MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York — *January 1, 1942*

Money Market in December

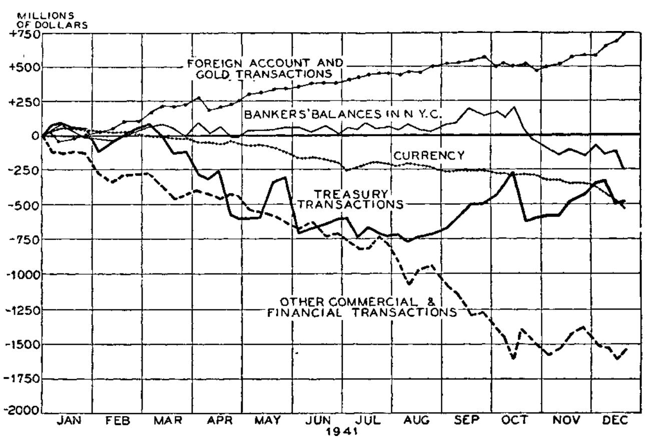
The change in the United States from a nation at peace to a nation at war, on December 7-8, 1941, had only a limited effect on the money market and interest rates. The shock felt by the Government security market, for example, could not be compared with its reaction at the outbreak of the European war in September, 1939. (Relative changes in Treasury bond prices are shown in the chart which appears on page 3). Of all the domestic financial markets, the stock market alone showed more than a moderate reaction, and prices of stocks, already depressed by year-end "tax sales" and the prospect of still higher taxes, reached new lows since 1935.

In the period between December 6 and December 26, the average yield on long term Treasury bonds rose about ⅛ to 3/16 of one per cent, while Treasury note yields rose only 0.03 to 0.07 per cent and the average rate on weekly issues of Treasury bills rose by a like amount. The small rise in rates on short term Government securities in December must be considered, however, in the light of a preceding increase averaging around ¼ per cent from the low levels of the year recorded in September and October. Rates of New York City banks for loans to prime customers, maturing within a year, have shown no upward tendency, and bankers acceptance rates have been unchanged. Open market commercial paper has been sold at ½-⅝ per cent recently, representing only a fractional change in the quotation from the previous level of ½ per cent.

Member Bank Reserve Position

The relative stability of money rates in the face of war developments may be attributable, at least in part, to the fact that in New York City the actual decline in excess reserves of member banks during December in the period up to Christmas was less than had been anticipated. On the December 24 statement date the excess amounted to $935,000,000, as compared with the low of $775,000,000 reached on November 5, and $1,130,000,000 on December 3. The lowest statement date figure in December was reached on the 17th when excess reserves amounted to $890,000,000, and on no day in December did the excess drop below $850,000,000. The rise of $160,000,000 in excess reserves for the period between November 5 and December 24 reflected a net increase of about $200,000,000 in member bank balances, about one fifth of which was absorbed by a rise in reserve requirements. The largest factor in the increase in reserve balances was a net gain of funds through foreign account disbursements, which are reflected in the item "foreign account and gold transactions" in the accompanying diagram showing the principal movements of funds affecting reserve balances of banks in the Second Federal Reserve District since the beginning of 1941. These foreign account disbursements on account of war purchases in this country, investment of dollar balances in Government securities, and other transactions, which directly or indirectly affected member bank reserves, amounted to $250,000,000 between November 5 and December 24. This figure does not include transfers of dollar balances into earmarked gold, which did not affect bank reserves.

The next most important influence on New York bank reserves was a net gain of around $100,000,000 of funds through Treasury transactions for the period November 5-December 24. This gain occurred despite large payments to the Treasury in the week ended December 17, during which week payment was made for the new and additional issues of Treasury bonds on December 15 and large amounts of quarterly income tax collections were made. The loss of reserve funds during that week was limited by the fact that banks in this District elected to pay for 55 per cent of the new Treasury bonds allotted in this District by the book credit method, which results in no immediate drain on reserves of the banks. Withdrawals from the banks of such credits belonging to the



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)

Treasury are made only about as fast as the Treasury disburses funds from its balances in the Reserve Banks, and thus have little effect on the aggregate reserves of all banks in the country although they may affect the reserves of particular banks. In October when excess reserves were around $1,700,000,000 in New York City, approximately 35 per cent of the new Treasury issue sold in that month was paid for by the book credit method. Banks in other parts of the country, which hold relatively more excess reserves than New York banks, in the aggregate paid for only 32 per cent of the December allotments of Treasury bonds by the book credit method. An additional factor of considerable importance tending to maintain a comfortable reserve position in New York City banks has been an increase in Treasury disbursements in the New York area, apparently reflecting largely payments on defense contracts. Since August the tendency for New York to lose funds in Treasury operations, which was typical of the first half of 1941, has been reversed.

Another factor which has tended to increase excess reserves in New York has been purchases of Government securities by the Federal Reserve Banks, under direction of the Open Market Committee. Such operations in the period between this country's entrance into the war and December 24 amounted to $59,000,000. This amount is only about one seventh of the purchases of securities made for Reserve Bank account in September, 1939, on the outbreak of war in Europe.

The movement of commercial and financial funds between New York and the rest of the country has been subject to sizable weekly swings, but on balance a small net gain of funds to New York resulted for the period November 5-December 24. As the bottom line in the diagram indicates, the movement of commercial and financial funds (other than bank funds) between New York and the rest of the country has stabilized in the period since October. The movement of bank funds in and out of New York also stabilized in the period through December 17, as an increase in the deposits of Chicago banks with New York banks served to offset withdrawals of funds by other banks. In the week ended December 24, however, there was a withdrawal of over $125,000,000 of out-of-town bank deposits from New York City banks.

The largest absorption of bank reserves in New York occurred through an increase of $190,000,000 in the amount of currency outstanding in the seven weeks ended December 24. For the year 1941 through December 24, currency and coin withdrawals from the New York Reserve Bank exceeded deposits by slightly more than $500,000,000. Approximately one half of the excess withdrawals occurred in the first six months of the year and half in the second half of the year up to Christmas.

