MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *February 1, 1942*

Money Market in January

During January the excess reserves of member banks, in the aggregate, showed a substantial increase. This rise, however, may be considered in the nature of an interim movement, inasmuch as the principal reason for the increase was a decline in Treasury deposits in the Federal Reserve Banks. Between December 24, the low point reached in 1941, and January 21, 1942, excess reserves of all member banks rose $520,000,000 to a figure of $3,580,000,000, and during this same period Treasury deposits in the Reserve Banks were reduced $624,000,000 to $284,000,000.

National defense expenditures have been proceeding at the rate of approximately 2 billion dollars a month, and despite accelerating sales of Savings Bonds, there has been a heavy drain on Treasury balances which had been built up in December by "market" financing and income tax collections. By January 19 Treasury balances in the Reserve Banks had been so reduced that the Treasury began a series of withdrawals of funds from special (commercial bank) depositaries, in order to provide the funds needed to cover the current rate of net expenditures. Consequently it does not appear that any material addition to member bank reserves is to be expected from a further reduction in Treasury balances at the Reserve Banks, and, in fact, the prospect is that the next major change in member bank reserves will be a decline when payment is made for the new securities sold in the next "market" financing by the Treasury (which the Secretary of the Treasury has indicated will occur in February).

In view of recurring rumors that the Government was planning to confiscate savings accounts, the Secretary of the Treasury has made an emphatic denial of any such intent. On January 12, 1942, the Secretary of the Treasury issued the following statement:

"I wish to state most emphatically that there are no foundations whatever for such rumors. The Federal Government does not have under consideration any proposal involving the confiscation of savings deposits of this country for any purpose.

"Furthermore, anyone circulating rumors of this character is acting against the welfare of the nation."

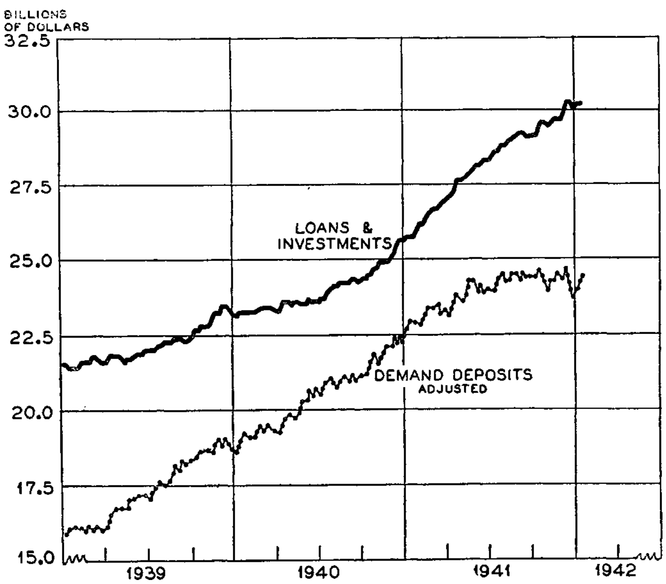
A reduction of $162,000,000 between December 24 and January 14 in the amount of currency outstanding also served to increase member bank reserves somewhat. The return flow of currency from circulation after Christmas has been extremely small, however, especially when considered in the light of the large pre-Christmas outflow, and in the week ended January 21 currency circulation began to rise again. The effect on member bank reserves of the net Treasury disbursements and return flow of currency to the Reserve Banks was partly offset by a reduction of more than $100,000,000 from the Christmas peak in the amount of Federal Reserve "float" outstanding. An increase of about $175,000,000 in required reserves of member banks also limited the rise in excess reserves. In the last week of January, excess reserves were reduced $100,000,000, owing chiefly to a further rise in currency circulation, a further decline in outstanding Federal Reserve "float," and a further increase in required reserves.

Of the $520,000,000 rise in excess reserves in the four weeks ended January 21, $275,000,000 occurred in New York City and $245,000,000 in other parts of the country. New York City bank excess reserves on January 21 amounted to $1,210,000,000, the highest figure for a statement date since immediately prior to the November 1 increase in reserve requirement percentages, when the excess amounted to $1,345,000,000. This improvement in the reserve position of the New York money market has been due in largest measure to Treasury disbursements in excess of funds paid into the Treasury. Other factors have been a reduction in the amount of currency outstanding in this area, foreign account disbursements in New York, and a moderate net inflow of funds to New York from other parts of the country—both through business transactions and through an increase in balances of out-of-town banks with New York City banks. Part of these gains of funds was absorbed by a concurrent rise in the reserve requirements of the New York City banks, accompanying expansion of their deposits. Such deposit increases have occurred despite a reduction in loans and investments of the New York City banks. In the last statement week of January, excess reserves in New York banks receded $30,000,000 from the level reached on January 21.

Changes in Member Bank Credit and Deposits

The total loans and investments of the reporting member banks showed a net decline of $82,000,000 for the four weeks ended January 21. Commercial, industrial, and agricultural loans declined at the year end, and in the first three weeks of January showed little change, with the result that on January 21, such loans were $63,000,000 below the peak figure which was reached on December 24. Loans to brokers and dealers in securities were reduced $88,000,000 during the four week period, and there were scattered reductions, aggregating $92,000,000, in other types of loans. Partly offsetting the total decline ($243,000,000) in loans, investment holdings of the banks rose $161,000,000. This increase reflected a rise of $188,000,000 in Treasury bill holdings of the banks; Chicago banks increased their holdings of bills by $126,000,000 as three of the four new issues sold in January mature shortly after April 1, when there are special tax purpose demands for Treasury bills in the Chicago area, and New York City banks increased their holdings of bills by $79,000,000. Other types of United States Government securities showed diverse changes, largely reflecting the refinancing of Treasury notes due March 15, 1942, and of several issues of Government guaranteed securities, with an issue of Treasury bonds. On balance the aggregate holdings of Treasury notes, Treasury bonds, and Government guaranteed securities declined by a net amount of $22,000,000.

