MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

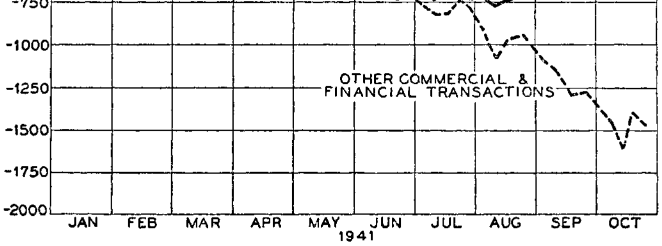
Money Market in October

On September 24, the Board of Governors of the Federal Reserve System announced that effective November 1 reserve requirement percentages of member banks would be increased to the present statutory limit. Important changes in the excess reserve position of the member banks have taken place during the period since the increase in reserve requirement percentages was announced. Most of the change has been at New York City banks, whose excess reserves declined from $1,830,000,000 on September 24 to $1,535,000,000 on October 22 and to $1,345,000,000 on October 29. The surplus reserves held by all member banks in the country declined from $5,200,000,000 on September 24 to $4,660,000,000 on October 22, and to $4,600,000,000 on October 29. On the basis of the reserve requirements and reserve balances as of October 29, it is estimated that excess reserves, after the increase in reserve requirement percentages becomes effective on November 1, will amount to approximately $825,000,000 for the New York City banks and to approximately $3,450,000,000 for all member banks. At the beginning of 1941 at least half of the total excess reserves of all member banks were held by the New York City banks.

The principal gains and losses of funds, affecting reserve balances of the banks in the Second Federal Reserve District, are indicated in the accompanying diagram for the period since the beginning of 1941. Throughout this period the Second Federal Reserve District has lost funds in "other commercial and financial transactions". These include, in addition to payments to and from other parts of the country on account of business transactions, settlements for United States Government securities bought or sold in the New York market by investors in other districts and transactions by New York investors consummated in other districts. Excepting one week, this class of transactions resulted in a continued substantial net drain on New York District bank reserves in the period between September 24 and October 29.

The next largest influence on the reserves of New York District banks has been Treasury transactions, data for which, as given in the chart, represent the weekly net disbursement from or receipt of funds in the Treasury account at the Reserve Bank. Following a large cumulative loss of funds as a result of Treasury transactions in the first seven months of the year, the New York District regained a substantial amount of reserve funds through Treasury transactions in August, September, and the first half of October. In the week ended October 22, however, a large loss of funds occurred, representing cash payments by purchasers in New York for the new issue of 2½ per cent Treasury bonds of 1967-72. Treasury disbursements only slightly exceeded receipts in the week ended October 29, and for the whole period from September 24 to October 29 Treasury transactions resulted in some net loss of reserves of the New York District banks.

With respect to the payment for the new Treasury bond issue, banks, both in this District and in other districts, made larger use of the "book credit" method of payment than for some time. Credits to the account of the Treasury on the books of banks making payment for bonds allotted to them for their own account, or for customers, amounted to approximately 35 per cent of the total of bonds allotted, while cash payments were made for 65 per cent of the total of bonds allotted. On the two preceding issues of Treasury bonds, payments in the form of book credits amounted to only 22 per cent (for the March issue) and 17 per cent (for the June issue) for the country as a whole, and in the case of the New York District the percentages were 12 and 7 per cent, respectively. The more recent larger use of the book credit mechanism is a reflection of the declines



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

which had already occurred in excess reserves or were in prospect for November 1. Banks have also continued to take advantage of the book credit method of payment for Treasury notes of the tax anticipation series which are purchased by their customers.

With respect to changes in out-of-town bankers' balances held in New York City banks, there was a rise of around $160,000,000 in September and the first half of October, but in the week ended October 22 a decline of about $140,000,000 occurred, probably reflecting withdrawals to provide funds to pay for the new Treasury bond issue and perhaps also anticipatory adjustment of the reserve position of some out-of-town banks to the November 1 level of reserve requirements. In the week ended October 29 there was a further reduction of $65,000,000 in bankers' balances held in New York City banks, which presumably was directly associated with out-of-town banks' preparations to meet the November 1 increase in reserve requirements. On October 29, the amount of out-of-town bank balances held in New York was $150,000,000 below the September 24 level, and this was an additional factor in the reduction in excess reserves of the New York City banks since that time. In the event that reserves of individual New York City banks are reduced by withdrawals of out-of-town bank funds or other funds, below the reserve requirements which become effective November 1, they are in a position readily to adjust their reserve positions, because of their relatively large holdings of short term assets, which can be realized upon at maturity or by sale.

Currency demands, as is also indicated in the diagram, have continued to absorb excess bank reserves in the Second Federal Reserve District, while gold movements have resulted in only a small addition to bank reserves.

The excess reserves of all member banks in the country declined between September 24 and October 29 chiefly as a result of a net increase in Treasury cash and deposits in the Reserve Banks of $395,000,000 (largely the consequence of cash payments for the new Treasury bond issue on October 20), and a further increase of $235,000,000 in the amount of currency in circulation. Increases in the gold stock and other transactions resulted in practically no net effect on reserves.

Member Bank Credit

Renewed expansion of the volume of member bank credit outstanding occurred in the four weeks ended October 22, during which the total loans and investments of weekly reporting member banks in 101 cities rose $500,000,000. Approximately one half of the expansion resulted from the banks' purchases of securities, and one half from loan activities.

