MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

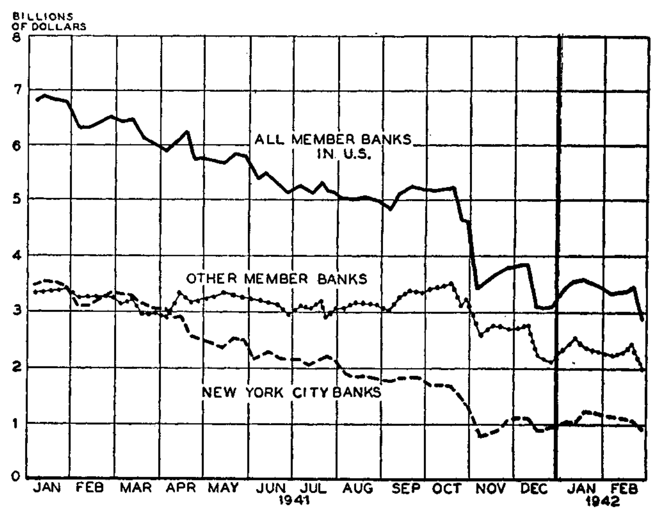
Money Market in February

The aggregate reserve position of all member banks in the country underwent no important changes during the first three weeks of February, but in the succeeding week there was a decline of $580,000,000, which reduced excess reserves to $2,880,000,000, the lowest figure since September, 1938. This decline was chiefly the result of large payments made into the Treasury accounts at the Reserve Banks for the new $1,500,000,000 issue of 2¼ per cent Treasury bonds of 1952-55, offered on February 13, for which payment was due by February 25.

By the usual terms of the offering, the Treasury bonds could be paid for by subscribing banks either immediately in cash, or by the establishment of credits on the books of the banks in favor of the Treasury. To the extent of 47 per cent of the total, the February issue of Treasury bonds was paid by "book credit," as compared with 43 per cent of the December issue paid for in this manner. Second District member banks, whose excess reserves are smaller in proportion to their reserve requirements than those of other groups of banks, availed themselves of the book credit method of payment to the extent of 55 per cent of the securities allotted in the District, the same percentage as in the case of the December Treasury issue. Banks in other districts, in the aggregate, paid for 39 per cent of the allotments there by the use of book credit, as compared with 32 per cent in December.

Although Treasury deposits in the Reserve Banks on February 25 were relatively high because of the freshly received proceeds of the new Treasury bond issue, and therefore member bank reserves were correspondingly low, this condition does not explain the lower total of excess reserves that was reached on February 25 than on December 17, immediately after the payment date for the last previous Treasury financing operation. As a matter of fact, Treasury deposits in the Reserve Banks and cash holdings on February 25 were about $130,000,000 less than on December 17, and, except for other factors, excess reserves of member banks would have been correspondingly higher. The lower level of excess reserves on February 25 than on December 17 is to be explained primarily by the persistent rise in the volume of currency in circulation, which for the period from December 17 to February 25 amounted to $400,000,000, and, secondly, by an increase of $235,000,000 in the required reserves of the member banks. These factors, and other factors absorbing comparatively small amounts of reserve funds, considerably exceeded the aforementioned net disbursements by the Treasury for the period, as well as a reduction of $205,000,000 in foreign deposits in the Reserve Banks, a reduction of $133,000,000 in other nonmember deposits, and other smaller factors tending to add to bank reserves.

Following an increase from $890,000,000 on December 17 to $1,210,000,000 on January 21, excess reserves of the New York City banks declined to $1,050,000,000 by February 18, and in the week ended February 25 were reduced to $885,000,000, or virtually the same amount as on December 17, as contrasted with a net reduction of $205,000,000 in excess reserves of member banks in other parts of the country between December 17 and February 25. Thus, while excess reserves for the country as a whole dropped to a new low since September, 1938 on February 25, excess reserves in New York City remained about $110,000,000 above the low point reached last November, just after the increase in reserve requirement percentages became effective. The excess reserve position of the New York City banks has been maintained by net gains of funds through Government disbursements, foreign account and gold trans-



Excess Reserves Held by Member Banks

actions, Federal Reserve security purchases, and miscellaneous gains, which have counterbalanced losses of reserves through a reduction in out-of-town bank balances in New York, an outflow of commercial funds, and an increase in currency outstanding, as well as a moderate increase in the required reserves of the New York City banks.

The cash payments for the new issue of Treasury bonds on February 25 raised Treasury deposits in the Federal Reserve Banks to about $800,000,000, but it is to be expected that these deposits will be considerably reduced by heavy Government expenditures for war purposes—and member bank reserves correspondingly increased—in the period before the peak period for March income tax collections is reached at the middle of the month. The present indications are that the effect on member bank reserves of the heavy volume of income tax collections expected for March will be mitigated to a large extent by the use by a number of taxpayers of tax anticipation notes previously acquired to pay income taxes, and by Treasury disbursements for interest on the public debt, the redemption of outstanding Treasury bills maturing around the tax date, and by the continued high rate of war expenditures. Consequently, the indications now are that the quarterly tax period will impose no heavy strain on the money market.

Member Bank Credit

Reflecting expansion of both commercial loans and Government security holdings, the total loans and investments of the weekly reporting member banks in New York City rose $309,000,000 during the five weeks ended February 25, to reach a new high figure $144,000,000 above the October high. The volume of commercial and industrial loans, which had declined slightly at the end of 1941, and recovered part of this decline in the first part of January, showed a further increase of $135,000,000 in the five weeks ended February 25. On that date, such loans by the New York City banks were $745,000,000 greater than a year ago.

The total amount of United States Government securities held by the New York City reporting banks showed a net increase of $165,000,000 for the five week period ended February 25, which was the net result of an increase of $200,000,000 in Treasury bond holdings and a rise of $29,000,000 in holdings of Government guaranteed securities, partly offset by a decline of $50,000,000 in Treasury note holdings and a decrease of $14,000,000 in Treasury bill holdings. Virtually all ($188,000,000) of the increase in Treasury bond holdings, occurred in the week ended February 25 when the new 2¼ per cent Treasury bonds of 1952-55 were issued.

