MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in March

Throughout most of March, the situation in the money market was dominated by the quarterly income tax period operations of the Treasury. Beginning some months ago, apprehension had been expressed that Treasury operations during tax periods in 1942 might produce a severe strain on the money market. A large increase in the amount of income and excess profits taxes was expected because of the rise in income and profits during 1941, and because of the increases in tax rates and changes in other provisions of the Revenue Act of 1941. The collection of taxes actually exceeded the estimates, but the strain on the money market did not occur because adequate preparation had been made to prevent it. Income and excess profits tax collections during the month of March, 1942 approximated $3,000,000,000, or some $300,000,000 more than had been estimated from the budget figures. This temporary drain on member bank reserves was two and a half times the $1,200,000,000 collected in March, 1941. Various steps were taken to offset its disruptive effect on the money market.

The heaviest impact of the collection of income taxes on the money market occurs in a period of about ten days around the quarterly tax date, and especially in the few days immediately after the tax date—this year in the period March 16 to March 20. It is during this period that the bulk of the checks used in making tax payments are presented to the banks on which they are drawn and the proceeds transferred from those banks to the Treasury account with the Federal Reserve Banks. Remedial action involves various devices for putting Treasury funds into the market at this period. The first such action took the form of a sale, by the Treasury, of new issues of Treasury bills in the latter part of December, 1941, and the first part of January, 1942, the offerings being arranged so that the bills would mature just after the tax date in March. Payment of these maturing bills, which were not replaced by new issues of bills, put $450,000,000 of funds in the market and constituted a substantial offset to losses of reserves resulting from tax collections. A second step taken by the Treasury was to allow its balances at the Reserve Banks to decline to extraordinarily low levels just before the tax date, without calling in funds from commercial bank depositaries to replenish such balances.

There were two major types of payments from Treasury deposits in the Reserve Banks, other than payments for maturing Treasury bills, which helped to counterbalance the effect of tax collections on member bank reserves. The first of these was interest payments on the public debt, ordinarily concentrated around the quarterly tax dates, and which in March, over a period of a few days around the middle of the month, returned nearly $200,000,000 to member bank reserves. The second and more important flow of funds arose from the current high rate of Government expenditures for war purposes. During the first twenty-six days of March, so-called National defense expenditures averaged somewhat in excess of $100,000,000 a day, and with expenditures at this level the income taxes which were being received into the Treasury accounts at the Reserve Banks were rather quickly paid out again, and thus returned to member bank reserves.

Another factor in the situation was the use of tax anticipation notes in payment of taxes due in March. To the extent that taxpayers used such notes, which they had previously purchased, to meet their income tax payments, no drain on member bank reserves resulted. (The tax anticipation notes—the Treasury notes of the Tax Series—were placed on sale by the Treasury last August.) Use of such notes aggregated about $500,000,000 for the month of March, or about 17 per cent of the total taxes collected.

Treasury balances in the Reserve Banks, which had reached a relatively high level in the latter part of February, owing to cash payments for the new issue of Treasury bonds issued on February 25, were reduced to $287,000,000 on March 4, and to only $60,000,000 on March 11, by the high rate of war expenditures. In the first statement week during the peak of the tax period, Treasury deposits showed practically no net change. After the 18th, however, Treasury collections for a while ran ahead of Treasury disbursements, and on March 25 a new issue of $150,000,000 of Treasury bills was sold for cash, with no corresponding maturity occurring on that day, and as a result Treasury balances in the Reserve Banks on March 25 amounted to $472,000,000. In the closing days of March, however, Treasury balances again turned downward, owing to the continued large war expenditures.

In the New York District, income and excess profits tax collections for the month totaled in excess of $700,000,000, of which $130,000,000 was paid by the use of tax anticipation notes previously purchased by the taxpayers. All of the other Treasury transactions which have been described as bearing on the National money market situation also operated on the New York money market. In particular, there were heavy holdings in the New York market of maturing Treasury bills, with the consequence that the reserve position of the New York City banks was well insulated against the drain of income tax collections. Excess reserves of the New York City banks declined only from $975,000,000 to $935,000,000 during the week ended March 18. This change reflected not only the net effect of Treasury transactions which actually involved net disbursements in the New York market, but also other transactions which caused losses of reserves by the New York banks, chiefly an outflow of commercial funds to other districts. In the following week, that ended March 25, excess reserves receded somewhat further to $880,000,000, or about the same figure as on February 25. This movement was primarily the result of a sizable withdrawal of bankers' balances from New York banks, presumably induced by heavy tax collections in other parts of the country. There was also some outflow of other funds, and losses in miscellaneous transactions, which exceeded a further gain of funds in Treasury transactions and a large decline in reserve requirements.

The excess reserves of all member banks throughout the country also showed relatively moderate fluctuations during the March tax period. In the week ended March 18 there was a decline of $100,000,000 and in the week ended March 25 a further decline of $310,000,000 to $2,850,000,000. This latter decline was due to the rise in Treasury deposits in the Reserve Banks, which, after the statement date, declined again. Reviewing the month as a whole, it is evident that the operations of the Treasury tax period were consummated without any strain on the money market.

Member Bank Credit

During the four weeks ended March 25, the total loans and investments of the weekly reporting banks in leading cities receded $162,000,000, but this decline was more than accounted for by a drop of $283,000,000 in Treasury bill holdings of the reporting banks which accompanied a net retirement of $350,000,000 of outstanding Treasury bills in this four week period. There was also a decline of $63,000,000 in loans to brokers and dealers in securities, apparently reflecting a decline in operations of Government security dealers during a period when no major piece of Treasury financing was done.

Meanwhile, commercial, industrial, and agricultural loans of the reporting banks rose $106,000,000 further, United States Government security holdings, other than Treasury bills, rose $72,000,000, and miscellaneous security holdings, including State and municipal as well as corporate issues, increased $39,000,000.