For the four weeks under review, total United States Government security holdings rose $256,000,000 while holdings of other securities declined $16,000,000. Reflecting a rise of $325,000,000 in Treasury bond holdings for the week ended October 22, which included the date on which the new 2½ per cent Treasury bonds of 1967-72 were issued, total Treasury bond holdings rose $309,000,000 for the four weeks, while Treasury note holdings declined $72,000,000, probably representing sales and exchanges of the Treasury notes due December 15, 1941, which under the terms of the Treasury offering were exchangeable for the new bond issue. Treasury bill holdings were virtually unchanged for the four weeks. Judging from data for the week ended October 22, the reporting banks did not absorb a materially larger proportion of the Treasury bond issue dated October 20 than of the issue dated June 2, despite the fact that the recent issue was double the size of the June issue. No doubt this was due at least in part to the long maturity of the latest issue (31 years as compared with 17 years for the June issue), which made it especially suitable for investors such as insurance companies, savings banks, and trust funds, and less suitable for bank portfolios.

Commercial, industrial, and agricultural loans of all reporting banks showed a further net rise of $167,000,000 in the four weeks ended October 22, despite a small recession in the last week of the period. Holdings of open market paper by the banks increased $30,000,000, and loans to brokers and dealers in securities rose $54,000,000, most of which occurred at New York City banks.

Adjusted demand deposits of weekly reporting banks on October 15 reached a new high level of $24,640,000,000, or about $100,000,000 above the previous peak reached at the end of July, but in the week ended October 22, this class of deposit declined $258,000,000, apparently in connection with cash payments by customers for the new issue of Treasury bonds. United States Government deposits in reporting banks, which had been reduced $332,000,000 in the three weeks ended October 15, by withdrawals to replenish the Treasury account in the Reserve Banks, rose $322,000,000 in the week ended October 22, reflecting book credit payments by the banks for the new Treasury bond issue allotted to them and their customers. At New York City banks the increase in Government deposits for the week ended October 22 was considerably more than the increase in Treasury bond holdings of the banks during the week, while for other reporting banks as a group the increase in Government deposits was less than the rise in Treasury bond holdings of these banks.

Money Rates in New York

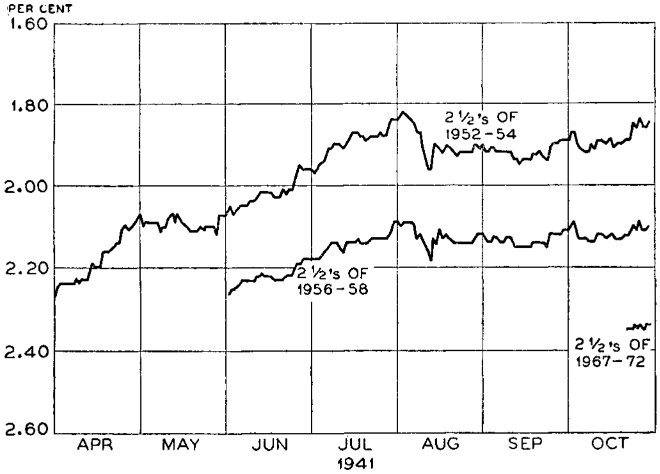
	Oct. 31, 1940	Sept. 30, 1941	Oct. 30, 1941
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½–⅝	½	½
Bills—90 day unindorsed	7/16	7/16	7/16
Yield on ¾ per cent Treasury notes due March 15, 1945†	0.58	0.37	0.45
Yield on ¾ per cent Treasury notes due December 15, 1945#	—	0.65	0.78
Average yield on Treasury bonds (not callable within 12 years)†	2.19	1.97	1.88
Average rate on latest Treasury bill sale, 91 day issue	‡	0.037	0.067
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. ‡ Negative yield. † Tax exempt issues. #Taxable issue.

Government Securities

October was marked by one of the largest Government cash financing operations since the World War period and by the announcement that the Treasury contemplated eventually refinancing all outstanding Government guaranteed issues with direct Treasury obligations.

Government security prices, as a whole, showed no settled tendency before October 9 when the Treasury



Daily Yields on 2½ Per Cent Taxable Treasury Bond Issues (Scale inverted to indicate movement of prices)

made its public offering of $1,200,000,000 of 2½ per cent taxable Treasury bonds of 1967-72 for cash, and in conjunction therewith offered bonds of the same issue in exchange for the 1¼ per cent Treasury notes due December 15, 1941, outstanding in the amount of $204,400,000. It was announced at the same time that an additional $100,000,000 of the new bonds might be allotted to Government investment accounts. The cash offering was heavily oversubscribed, allotments being 12½ per cent of subscriptions; about 92 per cent of the Treasury notes maturing on December 15 were exchanged for the new bonds. Appealing particularly to insurance companies, savings banks, and large individual investors, the new long term issue immediately was quoted at a substantial premium (about 3 points) and shared in the upward movement in long term Treasury bonds (both taxable and tax exempt) between October 18 and 29. During this period the average price for long term partially tax exempt Treasury bonds advanced 4/5 of a point beyond the previous record high set in December, 1940 to an average yield of 1.88 per cent. Simultaneous price gains for long term taxable issues amounted to approximately ½ point.

The accompanying chart, showing yields on the three 2½ per cent taxable Treasury bonds on an inverted scale, indicates the upward tendency in prices of the first two of these bonds since issuance and the position of the new 2½'s of 1967-72 in relationship to them. As market prices on outstanding issues have risen and yields have declined, maturities on the taxable 2½ per cent bond issues have been successively lengthened—13 years on the issue of March 31, 17 years on that of June 2, and 31 years on the October 20 issue. Although there has been little net change since mid-August, the yield on the 1952-54 bond declined from 2.27 per cent at issuance to 1.85 per cent at the end of October, and the yield on the 1956-58 issue decreased from 2.26 per cent to 2.10. The yield on the new 2½'s of 1967-72 has fluctuated between 2.35 per cent and 2.34 per cent since issuance.