For all member banks in the country, excess reserves of $3,060,000,000 on December 24 showed a reduction of $800,000,000 from the December 3 figure and a drop of $350,000,000 from the figure reached on November 5, following the increase in reserve requirement percentages which became effective on November 1. The decline of $350,000,000 from the previous low of November 5 was caused by a decrease of $147,000,000 in member bank reserve balances and an increase of more than $200,000,000 in reserve requirements, which accompanied a large increase in Government deposits in the commercial banks and some rise in private deposits. The principal influence on member bank reserves during the period was an increase of $803,000,000 in the amount of money in circulation, an exceptionally large increase even for a season of the year when a substantial increase in circulation is expected. However, this drain on reserves was counterbalanced to a large extent by a net addition of reserve funds through other factors, the principal ones being a reduction of nearly $400,000,000 in nonmember deposits and other Federal Reserve accounts (principally the decline in foreign deposits at the Reserve Banks previously mentioned), and an increase of $192,000,000 in the amount of Federal Reserve float outstanding (a usual development around Christmas, due to congestion in the mails), and an increase of $59,000,000 in the Federal Reserve security portfolio. Despite large fluctuations in Treasury deposits in the Reserve Banks, the net effect for the period was minor.

Money Rates in New York

	Dec. 31, 1940	Nov. 29, 1941	Dec. 31, 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	½–⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Yield on ¾ per cent Treasury note due March 15, 1945 (tax exempt)	0.46	0.60	0.58
Average yield on taxable Treasury notes (3-5 years)	....	0.94	1.02
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.99	1.92	2.07
Average yield on taxable Treasury bonds (not callable within 12 years)	....	2.24	2.40
Average rate on latest Treasury bill sale 91 day issue	†	0.267	0.310‡
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. ‡ 76 day issue

MEMBER BANK CREDIT

During the five weeks ended December 24 the total of loans and investments of the weekly reporting member banks increased $637,000,000 further to reach a new high figure of $30,293,000,000. Increases in holdings of various categories of United States Government securities accounted for $477,000,000 of the total increase in member bank credit, and a rise in commercial, industrial, and agricultural loans accounted for $160,000,000. Other types of loans and investments showed minor changes which in the aggregate offset each other.

The increase of $477,000,000 in Government security holdings of the reporting banks reflected principally a rise of $408,000,000 in holdings of Treasury bonds. The reporting banks acquired $54,000,000 of Government bonds during the week ended December 10, the week in which war was declared, and increased their holdings $355,000,000 in the week ended December 17 when $1,600,000,000 of 2 and 2½ per cent Treasury bonds were issued by the Treasury. Bank holdings of Treasury bills rose an additional $61,000,000 and holdings of Government guaranteed obligations rose $33,000,000 while Treasury note holdings dropped $25,000,000.

In New York City, expansion in loans and investments amounted to only $91,000,000 in the five weeks ended December 24, and the total remained somewhat below the October high. Commercial loans rose $51,000,000 further, and total United States Government security holdings advanced $48,000,000, as the result of a rise of $154,000,000 in Treasury bond holdings ($120,000,000 occurring in the week when the new Treasury bonds were issued) and a rise of $25,000,000 in Government guaranteed issues, partly offset by a decline of $90,000,000 in Treasury bill holdings and a decrease of $41,000,000 in Treasury note holdings.

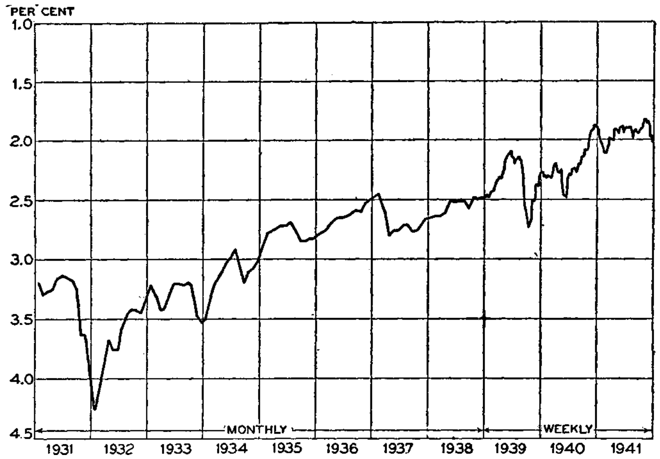
Adjusted demand deposits of all reporting banks rose nearly $500,000,000 in the three weeks ended December 10, to reach a new peak of $24,680,000,000, but in the succeeding two weeks dropped about $700,000,000, owing to collection of income tax checks, payments for new Government issues by bank customers, and withdrawals from bank deposits of funds in the form of currency. United States Government deposits in reporting banks nearly doubled in the five weeks ended December 24, on which date they amounted to $1,400,000,000; the increase reflected chiefly book credit payments for the Treasury bond issues in the week ended December 17.

In New York City, adjusted demand deposits rose about $360,000,000 between November 5 and December 10, but in the following two weeks lost all of this rise, returning to a figure about $1,100,000,000 below the high reached in May, 1941. United States Government deposits rose $440,000,000 in the seven weeks ended December 24, while domestic interbank deposits were reduced $190,000,000.

Government Securities

The Government security market sustained the shock of the outbreak of hostilities with Japan and the subsequent declaration of war against the chief Axis powers with greater steadiness than was the case at the opening of the war in September, 1939. Indeed, as the accompanying chart indicates, the rise in the weekly average yield on long term tax exempt Treasury bonds between December 6 and 13 was also less than that at the time of the fall of the Low Countries and France or than the increase early in 1941, following the Federal Reserve System's special report to Congress and the revelations at about the same time of the large volume of financing which would have to be done by the Federal Government. Between September 2 and 23, 1939 the weekly average yield on long term partially tax exempt Treasury bonds increased from 2.33 per cent to 2.74 per cent; between December 6 and 13, 1941 the weekly average rose only from 1.87 per cent to 1.98 per cent. Following a week of little movement, the average yield increased further to 2.02 per cent for the week ended December 27. The average yield on the two long term taxable Treasury bonds moved in a similar way during December. Sales to establish losses for tax purposes and to preserve as much as possible of the appreciation on some of the outstanding issues selling at large premiums were indicated to have been factors in the December recession in prices.