The tendencies in bank credit referred to above were common to the New York City banks and to banks in other leading cities in the aggregate.

Adjusted demand deposits of the reporting banks were reduced $555,000,000 in the two weeks ended March 25, reflecting the income tax collections of the period. United States Government deposits in the reporting banks continued to rise, while interbank deposits showed a considerable drop.

Money Rates in New York

	Mar. 31, 1941	Feb. 28, 1942	Mar. 30, 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)	0.53	0.45	0.42
Average yield on taxable Treasury notes (3-5 years)	0.85	0.94	0.93
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.09	2.15	2.02
Average yield on taxable Treasury bonds (not callable within 12 years)	—	2.39	2.33
Average rate on latest Treasury bill sale 91 day issue	0.065	0.266	0.203†
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. † 83 day issue.

Government Securities

Prices of Treasury bonds moved upward during March. Strength among the partially tax exempt issues early in the month was associated with favorable market interpretations of Treasury tax proposals affecting this class of Treasury securities, but prices of all types of Treasury bonds firmed noticeably on March 23 following the Treasury announcement that certificates of indebtedness (the maximum maturity of which is one year) would be sold during April. This announcement was taken to mean that a cash offering of long term Treasury bonds would be deferred. The new certificates will carry no exchange privileges.

The average yield on long term partially tax exempt Treasury bonds declined from 2.18 per cent on February 18 (the highest level in 11 months) to 2.00 per cent on March 23, the lowest since December 8, 1941 and only 0.12 per cent above the record low yield of last fall. The net decline for the month as a whole amounted to 0.13 per cent. In similar fashion, the average yield on long term taxable Treasury bonds declined irregularly from 2.41 per cent on February 17 to 2.32 per cent on March 23, the lowest level since December 6, 1941. During March the net decline was 0.06 per cent. More or less parallel movements were shown by intermediate term Treasury bonds in both the partially tax exempt and taxable categories.

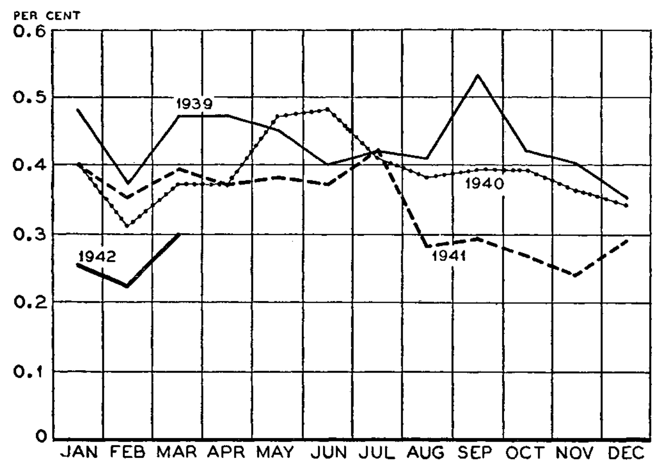
The average yield on three to five year taxable Treasury notes, at 0.93 per cent on March 31, held close to the level prevailing at the end of February. The yield on the tax exempt ¾ per cent Treasury note due March 15, 1945 declined irregularly from 0.45 per cent on February 28 to 0.41 per cent (the lowest since late October, 1941) on March 17 and fluctuated little thereafter.

Accepted bids on the four weekly issues of Treasury bills during March were tendered on average interest bases of 0.222 per cent on the March 4 issue, 0.229 on the March 11 issue, 0.195 on the issue of the 18th, and 0.203 on the issue of the 25th. Each of the four issues was in the amount of $150,000,000. The 91 day issue dated March 4 replaced a $200,000,000 maturity and the two subsequent issues (also of 91 day term) each replaced a $150,000,000 maturity. Three issues of Treasury bills, each for $150,000,000, matured on March 16, 17, and 19 without replacement, and conversely there was no maturity on March 25 when the last new bill issue of the month was issued. The Treasury bill issue dated March 25 is of 83 day term and will consequently mature on June 16, during the next quarterly income tax collection period.

United States Savings Bonds

Sales of United States Savings Bonds showed a sizable recession during March, but since the first quarterly payment of income taxes on 1941 income was due on March 16, it is not unusual that there should be this falling off in purchases of Savings Bonds by individuals and corporations who had need for their funds for tax payments.

In the Second Federal Reserve District, total sales of all series of Savings Bonds, by all agencies other than the post offices, amounted to $98,000,000 during the first



Monthly Redemption of United States Savings Bonds as Percentage of Outstanding Amount, Current Redemption Value (March, 1942, partly estimated)

30 days of March. Sales of the Series E Defense Savings Bonds aggregated $48,000,000 during this period, and although they were smaller than in any of the previous three months, they were larger than in any month prior to December, 1941.

For the United States, sales of all series of Savings Bonds totaled $464,000,000 in the first 25 days of March, an amount which, with the exception of December, 1941, and January and February, 1942, was larger than in any previous month.