Taking the first step in its policy of refinancing guaranteed debt of the Federal agencies with direct Treasury obligations, the Treasury on October 23 offered an issue of 1 per cent taxable Treasury notes, dated November 1 and maturing March 15, 1946, to holders of $300,000,000 of ⅞ per cent Reconstruction Finance Corporation notes and $204,000,000 of 1 per cent Commodity Credit Corporation notes maturing November 15. The new notes were made available only to holders of the maturing securities who wished to apply the proceeds of the repayment of their Government guaranteed securities to the purchase of new Treasury securities. Holders of more than 99 per cent of these guaranteed securities subscribed to the new notes. "Rights" for the new Treasury notes opened at 100 21/32 bid on October 23. At the end of the month these new notes were quoted at 100 9/32, having been influenced by weakening during the latter part of the month in prices of short term Treasury and Government guaranteed note issues.

Prices of both the taxable and tax exempt Treasury notes declined considerably in October with resultant increases in yield. During the course of the month, the yield on the ¾ per cent tax exempt notes due March 15, 1945, rose 0.08 per cent to 0.45 per cent on the 30th, and the yield on the ¾ per cent taxable notes due December 15, 1945, was up 0.13 per cent to 0.78 per cent. Prices of the shorter maturities of Treasury bonds also declined.

Accepted bids on the first three of the five weekly issues of Treasury bills during October were tendered on interest bases declining from 0.062 per cent on the October 1 issue to 0.001 per cent (the lowest rate since last February) on the October 15 issue. Each of these three issues was in the amount of $100,000,000 and each replaced a similar maturity. The final two weekly bill issues in October were awarded at prices equivalent to an interest rate of 0.024 per cent for the October 22 issue and 0.067 per cent for the October 29 issue. Each of these two issues was in the amount of $150,000,000 and each replaced a $100,000,000 maturity, thereby placing at the Treasury's disposal a total of $100,000,000 of "new money".

Defense Savings Bonds

Sales of Series E Defense Savings Bonds in the Second Federal Reserve District, including sales by qualified issuing agencies, i.e., commercial and savings banks, building and loan and savings and loan associations, and credit unions, and by the Federal Reserve Bank of New York, but not including sales by post offices, aggregated $124,674,100 in the period between May 1, when the sale of these bonds was begun, and October 29. The number of bonds issued during this period totaled 1,059,500. The following table shows the amount and number of bonds issued each month since May 1.

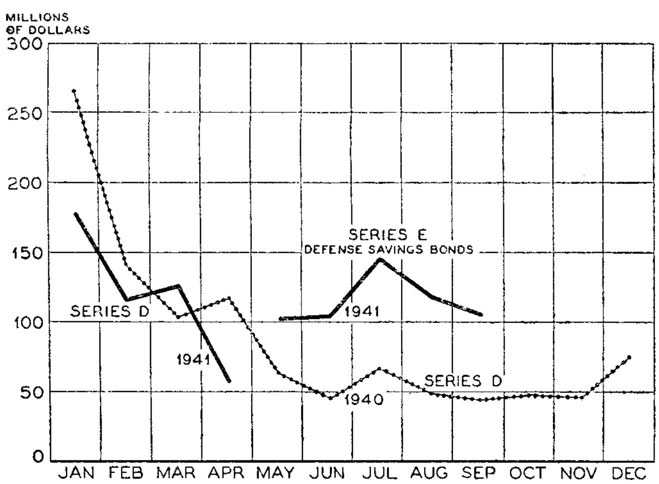
	Amount	Number of bonds
May	$21,387,100	154,200
June	15,620,300	145,300
July	30,305,800	220,900
August	19,662,800	173,300
September	17,619,400	174,800
October 1-29	20,078,700	191,000

The sales for the period October 1-29 showed an increase of 21 per cent over the total for the first 29 days of September.

In the Second Federal Reserve District there are slightly more than 1,500 issuing agencies for the sale of Defense Savings Bonds, aside from post offices which also sell the bonds and Defense Savings Stamps. Virtually all of the banks in the District have qualified as issuing agencies, and in addition a sizable number of building and loan and savings and loan associations and credit unions have so qualified.

In addition, payroll deduction plans adopted by a number of industrial corporations and financial organizations for the accumulation of funds by their employees for the purchase of Defense Savings Bonds are now reaching the point where they will contribute increasingly to the sales of bonds. A number of plans for such purchases were established some months ago, and the accumulations of funds in the accounts of individual employees are now attaining such amounts that bonds are being issued in the names of the employees, and it is expected that further increases in the issue of savings bonds will occur for this reason in future months. Payroll deduction plans for the purchase of Defense Savings Bonds by members of the staffs of 35 business and financial concerns with head offices in this District have come to the attention of the Federal Reserve Bank of New York, and there are undoubtedly many other payroll deduction plans in operation. Information on the number of members of the staffs of companies known to have established payroll deduction plans is not available in all cases. In other cases the numbers of participating employees are constantly growing, and up-to-date figures are not available, but at the time the plans came to the attention of this bank, at least 88,000 persons appear to have been enrolled as regular purchasers of Savings Bonds out of current income.

Sales of Series E Defense Savings Bonds in the United States, from the inception of the program on May 1 to September 30, were more than double the sales of the Series D Savings Bonds, which they largely supplanted, during the May to September period of 1940, even though the maximum amount that can be purchased by any subscriber within a calendar year was reduced to $5,000 for the Series E bonds as compared with $10,000 for the Series D, and two new series of Savings Bonds (Series F and G) have been provided for the larger investors. For the five month period—May to September of this year—sales of the Series E bonds averaged about $114,000,000 a month as compared with $53,000,000 of sales of Series D bonds a year ago, as the accompanying diagram indicates. The rise in Series E bond sales to a peak in July, and the subsequent decline in August and September, were in the nature of seasonal movements, similar movements having occurred with respect to sales of earlier issues of savings bonds, not only in 1940 but also in preceding years.