Despite complications resulting from our sudden entry into the war, the Treasury's public offering, announced



Average Yield on "Tax Exempt" United States Treasury Bonds not Callable Within 12 Years (Scale inverted to show price movement)

December 4, of an additional $1,000,000,000 of taxable 2½ per cent Treasury bonds of 1967-72 (identical with the $1,200,000,000 issue offered October 9), and $500,000,000 of taxable 2 per cent Treasury bonds of 1951-55, was consummated successfully. Under the terms of the offering, small investors were favored by preferential allotments and new restrictions aimed at checking excessive subscriptions were imposed. The offering was heavily oversubscribed, allotments on the 2½ per cent bonds being 15 per cent of subscriptions and on the 2 per cent issue 11 per cent. Subscriptions in amounts up to $5,000 for registered bonds deliverable ninety days after issuance were allotted in full. Both of these issues were under pressure December 8 through 11 as the usual distribution process was complicated by the effects of the entrance of the United States into the war. On December 31, however, both issues were quoted slightly above par.

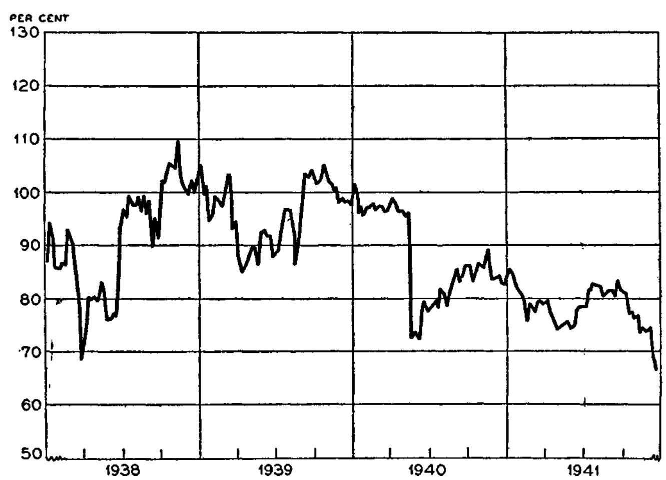
The war news also had an unsettling effect on prices of Treasury notes and yields on these issues somewhat extended their rise of October and November. The yield on the tax exempt ¾ per cent Treasury note due March 15, 1945 moved up from 0.60 per cent on November 29 to 0.72 per cent on December 11—the highest level reached since August, 1940. Subsequently, the yield on this issue declined and for the month as a whole a net decrease of 0.02 per cent was recorded. The average yield on the 3 to 5 year taxable Treasury notes followed a roughly similar course, although a net rise of 0.08 per cent was shown for the month as a whole.

Accepted bids on the five weekly issues of Treasury bills during December were tendered on interest bases increasing from 0.242 per cent on the December 3 issue to 0.310 per cent (highest rate since October 20, 1937) on the issue dated December 31. The December 3 issue was in the amount of $200,000,000 and the four other issues were in the amount of $150,000,000. Since each replaced a $100,000,000 maturity, a total of $300,000,000 of "new money" was put at the Treasury's disposal. The first three issues in December were of 91 day maturity, but the December 24 issue was cut to 82 days and the December 31 issue to 76 days. The Treasury is shortening the maturities for these latter issues and also that of the January 7, 1942, issue so that these issues will mature on the days of heaviest income tax collections in March, 1942, and on redemption serve as a partial offset to the expected heavy drain on bank reserves caused by the tax collections. It is expected that the Treasury will allow a total of about $600,000,000 of Treasury bills to mature at the March tax period, without replacement.

In continuance of its tax savings plan inaugurated last August, the Treasury on January 1, 1942, is placing on sale another issue of Treasury Tax Savings Notes, Series A and B, dated January 1, 1942, and maturing January 1, 1944. The new notes will be acceptable, during and after the third calendar month from month of purchase, at par and accrued interest in payment of Federal income and excess profits taxes. Unlike the earlier series, they may be presented in payment of Federal estate and gift taxes as well. The notes of both new series are available in the same denominations as heretofore with the exception of the addition to Series A of $500 and $1,000 denominations. Defense Savings stamps are to be accepted at their face value in lieu of cash as payment for these notes. In other respects, the Treasury Tax Savings note issues, dated January 1, 1942, are similar to the notes of the Tax Series dated August 1, 1941; the Series A issue provides a return of 1.92 per cent per annum and the Series B issue a return of 0.48 per cent when used in payment of any of the above mentioned taxes. The Series A notes are designed especially for the smaller taxpayers, and the amount that may be used in payment of taxes within a year is limited.

Security Markets

In contrast to the sharp rise in stocks when war in Europe began in September, 1939, share prices receded when the United States entered the war early in December, although the extent of the decline was less than in May-June of 1940, when large scale liquidation, connected with German successes in the Low Countries, forced a far more abrupt decline in the market. Standard's 90 stock price index dropped 7½ per cent between December 6 and 9. After a weak recovery in several of the intervening sessions, the index on December 17 resumed its three month downtrend and reached on December 23 the lowest point since March, 1935. Stock prices recovered sharply in the last two sessions of the year, but the index on December 31 was still 4½ per cent below the level prevailing at the end of November. Aside from the effects of war news, tax selling is reported to have depressed quotations and increased the volume of transactions on the New York Stock Exchange during the month. Trading during December was the heaviest since May, 1940.



Movement of Stock Prices (Standard and Poor's 90 stock index; 1926=100 per cent)

Prices of domestic corporation bonds declined somewhat in December. On the 10th the average price of prime corporate bonds, those rated Aaa by Moody's Investors Service, was 2 points below the record level maintained virtually throughout November and for several sessions early in December. A level ¾ of a point lower (and a new low for the year) was reached on December 27. Medium grade corporate bonds, as measured by Moody's index of Baa bonds, by December 9 had fallen 2¾ points below the record high of early November and 2 points below the level of November 29. Late in December there was a slight recovery. Prices of municipal bonds dropped more sharply than corporate bonds during the early part of December. As a result, the average yield for prime municipal bonds rose to 2.38 per cent on December 10, almost one-half per cent higher than the near-record low level of November 26, but later there was some easing in the average yield.

Security dealings in German, Italian, and Japanese issues were suspended indefinitely by the New York Stock Exchange and the New York Curb Exchange on December 11. Similar action was taken with regard to securities of several of the smaller Axis powers later in the month.

New Financing

During December, the volume of corporate and municipal financing declined to $166,000,000, the smallest total since September, 1939, the first month of the war. Although unsettled conditions in the securities markets, arising from the entrance of the United States into the war, affected the pricing of new issues, only one major flotation scheduled for the month was deferred. Corporate financing amounted to $101,000,000, also the lowest level since September, 1939, of which $57,000,000 represented funds to be employed for new capital purposes.