United States Government deposits in New York City reporting banks, after having been reduced by repayments of such deposits to $595,000,000 on February 18, from $819,000,000 on January 21, rose to $833,000,000 on February 25, reflecting book credits established for the new Treasury bond issue. Adjusted demand deposits of New York City banks were maintained in February at a higher level than in January, but remained some $900,000,000 below the 1941 peak.

Reporting banks in other leading cities likewise showed a renewed increase in commercial loans, and also a further rise in United States Government security holdings during the five weeks ended February 25. The Treasury bond holdings of these banks rose $302,000,000, of which $238,000,000 occurred in the week ended February 25, and Treasury bill holdings rose by a net amount of $73,000,000. Total loans and investments of these banks rose by $423,000,000 during the five weeks.

Money Rates in New York

	Feb. 28, 1941	Jan. 31, 1942	Feb. 28, 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	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)	0.55	0.49	0.45
Average yield on taxable Treasury notes (3-5 years)	0.83	0.94	0.94
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.16	2.10	2.15
Average yield on taxable Treasury bonds (not callable within 12 years)	—	2.37	2.39
Average rate on latest Treasury bill sale 91 day issue	0.043	0.231	0.266
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

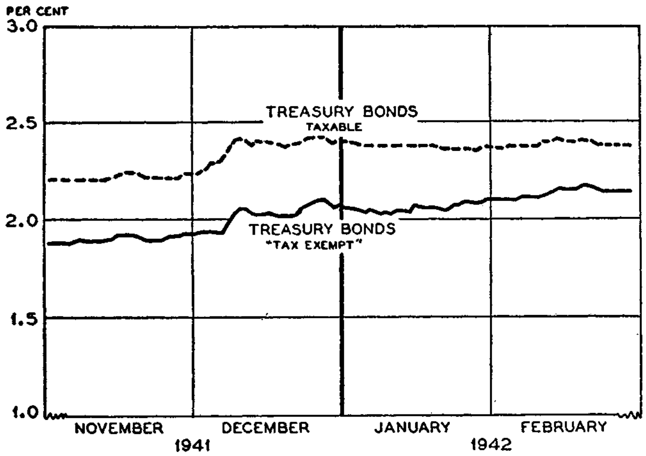
* Nominal.

Government Securities

During most of February prices of long term Treasury bonds in general continued the tendencies which appeared in January—a decline in prices of "tax exempt" issues and steadiness in taxable issues. Thus, the average yield on long term partially tax exempt Treasury bonds, having moved up irregularly from 2.03 per cent on January 10 to 2.10 on January 31, rose to 2.18 per cent on February 18, the highest level reached in 11 months. As a result of firming prices later in February, however, the net rise in yield for the month as a whole was reduced to 0.05 per cent.

The average yield on long term taxable Treasury bonds, on the other hand, fluctuated within a narrow range during February, as a slight increase around the middle of the month was virtually erased subsequently. Little change in yields was recorded for the month as a whole. The accompanying chart shows the narrowing of the spread between the average yields on long term partially tax exempt and taxable Treasury bonds during the last two months. The spread, which was 0.33 per cent at the end of 1941, was only 0.24 per cent at the end of February.

Among the intermediate term Treasury bonds, yields of both the partially tax exempt and the taxable issues showed increases during February. Market action of the taxable issues in this group was affected by the Treasury offering for cash subscription on February 13 of $1,500,000,000 of taxable 2¼ per cent Treasury bonds of 1952-55 dated February 25. In its preferential treatment of small investors and restrictions, aimed at checking excessive subscriptions, the terms of the new offering were identical with those for the December, 1941 issue of Treasury bonds. Despite the concomitance of unfavor-



Average Yields on Long Term Treasury Bonds (United States Treasury Department data)

able war news, the offering was oversubscribed more than three times, allotments being 32 per cent of subscriptions. Subscriptions in amounts up to $5,000 for registered bonds deliverable 90 days after issuance were allotted in full. The new 2¼ per cent bonds were quoted February 14 at 100 22/32 bid on a "when issued" basis, and showed no net change at the end of the month.

The average yield on three to five year taxable Treasury notes, at 0.94 per cent on February 28, showed little change for the month. The yield on the tax exempt ¾ per cent Treasury note due March 15, 1945 declined from 0.49 per cent on January 31 to 0.43 per cent on February 6 and moved narrowly thereafter.

Accepted bids on the four weekly issues of Treasury bills during February were tendered on average interest bases increasing from 0.220 per cent on the February 4 issue to 0.266 per cent on the February 25 issue. Each of the four issues was in the amount of $150,000,000, the first two issues replacing similar maturities. Maturities on February 18 and 25 were in the amount of $200,000,000. All four Treasury bill issues in February were of 91 day maturity.

Borrowing to Pay Income Taxes

With the approach of the date—March 16—when the first quarterly payment of the Federal income tax on 1941 income is due, there has been growing realization of the large increase in tax liabilities of individuals and corporations that occurred in 1941 by reason of the changes made in Federal income tax rates and other income tax provisions by the Revenue Act of 1941. Ideally, provision for income taxes payable in the following year should be made at the time the income is received, and it was in order to facilitate this procedure that the Treasury began, in August, 1941, the sale of Treasury notes of the tax series which could be purchased out of income, as received, and hence used to accumulate funds which could be used to pay income taxes in the following year. A large amount of such notes was purchased in 1941, the total purchased reaching approximately $2,471,000,000 by the end of the year. The indications, however, are that most of the notes were purchased by corporations, and only a relatively small amount by individuals.