Sales of Series E Defense Savings Bonds, Compared with Sales of Previous Issue of Savings Bonds (United States Treasury Department data)

Regulation W—Consumer Credit

On October 27 the Board of Governors of the Federal Reserve System announced several amendments to Regulation W, dealing with instalment credit. The amendments which are mainly of an administrative and technical nature, were commented upon as follows in a press statement issued by the Board of Governors, which stated in part:

> The amendments include adoption of the so-called "purpose test," requiring a borrower on an instalment loan, after January 1, 1942, to sign a statement as to the purpose of the loan; exempting business instalment loans from the Regulation, as well as loans to purchase or construct an entire building; and making the eighteen month maximum maturity apply to all instalment loans of $1,500 or less, instead of $1,000 or less, as previously provided. In addition, more liberal provisions have been adopted to facilitate repayment of instalment loans by farmers, in accordance with the seasonal nature of their income. Also, in the case of so-called "add-ons," options are provided—either the additional credit may be treated separately, or the combined credit may be paid in fifteen months, the monthly payments to be not less than they would have been without the add-on.

In connection with the increase in the amount of instalment loans made subject to the eighteen month maximum maturity, exception was made in the case of modernization loans where the figure remains $1,000. It was also provided in the amendments that down payments of $2 or less will no longer be required, and the $5 minimum for monthly instalments (which was to become effective January 1, 1942) has been eliminated. Furthermore, extensions of instalment loans to make down payments on listed articles are prohibited. The amendments are effective December 1, 1941, and the provisions of Regulation W which were to have become effective on November 1 have been postponed to December 1. Copies of the amendments to 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, concerning the Regulation or the amendments should be addressed to this bank or its Buffalo Branch.

Security Markets

On a smaller volume of trading than in September, stock prices moved to lower levels during October under the impact of adverse developments on various war fronts. Between the end of September and October 16 the Standard 90 stock price average declined 6 per cent to a point only 3 per cent above the year's low reached on May 1. After an intervening period of slightly higher quotations, stock prices on October 31 dropped fractionally below the October 16 level.

In contrast to the weakness in share prices, quotations of domestic corporation bonds were, in general, firm during October. Prices of prime corporate bonds, those rated Aaa by Moody's Investors Service, held at levels only slightly below the record high. Medium grade corporate bonds, as measured by Moody's index of Baa bonds, were up slightly for the month as a whole, although some price irregularity was displayed during the period. Strengthening prices were again apparent in October in municipal bonds, resulting in the attainment of a new record low (1.89 per cent) in the average yield for prime municipal bonds on October 29, according to Standard's computation.

New Financing

The volume of corporate and municipal financing continued at a low level during October, amounting to only \$237,000,000, or approximately three quarters of the monthly average for the first nine months of 1941. Corporate new capital flotations which amounted to \$102,000,000 exceeded the January-September monthly rate, but refundings were of such small volume that the corporate total, at \$178,000,000, was about 75 per cent of the monthly average for the first three quarters of the year.

Temporary financing accounted for an additional \$126,000,000 and included \$85,000,000 of temporary loan notes of 27 local housing authorities and \$36,500,000 of Federal Intermediate Credit Bank ⅝ per cent consolidated debentures. The housing notes were of various maturities, ranging from three months to one year, and were awarded at rates ranging from 0.28 to 0.44 per cent. The Federal Intermediate Credit Bank debentures mature April 1 and November 2, 1942 and were sold on yield bases of 0.30 and 0.50 per cent, respectively.

Foreign Exchanges

New York trading in the foreign exchanges continued virtually at a standstill during October, except for some activity in the Western Hemisphere currencies and occasional dealings, under general licenses, in the neutral European exchanges. The largest movement in Latin American rates occurred in the noncontrolled rate for the Uruguayan peso, which turned upward at the end of September, accompanying reports of a shift of foreign funds from Argentina to Uruguay. By October 22 this rate had appreciated about 6 per cent to \$0.4675. Although some subsequent reaction brought the rate back to \$0.4625 by the end of the month, it nevertheless remained considerably above the level of a month earlier. The Argentine peso continued weak in the free market during the early days of October, when the free rate reached a low of \$0.2340. The announcement on October 14 of the trade agreement between the United States and Argentina, however, provided some stimulus, with the result that the free rate rose and closed the month at \$0.2378. The Mexican and Cuban rates continued to hold steady, the Cuban peso now being quoted virtually at par with the dollar. The free rate for the Venezuelan bolivar declined 90 points to \$0.2610 between October 11 and 27; at the close of the month, however, the rate was \$0.2630. Despite the slackening of the tourist demand, the Canadian dollar held fairly firm in the unofficial market and by the end of the month was quoted at \$0.8925, only slightly below the year's high of \$0.8975 reached in the early part of September.

On October 2 it was reported that Swiss commercial banks had changed the rate at which they supply Swiss francs against dollars, for certain specified purposes, from the equivalent of about \$0.2325½ to the equivalent of \$0.2331. With this exception, there were no significant changes in the rates for the currencies of those European neutral countries to which general licenses have been granted under United States foreign property control regulations.

According to various reports, there has been a considerable demand in recent weeks for foreign exchange in the Shanghai black market by importers of goods for which the Chinese Stabilization Board will not supply exchange cover. Some of this demand reportedly has been satisfied by offerings of United States bank notes. These dealings in American currency appear to have been made at rates as low as 2⅞ cents per yuan, although at the present time the rate seems to be somewhat above 3 cents.

