July and an average of 103 in the first half of this year. In the early part of September department store sales declined from the peak reached in the latter part of August.

Railroad freight car loadings in August were maintained in the large volume reached in June and July. Coal shipments increased, following some reduction in July, while loadings of grain, which had been large since last spring, declined.

COMMODITY PRICES

Wholesale prices of most groups of commodities continued to advance from the middle of August to the middle of September. Prices of grains, other foodstuffs, and cotton showed large increases and there were advances also in prices of a number of industrial commodities not covered by Federal price ceilings. Fragmentary data available indicate that retail prices of foods and other commodities rose further during this period.

AGRICULTURE

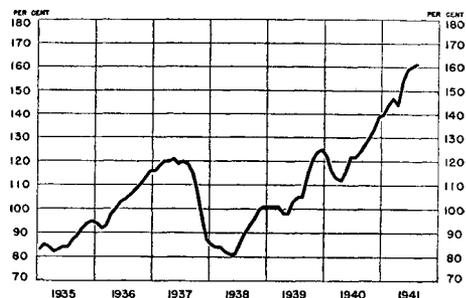
The outlook for agricultural production in 1941 showed little change during August. Crop prospects were reduced slightly by drought but aggregate crop production is expected to be two per cent larger than last year and the largest for any year except 1937. Total marketings of livestock and livestock products will probably be the largest on record. Preliminary estimates of the Department of Agriculture indicate that cash farm income, including Government payments, will be about \$10,700,000,000, compared with \$9,120,000,000 in 1940.

BANK CREDIT

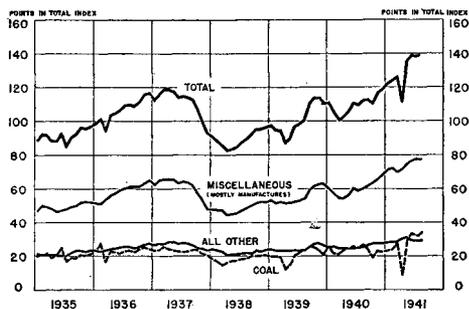
Commercial loans at reporting member banks in 101 cities continued to rise substantially during the four weeks ended September 10. Bank holdings of United States Government securities showed little net change, while holdings of other securities increased somewhat at New York City banks. As a result of the expansion in loans and investments bank deposits continued to increase.

UNITED STATES GOVERNMENT SECURITY MARKET

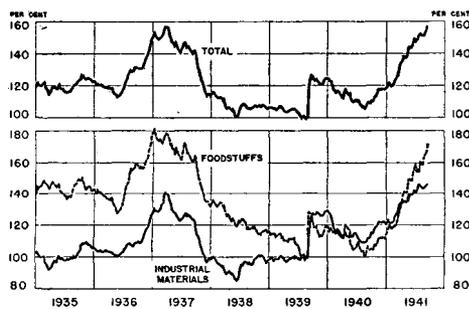
Prices of Treasury bonds increased in the latter part of August but subsequently declined somewhat in the first part of September. On September 15, the partially tax exempt 2 3/4 per cent 1960-65 bonds were yielding 2.06 per cent compared with the record low yield of 2.02 per cent. Yields on Treasury notes showed little change in the period.



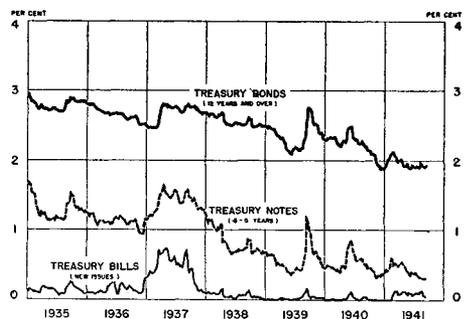
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



Index of Total Loadings of Revenue Freight, Adjusted for Seasonal Variation (1935-1939 average=100 per cent; miscellaneous, coal, and all other car loadings expressed in terms of points in total index)



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



Money Rates in New York City