Adjusted demand deposits of the reporting banks during the first three weeks of January recovered part of the decline of the last three weeks of December, but at $24,426,000,000 remained $256,000,000 below the December 10 peak. Time deposits declined further in the four week period and on January 21 were $220,000,000 below the highest figure of 1941. Government deposits in the reporting banks rose $144,000,000 further to a new high for recent years. This was a reflection of the excess (over Treasury withdrawals) of war loan deposits being established on the books of the banks by reason of new Government securities purchased.



Loans and Investments, and Adjusted Demand Deposits of Reporting Member Banks in 101 Cities

As the accompanying diagram indicates, expansion of loans and investments of the reporting banks during 1941 was considerably greater than the rise in adjusted demand deposits during the period, whereas in 1939 and 1940 the expansion of demand deposits had been considerably in excess of the increase in loans and investments. In 1939 and 1940, expansion of deposits resulting from the expansion in loans and investments was enhanced to a large extent by deposits resulting from the gold inflow movement which exceeded reductions in deposits caused by the increase in currency circulation. In 1941, however, the decline in the gold inflow movement to relatively small proportions removed a large element contributing to the rise in deposits, and the accelerated increase in the volume of currency outstanding involved withdrawals from the banks of a large amount of deposits. The consequence has been that, since about the middle of 1941, the volume of adjusted demand deposits has tended to remain stationary. In fact, such deposits in New York City banks have declined substantially during that period, reflecting largely a net outflow of funds to other areas, but deposits in other reporting banks have increased correspondingly. Another factor accounting for the divergence between the movement of loans and investments and demand deposits has been the large rise in Government deposits, especially since the middle of 1941.

Reflecting the accelerated rise in loans and investments of the reporting banks during the past year and the factors which have retarded the growth of demand deposits, total loans and investments on January 21 were approximately $4,500,000,000 higher than on the corresponding date a year ago, while adjusted demand deposits showed an increase of only $1,500,000,000. As compared with January, 1939, loans and investments now show an increase of $8,800,000,000, and demand deposits a rise of $8,300,000,000, whereas at this time a year ago the rise in loans and investments over the 1939 level was $4,200,000,000 and the rise in adjusted demand deposits was $6,800,000,000.

Money Rates in New York

	Jan. 31, 1941	Dec. 31, 1941	Jan. 31, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½–⅝	½–⅝	⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Yield on ¾ per cent Treasury note due March 15, 1945 (tax exempt)	0.59	0.58	0.49
Average yield on taxable Treasury notes (3-5 years)	0.80	1.02	0.94
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.17	2.07	2.10
Average yield on taxable Treasury bonds (not callable within 12 years)	....	2.40	2.37
Average rate on latest Treasury bill sale 91 day issue	†	0.310‡	0.231
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.

Government Securities

The Government security market during January was characterized by divergent tendencies among the various maturity and tax feature groups. The average yield on long term partially tax exempt Treasury bonds declined from the December high of 2.05 per cent (reached on the 26th and 27th of that month) to 1.97 per cent on January 10 but then moved irregularly upward to cancel entirely this decline by the end of the month. Quotations for these partially tax exempt bonds were affected in the latter part of the month by apprehension concerning rumors of possible modification of their tax status.

The average yield on long term taxable Treasury bonds, on the other hand, fell from 2.42 per cent on December 26-27 to 2.35 per cent on January 28 and held around this latter level until the end of the month. This divergency between taxable and partially tax exempt issues also existed among the intermediate term bonds. The yields on the tax exempt issues showed a slight net increase for the month, while the yields on the taxable issues generally moved lower.

During the month yields on three to five year Treasury notes continued the irregular decline in effect since December 10 and 11. The yield on the tax exempt ¾ per cent Treasury note due March 15, 1945 reached 0.43 per cent on January 27 (lowest since October, 1941), or 0.29 per cent below the December high. For January as a whole the yield on this issue was down 0.09 per cent. The average yield on three to five year taxable Treasury notes also returned to levels prevailing well before the Pearl Harbor attack, and showed a net decline of 0.08 per cent for the month.

Each of the four weekly issues of Treasury bills during January was in the amount of $150,000,000. The January 7 issue replaced a $100,000,000 maturity, was awarded at an average rate of 0.304 per cent (slightly below the rate on the issue of December 31, 1941), and was of 71 day term. This maturity, like those on the two preceding issues in December, was chosen so that these bills would mature during the period of heaviest income tax collections in March and offset in part the consequent drain on bank reserves. The January 14 issue of 91 day bills replaced a $100,000,000 maturity and was awarded at an average rate of 0.119 per cent, while the January 21 issue of 91 day bills replaced a $150,000,000 maturity and was awarded at 0.196 per cent. The major portion of these two latter issues was apparently purchased in the Chicago District in order to provide temporary investments for bank deposits which otherwise would be subject to taxes levied on April 1 by State and municipal authorities. The final Treasury bill issue of the month, dated January 28 and of 91 day maturity, replaced a $150,000,000 issue and was awarded at an average yield of 0.231 per cent.

In furtherance of its policy of refinancing guaranteed debt of the Federal agencies with direct Treasury obligations, the Treasury on January 12 offered taxable 2 per cent Treasury bonds of 1949-51 in exchange for a total of $1,076,000,000 of outstanding Treasury notes and agency issues which would shortly fall due. The issues to be refinanced were the 1¾ per cent Treasury notes maturing March 15, 1942, the 3 per cent Federal Farm Mortgage Corporation bonds of 1942-47, called for redemption on January 15, 1942, the 2¾ per cent Federal Farm Mortgage Corporation bonds of 1942-47, called for redemption on March 1, 1942, and the ⅞ per cent Reconstruction Finance Corporation notes maturing January 15, 1942. Subscriptions totaled $1,014,000,000. The new 2 per cent bonds, dated January 15, 1942, were quoted immediately after the offering at a premium of about half a point. At the end of the month the new issue, sharing in the general firming of the taxable issues, was priced at 100 15/16 bid.

Security Markets

Following a brief extension of the rise of the last few days of December, the stock market during January moved indecisively within a comparatively narrow price range, reflecting the varying fortunes of war and reactions to the plans for a more vigorous prosecution of the war. Reversing an irregular three month downtrend, the Standard 90 stock price index advanced about 8½ per cent between December 29 (when the 1941 low was equalled) and January 5, most of the advance occurring on December 30. A portion of this gain was lost in subsequent sessions in January when quotations fluctuated narrowly at slightly lower levels. The index showed a net advance for the full month of only 1¼ per cent. Railroad stocks made a far better showing than either industrial or utility shares during January, presumably in reflection of the comparatively favorable operating outlook and advantageous tax position of the railroads. The volume of trading in shares listed on the New York Stock Exchange during January was the smallest since last August.