The over-all extent to which taxpayers made adjustments in their financial affairs last year to provide for the taxes payable on their 1941 incomes is, of course, not known. But it would not be in accord with one of the purposes of increased taxation during the war period for taxpayers generally to borrow from banks in order to provide funds to make tax payments, nor would it be in the best interests of the taxpayers, inasmuch as taxes on their incomes for 1942 and subsequent war years are expected to be still heavier. Aside from the Government's need for tax receipts to meet war expenditures, the increase in taxes enacted by the Congress last year and the probable further increase this year are aimed at reducing the volume of income which remains at the disposal of consumers for the purchase of consumers' goods, the production of which necessarily must be curtailed because of diversion of plants, materials, and labor to war purposes. To have the volume of purchasing power that is absorbed by increased taxes replaced on any general scale by extension of bank credit through individuals' borrowing at banks would be to defeat one of the purposes of higher income taxes. Therefore, it would appear that bank loans to individuals for the purpose of providing funds to make income tax payments should be limited to a role of aiding in the transition to a period of higher taxation, where there are special circumstances involved, and should not be of such scope as to encourage avoidance or postponement of a desired result of higher taxation, which is curtailed buying power of consumers.

Borrowing from banks by some business concerns to meet tax payments may be unavoidable at this time, because of the necessary utilization for working capital purposes of cash realized from operations in 1941 and preceding years. Funds obtained through such borrowing would not have the same effect as borrowing by individuals for the purpose of paying income taxes, but in general would represent merely a postponement of borrowing for working capital purposes by the temporary use of tax reserves.

Amendment of Regulation D—Reserves of Member Banks

The following statement was released by the Board of Governors for publication on February 21, 1942:

> Under Regulation D of the Board of Governors of the Federal Reserve System, deficiencies in reserve balances of member banks in cities where Federal Reserve Banks or branches thereof are located and in a few other reserve cities are at present computed on the basis of average daily net deposit balances covering semiweekly periods. Such computations by member banks in other reserve cities are made on a weekly basis.
>
> The Board has amended Regulation D, effective with the reserve computation period beginning February 28, 1942, so as to provide that member banks in all central reserve and reserve cities shall make such computations on a weekly basis.

This change places banks in all these cities, including those in which Federal Reserve Banks or branches are located, on the same basis in this respect and has been made for the convenience of member banks in these cities in adjusting their reserve positions.

Country banks, i.e., those located outside of central reserve or reserve cities, will continue as heretofore to compute deficiencies in reserve balances on a semimonthly basis.

Member Bank Operating Ratios for 1941

The annual compilation of operating ratios of member banks in the Second Federal Reserve District for 1941 has been completed and will soon be ready for distribution. These data, as presented in the circular, will show the average earning and expense ratios, and other banking ratios, of member banks in various groupings according to amount of deposits and the proportion of total assets in the form of loans. The following table gives a number of the more important average ratios for all banks in this District.

Average Operating Ratios of All Member Banks in the Second Federal Reserve District

	1939	1940	1941
Number of Banks..	745	744	772
Percentage of Total Capital Accounts			
Net current earnings	7.1	6.8	7.1
Net profits	4.0	4.3	5.5
Cash dividends declared	1.9	1.9	1.9
Percentage of Total Assets			
Total earnings	3.5	3.3	3.3
Total expenses	2.6	2.4	2.4
Net current earnings	0.9	0.9	0.9
Percentage of Total Earnings			
Interest and discount on loans	47.2	50.8	52.7
Interest and dividends on securities	36.6	32.8	31.1
Service charges on deposit accounts	6.3	6.9	7.2
All other earnings	9.9	9.5	9.0
Total earnings	100.0	100.0	100.0
Salaries and wages	28.7	29.8	30.5
Interest on time deposits	19.8	18.2	16.2
Taxes other than real estate	2.1	3.0	3.5
All other expenses	23.8	24.3	24.2
Total expenses	74.4	75.3	74.4
Net current earnings	25.6	24.7	25.6
Net charge-offs	9.5	8.3	5.1
Net profits	16.1	16.4	20.5

The average percentage of net profits to capital funds of Second District member banks increased in 1941 to 5.5 per cent from 4.3 per cent in 1940 and 4.0 per cent in 1939. The improvement in net profits was chiefly the result of a smaller percentage of losses and depreciation of assets, together with an increase in the amount of income derived from loans. The largest gains in net profits occurred at small and medium sized banks; the New York City and other large banks in the District had only small increases in profits in 1941. Dividend payments to stockholders were not increased, so that a somewhat larger proportion of bank profits was added to capital accounts.

New Financing

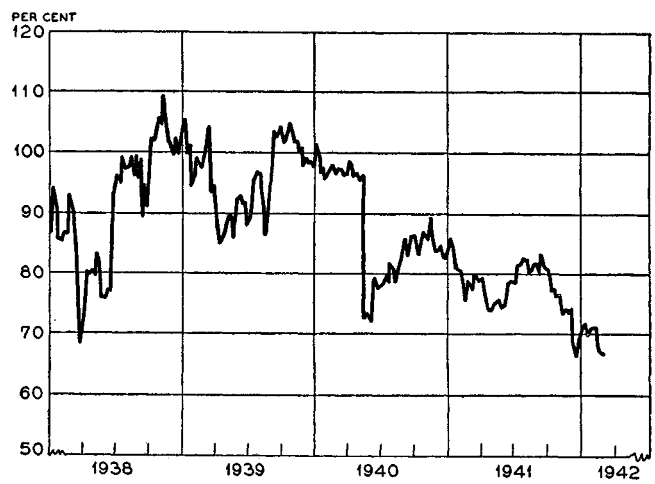
Owing to sharp declines during February in the volume of both corporate and municipal financing, the combined total of new financing, at $87,000,000, was the smallest for any month in more than four years. Total corporate flotations, comprising $27,000,000 for new capital and $18,000,000 for refunding purposes, were at the lowest level since January, 1939. Two sizable issues, $15,000,000 Schenley Distillers Corporation debentures and $29,000,000 City of Detroit bonds, originally scheduled for offering during the month, were postponed.