Preliminary calculations indicate that corporate financing during the last quarter of 1941 averaged about $144,000,000 a month, the lowest since the first quarter of 1939. Of this amount, about $83,000,000 represented issues for new capital purposes. For the calendar year as a whole, corporate financing averaged about $213,000,000 a month, of which new money accounted for $85,000,000. Corresponding figures for 1940 were $230,000,000 and $61,000,000, respectively. More than four fifths of the year-to-year increase in new capital financing was accounted for by railroads and public utility companies.

Foreign Exchanges

The entrance of the United States into the war resulted in a further curtailment in such foreign exchange trading as had been in evidence in the New York market during recent months. Immediately after the outbreak of hostilities there was necessarily a reluctance on the part of banks to make commitments even in those neutral European currencies covered by general licenses; in addition, delays in cable communications, due to censorship, impeded dealings in Latin American currencies. This latter obstacle to trading, however, was soon largely removed as the market became adjusted to wartime conditions.

During the first week of December, prior to the sudden attack by the Japanese upon the United States, trading in the New York market had been generally uneventful, except for some decline in the free rates for both the Argentine peso and the Venezuelan bolivar. The opening of hostilities on December 7 and the celebration of a religious holiday in most Latin American countries on the following day brought trading in the New York market to a virtual standstill on December 8. Immediately following the reopening of Latin American markets, most of the Latin American exchanges showed marked appreciation in terms of the dollar. The free rate for the Argentine peso not only recovered all the loss sustained in the first week of December, but rose further to a new high of $0.2405 on December 12. Subsequently, however, there was a rather sizable reaction and this exchange closed the month at $0.2345, to show a net loss of 45 points for the month as a whole. The free rate for the Venezuelan bolivar rose steadily to $0.2725 on December 18, and although later reacting to $0.2650, it nevertheless remained well above the $0.2580 level prevailing at the end of November. After holding at $0.5275 until December 12, the noncontrolled rate for the Uruguayan peso rose on that day to $0.5310, at which level it has since held firm. On December 9, the Cuban peso rose slightly to par with the dollar for the first time in a number of years, and by the end of the month the Cuban peso was actually at a slight premium.

The only marked weakness in the principal foreign exchange rates during December occurred in the unofficial Canadian dollar, the discount on which widened steadily to 14⅝ per cent by December 30, the largest in about nine months. This weakness appears to have reflected both an unseasonal slack in tourist demand because of the war and some year-end liquidation of American held Canadian securities and balances. Some recovery was shown, however, on December 31, when the discount narrowed to 14 per cent. At times during the month the unofficial rate for sterling rose to the year's high of $4.04, but at the end of December was quoted at $4.03¾.

Production and Trade

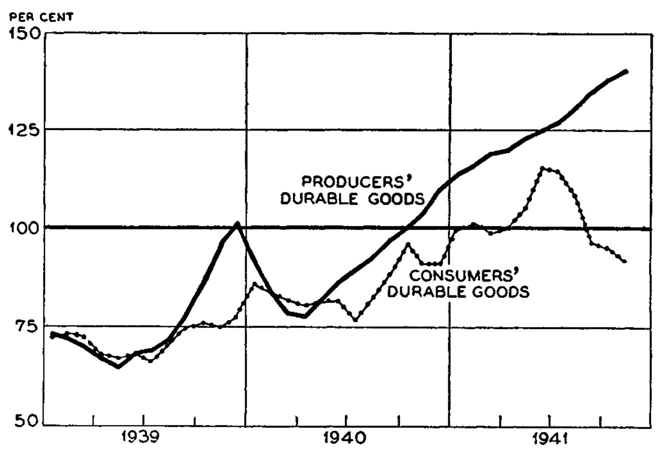
American industry quickly felt the effect of the entrance of this country into the war. Shortly after the outbreak of hostilities the Director General of the Office of Production Management announced that operations in the five major lines of war production—planes, ships, tanks, guns, and ammunition—would be stepped up to twenty-four hours a day and seven days a week. Moving to conserve materials for war use, the O.P.M. acted promptly to restrict further the production of passenger cars and light trucks. The December quota for passenger cars was reduced to 154,000 units—61 per cent below production in December, 1940—and January output to 102,000 units, a figure about 75 per cent below the number of assemblies in January, 1940. Furthermore, restrictions were imposed on production and sales of rubber goods for nonessential purposes and tin was placed under complete Government control. Systems of priorities and allocations, affecting a variety of commodities, were tightened with the general purpose of assuring supplies for industries manufacturing armaments or essential civilian goods.

Data now available for December indicate further progress in armament production and continued curtailment of output in other industries using scarce materials. Owing to the pressure of the present emergency, many steel mills continued to operate on Christmas Day, contrary to the usual custom in the industry. Mill sales of cotton gray goods, especially for forward delivery, appear to have been limited to some extent by the reluctance of manufacturers to make commitments in view of large anticipated Government orders for military purposes, but cotton mill activity was reported to have continued at peak levels. Incomplete figures indicate that railroad loadings of merchandise and miscellaneous freight declined less than usual in December, but that the movement of bulk freight fell off to a somewhat greater extent than in most other years. Electric power production, at the peak of the year as is usual in December, appears to have increased more than seasonally over November.

Production and Trade in November

During November this bank's monthly index of production and trade rose three points to 111 per cent of estimated long term trend. This figure compares with 92 in July, 1940, at the start of the defense program, and with 86 in August, 1939, just prior to the outbreak of the European war. Each of the major segments of the index—production, primary distribution, and distribution to consumer—advanced during November.

In the case of production, divergent tendencies were again shown between the output of producers' durable goods and production of consumers' durable goods, as the accompanying chart indicates. Continued gains in



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

the war industries accounted largely for the further advance in the index of production of producers' durable goods, which has mounted steadily since the spring of 1940, while consumers' durable goods lines were again adversely affected by limitations upon output and by material shortages. Production of nondurable goods, in both the producers' and consumers' categories, increased somewhat in November.