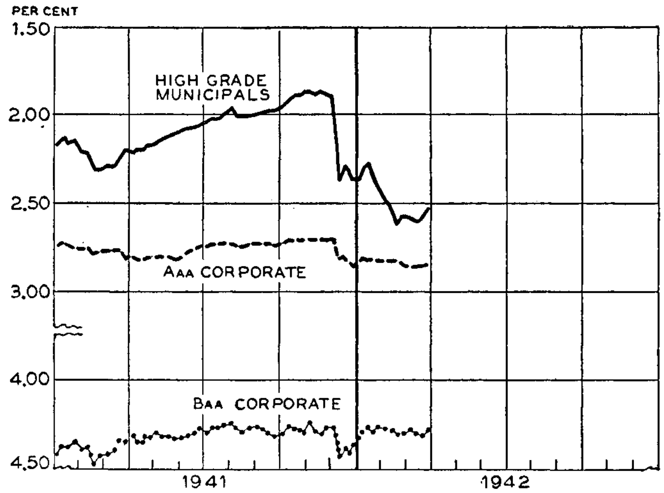
The experience over the past four years, with respect to the rate at which Savings Bonds are presented for redemption, is that the level of redemptions tends to rise as the total volume of Savings Bonds outstanding increases. Relative to the volume outstanding, however, redemptions have tended to diminish, and this tendency has been especially pronounced since last August, as the accompanying diagram indicates. The increased volume of redemptions in March, undoubtedly associated with needs for funds by some persons to make income tax payments, is a repetition of the increase in redemptions which occurred in March in each of the previous three years. Since August of last year, monthly redemptions of Savings Bonds have fluctuated between about 2/10 and 3/10 of one per cent of the amount outstanding, and for the first three months of this year the percentage of redemption has averaged about one-third less than a year previous.

Security Markets

The irregular downward movement of stock prices, in progress during most of this year, continued in the early part of March, as the markets were affected by further adverse war news and by the tax proposals of the Treasury. On the 11th the Standard 90 stock price index showed a net decline of 12 per cent from the January 5 level and was at the lowest point since April, 1933. Slight firming of industrial share prices accounted for the somewhat higher levels of the 90 stock index which prevailed during the remainder of the month; railroad and public utility stocks showed declining tendencies throughout March. The 90 stock index was off 7 per cent for the month as a whole. The volume of trading in stocks on the New York Stock Exchange continued at a low ebb during March.

In contrast to stock prices, quotations of domestic corporate bonds were steady during March. Judging from Moody's Aaa index, the average price of high grade corporate bonds fluctuated within a range of about ¾ of a point and showed little net change for the month as a whole. Medium grade corporate bonds, classified as Baa by Moody's Investors Service, likewise moved narrowly in March. The railroad bonds in this index were steady to firm, apparently owing to the granting of an advance in freight rates and the more favorable position of the railroads from the standpoint of meeting interest payments. Prices of railroad bonds of lower grades rose sharply in March. Bond trading in March was well above the relatively low level of February and at the highest level since September, 1939.

The general steadiness of corporate bonds in recent months has contrasted with a sharp decline in price and



Average Yield on High Grade Municipal, High Grade Corporation, and Medium Grade Corporation Bonds (Moody's Investors Service data for corporation bonds and Standard and Poor's Corporation data for municipals; scale inverted to show price changes)

rise in yield on prime municipal bonds, as may be seen in the accompanying chart. Prices of high quality municipal bonds were at record levels last October and November but declined more sharply than either the high or medium grade corporate bonds after the sudden entry of this country into the war. The subsequent price recovery of prime municipal bonds was moderate and late in January these issues were again subjected to severe pressure following reports that the tax status of outstanding State and municipal securities might be modified. These price movements are indicated on the chart by changes in yields, plotted on an inverted scale. The average yield on high grade municipal bonds, as measured by Standard's index, rose from 1.89 per cent (approximately the same as the average yield on partially tax exempt long term Treasury bonds at that time) on November 19, 1941 to 2.63 per cent on February 18. The market for corporation bonds, on the other hand, has been relatively little affected by tax problems, and prospects of active business and substantial profits before tax charges have promoted relative steadiness in yields. Although the near record levels of last fall have not been regained, the average yield on high grade (Aaa) corporation bonds is still at a relatively low level—around 2.84 per cent. Meanwhile, the average yield on medium grade (Baa) corporate bonds, which rose temporarily in December, is currently at a level only slightly above the record low set last November.

Business Profits

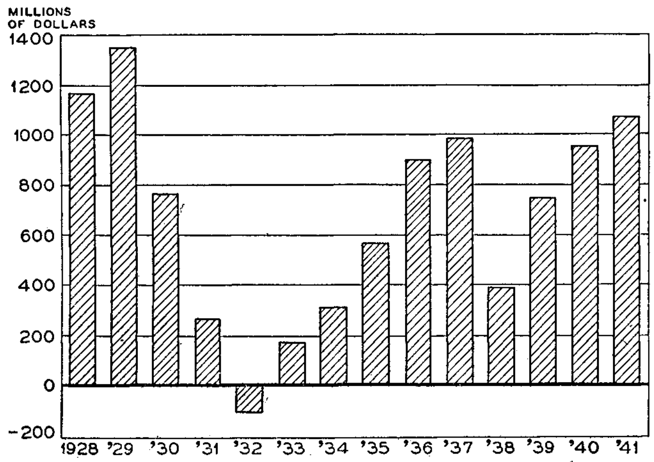
During 1941, increases in wage and material costs and much higher Federal taxes only partially offset the effect on corporation profits of record business volumes and, as a result, net profits of leading corporations, as measured by this bank's compilation of the net profits of 899 commercial and industrial corporations, were 17 per cent higher than in the previous year and 18 per cent above the 1937 level. As indicated in the accompanying table, all groups of companies with the exception of tobacco, gold and silver mining, and bakery products, had larger net profits than in 1940. The largest percentage gains over 1940 occurred in the leather and shoe, coal mining, petroleum, meat packing, shipping, aircraft manufacturing, and textile groups. Of the 899 companies listed, 410 durable goods producers showed a gain in net profits over a year before amounting to 18 per cent, while 435 companies in the nondurable goods and service fields gained 16 per cent and 54 companies engaged in mining increased net profits 11 per cent.