The principal corporate financing was the offering of $25,000,000 Panhandle Eastern Pipe Line Company bonds and preferred stock. Of the proceeds from this sale, $15,000,000 is to be used for new capital purposes. The largest long term municipal award was that of $7,200,000 Milwaukee County, Wisconsin, relief bonds. Temporary financing, not included in the $87,000,000 total, amounted to $90,100,000 and included $30,000,000 Federal Intermediate Credit Bank and $26,000,000 Federal Home Loan Bank debentures.

Among the issues indicated for the near future are: $35,900,000 Pennsylvania Electric Company bonds and preferred stock, scheduled to be publicly offered on March 4; 150,000 shares of convertible preferred stock of National Distillers Products Corporation; and $5,600,000 Southern Pacific Company equipment trust certificates.

Security Markets

Unfavorable reports from the Far Eastern battlefronts served to depress stock prices during much of February. The Standard 90 stock price index, after moving up slightly in the first three trading sessions of the month, dropped almost 6 per cent between February 4 and 25 to erase practically all of the gains made since the 1941 low was reached late in December. Trading during the



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

month was desultory, the volume of shares traded falling to the lowest daily rate since August, 1940.

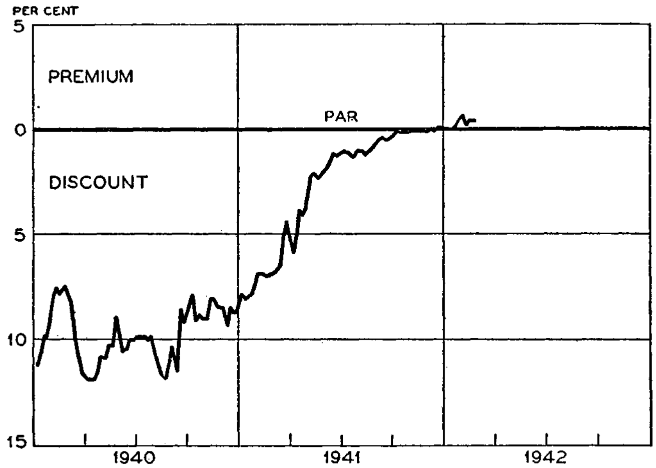
The accompanying chart relates recent stock price movements to those during 1938-41. The 90 stock index is now at about the same level as prevailed after the German absorption of Austria in March, 1938 and is 38 per cent below the peak of the recovery movement which followed the Munich agreement in September, 1938. During the entire period of actual hostilities (save for a few weeks after the outbreak of war) share prices have been in an irregular downtrend, relieved by only occasional and relatively unimportant upward reactions. Aside from the influences of the conflict itself, stock prices during the war period have been under pressure as a result of a generally more conservative appraisal of stock values, which has reflected increases in corporate taxes and other business expenses and a consequent expectation that business profits would be relatively restricted. These factors have apparently outweighed the supporting effect, which, in times past, a sustained, high level of business activity usually has had on the stock market. The net decline in the 90 stock index between the end of 1939 and the end of 1940 amounted to 15 per cent. Last year the net decline was 18 per cent.

Prices of domestic corporation bonds declined slightly in February. During the latter half of the month the average price of high grade corporate bonds, those rated Aaa by Moody's Investors Service, moved slightly below the 1941 low to the lowest level since August, 1940. For the month as a whole the Aaa bonds were off about 3/8 of a point. Meanwhile, the medium grade corporate bonds, as measured by Moody's index of Baa bonds, fluctuated within a narrow range and ended the month of February with a net loss of about half a point. At this level the Baa index was about 7/8 of a point below the 1941 high.

Concern regarding the tax status of outstanding, as well as future, issues of municipal bonds continued to affect quotations for this type of security during February. Standard's average yield on prime municipal bonds moved up from 2.28 per cent on January 21 to 2.63 per cent (highest since June, 1940) on February 18; subsequently it receded to 2.58 per cent on February 25.

Foreign Exchanges

The outstanding foreign exchange development during February was the continued brisk demand for the Cuban peso, which by February 6 had reached a premium of about 7/8 per cent in terms of the United States dollar. The strength of the peso appears to have been associated largely with the expansion of Cuba's foreign trade (due primarily to the wartime demands for sugar) and with the prospect of Export-Import Bank credits to Cuba. In connection with the grinding of the largest Cuban sugar crop in several years, Cuba's need of currency with which to meet payrolls and certain other obligations has had to be met by the importation of United States currency, which is also legal tender in Cuba. The recent



Discount or Premium on Cuban Peso in Terms of United States Dollar

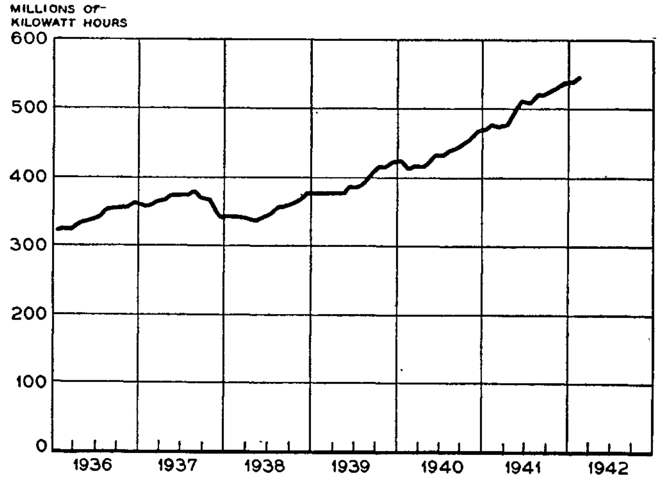
development of a premium on the peso has been promoted by the increased cost of importing United States currency into Cuba under wartime conditions, this cost having risen to a level corresponding closely to the high of the peso premium reached on February 6. Since that time, the demand for the peso has subsided somewhat and by the end of the month the premium had been reduced to about 1/4 per cent.