Gold Movements

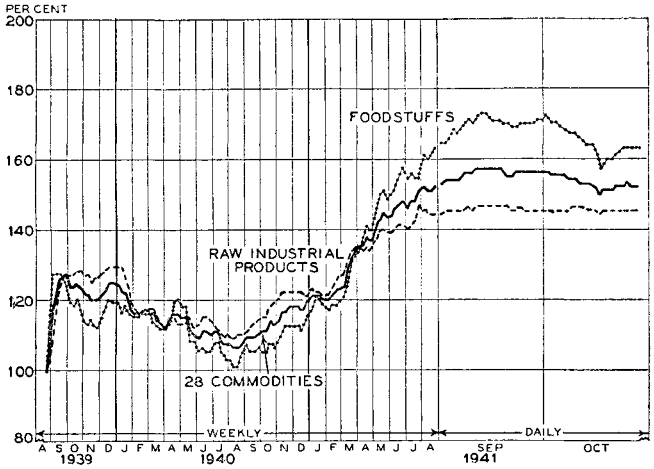
Imports of gold into the United States during October continued in relatively small volume, and the net increase in the gold stock of about \$40,000,000 was approximately the same as in the four preceding months. Gold held under earmark for foreign account at the Federal Reserve Banks increased about \$30,000,000 during the month to approximately \$2,055,000,000.

In the four weeks ended October 22, the Department of Commerce reported the receipt of \$42,700,000 in the following principal amounts: \$15,200,000 from Canada, \$6,100,000 from Australia, \$5,600,000 from Russia, \$3,600,000 from South Africa, \$3,400,000 from the Philippines, \$2,100,000 from Colombia, \$2,000,000 from British India, \$1,200,000 from Mexico, \$700,000 from Nicaragua, and \$500,000 from Peru.

Commodity Prices

In October, the Bureau of Labor Statistics daily price index of 28 basic commodities reversed its upward tendency and showed a net monthly decline for the first time since July, 1940. The lowest quotations of the month were registered on October 16, when prices dipped in most of the uncontrolled markets in conjunction with the Japanese Cabinet crisis. Subsequent recovery movements, however, as indicated in the accompanying chart, fell far short in making up for the earlier declines. The daily price index of 28 basic commodities showed a loss of 5 per cent between the middle of September and the middle of October, and a net decline of 2 per cent for the month of October.

As indicated in the chart, the principal movements in the combined index of 28 basic commodities have resulted from fluctuations in foodstuffs. The decline in this



Daily Indexes of Basic Commodity Prices (Bureau of Labor Statistics data; August 1939=100 per cent)

group during the first half of October appears to have been connected with discussions in Congress of the pending price control legislation and Russian military reverses, as well as with apprehension over Far Eastern developments. Recovery in prices of foodstuffs during the latter half of the month was promoted by a statement of the Secretary of Agriculture favoring the setting of price ceilings on farm products at 110 per cent of parity rather than at 100 per cent, and by indications that loans on next year's cotton, corn, wheat, rice, and tobacco might be greater than the 85 per cent of parity loans on the 1941 crops. The raw industrial group index, as in preceding months, fluctuated only slightly during October, reflecting the numerous ceiling regulations affecting quotations for commodities in this classification.

Some readjustments in price ceiling schedules were made during October. The first sliding schedules were applied during the month, the articles affected being carded cotton yarn and cotton goods; revisions from time to time will depend upon the price of raw cotton. Efforts were made to increase supplies of zinc and copper, in the former case by permitting the price to rise 1 cent to 8.25 cents a pound, and in the latter case by permitting certain high-cost mines to sell copper at prices in excess of the 12 cents a pound ceiling governing other producers.

Employment and Payrolls

During September working forces in New York State factories expanded 3 per cent further and wage payments increased 4 per cent. Many firms producing consumers' nondurable goods, particularly food products, men's furnishings, and women's clothing and millinery, reported seasonal gains in employment. Factories making defense materials continued to add to working forces in September, especially the firearms, airplane, and shipbuilding industries. Several heavy industry plants producing nondefense goods, however, were reported to have laid off workers owing to lack of materials. Compared with September, 1940, New York State factory employment was 30 per cent higher and payrolls were 55 per cent greater.

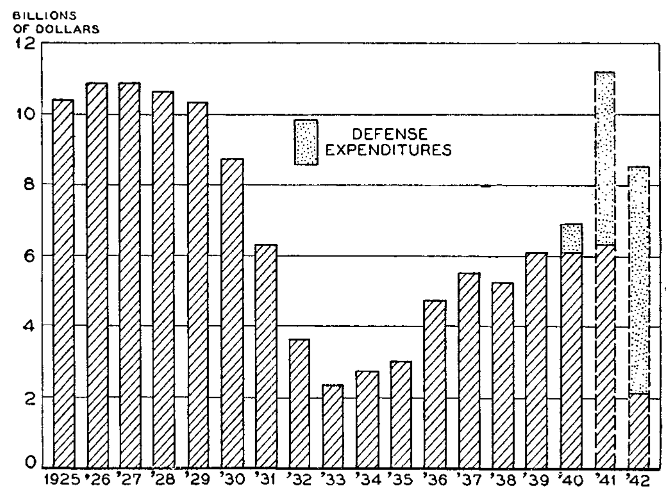
According to the Bureau of Labor Statistics, factory employment in the United States as a whole increased 2 per cent further during September and factory payrolls rose 3½ per cent. The gains over September of last year amounted to 22 per cent for employment and 46 per cent for payrolls. In comparison with September, 1939, the first month of the war, factory employment was 31 per cent greater and payrolls 71 per cent larger. As in New York State, increases in working forces between August and September were numerous in consumers' nondurable goods industries where seasonal factors operate in the direction of expansion at this time of year. In key defense lines, especially shipbuilding and aircraft, employment continued on a steady uptrend. Additional workers were hired by automobile plants and radio and phonograph manufacturers, but the increases were not so great as is usual in September.