Prices of domestic corporate bonds firmed somewhat in January. The average price of high grade corporate bonds, rated Aaa by Moody's Investors Service, by January 6 had moved up ¾ of a point from the 1941 low on December 31. Slightly lower levels predominated thereafter but for the month of January there was a net gain of ⅜ of a point. Recovering from the dip in December, medium grade corporate bonds, as measured by Moody's index of Baa bonds, advanced 1¾ points between December 31 and January 13 to a level only about ½ of a point below the 1941 high attained last November. These bonds showed only minor price changes later in January. A large part of the net gain of 1¾ points for the month as a whole was accounted for by the persistent strength in medium grade rail bonds which gained 3¼ points on the average during the month.

The average price of prime municipal bonds moved upward temporarily in mid-January, but toward the end of the month municipal bonds were under pressure following official intimations that legislation would be sought to make income from outstanding, as well as future, issues of State and municipal securities subject to Federal income taxes. As a consequence, the average yield on prime municipal bonds, which on January 21 had declined to 2.28 per cent, returned on January 28 to the level of 2.37 per cent prevailing a month ago.

New Financing

During January, the volume of corporate and municipal new financing rose from the extremely low level of the previous month to $276,000,000, the highest monthly total since last summer. Corporate flotations aggregated $157,000,000, of which slightly less than one half represented funds to be employed as new capital. Owing chiefly to a new issue of $50,000,000 City of New York serial bonds, the aggregate of new capital obtained by States and municipalities, at $88,000,000, exceeded that for any of the last twelve months.

The larger corporate flotations—$80,000,000 Alabama Power Company bonds, $26,600,000 United Aircraft Corporation preferred stock, and $15,000,000 Union Oil Company of California debentures—were reported to have been well received by investors. An issue of 222,243 shares of common stock ($100 par) was offered by the New England Telephone and Telegraph Company to its stockholders through warrants which expired January 15. As about 65 per cent of this company's capital stock is owned by its parent concern, the American Telephone and Telegraph Company, only 35 per cent, or $7,800,000, of the aggregate proceeds from this sale was included in the month's total. Temporary financing, not included in the $276,000,000 total, amounted to $158,000,000, a large part of which was accounted for by $84,000,000 of short term notes of local housing authorities and $45,000,000 of Federal Intermediate Credit Bank debentures.

Forthcoming issues include $35,900,000 Pennsylvania Electric Company bonds and preferred stock, $25,000,000 Panhandle Eastern Pipe Line Company bonds and preferred stock, both of which will be offered at competitive sales, and $25,000,000 Commonwealth Edison Company of Chicago bonds, which will probably be sold privately. Officials of the City of Detroit and of Milwaukee County, Wisconsin, are reported to have completed plans for new issues of $29,000,000 and $11,000,000, respectively.

Foreign Exchanges

Such foreign exchange transactions as continue to go through the New York market were again limited largely to Western Hemisphere currencies during the past month. The unofficial discount on the Canadian dollar, after widening to 14⅝ per cent in the latter part of December, presumably as a result of year-end operations, quickly recovered during the early part of January to reach 11 per cent on January 9. This recovery accompanied unconfirmed market rumors that the Canadian dollar would be brought to par with United States currency. At the end of the month, the Canadian dollar was quoted at a discount of 11⅝ per cent in the unofficial market.

Renewed strength has also been shown in a number of Latin American exchanges in recent weeks. The widest movement occurred in the free rate for the Venezuelan bolivar, which advanced 70 points further to $0.2720. The free rate for the Argentine peso recovered somewhat from the reaction that occurred in the latter part of December, but, closing the month at $0.2360, it nevertheless remained considerably below the December 12 high of $0.2405. After holding around par for most of the month, the Cuban peso went to a slight premium in terms of the United States dollar in the latter part of January.

The only noteworthy development in European exchanges occurred in the Swiss franc. Although Swiss banks continued to supply Swiss francs against dollars at a rate equivalent to $0.2331 for certain types of transactions, an increased demand developed in this market for Swiss francs which could be used freely for all purposes. While, under normal conditions, this demand would not be considered large, the virtual absence of any supply in the New York market of this type of Swiss exchange (the so-called free Swiss franc) resulted in a rapid rise in the New York rate, which reached a high of $0.2550 on January 24. A subsequent reaction, however, brought the so-called free rate to $0.2520 by the end of the month. There was also an increased demand for the Portuguese escudo, which was reflected in a gradual decline in the buying rate for dollars in Portugal; this rate is now reported to be 24.55 escudos to the dollar ($0.0407 per escudo), as against 24.95 escudos ($0.0401 per escudo) up to January 21.

Following the freezing of Philippine assets in this country as a result of the enemy occupation of important parts of the Philippine Islands, a rigid control was imposed over Philippine securities and all Philippine paper currency within the United States. In order to destroy any possible "black market" in the United States for looted Philippine currency which might be smuggled into the country, all dealings in Philippine currency were prohibited and it was required that all Philippine currency within the United States be deposited on or before February 1 in blocked currency accounts with either a domestic bank or the New York Office of the Philippine National Bank. At the same time, the Philippine Government issued a notice to all holders of Philippine securities and currency, directing such holders in all countries except enemy countries to deposit their holdings with banks and forward a registration report through their bank to the New York Office of the Philippine National Bank.

Production and Trade

The enlarged war program outlined by the President in his message to the Congress necessitates a much greater diversion of raw materials from civilian to war uses than heretofore, and calls for a rapidly increasing conversion of available plants and tools to the war effort. As a part of this program drastic steps were taken during January leading to the conversion of the automobile industry to a full wartime basis. A complete ban was placed on the retail sale of new passenger cars and trucks until February 2, pending the establishment of a rationing system. In addition, the previously established quota for passenger car production for January was doubled in order to permit manufacturers to use up fabricated parts, but production of passenger cars and light trucks was ordered stopped upon completion of this new quota. Late in the month the W. P. B. announced that between fifty and sixty industries were being studied from the standpoint of over-all conversion to war production.