The accompanying chart indicates that the recent strength in the Cuban peso has been the culmination of a steady recovery which began in August, 1940. At the end of 1939 the peso was quoted at a 12 per cent discount (although it had widened temporarily to 18 per cent in July, 1939, as a result of projected legislation—soon abandoned—to issue additional silver currency and coin in Cuba). Rather pronounced strength developed in February, 1940 and again in the following May, but in both cases these recoveries proved to be short-lived. Since August, 1940, however, there have been few interruptions in the peso's appreciation in terms of the dollar.

With but two exceptions, New York rates for other principal exchanges fluctuated between narrow limits during February. The free rate for the Venezuelan bolivar continued to rise steadily from $0.2720 at the end of January to $0.2825 on February 17, but reacted thereafter to $0.2765. The noncontrolled rate for the Uruguayan peso, after rising 90 points to $0.5340 on February 6, also reacted subsequently to show a net gain of only 25 points for the month as a whole.

Production and Trade

During February war production officials called for increasing conversion of plants manufacturing civilian goods to the production of munitions. The War Production Board estimated that industrial facilities which last year produced $20,000,000,000 of goods will be wholly or partially converted to war production. Programs for industry-wide shifts to the manufacture of war goods have already been inaugurated in the automobile, refrigerator, radio, typewriter, and washing machine industries. The Director of Industry Operations



Daily Average Production of Electric Power, Adjusted for Seasonal Variation (February, 1942, figure estimated)

of the War Production Board has indicated that the conversion of American industry to a war basis will be largely accomplished by late autumn this year.

Preliminary data for February indicate a continuation of the tendencies in productive activity that have been evident in recent months—steadily mounting production of war materials, on the one hand, and dwindling output of consumers' durable goods, necessitated by the war program, on the other. The steel mills again operated near capacity despite continued reports of scrap shortages. In an effort to relieve such shortages the Bureau of Industrial Conservation of the W. P. B. has undertaken an extensive program to recover between two and three million tons of scrap from automobile "graveyards." Production of electric power and the output of bituminous coal appear to have declined less than usual during February and output of crude petroleum continued at a high level. Incomplete figures indicate that the daily rate of railroad loadings of merchandise and miscellaneous freight in February was approximately the same as in January, but that the movement of bulk freight averaged somewhat lower.

Production and Trade in January

During January this bank's monthly index of production and trade rose two points to 112 per cent of estimated long term trend. The figure for January a year ago was 103. The gain over December was primarily associated with an unusually high level of retail trade. In the field of production divergent tendencies were again conspicuous.

Prospects of future shortages and higher prices resulted in another wave of consumer buying in January that affected many classes of goods. Sharp increases in sales over year earlier levels were reported by department stores, variety chain store systems, and mail order houses. These increases more than offset the effect on total retail distribution of the ban on retail sales of new passenger cars.

While the group index of production held steady at its December level, there were again noteworthy changes in the composition of the total. Production of producers' goods continued upward in response to war demands, but among consumers' goods further declines were apparent, as a number of industries in this category prepared for complete or partial conversion of their facilities to the manufacture of war materials. In the field of private housing, where operations have been checked by limitations upon supplies of materials, some further slackening in activity was evident.

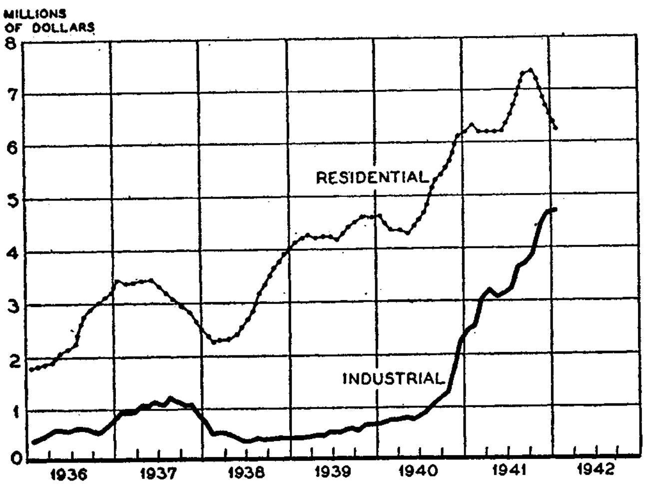
	1941			1942
	Jan.	Nov.	Dec.	Jan.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	103	111	110*p*	112*p*
Production	106	117	118*p*	118*p*
Producers' goods—total	110	130	132*p*	135*p*
Producers' durable goods	114	139	145*p*	146*p*
Producers' nondurable goods	106	120	119*p*	124*p*
Consumers' goods—total	101	103	101*p*	98*p*
Consumers' durable goods	100	87	74*p*	70*p*
Consumers' nondurable goods	101	108	110*p*	107*p*
Durable goods—total	110	123	123*p*	123*p*
Nondurable goods—total	103	113	114*p*	114*p*
Primary distribution	95	107	104*p*	103*p*
Distribution to consumer	102	101	97*p*	104*p*
Miscellaneous services	97	107	108*p*	106*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	101	110	111	112
Wage Rates (100 = 1926 average)	116	127	129*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	54	70	64	63
Outside New York City	86	95	93	89

p Preliminary. * Adjusted for seasonal variation.

Building

In the 37 Eastern States covered by the report of the F. W. Dodge Corporation the marked contraction in the volume of construction contract awards, which has been in progress since last August, continued through January. Contracts awarded for private construction decreased more than usual between December and January, and awards for public projects, though considerably larger than in the same month of last year, also dropped off from the December volume.

From July, 1940 until the second half of 1941 almost all types of construction work increased rapidly along with the general expansion in business activity. But during the latter part of 1941 curtailment of certain types of building became necessary in order to conserve the supply of critical materials for uses essential to the defense effort. The accompanying chart illustrates the effect of the defense program on two different types of building activity. In the case of residential building, a pronounced upward movement began in the summer of 1940 and continued through the first three quarters



Daily Average Volume of Residential and Industrial Building Contracts Awarded in 37 States (6 month moving averages of F. W. Dodge Corporation data, adjusted for seasonal variation)

of 1941. Public projects such as barracks at military cantonments and homes for civilian workers in defense areas contributed in large part to the rise. Private residential building also increased substantially during this period. In recent months, however, the rate of residential building has dropped off, primarily as the result of restrictions on housing construction. Industrial building, on the other hand, has increased almost continuously from the relatively depressed levels of the first part of 1940 to the record highs of recent months. Because of the fundamental importance of increasing manufacturing facilities for the production of war materials, there has been no curtailment recently in this type of building activity.