Considering seasonal factors, retail trade recovered markedly in November, following the sharp recession that had characterized the two preceding months, but failed to regain the high level prevailing in August. Sales of department stores, mail order houses, and chain store systems, on a seasonally adjusted basis, showed definite gains between October and November. Retail sales of passenger cars are estimated to have run higher than in the previous month but substantially below the level of a year ago. Following the seasonal peak reached in October, railway freight traffic declined considerably less than usual in November and as a result the index of primary distribution rose three points.

	1940	1941		
	Nov.	Sept.	Oct.	Nov.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	99	109	108*p*	111*p*
Production	101	115	116*p*	118*p*
Producers' goods—total	105	126	128*p*	130*p*
Producers' durable goods	104	135	138*p*	140*p*
Producers' nondurable goods	105	118	118*p*	120*p*
Consumers' goods—total	98	101	103*p*	103*p*
Consumers' durable goods	91	96	95*p*	92*p*
Consumers' nondurable goods	101	103	105*p*	107*p*
Durable goods—total	100	123	125*p*	126*p*
Nondurable goods—total	103	109	111*p*	112*p*
Primary distribution	92	103	102*p*	105*p*
Distribution to consumer	100	100	94*p*	100*p*
Miscellaneous services	93	102	101*p*	104*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	100	108	109	110
Wage Rates (100 = 1926 average)	115	125*r*	126*p*	
*Velocity of Demand Deposits** (100 = 1919-25 average)				
New York City	29	27	30	31
Outside New York City	61	59	59	66

p Preliminary. *r* Revised. * Adjusted for seasonal variation.
The indexes of production and trade have been recently revised, in some cases back to January, 1935, and in other cases back to January, 1940. Tabulations of the revised indexes are available upon request.

Building

There was a further decline in the daily rate of construction contract awards during November according to the monthly report of the F. W. Dodge Corporation covering construction activity in 37 Eastern States. Since August, when contracts were awarded in the largest volume on record, the daily rate of awards has fallen off about one third. Among the factors contributing to this decline are the influence of normal seasonal movements, and the effect of the Supply Priorities and Allocations Board order (issued in October) restricting the use of critical materials to those projects which are necessary to National defense or to the health and safety of the people.

Private construction and nondefense public building continued to show evidences of contraction in November. For the first time since March, 1940 awards for private residential building dropped below the year earlier level, and private contracts for nonresidential building purposes continued an irregular decline from the peak of last May.

From August to November the volume of contracts awarded for defense purposes in the 37 States dropped markedly. This decline, however, appears to be of a temporary character, as programs for military construction, defense plant expansion, and defense housing have been stepped up sharply as a result of war developments. The Office of Production Management now estimates that in 1942 total expenditures for construction will be greater than the record volume of $11,000,000,000 expected for 1941, and that the coming year's outlay will be restricted exclusively to those projects which are considered essential to National defense or public health and safety. In October, the O.P.M. had estimated that although expenditures for defense construction would be increased in 1942, the total volume of expenditures would fall below the 1941 figure.

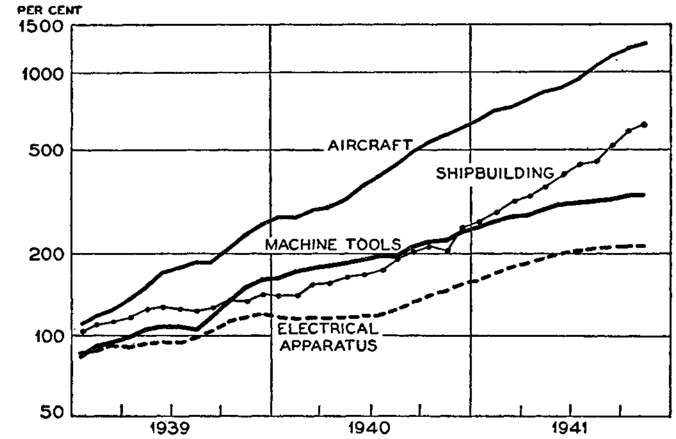
New York State and Northern New Jersey

In the New York and Northern New Jersey area, the daily rate of construction contract awards also declined during November, but, owing primarily to an increase in the volume of Government contracts for defense purposes, remained above the figures for August and September. Although awards for defense construction have not been so important in this district as in some other parts of the country, the volume of such contracts awarded here has expanded sharply in recent months. In this region the defense construction program has been primarily concentrated on the expansion of manufacturing facilities, including shipyards, rather than on such projects as air bases, power generating facilities, and training camps. In November Government contracts for defense plants accounted for 40 per cent of all contracts awarded in New York State and Northern New Jersey.

Residential building awards, which had been running at a relatively high rate earlier in 1941, continued the decline of the preceding two months and dropped to a level roughly 40 per cent below the average for November, 1940. Awards for public works and utilities declined sharply and were off about one fifth from the year earlier level.

Employment and Payrolls

In the absence of further substantial additions to working forces of defense industries, seasonal reductions in nondefense lines caused slight decreases in both employment and payrolls in New York State factories during November. While firearms and machinery plants continued to hire more men, airplane factories, shipyards, and steel mills actually showed small net losses in employment. All branches of the apparel group laid off workers during November as is usual at this time of year; the largest employment decreases occurred at women's clothing and millinery concerns and fur goods firms. Seasonal influences also caused layoffs at canneries and concerns manufacturing construction materials. How-



Indexes of Man-Hours of Employment in Certain Industries Important in the War Effort (1935-39 average=100 per cent; data derived from Bureau of Labor Statistics figures with November estimated—ratio scale used to show rates of growth)

ever, working forces as a whole were 25 per cent greater than in the corresponding month of 1940 and wage payments were 49 per cent larger.