Further official orders were issued during January which either curtailed or prohibited the use of certain essential raw materials in the manufacture of a wide variety of civilian goods. The list of such materials included aluminum, lead, mercury, nickel, tin, wool, rubber, and latex.

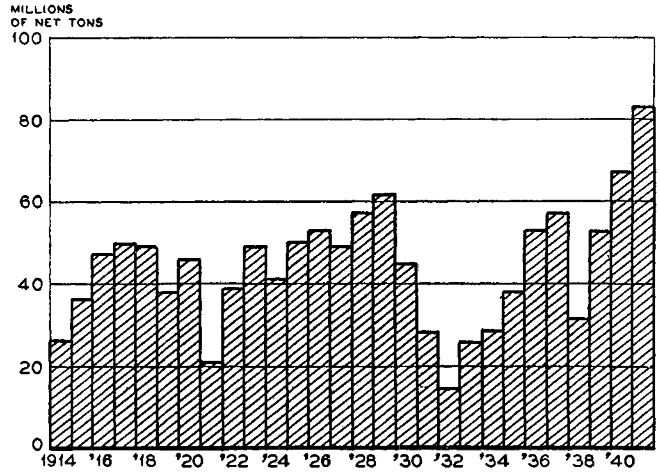
From information now available it appears that there was during January a continuation of recent tendencies in industrial operations. War production mounted higher, but output of nondefense industries was again held back by official limitations upon production and further diversions of material to meet war needs. Although still hampered by shortages of scrap, steel operations again held within a few percentage points of rated capacity. Incomplete figures indicate that car loadings of merchandise and miscellaneous freight fell off to a greater extent than usual in January, but that the movement of bulk freight increased somewhat. After adjustment for seasonal factors, electric power production appears to have continued upward in January.

Production and Trade in December

In December this bank's seasonally adjusted index of production and trade declined to 110 per cent of estimated long term trend, a point below the figure for November, but eight points above that for December, 1940. During 1941 the index ranged from a low of 103 in January to a peak of 114 in August. The behavior of the index during the last five months of the year was determined largely by fluctuations in the volume of retail trade, inasmuch as productive activity showed a gradual rising tendency.

During December the divergent tendencies between the output of producers' and consumers' durable goods, noted in recent months, became even more pronounced. Activity mounted higher in key war industries such as steel, aircraft, shipbuilding, and machinery, resulting in a further advance in the producers' durable goods component. On the other hand, drastic curtailment of output, especially of passenger automobiles, caused a sharp reduction in the index of production of consumers' durable goods. Output of nondurable goods in the aggregate, was not much changed between November and December.

The decline in the index of production and trade in December was due principally to the failure of retail trade in general to rise as sharply as in most other years. After adjustment for seasonal factors, sales by department stores, variety chain systems, and passenger car dealers were considerably lower than in November, although mail order house sales were well maintained. In addition, railway car loadings of bulk freight (represented in the index of primary distribution) declined considerably more than usual.



Annual Production of Steel in the United States

In 1941 steel production in this country was at a record high of approximately 83,000,000 net tons, as the accompanying chart indicates. Output last year was nearly 25 per cent higher than in 1940 (the previous record), a third greater than in 1929, and two-thirds above that in 1917, the peak year for steel production during the World War. During 1941 steel mill operations averaged 97½ per cent of capacity, as compared with 82 per cent in 1940 and 91 per cent in 1917.

	1940	1941		
	Dec.	Oct.	Nov.	* Dec.
Indexes of Production and Trade (100 = estimated long term trend)				
Index of Production and Trade	102	108	111*p*	110*p*
Production	105	116	117*p*	117*p*
Producers' goods—total	109	128	129*p*	131*p*
Producers' durable goods	110	138	139*p*	144*p*
Producers' nondurable goods	108	118	120*p*	119*p*
Consumers' goods—total	102	103	103*p*	101*p*
Consumers' durable goods	91	95	90*p*	76*p*
Consumers' nondurable goods	105	105	107*p*	109*p*
Durable goods—total	103	125	124*p*	123*p*
Nondurable goods—total	106	111	112*p*	113*p*
Primary distribution	95	104	107*p*	105*p*
Distribution to consumer	101	94	101*p*	98*p*
Miscellaneous services	96	103	106*p*	107*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	101	109	110	111
Wage Rates (100 = 1926 average)	116	126	127*p*	...
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	60	69	70	64
Outside New York City	89	90	95	93

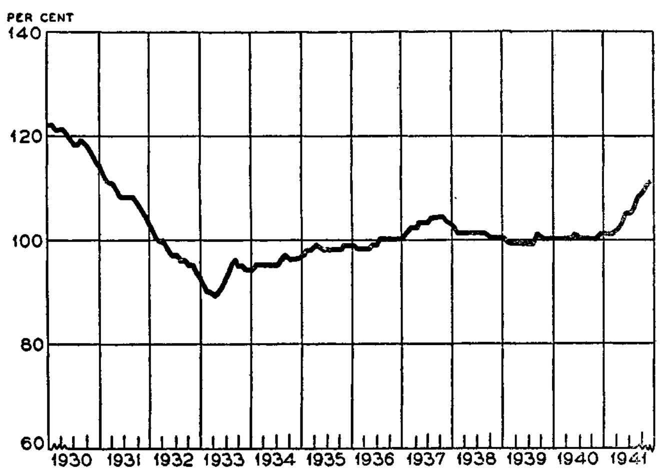
p Preliminary. * Adjusted for seasonal variation. These series have been revised and the base period changed from 1919-25 = 100 to 1935-39 = 100. Tabulations of back data available upon request.

Commodity Prices

Influenced by the exceptions made in favor of farm prices in the price control bill (signed by the President on January 30), and to some extent by upward revisions in ceiling prices for certain commodities, quotations in wholesale commodity markets rose further during January. The Bureau of Labor statistics comprehensive weekly index of wholesale prices advanced about 2 per cent between December 27 and January 17, to a new high since 1929, and remained close to that level in the following week. Farm prices showed an average increase of 5 per cent during the four weeks ended January 24, but moved lower after the Secretary of Agriculture's statement on January 28 concerning the desirability of holding near to parity the prices of commodities in large supply.