In the New York State and Northern New Jersey area, construction contract awards declined more than seasonally during January and were slightly below the total for the same month of last year. The decrease in residential building has been particularly marked in this region. Contract awards for such purposes in January were almost 60 per cent below January, 1941. Despite a December to January decline, total awards for other types of construction remained above the year earlier levels.

Commodity Prices

Unsettling war news appears to have been an important factor during February in checking the advance in prices which had characterized the commodity markets since the middle of October. Quotations generally fluctuated within a narrow range and the Bureau of Labor Statistics comprehensive weekly index of wholesale prices showed a comparatively small increase for the month as a whole. A rise in quotations for farm products accompanied Congressional moves to prevent the sale, at prices below parity, of Government-held agricultural commodities.

Price regulations have had an increasing influence on market levels. Over one hundred price ceiling schedules were issued during the first year of price control, and, of these, about one quarter were announced in the past month. All existing price schedules have been brought into conformity with the requirements of the new Emergency Price Control Act and have the force of maximum price regulations under that law. Price ceilings became effective during February on a number of important consumers' goods, including, in the durable goods group, passenger cars, washing and ironing machines, mechanical refrigerators, radios and phonographs, and, in the nondurable group, bed linen. Several of the new schedules were designed to lower current prices. On the other hand, some upward revisions occurred in existing ceilings. In the case of lard, an increase was necessitated by an advance in hog prices which reached a new high since 1937, and, in the case of certain types of wool, higher maxima resulted from adjustments to comply with the new price control law.

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

	Index February 21, 1942 (1926 = 100)	Percentage change Feb. 21, 1942 compared with	
		Jan. 24, 1942	Feb. 22, 1941
Farm products	101.9	+1.6	+45.2
Foods	94.8	+1.3	+29.5
Textile products	93.7	+1.1	+23.9
Chemicals and allied products	96.9	+0.4	+23.4
Housefurnishing goods	104.1	+1.4	+15.4
Hides and leather products	116.1	+0.3	+13.9
Building materials	109.7	+0.2	+10.5
Fuel and lighting materials	78.5	—0.5	+ 8.0
Metals and metal products	103.6	0	+ 5.8
Miscellaneous	89.1	+1.1	+16.2
All commodities	96.5	+1.0	+20.0
Raw materials	97.2	+1.8	+31.9
Semimanufactured articles	91.9	+0.1	+12.9
Manufactured products	97.1	+0.8	+16.0

Employment and Payrolls

During January, working forces at New York State factories declined 1½ per cent from the December level, while wage payments rose 2 per cent in the same period, reflecting longer working hours, overtime payments, and wage rate increases. War industries took on additional employees during the month, but these gains were more than counterbalanced by losses, partly seasonal in character, in most industries producing civilian goods. The largest layoffs occurred in the manufacture of food products, men's and women's clothing, and textiles. Compared with January, 1941, factory employment was 18 per cent greater and payrolls were 45½ per cent larger. (These figures are based on the New York State Department of Labor indexes of factory employment and payrolls, which have recently been revised. The Department now employs a new industrial classification, excludes factory office workers, and computes indexes on a 1935-39 base.)

Expansion at plants producing war materials was responsible for employment gains in the Utica, Buffalo, and Albany-Schenectady-Troy districts during January; in other industrial centers of the State working forces decreased. Payrolls, however, were greater than in December in all areas except the Binghamton-Endicott-Johnson City district.

In the United States as a whole, as in New York State, factory employment decreased 1½ per cent during January, while payrolls rose 2 per cent. Factories engaged in the production of war materials continued to expand their working forces, but more than offsetting this expansion were layoffs in other lines, resulting partly from seasonal factors and partly from material shortages and Government measures curtailing production. In the latter case, especially sharp decreases in employment occurred in the automobile and rubber industries. In January total manufacturing employment was 14½ per cent above the January, 1941 level and payrolls were up 43½ per cent.

According to estimates by the United States Bureau of Labor Statistics, 1,200,000 fewer persons were engaged in all civil nonagricultural pursuits in January than in December. For the most part the decline was due to seasonal influences. The largest layoffs occurred at wholesale and retail trade establishments; other sizable reductions in working forces were made by factories and construction firms. Total civil nonagricultural employment was estimated at 39,800,000 persons in January, a gain of 2,700,000 over the same month last year.

In New York State, employees in civil nonagricultural pursuits in January totaled 4,180,000, according to Bureau of Labor Statistics estimates. This was a decline of 120,000 from the previous month, but a gain of nearly 300,000 over January, 1941. 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.

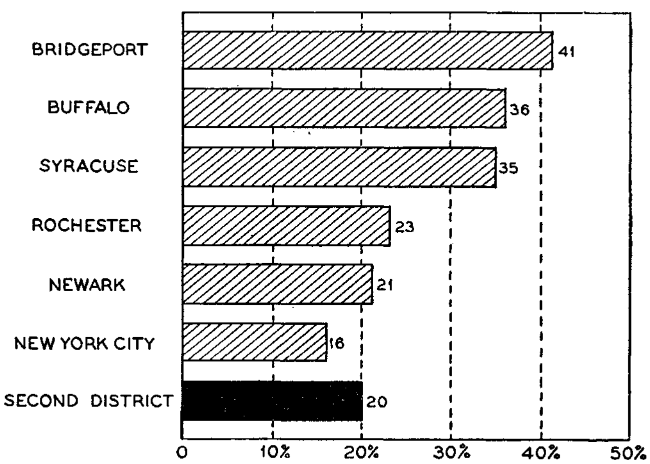
Department Store Trade

During February there was some slackening in the brisk rate of retail buying which prevailed during January. For the four weeks ended February 28, total sales of the reporting department stores in this District are estimated to have increased by about 16 per cent over the corresponding 1941 period, but the daily rate of sales was lower than in January, whereas in recent years an increase between these two months has usually occurred.