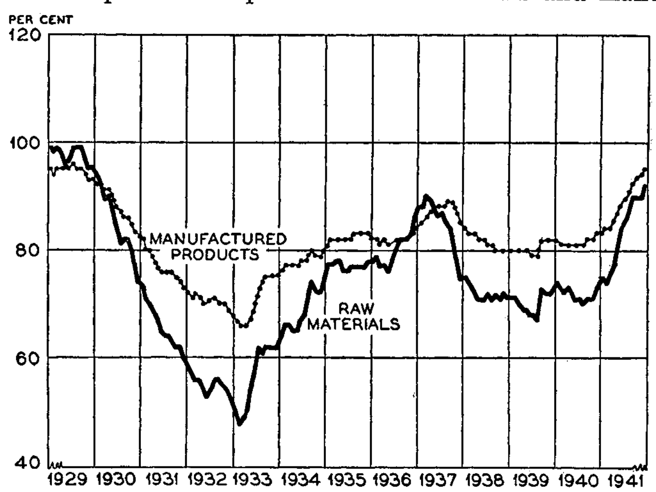
According to the State Department of Labor, the only industrial districts in the State to show net gains in both employment and payrolls during November were the Utica and Albany-Schenectady-Troy areas where gains at plants with defense orders helped offset losses at other firms. Net decreases in New York City were caused by seasonal declines in the apparel and construction material industries, while layoffs at metal plants in the Buffalo area were mainly responsible for employment and payroll reductions there. However, all of the industrial districts reported considerable gains over November, 1940 and even larger increases over the prewar level. The largest employment gains have occurred in areas stimulated by the National defense program. Plants in which accelerated defense production has caused large increases in working forces include electrical machinery and railroad equipment firms in the Albany-Schenectady-Troy area, firearms plants in the Utica area, and aircraft factories and steel mills in the Buffalo area. The smallest gains occurred in the Binghamton-Endicott-Johnson City area, in which consumers' nondurable goods are the chief manufactures.

In the United States as a whole, as in New York State, both working forces and payrolls in manufacturing industries declined somewhat during November. Seasonal factors caused decreased employment in many nondefense industries, although in a number of instances losses were smaller than usual at this time of year. Material shortages and curtailed output by manufacturers of consumers' durable goods such as passenger cars also contributed to the decrease in working forces. However, most industries producing defense materials continued to employ more workers during November; shipyards and aircraft factories, as usual, reported the largest gains. The accompanying diagram shows the growth, measured by man-hours of production, of four of the leading defense industries during the last three years. Not only have working forces in these industries been greatly enlarged but the average number of working hours per employee has been increased. Since the outbreak of war, and more especially since the beginning of the National defense program, man-hours of employment in these industries have risen consistently. For instance, the aircraft industry has a record of having expanded activity (measured in man-hours) for 26 consecutive months, and man-hours in this industry have increased sevenfold since the outbreak of war in September, 1939. Presumably these defense industries will now be expanded even further to meet war needs, although they face a growing scarcity of skilled labor and in each case the average work week is already substantially in excess of the 40 hour level.

According to Bureau of Labor Statistics estimates, the number of persons engaged in civil nonagricultural pursuits declined 80,000 during November to 40,700,000. The decrease was largely caused by seasonal layoffs at factories and mines, and in transportation and public utility activities, although these were partially offset by increases in working forces at wholesale and retail trade establishments and a contraseasonal gain in construction employment. Compared with November, 1940, nonagricultural working forces were approximately 3,200,000 greater. Military and naval forces (not included in the above estimates) rose 60,000 further in November to a total of 2,070,000, an increase of 1,250,000 over a year previous.

Commodity Prices

Immediately following the outbreak of hostilities with Japan on December 7, prices in many of the wholesale commodity markets rose sharply, but later showed some decline and were relatively steady in the second half of the month. Although the Bureau of Labor Statistics daily index of 28 basic commodities reached a peak for the war period on December 12 at 160 per cent of the August, 1939 base, the net advance for December as a whole amounted to only about 2½ per cent. Reflecting in some measure the price ceiling regulations which have been put in force, as well as the extensive movements in unregulated prices which had occurred during the preceding year, the entrance of the United States into the war had less serious initial effects on domestic commodity markets than the beginning of the war in Europe in 1939. The accompanying chart shows the current position of prices of raw materials and manu-



Movement of Prices of Raw Materials and Manufactured Products (1926=100 per cent; Bureau of Labor Statistics monthly indexes—December estimated from weekly indexes)

factured products, as measured by the Bureau of Labor Statistics comprehensive monthly indexes. These two indexes by the summer of 1940 had lost more than half of their advances during the first months of the war, but in the ensuing rise—particularly marked between February and September of 1941—they have reached the highest levels in more than eleven years. The index of raw material prices has reached a point about 40 per cent above the prewar (August, 1939) level and the index of manufactured products has advanced 20 per cent during the same period.

While price increases were fairly general during December, the most pronounced gains occurred in domestic agricultural products; the Bureau of Labor Statistics daily price index of 7 commodities in this group rose 6½ per cent during the month, to a level 71 per cent above that of August, 1939. Prices of imported goods, and also of industrial raw materials, over which maximum quotations have been established, showed relatively slight net advances in December—about 2 per cent on the average.

Official agencies during December took a number of steps to prevent strong upward price tendencies from developing as a result of the turn of events in the war. The Commodity Exchange Administration early in the month asked commodity exchanges to keep the daily price fluctuations of futures trading in several important products within specified ranges. The Office of Price Administration moved to stabilize prices of imported foods, and placed ceiling quotations on many domestic fats and oils somewhat below the prevailing price levels. Numerous other maximum quotations were announced, including those for cigarettes, coffee, refined sugar, raw wool, wool floor coverings, all grades of leather, new automobile tires and tubes, reclaimed rubber, second-hand cotton and burlap bags, rags, and resold iron and steel products. Manufacturers of beehive coke and of a wide variety of consumers' durable goods were also requested not to raise prices above the current levels.

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

	Index December 27, 1941 (1926 = 100)	Percentage changes, December 27, 1941 compared with	
		Nov. 29, 1941	Aug. 26, 1939
Farm products	95.5	+4.8	+56.3
Foods	91.2	+2.2	+36.7
Textile products	91.5	+1.0	+35.8
Hides and leather products	115.6	+0.2	+24.8
Chemicals and allied products	91.7	+2.2	+23.6
Building materials	108.1	+0.7	+20.5
Housefurnishing goods	102.3	+0.4	+17.6
Metals and metal products	103.4	+0.1	+10.6
Fuel and lighting materials	79.0	−0.5	+ 7.9
Miscellaneous	87.4	+0.3	+19.6
All commodities	93.8	+1.6	+25.4
Raw materials	92.5	+2.5	+39.7
Semimanufactured articles	90.2	+0.7	+21.2
Manufactured products	95.2	+1.4	+20.1

Department Store Trade

During December, average daily sales of the reporting department stores in this District are estimated to have increased by about 6 per cent over December, 1940. An unusually large year-to-year gain in sales during the week ended December 27, owing in large part to the fact that there was one more pre-Christmas shopping day in the 1941 week, more than offset the reduction that occurred in the week war was declared, while small gains were reported for the first and third weeks of the month. The daily rate of sales in December showed a very large increase over the November level in keeping with the usual seasonal tendency.