One of the most striking advances of the month occurred in the price of spot cotton. The average price at 10 Southern markets rose 2⅓ cents between December 31 and January 27 to 20.11 cents a pound, the highest in over 12 years, but subsequently declined to 19.25 cents on January 31. Higher ceiling prices were established by the Office of Price Administration during the month for certain types of cotton yarn and gray goods needed by the Army, for raw wool, wool tops and yarn, and wool floor coverings. In announcing larger 1942 goals for farm output, the Department of Agriculture guaranteed farmers minimum prices to stimulate production, especially of oil-bearing crops. No restrictions were placed on cane and beet sugar acreage and the ceilings on both raw and refined sugar were raised. Allotment of sugar to wholesalers, jobbers, and industrial users in February will be at 80 per cent of the February, 1941 level.

Prices of some nonagricultural materials were also raised during January with the consent of the Office of Price Administration. In order to stimulate increased output in 1942, a ceiling was placed on primary lead at 6.50 cents a pound in New York, as compared with the voluntary agreement of 5.85 cents established last spring. The Metals Reserve Company will pay an additional 5 cents a pound in the case of copper, and 2¾ cents more than the ceiling price in the case of lead and zinc, for production of these materials in excess of the 1941 volume. Upward adjustments in prices of some petroleum products were permitted during January to compensate for the added expense involved in rail transportation. Bunker fuel oil, used tires and tire retreading material, slab zinc, and new machine tools were among the articles placed under ceiling prices during the month.



Cost of Living in the United States (Bureau of Labor Statistics data; monthly figures prior to September, 1940, obtained by interpolation)

The accompanying chart, based upon the Bureau of Labor Statistics index, indicates a rise of 10 per cent in the cost of living during 1941, to the highest level in over 10 years. During the first half of the year food prices were the dominating factor in advancing living costs, accounting for about three fourths of the rise in the composite index. During the second half, rising prices for other items, particularly clothing and housefurnishings, contributed to a much larger extent to the advance.

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

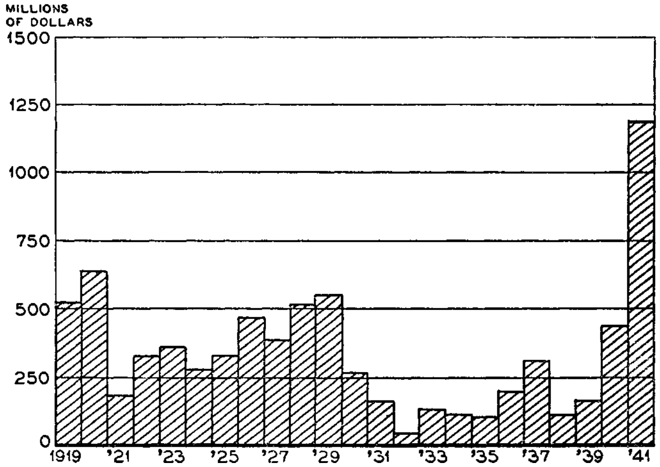
	Index January 24, 1942 (1926 = 100)	Percentage change Jan. 24, 1942 compared with	
		Dec. 27, 1941	Aug. 26, 1939
Farm products	100.3	+5.0	+64.2
Foods	93.6	+2.6	+40.3
Textile products	92.7	+1.3	+37.5
Chemicals and allied products	96.5	+5.2	+30.1
Hides and leather products	115.7	+0.1	+24.9
Building materials	109.5	+1.3	+22.1
Housefurnishing goods	102.7	+0.4	+18.0
Metals and metal products	103.6	+0.2	+10.8
Fuel and lighting materials	78.9	—0.1	+ 7.8
Miscellaneous	88.1	+0.8	+20.5
All commodities	95.5	+1.8	+27.7
Raw materials	95.5	+3.2	+44.3
Semimanufactured articles	91.8	+1.8	+23.4
Manufactured products	96.3	+1.2	+21.4

Building

The daily rate at which contracts were awarded for construction purposes in the 37 Eastern States covered in the monthly report of the F. W. Dodge Corporation declined further during December, and was slightly below the figure for December, 1940.

Despite the sharp decline which occurred during the last four months of the year, the total volume of contracts awarded in 1941 was 50 per cent greater than in 1940 and only 9 per cent below the record high of 1928. Public expenditures for defense construction, the primary factor in the large rise over 1940, accounted for almost 40 per cent of all contracts awarded during the year. Nondefense public construction showed little change between 1940 and 1941, and awards for private construction were up 14 per cent.

Of the major types of construction, by far the sharpest increase was in industrial building. As indicated in the accompanying chart, awards of this class in the 37 States reached a total of $1,200,000,000 during 1941, more than



Contracts Awarded in 37 States for Industrial Building (F. W. Dodge Corporation data)

two and one half times as great as in 1940, seven times the average for the 1930-39 decade, and about double the peak years of the twenties. Over half of the industrial building contracts awarded in the 37 States during 1941 were for defense plants owned and financed by the Federal Government. Contracts for manufacturing buildings in the automobile and aircraft, chemical, iron and steel, and metal working industries accounted for more than 50 per cent of the year's aggregate. In 1940 these groups made up about one third of the total, and in 1939 less than one quarter.

In New York State and Northern New Jersey, where the effect of the defense program has not been so marked as in some other regions, the volume of construction awards increased about 25 per cent between 1940 and 1941. Contracts awarded for residential building and also for heavy engineering construction remained at about the 1940 levels, but awards for nonresidential building rose by about two thirds, owing primarily to the construction and expansion of industrial buildings to handle defense production. During the year the largest relative increases for this district occurred in the Upstate New York area rather than in the Metropolitan New York and Northern New Jersey region.