Reflecting a 22 per cent increase in the volume of railway freight car loadings and also relative immunity from the effects of the excess profits tax owing to the

(Net profits in millions of dollars)

Corporation group	No. of cos.	1937	1940	1941
Advertising, printing and publishing	13	14.1	17.8	18.8
Aircraft manufacture	13	6.3	42.5	65.4
Automobiles	13	250.6	240.5	260.1
Automobile parts and accessories	53	54.8	65.2	81.0
Building supplies:				
Brick, glass, and gypsum	15	40.1	37.2	38.5
Cement	10	6.8	8.3	11.2
Hardware	7	7.4	7.3	9.4
Heating and plumbing	14	27.9	23.0	24.1
Lumber and roofing products	10	11.7	12.1	15.9
Paints and varnishes	6	7.2	7.9	8.7
All other	7	8.8	6.9	8.4
Chemicals	35	188.1	180.2	193.9
Containers (metal and glass)	8	42.7	39.0	40.8
Copper and brass fabricators	8	6.7	12.0	17.5
Drugs, cosmetics, and soaps	20	56.6	60.9	70.8
Electrical equipment	32	128.6	131.7	131.8
Food and food products:				
Bakery	9	9.1	8.7	7.9
Beverages	20	54.0	61.6	69.0
Confectionery	9	18.9	19.6	20.9
Dairy products	5	19.5	22.5	25.0
Flour milling and cereal products	9	16.1	19.7	22.3
Meat packing	8	9.6	21.6	33.6
All other	14	37.6	47.9	48.8
Household supplies:				
Electrical	12	12.4	9.0	9.9
Furniture and floor covering	9	13.9	13.2	15.1
All other	14	9.5	8.9	9.7
Leather and shoes	11	4.9	4.8	8.4
Machinery:				
Agricultural	8	66.4	47.6	61.3
Machine tools	12	9.6	15.0	19.6
Store and office equipment	15	40.5	28.0	38.5
Industrial machinery and accessories	77	72.7	69.6	94.2
Mining:				
Coal	20	6.7	15.0	25.2
Copper	7	88.6	74.8	85.2
Gold and silver	11	33.7	27.6	24.9
All other	16	86.5	67.3	70.1
Motion pictures	7	8.8	13.0	16.0
Paper, pulp, and allied products	34	27.0	29.0	37.2
Petroleum	42	216.7	134.3	209.4
Railroad equipment	18	48.3	36.9	47.9
Retail trade:				
Department and apparel stores	16	26.9	34.6	35.9
Food stores	15	11.3	15.6	18.1
Mail order houses	5	53.9	62.1	62.1
Variety stores	10	59.4	49.2	52.0
All other	14	8.7	9.0	12.6
Rubber and tires	9	26.5	38.9	49.7
Shipbuilding	4	0.1	8.9	10.0
Steel and iron	54	244.4	289.4	335.9
Textiles:				
Clothing and apparel	23	5.3	7.7	13.0
Silk and rayon	15	11.7	14.8	17.0
All other	16	2.8	12.4	21.3
Tobacco	18	92.3	93.8	83.4
Transportation:				
Aircraft	6	– 1.6	4.3	4.3
Shipping	5	1.6	6.4	9.9
Miscellaneous	38	38.5	37.3	45.5
Total, 54 groups	899	2,351.2	2,372.5	2,767.1
Class I railroads, net income	137	98.7	185.1	501.7
Telephone companies, net income*	33	189.0	202.0	196.0
Other public utilities, net income	59	241.6	253.6	264.5

– Deficit.
* Excludes dividends received by American Telephone and Telegraph Co.



Annual Net Profits of 167 Industrial and Commercial Companies

large amounts of invested capital, net income (after all charges) of Class I railroads in 1941 approximately equaled the 1930 level and amounted to $502,000,000, as compared with $185,000,000 in 1940. Net income of 33 telephone companies, all of which had gross incomes in excess of $1,000,000, receded 3 per cent below the level of 1940 but remained 4 per cent above 1937. Net income of a group of other public utility companies increased 4 per cent over 1940 and almost 10 per cent over 1937.

A tabulation of pertinent profit and loss and balance sheet data of 172 commercial and industrial corporations which publish such figures indicates that gross sales for these companies rose 36 per cent over 1940, cost of goods sold (including State and local taxes) increased 33 per cent, and net profits before Federal taxes were 61 per cent higher. Deductions for Federal income and excess profits taxes, which had averaged approximately 18 per cent of net profits before taxes in each of the three years ended in 1939 and which had increased to 32 per cent in 1940, advanced further to 53 per cent of net profits before taxes in 1941. As a result, the gain over 1940 in net profits after all charges for this group of companies was reduced to 12 per cent. Total cash on hand as of December 31, 1941 for the same group, plus holdings of tax anticipation notes (available for payment of Federal taxes), increased 25 per cent over the year, and inventories, reflecting the larger volume of production and increased material costs, rose 23 per cent. Total Federal taxes, as estimated by these corporations, were equal to 57 per cent of the cash and tax anticipation notes available on December 31, 1941 whereas, at the close of the preceding year, Federal tax liability was calculated at about 27 per cent of cash holdings.

Fourth quarter profits of a restricted list of 167 companies (which report profits on a quarterly basis) were smaller than during the fourth quarters of either of the two preceding years. The accompanying chart, based upon the annual profits of this group of companies, shows that their aggregate profits in 1941 were 21 per cent lower than in 1929 although industrial production was 40-45 per cent higher in 1941 than in 1929.