Total November sales of the reporting department stores in this District were about 6 per cent higher than in November, 1940, and after allowing for one less shopping day in November, 1941 than in the year previous, average daily sales increased by about 8 per cent over November, 1940, and advanced considerably more than usual over the October level. Substantial year-to-year gains continued to be reported during November for sales of home furnishings, while large reductions were reported in sales of furs, mechanical refrigerators, and wines and liquors.

Retail stocks of merchandise on hand in the department stores at the end of November continued substantially higher than a year previous, although the advance over the previous month (October) was somewhat smaller than usually occurs. 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 approximately 40 per cent higher than at the end of November, 1940, the smallest year-to-year gain in nine months.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	November, 1941	Jan. through Nov., 1941	November, 1941
New York City	+ 2	+10	+31
Northern New Jersey	+ 5	+14	+32
Newark	+ 4	+13	+31
Westchester and Fairfield Counties	+17	+21	+31
Bridgeport	+22	+27	+37
Lower Hudson River Valley	+10	+12	+26
Poughkeepsie	+10	+13	....
Upper Hudson River Valley	+12	+18	+41
Albany	+ 8	+14	....
Central New York State	+23	+23	+41
Mohawk River Valley	+33	+28	+47
Syracuse	+20	+22	+39
Northern New York State	+ 5	+11	....
Southern New York State	+21	+23	+32
Binghamton	+23	+25	....
Elmira	+35	+34	....
Western New York State	+17	+20	+32
Buffalo	+20	+25	+34
Niagara Falls	+25	+17	+24
Rochester	+14	+15	+31
All department stores	+ 6	+13	+32
Apparel stores	+ 1	+10	+34

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

	1940	1941		
	Nov.	Sept.	Oct.	Nov.
Sales (average daily), unadjusted	120	125	112	130
Sales (average daily), seasonally adjusted	101	120	98	109
Stocks, unadjusted	101*r*	113	128	132
Stocks, seasonally adjusted	85*r*	109	113	111

r Revised.

MONTHLY REVIEW
of Credit and Business Conditions
Federal Reserve Bank of New York

The Quickest, Surest Way You Can Help Win This War

Buy Defense Bonds and Stamps *Now!*

Sales of United States Savings Bonds

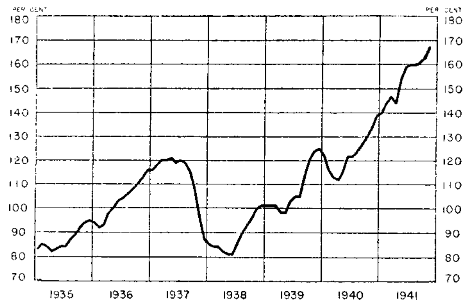
Following the Japanese attack on Pearl Harbor and the entrance of the United States into a state of war, there was an immediate and sharp increase in the volume of sales of Defense Savings Bonds. The change from a "defense" state of public mind to a war psychology actuated heavy purchases of Savings Bonds; in fact, so large was the demand for Savings Bonds that supplies of unissued bonds were, in some cases, exhausted. Pending the time when the Bureau of Engraving and Printing is able to prepare bonds at a rate sufficient to overtake the current rate of sales, and adequate stocks of bonds can be placed in the hands of issuing agents by the Federal Reserve Banks, the issuing agents have been requested to receive subscriptions and payments for Savings Bonds and to issue temporary receipts therefor if they are unable to make immediate deliveries. Regrettable as is the inconvenience to the public caused by the temporary shortage in the supply of bonds, the situation has its brighter, more significant side, in that it denotes a gratifying patriotic effort on the part of the public to do as much as possible to assist in the prosecution of the war to a successful end. Sales of Savings Bonds in large volume will do much to aid in the financing of the war on a sound basis.

For the period December 1 to 29 inclusive, sales of Series E Defense Savings Bonds in the Second Federal Reserve District by qualified issuing agencies, i. e., commercial and savings banks, building and loan associations, and credit unions, and by the Federal Reserve Bank of New York, but not including the post offices, totaled $57,500,000—at issue price—a much larger amount than for any other month since the Defense Savings Bonds went on sale May 1, 1941. On a daily average basis, sales of the bonds were $2,396,000 in this period of December, as compared with a daily average of $762,000 for the month of November—a more than threefold increase; and for the period since December 7 the increase over the prewar rate was even larger. The daily average number of bonds issued in December reached 26,934, as compared with 8,471 in November. Large increases occurred in sales of all denominations, especially the $50 and $500 denominations. Some of the purchases of Defense Savings Bonds in December probably were made for use as Christmas gifts or in the payment of year-end bonuses, but it is to be hoped that the recent accelerated rate of total sales will be increased further as more and more people subscribe to payroll deduction plans for the purchase of Defense Savings Bonds, make initial outright purchases of bonds, or increase the amounts of their previous purchases.

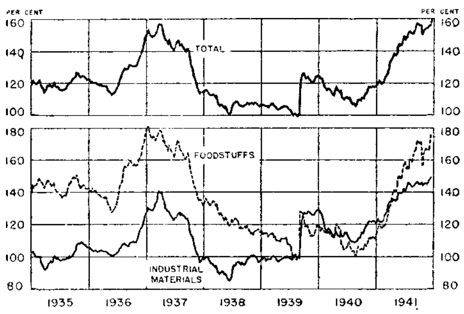
In addition to the sales of Series E Defense Savings Bonds, a total of approximately $41,400,000 of Series F and G Savings Bonds was sold in the Second Federal Reserve District in the first twenty-nine days of December, as compared with $36,068,000 for the month of November. Sales of these series are usually heavy during the closing days of a month, so that the total for the month of December as a whole should be appreciably greater than for the first twenty-nine days.

Receipts from the sale of all issues of United States Savings Bonds entered in the Treasury Daily Statement for the first twenty-seven days of December, amounted to $432,000,000, which figure undoubtedly underestimates the actual rate at which sales are being made, since there is some lag between the time a sale is made and the funds are reflected in the Treasury Daily Statement. However, some indication of the large increase in sales of Savings Bonds in the country as a whole since the nation went to war is afforded by comparison of this figure with similar Treasury receipts for the whole month of November, which amounted to $238,000,000. It is clear that December sales were by far the largest for any month since the bonds went on sale on May 1.