It is estimated that more than 400,000 persons were added to working forces in nonagricultural occupations throughout the country during September, and employment in such pursuits exceeded 40,000,000 persons for the first time. Approximately one half of the increase over August occurred in manufacturing establishments, but all major employment categories shared in the advance. Compared with September, 1940, nonagricultural working forces were more than 3,500,000 larger, and military personnel (not included in the preceding estimate) tripled in strength during the year to reach a total of approximately 2,000,000.

Building

On October 9 the Supply Priorities and Allocations Board announced that in the future no construction using appreciable quantities of such critical materials as copper, brass, bronze, steel, and aluminum may be started unless such projects are necessary for National defense or for the health and safety of the people. During the current year, as shown in the accompanying chart, expenditures for new construction have reached an unusually high level, and as a result the demand for critical materials on the part of the construction industry has been especially heavy.

The chart of expenditures for new construction in



Estimated Total Expenditures for Construction in the United States (Department of Commerce, Office of Production Management, and Federal Reserve Bank of New York data)

the United States, including both private and public projects, is based on a series originally computed by the Department of Commerce, with estimates for the years 1940-1942 prepared by the Department of Commerce and the Office of Production Management. (The 1940 breakdown for defense and nondefense construction, however, was estimated by this bank.) It is estimated that the volume of expenditures for new construction in 1941 will amount to approximately $11 billion, almost two-thirds above the total for 1940 and about equal to the previous high of the middle twenties. As a result of the measures taken to conserve the supply of critical materials, it is estimated that nondefense construction next year may amount to only one third of the 1941 total, while defense construction is expected to increase by about one third. Should these estimates be borne out, defense projects would account for three quarters of all construction work in 1942, compared with about 45 per cent in the current year. Despite the expected cut, total construction expenditures in 1942 would be the largest for any year, with the exception of 1941, since 1930.

In the 37 States east of the Rocky Mountains, construction contract awards reported by the F. W. Dodge Corporation during the first 9 months of 1941 were 62 per cent above the corresponding period of 1940. Public contracts were slightly more than double those a year earlier, while private awards were up one third. Those types of construction projects which are important to the defense program, such as factories, warehouses, utilities, and one and two family dwellings in defense areas, have shown the largest year-to-year gains.

Geographically there has been a wide variation in the distribution of construction awards. For example, during the first three quarters of the year contract awards in Upstate New York rose 56 per cent above the same period of 1940, only slightly less than the year-to-year gain in the 37 States. On the other hand, contracts awarded for projects in the Metropolitan New York and Northern New Jersey area increased only 15 per cent. In New York State and Northern New Jersey the most important gains were in awards for commercial and manufacturing buildings. Residential building increased somewhat, but heavy engineering projects showed little change.

Production and Trade

During October business operations on the whole continued at a high level. While nondefense industries were affected to an increasing extent by restrictions upon production and by diversions of materials to defense uses, operating schedules in plants producing defense items called for steadily accelerating production. Judging from the weekly figures, there was some further recession in department store trade, but sales volumes remained above the level of a year ago.

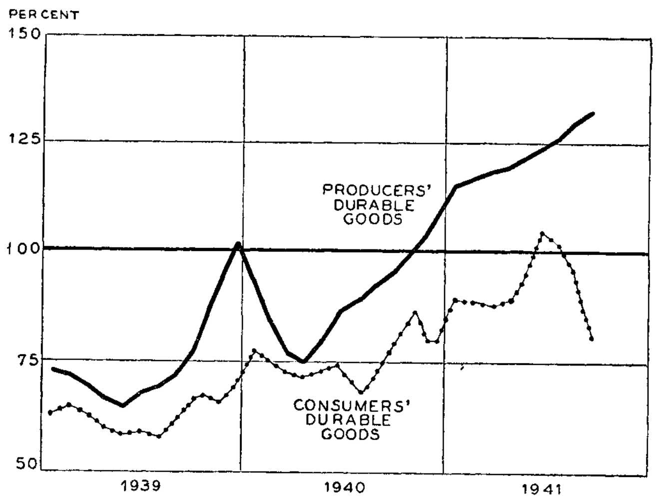
Despite minor interruptions due to labor difficulties and shortages of scrap, steel production was again near capacity. Slack trading continued to characterize the cotton goods market early in the month, but sales expanded sharply just prior to the imposition of the new sliding scale price ceilings on October 21; mill activity is reported to have continued at a high rate. Loadings of railroad freight reached the highest weekly total since 1930, and electric power production and output of crude petroleum increased further to new record levels. On the other hand, some decline appears to have occurred in bituminous coal mining.

Further measures were adopted during October to put into effect the Government's program to conserve supplies of critical materials for defense purposes. Steps were taken to reduce nonessential construction work, as described in the Building section of this Review, and additional orders governing curtailment of production were issued to producers of automobiles and other consumers' durable goods. Passenger car production for January, 1942 is limited to about 200,000 units, indicating a reduction of approximately 50 per cent from the number of assemblies completed in January, 1941. In an effort to relieve "serious day-to-day shortages," the Director of Priorities of the O.P.M. ordered full priority control placed upon iron and steel scrap.

Production and Trade in September

During September this bank's index of production and trade declined to 109 per cent of estimated long term trend, four points below the figure for August and one point below that for July. The general level of productive activity appears to have held rather steady during July, August, and September, and the behavior of the index of production and trade over this period is largely accounted for by a sharp spurt in retail trade during August and a settling back in September.