Foreign Exchanges

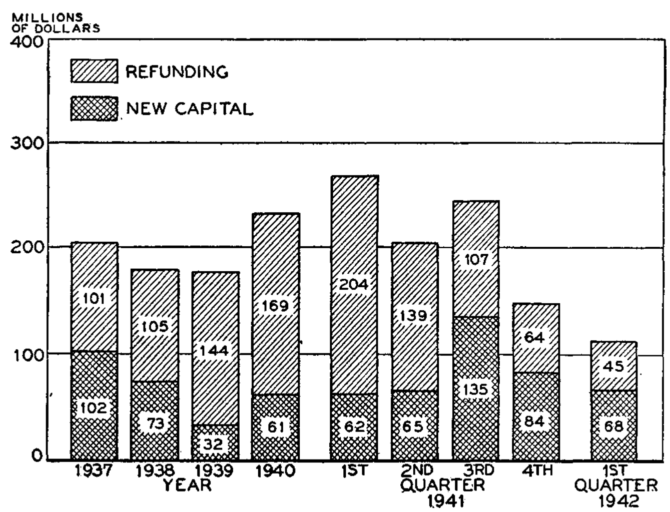
The only feature in an otherwise quiet foreign exchange market during March was the development of some weakness in the Canadian dollar around the middle of the month. After holding at somewhat below 12 per cent in previous weeks, the unofficial discount on the Canadian dollar began to widen on March 13 and by March 17 had reached 13⅜ per cent. This weakness presumably reflected a repatriation, through the thin unofficial market, of the proceeds of matured Canadian bonds held by Americans. Although there was some offsetting demand in anticipation of the coming tourist season, this was not sufficient to absorb the offerings arising from the Canadian bond redemption. Some subsequent recovery was shown, but the unofficial discount widened again to close the month at 13 per cent, as against 11⅝ per cent at the end of February.

Among the Latin American currencies, a firm tendency was shown in the free or noncontrolled rates for Argentine, Venezuelan, and Uruguayan exchanges. The free rate for the Venezuelan bolivar on March 16 returned to the high of $0.2825 which had been reached in the previous month, and closed March at $0.2815, while the Uruguayan peso appreciated 20 points in the noncontrolled market to $0.5295. A small rise in the Argentine peso brought the free rate at the month end close to the year's high of $0.2375 reached in January. The premium on the Cuban peso, on the other hand, was reduced ⅛ per cent further to 3/32 per cent.

New Financing

Although the volume of corporate and municipal financing increased considerably over that for February, the March total, at $140,000,000, was less than half the monthly average for the calendar year 1941. Corporate financing amounted to $94,000,000, of which $62,000,000 represented "new money" borrowing.

Temporary financing, not included in the $140,000,000 total, amounted to $215,000,000, most of which was



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (First quarter 1942 data preliminary) accounted for by three issues: $100,000,000 State of New York 0.375 per cent tax anticipation notes maturing on June 25, 1942, $60,000,000 City of New York 0.50 per cent revenue bills maturing in April and May, 1942, and $30,000,000 Federal Intermediate Credit Bank 0.60 and 0.70 per cent consolidated debentures maturing in October, 1942 and January, 1943.

As shown in the foregoing diagram, corporate flotations averaged $113,000,000 a month during the first quarter of 1942, or less than in any quarter of 1941. Although the $68,000,000 monthly average of issues for new capital purposes was smaller than that for either of the last two quarters of 1941, it exceeded the monthly averages of 1940 and 1939.

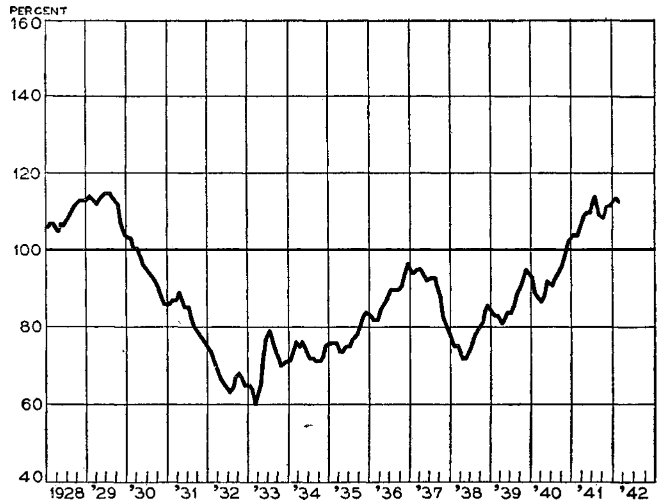
Production and Trade

Further steps were taken during March to speed war production. In a move to widen participation in the war production program, the President by Executive Order on March 26 authorized the War and Navy Departments and the Maritime Commission to guarantee or make loans to small business concerns and subcontractors. A directive was issued by the Chairman of the War Production Board ordering the replacement of competitive bidding by negotiation on future military supply contracts to expedite the placing of such contracts. In continuation of its conversion program, the W. P. B. ordered production for civilian uses curtailed or completely suspended in a number of additional consumers' durable goods industries.

Judging from preliminary data now at hand, it appears that industrial conditions in March were similar to those which have characterized recent months. The forward drive toward greater production of war goods continued, while output of consumers' durable goods declined further. Accompanying some easing of the scrap shortage, steel production advanced gradually during March and by the end of the month it was estimated that the mills were operating at virtually their full rated capacity. It is reported that movement on the Great Lakes of iron ore and coal is beginning much earlier than usual this year. Output of bituminous coal apparently declined considerably less than usual in March, while electric power production, seasonal factors considered, was maintained at the high rate of February. Incomplete figures indicate that railroad loadings of merchandise and miscellaneous freight increased over the relatively high level of the preceding month, although the gain does not appear to have been so large as in most preceding years; loadings of bulk freight declined moderately, more or less in line with seasonal expectations.