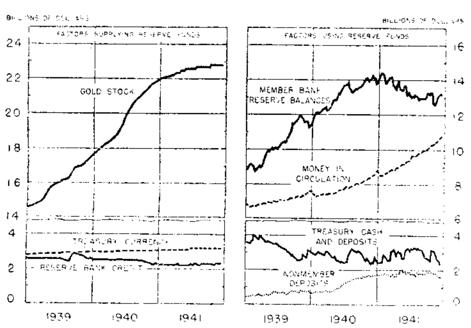
Various plans for increasing the participation of the public in the Defense Savings program are being developed by the State and local Defense Savings Committees. Most important are those designed to promote the establishment of payroll deduction plans which involve regular savings to be invested in Savings Bonds. Indications continue to be received at the Federal Reserve Bank of New York that increasing numbers of industrial and commercial concerns, banks, and other types of businesses are setting up payroll deduction plans, for the convenience of their employees in accumulating funds for the purchase of Defense Savings Bonds. Information concerning payroll deduction plans may be obtained from the New York State Committee for the Sale of Defense Bonds and Stamps, 1270 Sixth Avenue, New York, New York.



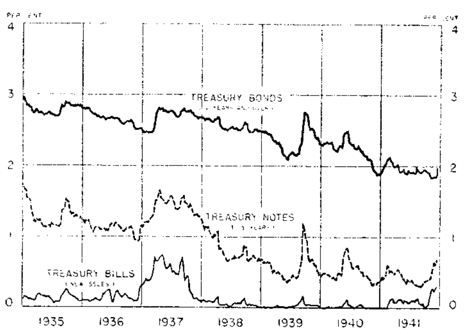
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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



Member Bank Reserves and Related Items



Money Rates in New York City

Business Conditions in the United States

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

INDUSTRIAL activity was maintained at a high rate in November and the first half of December and distribution of commodities continued in large volume. Our entry into the war was reflected in a sharp advance in the prices of some commodities, some decline in security prices, and further curtailment of nonmilitary production.

Production

Volume of industrial output was sustained in November at the high rate of the previous two months, although a decline is usual at this season. The Board's adjusted index advanced from 163 to 167 per cent of the 1935-39 average. In industries engaged in production of armament and munitions activity continued to increase and in most other lines volume of output was maintained or declined less than seasonally.

Output of materials, such as steel and nonferrous metals, was maintained at about capacity. In the automobile industry activity increased, reflecting larger output of both military and civilian products, and at lumber mills and furniture factories activity declined less than seasonally. At cotton and rayon textile mills activity rose to new record levels, and at woolen mills the high production rate of other recent months was maintained. Less than seasonal declines in output were indicated for shoes and manufactured food products.

Crude petroleum production increased further in November. Bituminous coal production declined somewhat owing to temporary shutdowns at some mines during November, and anthracite production was curtailed as a result of unusually warm weather in some areas and the existence of considerable stocks of coal accumulated in earlier months. Iron ore shipments continued in large volume until the shipping season closed early in December; during 1941 about 80 million tons of ore were brought down the Lakes as compared with the previous record of 65 million tons in 1929. Stocks of ore at lower Lake ports on November 30 amounted to about a seven months' supply at the current consumption rate of around 6.5 million tons a month.

Following a declaration of war by this country in early December further steps were taken to curtail output of nondefense goods using critical materials. Output quotas for passenger cars and household appliances were greatly reduced and cessation of output of some other products was ordered as of the end of January. Also, the production and sale of new automobile tires and tubes for civilian use were halted temporarily, pending establishment of a system for controllng their distribution.

Value of construction contracts awarded in November declined sharply from the high level of other recent months, according to figures of the F. W. Dodge Corporation. Awards for privately financed construction decreased more than seasonally and contracts for publicly financed projects also declined following a continued large volume of awards since last spring. Total awards in November were about a fifth larger than a year ago, while for the first ten months of the year they were three-fifths larger.

Distribution

Volume of retail trade increased in November following some decline in the previous month. Department store sales, as measured by the Board's seasonally adjusted index, advanced to 115 per cent of the 1923-25 average as compared with 105 in October and 116 in September. Larger sales in November were also reported by variety stores. Sales of automobiles increased somewhat, according to trade reports, but, as in other recent months, new car sales were smaller than output and dealers' stocks rose further.

In the second week of December sales at department stores rose less than seasonally, particularly in the coastal regions.

Freight traffic on the railroads continued in large volume in November and the first half of December. Grain shipments increased considerably and loadings of miscellaneous merchandise, which includes most manufactured products, were maintained at the high level reached several months earlier. Coal loadings declined somewhat, owing in part to temporary shutdowns at some mines. Shipments of most other classes of freight decreased less than is usual at this season.

Commodity Prices

Following the entry of the United States into the war, prices of grains, livestock, and foods rose sharply. Prices of most industrial materials traded in the organized markets, being limited by Federal regulation, showed little change. Additional measures to prevent advances in wholesale prices were soon announced for wool and shellac and for such imported foods as cocoa, coffee, pepper, and fats and oils.

Retail food prices, as measured by the Bureau of Labor Statistics index, increased 1½ per cent further from the middle of October to the middle of November to a level 18 per cent above a year ago. Indications are that retail prices of both foods and other commodities continued to rise in December.

Bank Credit

Total loans and investments at banks in leading cities continued to advance during November and the first two weeks of December, owing mostly to increased holdings of Government securities at banks outside New York City. Commercial loans, after showing little net change in November, again increased sharply in the first two weeks of December.

Excess reserves increased through most of the period as a result of Treasury expenditures from Reserve Bank balances, but declined sharply on December 15 when these balances were replenished in connection with the issue of 1.6 billion dollars of new Government securities. Money in circulation has continued to show a marked increase.

Yields on United States Government Securities

The yield on 2½ per cent United States Government bonds of 1967-72, which reached a record low level of 2.32 per cent on November 5, advanced somewhat in November and, after the entry of the United States into the war, rose to 2.50 per cent. Yields on short term Government securities increased further. The yield on Treasury notes of December, 1945 advanced to 0.93 per cent on December 17, compared with 0.62 per cent on September 15, and the rate on three month bills rose to 0.295 per cent.