Although the major group index of production showed stability during July, August, and September, changes were apparent in certain of its components. As the accompanying chart indicates, output of consumers' durable goods, principally passenger cars, declined during this period, seasonal factors considered, as a result of official limitations upon production and shortages of vital materials. On the other hand, output of producers' durable goods showed additional marked gains in both August and September, reflecting further advances in



Indexes of Production of Producers' Durable Goods and Consumers' Durable Goods (Federal Reserve Bank of New York indexes, expressed as percentages of estimated long term trends, and adjusted for seasonal variation)

such key defense industries as steel, shipbuilding, aircraft, and machinery. Production of nondurable goods was not much changed during the July-September period, either in the consumers' or producers' categories.

After allowing for seasonal factors, sales volumes in various lines of retail trade were reduced sharply in September from the unusually high levels of August. Sales increases at department stores, mail order houses, and chain stores failed by considerable margins to measure up to usual seasonal proportions. Mainly as a result of model changeovers and restrictions on production, retail sales of new passenger cars declined sharply in September, and for the first time this year fell below the figure for the corresponding month of 1940.

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

	1940	1941		
	Sept.	July	August	Sept.
Index of Production and Trade	94	110	113p	109p
Production of:				
Producers' durable goods	96r	126	130p	133p
Producers' nondurable goods	99r	120	118p	119p
Consumers' durable goods	79	103	96p	83p
Consumers' nondurable goods	96	105	105p	104p
Primary distribution	87	105	109p	108p
Distribution to consumer	96	107	116p	100p
Industrial Production				
Steel	114	126	125	130
Automobiles r	114	149	103	86
Bituminous coal	96	130	117	107p
Crude petroleum	85	86	88	89p
Electric power	101	112	115	115p
Cotton consumption	111r	155	152	144
Wool consumption	124	168r	177	205p
Shoes	99	134	118p	117p
Meat packing	100r	106	110	107
Tobacco products	90	96	97	101
Manufacturing Employment				
Employment	98	120	120	118p
Man-hours of employment	95	120r	122	124p
Construction				
Residential building contracts	58	73	82	64
Nonresidential building and engineering contracts	60	93	137	132
Primary Distribution				
Ry. freight car loadings, mdse. and misc.	87	104r	104r	104
Ry. freight car loadings, other	95	116	114	106
Exports	85	110	134p	
Imports	76	91	98p	
Distribution to Consumer				
Department store sales (U. S.)	96	108	124r	104
Grocery chain store sales	95	99	103	97
Variety chain store sales	99	108	126	111
Mail order house sales	98	111	131	104
New passenger car sales	87	104	90	58p
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	55	57	61	59
Velocity of demand deposits, New York City (1919-25 average = 100)	25	26	27	27
*Cost of Living and Wages**				
Cost of living (1935-39 average = 100)	104	109	110	111p
Wage rates (1926 average = 100)	114	123	123	

p Preliminary.
r Revised; in the case of automobiles the series has been revised.
* Not adjusted for trend.

Department Store Trade

Sales of the reporting department stores in this District during September were substantially larger than in the corresponding month of last year, although they failed to show the usual seasonal expansion over August, when extraordinarily large gains occurred in sales of a number of lines of merchandise. Moderate year-to-year gains were reported until the latter part of September, when an exceptional acceleration of sales occurred prior to the effective date of the new Federal excise taxes (October 1), and for the month as a whole sales were 20 per cent higher than in September, 1940.

Sales of furs in September were more than double those of a year ago, and unusually large year-to-year gains were reported also in sales of silverware, major household appliances, radios and pianos, and women's coats and suits.

From weekly reports available through October 25, it appears that the year-to-year increase in sales in October was reduced to relatively small proportions, following the spurt at the end of September, and average daily sales were lower than in that month, contrary to the usual experience in previous years.

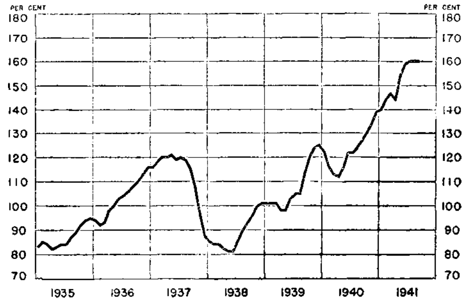
Retail stocks of merchandise on hand in the reporting department stores at the end of September were 30 per cent higher than at the end of September, 1940, and this bank's seasonally adjusted index of department store stocks advanced six points further to 109 per cent of the 1923-25 average, the highest level in over ten years. In addition, 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, continued about twice as large as those of a year ago.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month September, 1941
	September, 1941	Jan. through Sept., 1941	
New York City	+20	+14	+29
Northern New Jersey	+20	+16	+29
Newark	+20	+15	+27
Westchester and Fairfield Counties	+29	+23	+49
Bridgeport	+42	+29	+53
Lower Hudson River Valley	+13	+13	+27
Poughkeepsie	+18	+15	—
Upper Hudson River Valley	+22	+20	+56
Albany	+17	+16	—
Central New York State	+27	+24	+42
Mohawk River Valley	+38	+28	+32
Syracuse	+24	+23	+45
Northern New York State	—	—	—
Southern New York State	+24	+23	+28
Binghamton	+31	+24	—
Elmira	+30	+34	—
Western New York State	+15	+20	+29
Buffalo	+11	+24	+29
Niagara Falls	+32	+15	+23
Rochester	+21	+16	+30
All department stores	+20	+16	+30
Apparel stores	+23	+14	+35