	1941		1942	
	Feb.	Dec.	Jan.	Feb.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	105	111	114*p*	112*p*
Production	107	118	120*p*	120*p*
Producers' goods—total	112	133	140*p*	143*p*
Producers' durable goods	116	146	151*p*	156*p*
Producers' nondurable goods	109	119	127*p*	128*p*
Consumers' goods—total	100	101	97*p*	92*p*
Consumers' durable goods	101	74	68*p*	51*p*
Consumers' nondurable goods	100	110	107*p*	106*p*
Durable goods—total	111	124	127*p*	125*p*
Nondurable goods—total	104	114	115*p*	115*p*
Primary distribution	97	110	109*p*	110*p*
Distribution to consumer	106	98	103*p*	96*p*
Miscellaneous services	100	111	108*p*	110*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	101	111	112	113
Wage Rates (100 = 1926 average)	117	129	131*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	56	64	63	62
Outside New York City	87	93	89	90

p Preliminary. *Adjusted for seasonal variation.



Index of Production and Trade in the United States (Federal Reserve Bank of New York index expressed as a percentage of estimated long term trend and adjusted for seasonal variation)

Transportation difficulties made themselves felt in the petroleum industry in a number of ways during the month. Apparently owing to this problem, the daily rate of crude petroleum production during the first three weeks of March was reduced from the high level of recent months. The W. P. B. ordered a 20 per cent reduction in gasoline deliveries to filling stations in 17 Eastern Seaboard States, Washington, Oregon, and the District of Columbia, effective March 19, and, to relieve threatened fuel oil shortages in certain Eastern industrial regions, the Petroleum Coordinator on March 27 announced a five week emergency program designed to increase East Coast fuel oil supplies by 5,000,000 barrels.

Production and Trade in February

In February the seasonally adjusted index of production and trade computed at this bank declined two points to 112 per cent of estimated long term trend, following an advance of 3 points in January. The index for February, 1941, stood at 105. The failure of retail trade to show its usual increase over the relatively high level of January accounted primarily for the drop in the general index in February.

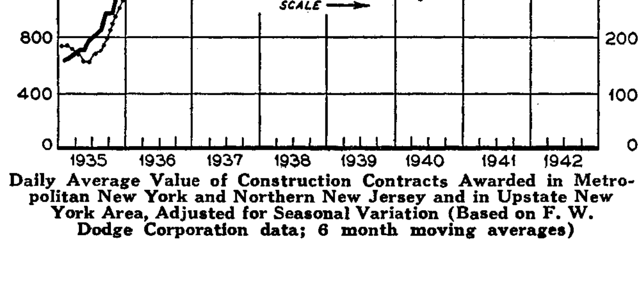
Spurts in retail trade have been principally responsible for the irregularities in the course of the production and trade index since last summer. The production component has tended upward with relative steadiness, although divergent tendencies between the output of producers' and consumers' durable goods have become more sharply drawn as further progress has been realized in the conversion of industries formerly producing civilian goods to war manufacture. The mounting output of war materials was reflected in a further advance during February in the component group index of production of producers' durable goods. On the other hand, the complete suspension of passenger car production early in the month accounted largely for a pronounced drop in the consumers' durable goods index.

As in recent months, the output of nondurable goods in the aggregate remained practically unchanged between January and February after seasonal adjustments. The daily rate of railroad loadings of merchandise and miscellaneous freight was somewhat higher in February than in January, while the movement of bulk freight continued at about its previous rate.

Building

The daily rate of construction contract awards turned sharply upward during February according to data prepared by the F. W. Dodge Corporation covering 37 Eastern States. The increase was due primarily to a renewed expansion in the volume of Government contracts for defense purposes, which amounted to more than half of the month's total. Private construction rose more than seasonally but was substantially below the level of February, 1941.

In New York State and Northern New Jersey the rate of contract awards also rose sharply during February, and, as in the case for the 37 States as a whole, an increase in defense construction activity accounted for this gain. As shown on the accompanying chart, comparing the volume of contracts awarded in the Metropolitan New York and Northern New Jersey area with that in Upstate New York, the effect of the defense program and the expansion of business activity during the past year and a half has been particularly marked in the Upstate New York region. Since the spring of 1940 the rate of awards for that section has more than doubled and is currently above the previous peak in 1939. Although public construction has been of primary importance in this expansion, acceleration in private residential building has also played an active part.



Daily Average Value of Construction Contracts Awarded in Metropolitan New York and Northern New Jersey and in Upstate New York Area, Adjusted for Seasonal Variation (Based on F. W. Dodge Corporation data; 6 month moving averages)

In the Metropolitan New York and Northern New Jersey area, on the other hand, the rate of contract awards showed little change during 1940, and the expansion in 1941 was relatively moderate. Here the volume of public construction arising from the defense program has expanded relatively less than in the Upstate area and there has been a decline in the volume of private construction.

Employment and Payrolls

Working forces at New York State factories increased 3 per cent during February and payrolls expanded 6 per cent. These increases reflected primarily seasonal hiring in apparel lines and continued acceleration of war production; in other industries there was, on the whole, little change in employment between January and February. While all branches of the apparel group took on workers, the largest employment gains occurred in the manufacture of women's clothing and millinery. As in previous months, shipyards and plants manufacturing firearms, aircraft, tanks, and other war materials enlarged their working forces. Compared with February, 1941, total manufacturing employment was 17½ per cent greater and payrolls were 46 per cent larger.

Owing chiefly to seasonal activity in apparel firms, New York City showed the largest employment and payroll gains among the industrial areas of the State between January and February. In the Utica district, war industries and textile mills were responsible for gains in employment and payrolls; the Rochester and Albany-Schenectady-Troy areas also reported increases over January.

Factory employment in the United States as a whole rose slightly during February, and payrolls were 2 per cent larger. Manufacturers of wearing apparel took on additional workers for the busy season, and war industries continued to expand their forces. However, official curtailment of production of certain consumers' goods and conversion of plants to war work have resulted in temporary layoffs in many lines, notably the automobile industry, but in that industry the reduction in employment was less drastic than had been feared. Total factory employment in February was 13 per cent higher than in the same month last year, and payrolls were 40 per cent greater.