In January, total sales of the reporting department stores in this District were 35 per cent higher than in January, 1941, and average daily sales declined considerably less than usual from the December level. Department stores in all localities throughout the District reported substantial year-to-year increases in sales, and sales of a group of leading apparel stores in this District were 26 per cent greater than in January, 1941.

The percentage increases in department store sales for the twelve months ended January, 1942, compared with the twelve months ended January, 1940, are shown in the accompanying diagram for the Second District and for six large cities within the District. The gains range from 16 per cent for New York City to 41 per cent for Bridgeport, while for the District as a whole there was a rise of 20 per cent.

Retail stocks of merchandise on hand in the department stores at the end of January continued substantially higher than a year previous, and this bank's seasonally adjusted index of department store stocks rose three points to 110 per cent of the 1923-25 average. Returns from a limited number of department stores in this District indicate that outstanding orders for merchandise purchased by the stores, but not yet delivered, were over twice as large as those at the end of January, 1941.



Percentage Increases in Dollar Volume of Sales of Reporting Department Stores in Second Federal Reserve District and in Selected Cities, Year Ended January 31, 1942, Compared with Year Ended January 31, 1940

Department stores	Percentage changes from a year ago	
	Net Sales January, 1942	Stock on hand end of month January, 1942
New York City	+31	+33
Northern New Jersey	+38	+41
Newark	+37	+41
Westchester and Fairfield Counties	+40	+17
Bridgeport	+42	+28
Lower Hudson River Valley	+40	+28
Poughkeepsie	+47	—
Upper Hudson River Valley	+44	+27
Albany	+41	—
Central New York State	+51	+41
Mohawk River Valley	+69	+49
Syracuse	+46	+38
Northern New York State	+34	—
Southern New York State	+52	+28
Binghamton	+52	—
Elmira	+56	—
Western New York State	+46	+33
Buffalo	+51	+39
Niagara Falls	+59	+26
Rochester	+40	+27
All department stores	+35	+34
Apparel stores	+26	+28

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

	1941			1942
	Jan.	Nov.	Dec.	Jan.
Sales (average daily), unadjusted	78r	130	194	104
Sales (average daily), seasonally adjusted	98r	109	107	132
Stocks, unadjusted	74r	132	105	99
Stocks, seasonally adjusted	82r	111	107	110

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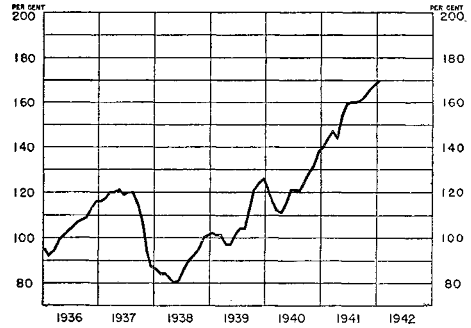
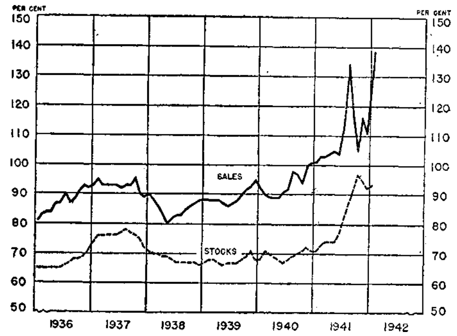
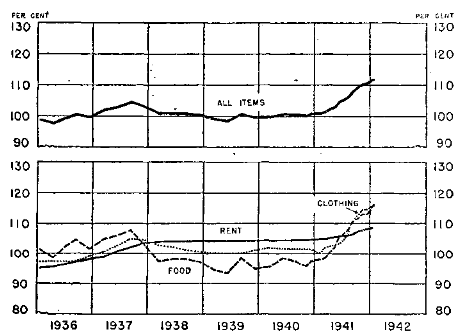


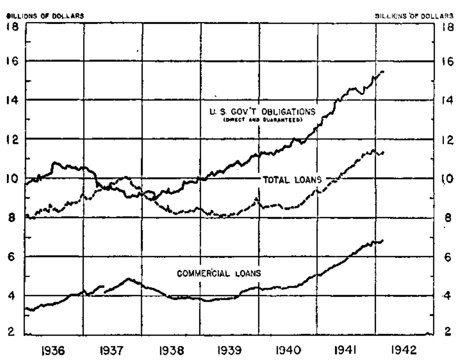
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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



U. S. Bureau of Labor Statistics Indexes of the Cost of Living (1935-1939 average=100 per cent)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for February 11)

General Business and Financial Conditions in the United States

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

Industrial activity rose further in January and the first half of February, reflecting continued sharp advances in output of military products. Retail trade was unusually active and prices, particularly of unregulated commodities, advanced.

Production

Volume of industrial production increased in January, although usually there is some decline at this season, and the Board's adjusted index rose further to 170 per cent of the 1935-39 average. Continued rapid increases in activity were reported in the machinery and armament industries and production of chemicals likewise rose sharply. Activity at cotton textile mills reached a new high level, following some decline in December. In the meat-packing industry, where activity had risen to record levels in December, there was a further advance in January and output of most other manufactured food products was maintained in large volume for this time of year.

Production of steel and nonferrous metals continued near capacity in January and lumber production, which usually declines at this season, was sustained. In the automobile industry output of passenger cars and light trucks continued at about the December rate; in February, however, production of cars and trucks for civilian use was halted and the plants were shut down for conversion to armament production. Coal production increased in January, following a decline in December when demand was curtailed somewhat by unusually warm weather, and output of crude petroleum was maintained at record levels.