Employment and Payrolls

There was a slight gain between November and December in employment at New York State factories, as increases in working forces of war industries offset seasonal losses in many other lines. Payrolls rose 4 per cent during the month, presumably reflecting in part lengthening working hours. Large employment gains were almost entirely restricted to plants producing firearms, tanks, airplanes, ships, and other war materials. Canneries laid off workers owing to seasonal curtailment of operations, as did all branches of the apparel industry except women's coat, suit, and dress firms. Factory employment as a whole was 22½ per cent above the December, 1940 level, and payrolls were 45½ per cent greater.

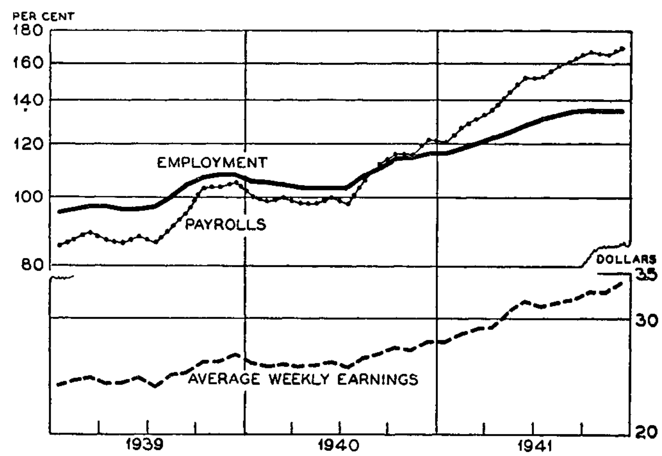
According to the New York State Department of Labor, payrolls increased in all industrial areas of the State during December, and Buffalo was the only locality to report a net loss in employment. In the Utica, Rochester, and Albany-Schenectady-Troy areas in particular, working forces expanded in line with growing production in war industries. All industrial districts reported sizable gains in both employment and payrolls from the preceding December.

New York State Employment by Industrial Areas

	Percentage change, Dec., 1941 compared with	
	Dec., 1940	August, 1939
Albany—Schenectady—Troy	+36	+85
Utica	+29	+64
Rochester	+22	+33
Buffalo	+22	+78
Syracuse	+22	+84
New York City	+18	+37
Binghamton—Endicott—Johnson City	+11	+15
New York State	+22	+51

Factory employment in the United States as a whole decreased slightly further during December, but payrolls rose 3 per cent in the same period, reflecting an even greater increase in average weekly earnings. Although working forces at plants producing war materials continued to expand, these gains were offset by seasonal layoffs in many industries, and by drastic curtailment in the number of workers employed at automobile factories and other consumers' durable goods plants. Compared with December, 1940, manufacturing employment was 15 per cent greater and payrolls were 39 per cent larger. For 1941 as a whole, there was an increase in average working forces of 19 per cent over 1940, and wage payments for the year rose 41 per cent above the previous year's level.

As shown in the accompanying chart, the rise in factory payrolls has reflected increases in both employment and average weekly earnings. Between the outbreak of war in Europe and July, 1940, at the start of the National defense program, gains in both factors were comparatively small and payrolls rose less than 8



Indexes of Factory Employment and Payrolls in the United States, and Average Weekly Earnings of Factory Workers (Bureau of Labor Statistics data plotted on ratio scale; base period of indexes is 1923-1925 average)

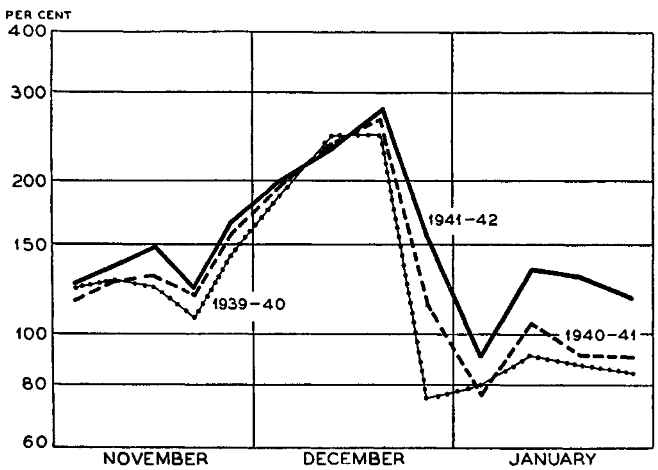
per cent. However, in line with the acceleration of production, working forces were increased 30 per cent between the inception of the defense program and our entry into the war, and weekly earnings rose even more rapidly, with the result that factory payrolls in December were almost three-quarters larger than in July, 1940. In recent months the advance in employment has been checked, while weekly earnings, which reflect lengthening working hours and rising wage rates and overtime payments, have tended to continue upwards.

The number of workers engaged in all civil nonagricultural occupations rose 200,000 during December to a total of approximately 41,000,000 persons, according to the Bureau of Labor Statistics. The gain was largely due to seasonal additions to working forces in wholesale and retail trade establishments and in the number of civilian Government employees, which were partially offset by smaller than usual declines in manufacturing and construction employment. During the year 1941, nonagricultural working forces are estimated to have increased by approximately 2,800,000 persons.

According to the United States Bureau of Labor Statistics estimates, employees in civil nonagricultural pursuits in New York State totaled 4,280,000 in December, a gain of 40,000 from November, and of 270,000 from December, 1940. These figures do not include employers, casual workers, or domestic servants, estimates for which are included in the total for the country as a whole.

Department Store Trade

During January, sales of the reporting department stores in this District showed unusually large percentage gains over last year, as actual or threatened shortages of certain articles, together with the prospect of higher prices, resulted in a heavy buying wave that affected many lines of goods, including blankets, sheets, pillow cases, drugs, housefurnishings, rubber goods, hosiery, and men's clothing. For the three weeks ended January 24, sales of the reporting department stores were about 33 per cent higher than in the corresponding 1941 period,



Weekly Sales of Reporting Department Stores in the Second Federal Reserve District, not Adjusted for Seasonal Variation (1935-1939 average=100 per cent; data plotted on ratio scale)

and average daily sales for this portion of January declined considerably less than usual from the December level. As indicated in the accompanying chart, sales during January this year were substantially higher than in either January, 1940 or 1941, and represented much larger year-to-year gains than in either of the two previous months.