There was little change in the total number employed in civil nonagricultural occupations in the United States between January and February, according to Bureau of Labor Statistics estimates. Although employment in factories and in government service was somewhat higher, these gains were offset by decreased working forces in wholesale and retail trade and in construction. Compared with February, 1941, there were 2,400,000 more persons engaged in civil nonagricultural pursuits.

Commodity Prices

Disquieting war news and maximum price regulations continued to restrain price advances during March. There was a fractional rise in the Bureau of Labor Statistics weekly "all commodity" wholesale price index between February 21 and March 21, bringing to 30 per cent the advance in this index since the outbreak of the war in 1939. Of the major group indexes, the largest increase during March was shown for textiles, reflecting mainly increased prices for clothing. Indirect control was extended over this field during March by freezing quotations for cotton and rayon piece goods at levels prevailing early in the month.

Mixed tendencies were apparent in quotations for farm products during the month. The grain markets were hesitant, reflecting in part seasonal factors and in part uncertainties as to the future course of legislation which would curb the sale by the Commodity Credit Corporation of Government-owned surplus crops at prices below parity. Such legislation was passed by the House of Representatives on March 13 in the form of a rider to the agricultural appropriation bill. On the other hand, prices of some farm products, including cotton, wool, and steers, advanced sharply. Reflecting in part shortage of shipping space from the Argentine, flaxseed quotations increased substantially. Following a further rise in the average price of hogs in Chicago, which reached a 16 year high, a price regulation was issued by the O. P. A. for dressed hogs and pork cuts. Certain canned fruits and vegetables were also placed under price control early in March. As an aid to farmers in reaching the 1942 farm production goals, maximum prices were issued for certain fertilizers.

The O. P. A. found it necessary during March to expand to a considerable degree its price controls in the retail field. Thus, price regulations were issued governing retail sales of a number of consumers' durable goods, including radios and phonographs, refrigerators, stoves, new typewriters, vacuum cleaners, and washing and ironing machines. Service station prices for gasoline also were frozen in 19 States. Wholesale transactions in bedding equipment and used typewriters were also placed under price control. Moving into a new field, the O. P. A. designated 20 communities as "defense-rental areas" in which rents must be reduced within 60 days to levels prevailing on specified dates.

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

	Index March 21, 1942 (1926 = 100)	Percentage change Mar. 21, 1942 compared with	
		Feb. 21, 1942	Mar. 22, 1941
Farm products	103.1	+1.2	+42.6
Foods	95.5	+0.7	+26.3
Textile products	95.9	+2.3	+22.6
Chemicals and allied products	97.1	+0.2	+21.4
Housefurnishing goods	104.1	0	+14.5
Hides and leather products	116.6	+0.4	+12.9
Building materials	110.4	+0.6	+11.0
Fuel and lighting materials	78.2	—0.4	+ 7.9
Metals and metal products	103.7	+0.1	+ 6.0
Miscellaneous	89.7	+0.7	+15.7
All commodities	97.2	+0.7	+19.1
Raw materials	97.6	+0.4	+29.1
Semimanufactured articles	92.2	+0.3	+10.3
Manufactured products	97.9	+0.8	+15.9

Department Store Trade

Average daily sales of the reporting department stores in the Second District, to some extent as a result of the earlier date of Easter, increased more between February and March than was the case a year ago. The year-to-year gain in sales for March is estimated at about 23 per cent.

In February, sales of the reporting department stores in this District were 20 per cent higher than in February, 1941, but the average daily rate of sales decreased between January and February reflecting a subsidence of the buying wave which occurred in January. Substantial year-to-year gains were reported in sales during February of mechanical refrigerators, radios, corsets, and women's coats and suits, while moderate reductions were reported in the sales of cameras, pianos, and wines and liquors.

Retail stocks of merchandise on hand in department stores at the end of February continued substantially higher than a year previous, and this bank's seasonally adjusted index of department store stocks rose 17 points over January to a new high of 127 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, continued to grow during February, and were about 2½ times as great as those at the end of February, 1941.

Figures reported by a representative group of stores in this District indicate that the proportion of cash sales tended to be higher in January and February of this year than in the same months of 1941.

Department stores	Percentage changes from a year ago		
	Net sales		Stock on hand end of month
	February, 1942	Jan. and Feb., 1942	February, 1942
New York City	+18	+25	+49
Northern New Jersey	+22	+30	+52
Newark	+21	+29	+51
Westchester and Fairfield Counties	+25	+34	+28
Bridgeport	+32	+38	+36
Lower Hudson River Valley	+11	+25	+36
Poughkeepsie	+ 9	+27	....
Upper Hudson River Valley	+20	+32	+43
Albany	+18	+29	....
Central New York State	+27	+39	+49
Mohawk River Valley	+49	+59	+55
Syracuse	+21	+33	+48
Northern New York State	+10	+22	....
Southern New York State	+29	+40	+37
Binghamton	+28	+40	....
Elmira	+36	+45	....
Western New York State	+25	+36	+40
Buffalo	+30	+41	+43
Niagara Falls	+42	+52	+34
Rochester	+19	+30	+38
All department stores	+20	+28	+47
Apparel stores	+23	+25	+36

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

	1941		1942	
	February	December	January	February
Sales (average daily), unadjusted	79	194	104	94
Sales (average daily), seasonally adjusted	97	107	132	116
Stocks, unadjusted	80r	105	100r	119
Stocks, seasonally adjusted	86r	107	110r	127