Value of construction contracts awarded in January was some two-fifths below the level of the last quarter of 1941, according to figures of the F. W. Dodge Corporation. Declines were reported in all classes of construction; the decrease in residential building being usual at this season.

Total awards in January were slightly larger than last year, but public projects accounted for a much larger proportion of the total than a year ago.

Distribution

In January retail trade was stimulated considerably by widespread anticipatory buying of many products resulting from announcements that distribution of new tires and tubes, new automobiles, and sugar would henceforth be rationed and that the amount of materials available for use in various other goods would be restricted. Sales at department stores, variety stores, and general merchandise stores declined much less than is usual after the Christmas season, while sales of tires and tubes were restricted to essential uses and sales of automobiles ceased pending the establishment of a rationing system. In the first half of February department store sales decreased somewhat from the high level reached in mid-January.

Total car loadings of revenue freight, which usually decline in January, showed little change this year and the Board's seasonally adjusted index advanced from 137 to 140 per cent of the 1935-39 average. Loadings of grain and forest products rose to unusually high levels for this time of year and coal shipments also increased, following a decline in December. Shipments of miscellaneous freight, which include most manufactured products, declined less than seasonally.

Commodity Prices

Prices of commodities and services continued to advance sharply in January and the first half of February. The Emergency Price Control Act of 1942 became a law on January 30 and former Federal maximum price schedules—approximately 100 in number—remained in effect under its terms. About one half of these schedules were issued following the United States' entry into the war. In this period, price controls were extended to a number of finished consumers' goods and covered mainly items for which output for civilian use had been sharply curtailed or prohibited by Federal order. Retail prices of foods and textile products, which are not subject to direct control, showed exceptionally large increases from December 15 to January 15 and, according to preliminary indications, have continued to advance since that time.

Bank Credit

Since the beginning of the year loans and investments at banks in leading cities have increased, reflecting purchases of Government securities by city banks outside New York and increases in commercial loans by banks in New York. Demand deposits and currency in circulation have risen sharply. Member bank reserves have shown little change in recent weeks, and excess reserves have continued close to 3½ billion dollars.

United States Government Security Prices

Prices of United States Government bonds declined somewhat in the first half of February, following little change during the previous month, while prices of short term securities, which had risen in January, were steady.

Some Aspects of the Savings Bond Program

Since May, 1941, when the current United States Savings Bond program commenced, a total of more than $4,000,000,000 of the three series of Savings Bonds has been sold and that amount of funds has flowed into the Treasury to aid in meeting the large defense and war expenditures of the Government. In part, these Savings Bonds have been purchased by the use of funds previously held in savings or other accounts in banks, and in part by the use by subscribers of some of their current income, i.e., the setting aside of a definite amount of money received as salaries, wages, or other income. The investment in Savings Bonds of current income received by individuals has been facilitated by the establishment of payroll savings plans by thousands of business concerns all over the country, by means of which money is accumulated for the account of employees toward the purchase of Savings Bonds.

Purchases of Savings Bonds out of current income constitute the most important contribution of this character to the over-all war effort, both from the viewpoint of the financing of the war, and from the viewpoint of the economic effects which flow from this type of purchase. Purchases of Savings Bonds out of current income represent an addition to the total amount of funds available for investment in Government securities. Money withdrawn from savings accounts in banks and invested in Savings Bonds may merely result in a purchase by the individual withdrawing the funds instead of by the bank in which the funds were on deposit. In fact, if the withdrawals of money from the banks by individuals are large enough, as has been the case in some instances, the banks may be forced to sell some of their present holdings of Government securities. To the extent that the capacity of banks to buy Government securities is reduced, it is evident that purchases of Savings Bonds made with money withdrawn from deposits in the banks do not assist in the over-all financing of the war. Investments of funds withdrawn from trust accounts and from certain other deposit accounts in the banks, against which the banks may have been holding cash instead of making investments, constitute an exception. In such cases, investment of the funds in Savings Bonds would, in general, represent a net addition to the volume of funds available for investment in Government securities.

The economic advantages of the use of current income for the purchase of Savings Bonds are especially important at the present time, perhaps more important than the financial effects. Investment by individuals of a part of current income in Savings Bonds absorbs funds which might otherwise be spent on current consumption of many products, the supply of which is decreasing, whereas the use of accumulated savings to make purchases of Savings Bonds may not restrain consumption at all. In order to curb inflationary price developments, which may result when an increased volume of money income is competing for a shrinking volume of consumers' goods, it is imperative that large amounts of current income be saved, not spent. It is for this reason that regular saving of a part of current incomes, especially those that have been increased by the war effort, and the investment of these savings in United States Savings Bonds, is so desirable. More emphasis on the purchase of United States Savings Bonds out of current income, and less emphasis on such purchases out of accumulated savings, which indirectly are already invested to a large degree, will aid in preventing the development of inflationary tendencies, as well as aid the Government in the aggregate task of financing the war.

Another important source of funds which could be applied to the financing of the war, through the medium of purchases of Savings Bonds, with benefit to the owners of such funds and to the Government, is the large amount of currency which is being held by individuals. While the rapid rise in the volume of production and trade in the past three years, and the accompanying rise in money incomes, serve to explain a large part of the rise in currency in circulation, there is still a large amount which undoubtedly represents hoarding by individuals, or at least the holding of unusual amounts, i.e., larger amounts than are needed to make day-to-day purchases.

Various explanations have been advanced as reasons for the hoarding of currency. None is more irrational than that which holds that currency is to be preferred to bank deposits or Savings Bonds, because an inflation may develop as a result of the war. Many steps being taken by various Government and other agencies are aimed at the prevention of inflation and it is in the minds of all that inflation should be prevented. But a holder of currency would not in any event have any advantage over the holder of Savings Bonds or of a bank deposit, both of which can be freely converted into currency. Furthermore, the holder of a Savings Bond receives an interest return on his investment, whereas the holder of currency holds a nonincome producing asset. With the nation at war, patriotism and self-interest alike, therefore, suggest that such money be put to work by investing it in United States Savings Bonds.