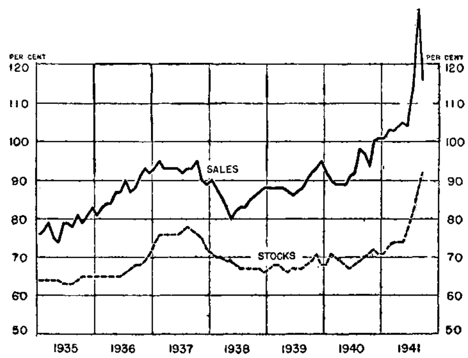
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1940	1941		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted	108r	81	100r	125
Sales (average daily), seasonally adjusted	103r	114	134	120
Stocks, unadjusted	87r	83	98	113
Stocks, seasonally adjusted	83r	96	103	109

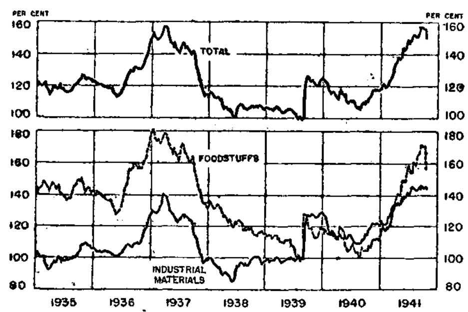
r Revised.



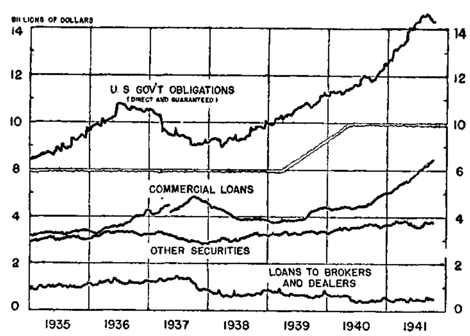
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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



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



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for October 8)

Business Conditions in the United States

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

INDUSTRIAL activity continued at a high rate in September and the first half of October. Further advances in the output of defense products were accompanied by curtailment in some lines of civilian goods, particularly automobiles, rubber, and silk. Prices of industrial products increased further but agricultural prices declined after the middle of September, and on October 16 dropped sharply in response to international developments.

Production

Industrial output increased by about the usual seasonal amount in September and the Board's adjusted index remained at 160 per cent of the 1935-1939 average, the same as in July and August. Continued increases in activity were reported in the machinery, aircraft, and shipbuilding industries. At steel mills activity in September and the first half of October was maintained at about 97 per cent of capacity. Output and deliveries of nonferrous metals likewise remained at about capacity levels, while lumber production declined somewhat from the high August rate. Automobile production increased less than seasonally in September, following the changeover to new models, and, according to preliminary estimates, output in September was considerably below the maximum quota that had been authorized by the Government.

In the textile industry activity declined somewhat in September, reflecting mainly a further sharp reduction at silk mills. Activity at wool mills rose to a new high level, while at cotton mills there was little change from a rate slightly below the peak reached last May. Shoe production continued in large volume, and output of manufactured food products was maintained near the peak August level. Output of chemicals likewise continued at earlier high rates, but at rubber plants activity was considerably below the level of last summer owing to curtailment programs ordered by the Government.

Coal production, which during the summer months had been unusually large, increased less than seasonally in September, owing in part to temporary work stoppages at some bituminous and anthracite mines. Crude petroleum production advanced to record levels in September and the first half of October, and output of metals and shipments of iron ore down the Lakes continued at about capacity.

Value of construction contract awards declined in September, according to figures of the F. W. Dodge Corporation, reflecting chiefly decreases in awards for public projects which had been exceptionally large in August. Awards for private residential building also declined, while contracts for other private work increased somewhat further. Total awards in September, as in August, were 80 per cent larger than in the corresponding period last year. This higher level reflected mainly a greater amount of public construction, which was nearly three times as large as a year ago, compared with an increase of about 10 per cent for private construction.

On October 9, the Supply Priorities and Allocations Board announced that, effective immediately, no public or private construction projects which use critical materials could be started during the emergency unless these projects were either necessary for direct National defense or essential to the health and safety of the nation.

Distribution

Distribution of general merchandise showed less than the customary seasonal rise in September, following an unusually large volume of sales in August. During the past three months sales have been larger than in the corresponding period of any previous year. In the first half of October sales at department stores declined from the peak reached in late September when there were considerable consumer purchases, particularly of articles subject to higher taxes on October 1.

Loadings of revenue freight in September increased less than seasonally, particularly those of miscellaneous freight, which have been high in recent months, and loadings of coal, which were curtailed during part of the month by work stoppages at some mines. Shipments of forest products declined considerably from the high August level.

Commodity Prices

Prices of industrial products continued to advance in September and the first half of October and Federal price ceilings were announced for additional commodities, including leading types of lumber, coke, wastepaper, paperboard, acetic acid, alcohols, and carded cotton yarns. In some cases these ceilings were below previously existing market quotations. Price advances were permitted, however, for some other commodities under Federal control. Prices of cotton and of foodstuffs increased further in the first half of September, but subsequently declined, owing partly to seasonal influences. On Thursday, October 16, prices of these commodities dropped sharply.

Bank Credit

Commercial loans at member banks continued to rise during September and the first half of October, reflecting in part defense demands. Increases were substantial both in New York and in other leading cities. Holdings of United States Government obligations decreased, mainly at banks in leading cities outside New York. Excess reserves of member banks showed little change in this period.

United States Government Security Market

Following a slight decline in the first half of September, prices of long term Treasury partially tax exempt bonds increased during the latter half of September and in the first part of October. The yield on the 2¾ per cent bonds of 1960-65 reached a new record low of 2.01 per cent in October. Prices of taxable bonds moved within a relatively narrow range during the period with yields slightly above previous low levels.