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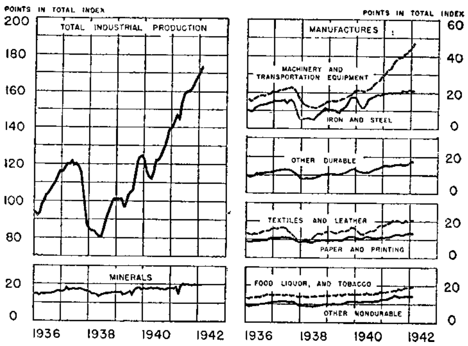
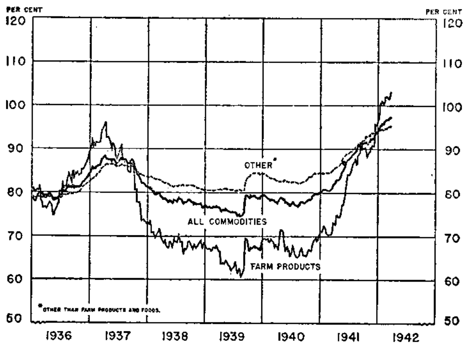
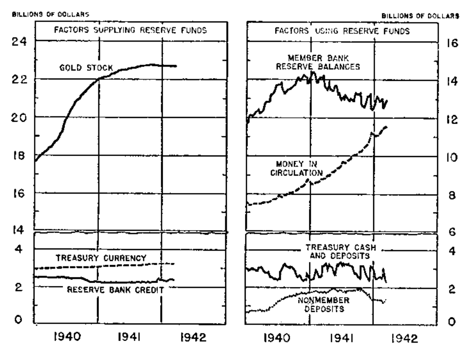


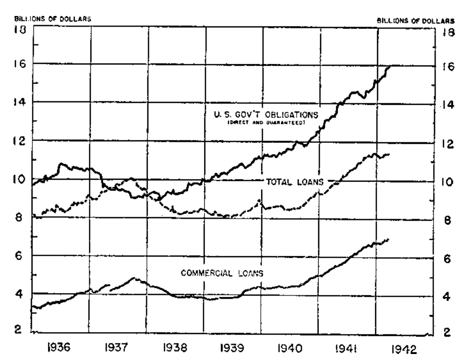
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent; subgroups shown are expressed in terms of points in the total index)



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



Member Bank Reserves and Related Items



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

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity increased further in February and the first half of March. Retail trade was sustained at high levels and commodity prices continued to advance.

Production

In February the Board's seasonally adjusted index of industrial production rose from 171 to 173 per cent of the 1935-39 average. As in other recent months, activity in the durable goods manufacturing industries, where the majority of military products are made, continued to advance, while in industries making nondurable goods and at mines activity was maintained at about the levels reached last autumn.

Steel production rose to 96 per cent of capacity in February and increased further to 98 per cent in the third week of March—which corresponded to an annual rate of nearly 87 million net tons. Lumber production also increased, following less than the usual seasonal decline during the previous two months. In the machinery and transportation equipment industries, now engaged mainly in armament production, activity continued to advance rapidly as plant utilization increased and capacity expanded. Conversion to armament production in the automobile industry, where output of civilian products was discontinued in early February, is apparently being effected much more rapidly than had been anticipated earlier.

There were further increases in output at cotton textile mills and at chemical factories, reflecting an increasing amount of work on military orders. At meat packing establishments activity was maintained near the high rate reached in January. Shoe production increased by less than the usual seasonal amount. Anthracite production rose sharply in February and bituminous coal production was maintained near the high rate of other recent months. Output of crude petroleum, which had been at record levels in December and January, declined somewhat in the latter part of February and in the first half of March, reflecting transportation difficulties.

Construction

Value of construction contract awards increased considerably in February, according to figures of the F. W. Dodge Corporation, owing mainly to a sharp rise in awards for public projects. Total awards in February were half again as large as last year, and public awards were about three times as large.

In nonresidential building, awards for public projects increased materially, while those for private projects continued to decline. There was a slight rise in awards for public utility construction.

In residential building, contracts for private work changed little from January, while those for publicly financed projects increased sharply and amounted to about half of the total for the first time on record. For the past six months there has been a noticeable shift in privately financed housing activity from building for owner-occupancy to building for sale or rent; in February, awards for the former constituted only about one fifth of the small-homes total. This shift is attributable mainly to the activity in defense areas and to legislation enacted last spring making possible the insurance of mortgages taken out by builders.

Distribution

Value of retail trade continued large in February. Sales at general merchandise stores and variety stores increased more than seasonally, while sales at department stores declined. In the first half of March department store sales increased by about the usual seasonal amount.

Freight car loadings, which in January had been unusually large for this time of year, declined somewhat in February owing to smaller shipments of coal, grain, and miscellaneous freight.

Commodity Prices

Wholesale prices continued to advance from the middle of February to the middle of March, particularly those for finished consumer goods such as meats, fruits and vegetables, shoes, clothing, and household items. Temporary maximum price orders were issued covering wholesale prices of some of these products, including pork, canned fruits and vegetables, finished cotton and rayon fabrics, cotton rugs, and bedding equipment. These orders, according to statute, used as maximums the prices prevailing within five days prior to issuance. They are effective for only 60 days and may be replaced by regular schedules.

Treasury Financing and Bank Credit

In March income tax receipts by the Treasury for the first time reflected the higher schedule of rates. The effect of these receipts on the money market was largely offset by redemption of Treasury bills previously issued to mature during the tax collection period, by tax anticipation notes turned in on payment of taxes, and by continued heavy Treasury expenditures. As a consequence a record volume of Treasury operations was effected with little influence on conditions in the market. Excess reserves of member banks showed no large change and on March 18 amounted to about $3.2 billion.

United States Government obligations held by member banks in leading cities showed little change during the first three weeks of March following a sharp rise in February. Commercial loans increased further.