In December, sales of the reporting department stores in this District were 10 per cent higher than in December, 1940, but the daily rate of sales failed to show quite all of the usual large seasonal gain over the November level. Substantial year-to-year gains during December were reported in sales of domestics, sheetings, towels, major household appliances, radios, and groceries and meat.

For the year 1941, sales of the reporting department stores in this District were 13 per cent higher than for the year 1940, compared with an increase of 5 per cent between 1939 and 1940.

Retail stocks of merchandise on hand in the department stores at the end of December continued substantially higher than a year previous, although the decline from November was somewhat more than usually occurs. Returns from a limited number of department stores in this District indicate that outstanding orders for merchandise puchased by the stores, but not yet delivered, were about 63 per cent higher than at the end of December, 1940, a larger increase over a year previous than in October or November.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month December, 1941
	December, 1941	Jan. through Dec., 1941	
New York City	+ 7	+10	+27
Northern New Jersey	+12	+13	+32
Newark	+11	+12	+32
Westchester and Fairfield Counties	+13	+20	+25
Bridgeport	+17	+25	+34
Lower Hudson River Valley	+13	+12	+29
Poughkeepsie	+15	+14	....
Upper Hudson River Valley	+16	+18	+35
Albany	+12	+14	....
Central New York State	+25	+23	+41
Mohawk River Valley	+39	+30	+42
Syracuse	+20	+21	+41
Northern New York State	+17	+12	....
Southern New York State	+20	+23	+25
Binghamton	+18	+24	....
Elmira	+35	+34	....
Western New York State	+19	+20	+31
Buffalo	+20	+24	+37
Niagara Falls	+31	+19	+27
Rochester	+16	+16	+25
All department stores	+10	+13	+29
Apparel stores	+ 5	+ 9	+24

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

	1940	1941		
	Dec.	Oct.	Nov.	Dec.
Sales (average daily), unadjusted	184	112	130	194
Sales (average daily), seasonally adjusted	102	98	109	107
Stocks, unadjusted	86r	128	132	105
Stocks, seasonally adjusted	88r	113	111	107

r Revised.

MONTHLY REVIEW

of Credit and Business Conditions

Federal Reserve Bank of New York

February 1, 1942

The Quickest, Surest Way You Can Help Win This War

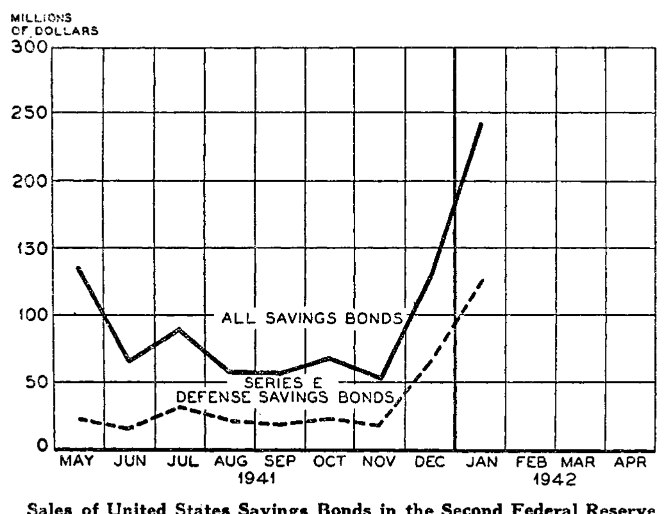
Buy* Defense Bonds and Stamps *Now!

United States Savings Bonds

The large increase in the volume of sales of United States Savings Bonds, which began immediately after the Pearl Harbor attack, gained further impetus in January. Sales of Series E Defense Savings Bonds for the period January 1-29 in the Second Federal Reserve District totaled $126,200,000, as compared with sales of $65,400,000 in December, which indicates a rate of sales for the month as a whole at least double the expanded volume of December, and many times the volume in months prior to December. These data include sales reported by all qualified issuing agencies other than post offices, and sales by the Federal Reserve Bank. As a rough indication of the number of individuals in this District who participated during January in the Defense Savings Bond program, there were 1,103,454 Series E bonds issued by these agents during the first 29 days of January; in some cases, of course, more than one bond was issued to one individual. Of this total, 441,827 bonds of the $25 maturity value denomination were issued, 210,584 of the $50 denomination, 295,973 of the $100 denomination, 75,004 of the $500 denomination, and 80,066 of the $1,000 denomination.

It should not be forecast that the January rate of sales will be maintained in February and immediately following months, as many of the larger subscribers purchased in January the maximum amounts they are permitted to buy during the year. Nevertheless, the numerous additions to the list of companies in which payroll savings plans are maintained, to regularize purchases of Savings Bonds, suggests the continuance in future months of a high rate of sales, which will gain further momentum as sales efforts are intensified.

Sales of Series F and G Savings Bonds also increased greatly in January to an aggregate for the two series of $115,300,000 for the first 29 days of the month, as compared with a total of $63,500,000 for December, and $112,100,000 for May, 1941—the previous record month, when these issues first went on sale. The total of sales of the F and G series of bonds was probably more affected, than was the total of sales of the Series E Defense Savings Bonds, by purchases made in the first month of the year of the whole amount of an issue which may be acquired in any one calendar year by one individual or account.

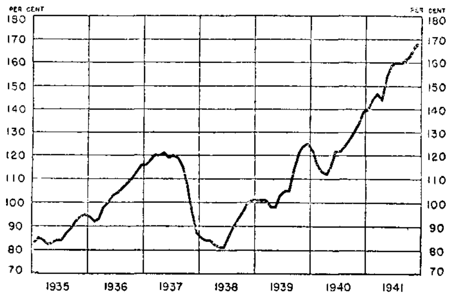


Sales of United States Savings Bonds in the Second Federal Reserve District by All Agencies, Excluding Post Offices (Data for January, 1942 are for first 29 days of the month)

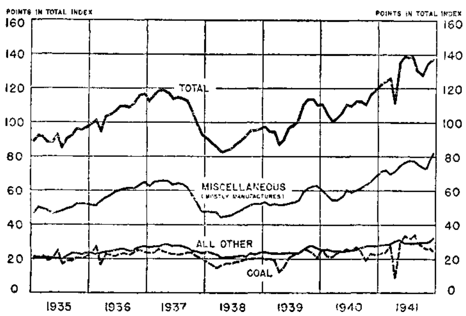
For the country as a whole, the daily statement of the United States Treasury showed $908,000,000 of receipts from the sale of United States Savings Bonds of all issues during the first 27 days of January. Receipts from this source for the month of December were $536,000,000. Sales of Series F and G bonds are usually heavy during the closing days of the month, and such sales, together with further sales of Series E bonds, seem to assure a total volume of Savings Bonds of all types of more than $1,000,000,000 for the month of January.

Because of the large increase in Savings Bond sales, it has become desirable, so far as practicable, to decentralize the work of issuing Defense Savings Bonds and thereby facilitate prompt delivery to purchasers. The Federal Reserve Bank of New York, as Fiscal Agent of the United States, acting under authorization of the Secretary of the Treasury, will now receive applications from corporations, and from the chief fiscal officer of any State or of any county or municipality, which have payroll savings plans in operation, for designation as issuing agents for the sale of Series E Defense Savings Bonds. Considering the probable volume of sales of bonds, it is believed that, for the time being, such designation is warranted only for applicants having approximately 1,000 employees or more. Issuing agents so designated may sell bonds not only to employees participating in payroll savings plans, but also to the general public and to employees making intermittent purchases. Upon request, this bank will furnish complete information to any eligible corporation, State, county, or municipality which may wish to consider applying for designation as issuing agent for the sale of Defense Savings Bonds.

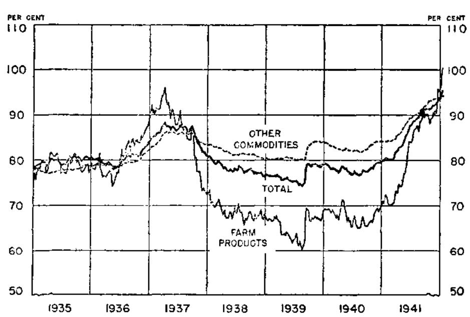
THE RISE in the volume of currency held by the public to a larger volume than ever before—an amount apparently in excess of that required for carrying on the trade of the country—suggests that there is a substantial amount of dollars being held in hoards by the public that could, with advantage to the holders and to the country, be invested in Defense Savings Bonds. Now that the country is at war all resources should be offered to the service of the country. Patriotism demands that idle currency should be put to work. Money held in hoards outside the banking system represents a wasted resource, at a time when all resources are needed to promote the war effort. The individual holding idle currency can help in winning the war, with benefit to himself, by investing such currency in Defense Savings Bonds.



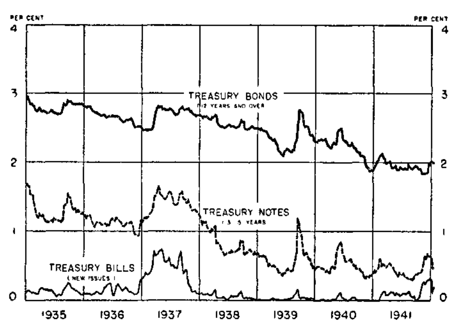
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



Index of Total Loadings of Revenue Freight, Adjusted for Seasonal Variation (1935-39 average=100 per cent; miscellaneous, coal, and all other car loadings expressed in terms of points in total index)



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



Money Rates in New York City

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity declined less than seasonally in December and the first half of January, retail trade continued in large volume, and prices of many commodities rose further.

Production

In December total volume of industrial output declined less than is usual at this season and the Board's adjusted index rose further to 168 per cent of the 1935-1939 average. In the armament industries output continued to advance and at machinery plants activity rose sharply, following little change in November. Output of materials, such as iron and steel and nonferrous metals, continued at peak levels and lumber production showed less than the usual seasonal decrease. Automobile production declined sharply in the latter half of December, following announcement of sharp reductions in passenger car quotas, but early in January quotas for that month were increased and output rose considerably. Sales of new automobiles to civilians were halted at the beginning of January pending the establishment of a rationing system.

Textile production declined somewhat in December owing to a reduction in activity at cotton mills from the record level reached in November. Output of wool and rayon textiles was sustained at about capacity. Output of manufactured food products and shoe production showed about the customary seasonal declines. Coal output decreased somewhat in December, while petroleum production and mining of nonferrous metals were maintained at the high November rate.

Value of construction contracts awarded in December declined less than is usual at this time of year, according to figures of the F. W. Dodge Corporation. Awards for public projects showed little change, while those for residential construction declined less than seasonally following a considerable reduction in November.

Distribution

Volume of retail trade, which had been large during most of the autumn, increased less than seasonally in December. This reflected to some extent a temporary slackening in sales around the middle of the month following this country's entry into the war. In the first half of January sales at department stores showed less than the customary sharp reduction from the Christmas buying peak and were at a level substantially higher in comparison with a year ago than that prevailing in other recent months.

Freight car loadings of most products decreased by less than the customary seasonal amount in December. Coal shipments declined considerably in the latter part of the month but then increased sharply in the first half of January. Shipments of miscellaneous freight, which includes most manufactured products, were maintained in large volume for this season of the year.

Commodity Prices

Wholesale commodity prices increased sharply when this country entered the war early in December and then showed little change during the latter half of the month. In the first half of January prices again advanced, the principal increases being in agricultural commodities and chemicals.

Federal action to impose maximum prices was accelerated with the outbreak of war and applied on a wider scale to industrial products. Ceilings were extended to products in later stages of production and distribution and in most instances covered consumers' goods. Certain of the actions, like those relating to rubber and wool products, were associated with new Federal production restrictions. In this period also there were advances in a number of price ceilings established earlier.

Bank Credit

Total loans and investments of banks in leading cities, which had advanced sharply during the first half of December, have subsequently shown little further change.

Treasury financing in the middle of December and heavy currency withdrawals during the holiday season absorbed close to 700 million dollars of excess reserves during the month. About 500 million of this was recovered in the first half of January, as the result of a decline in Treasury deposits at the Reserve Banks and a return of currency from circulation. Recent changes in excess reserves have been almost entirely at banks outside New York City.

United States Government Security Prices

Prices of Government securities were steady in the first half of January, following a decline in December after the entry of the United States into the war.