MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in April

The downward trend in the volume of excess reserves of member banks, which since February had been offset by Government disbursements from Treasury balances in excess of receipts, reappeared in the latter part of April. On April 22 total excess reserves of all member banks were reduced to $2,750,000,000, the smallest amount since September 21, 1938, and excess reserves of the central reserve New York City banks fell to $640,000,000, the smallest amount since April 6, 1938. Fifteen months ago the total for all member banks was around $6,800,000,000, and excess reserves of the New York City banks were about $3,500,000,000.

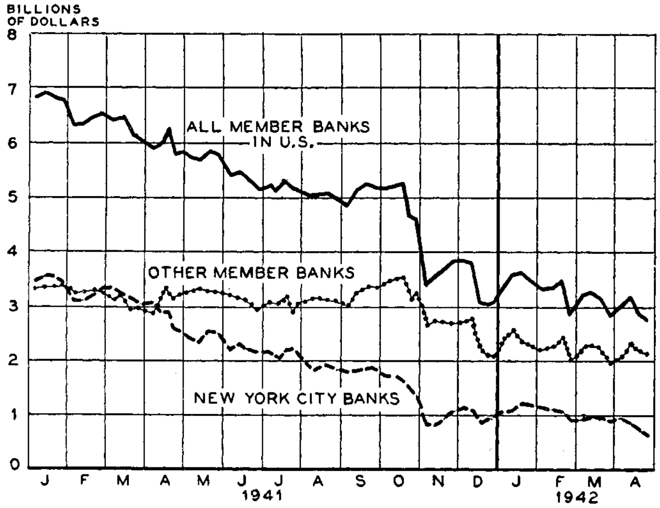
Furthermore, excess reserves are not evenly distributed among individual banks, and, for the first time in several years, there have been occasional instances in recent weeks of borrowings of "Federal funds" by large New York City banks (that is, day-to-day borrowings of reserve funds by banks that are short of reserves from banks that still hold large amounts of excess reserves). Money market conditions, nevertheless, have remained reasonably easy, and only a slight rise in short term money rates occurred in April.

Member bank reserve positions during April continued to be dominated by transactions of the United States Treasury. During the four weeks ended April 22, the Treasury received—in addition to revenue collections—$775,000,000 from the banks through cash payments for an offering of certificates of indebtedness, $300,000,000 through sales of two Treasury bill issues on dates when there were no maturities, and approximately $800,000,000 through withdrawals of deposits previously accumulated at commercial banks that had used the "book credit" method of payment for new issues of Treasury obligations. On the other hand, the return flow of funds to member banks, through drafts upon the Treasury's checking accounts with Federal Reserve Banks to cover Government disbursements, proceeded rapidly. War expenditures, constantly mounting, ran in excess of $100,000,000 a day. In fact, the Treasury drew down its deposits with the Federal Reserve Banks to the extent of $230,000,000 in the four weeks ended April 22, although $200,000,000 of this amount was placed to the credit of the Chinese Government on the books of the Federal Reserve Banks and thus did not reach the money market.

In addition to the small net flow of funds into the money market as a result of Treasury operations, member bank reserve balances were increased by net purchases of $52,000,000 of Government securities (chiefly Treasury bills) by the System Open Market Account. However, a further rise in currency circulation of $180,000,000 more than offset these factors of gain, and member bank reserve balances showed a net decline of $57,000,000.

Deposit expansion, accompanying a continued growth in bank investments, resulted in an increase in reserve requirements over the four week period and, as a result of the combination of enlarged reserve requirements and diminished reserve balances, member bank excess reserves showed a net decline of $100,000,000 between March 25 and April 22.

The brunt of the decline in excess reserves fell on central reserve New York City banks. This was the result, by and large, of purchases by them and their customers of Government securities and heavy withdrawals from them of Government deposits, which together were substantially in excess of the volume of funds reaching the New York money market through Treasury expenditures. In fact, member bank excess reserves outside New York City were greater on April 22 than they had been on March 25. Reserve balances of the central reserve New York



Excess Reserves Held by Member Banks

City banks declined $240,000,000 during the four weeks and their excess reserves dropped an equivalent amount. These banks, as a group, gained reserves through an inflow of funds from other parts of the country to New York, as well as through disbursements from foreign accounts with the Reserve Banks and purchases of Government securities by the System Open Market Account. But Treasury withdrawals from the New York banks were unusually heavy. Certificates of indebtedness were allotted in the Second District to the extent of $833,000,000, and cash payments for them withdrew over $300,000,000 from the New York money market. In addition, sales of Treasury bills in New York exceeded maturities here by nearly $300,000,000, largely because holdings of such bills in Chicago over the Cook County tax date were not replaced by purchases of new issues after April 1. Withdrawals from "special depositaries" in New York—from bank deposits accumulated to the credit of the United States Treasury through past purchases of Government obligations that were paid for by the "book credit" method—were in the neighborhood of $550,000.000.

With member bank excess reserves at reduced levels, there are indications that banks are tending to utilize the "book credit" method of payment to an increasing extent in acquiring newly-offered Government securities. For example, on the April 15 offering of certificates of indebtedness, 59 per cent of allotments in the Second Federal Reserve District were paid for by "book credits"; outside the Second District, where bank reserve positions were generally easier, payments through "book credit" amounted to 35 per cent of allotments.

Treasury special deposits with commercial banks on account of sales of Government securities, currently running at around $2,000,000,000, provide a "backlog" of funds on which the Treasury can draw for meeting current expenditures between dates of major financing operations. To the extent that withdrawals from these accounts are matched by current expenditures of the Treasury, bank reserve positions, in the aggregate, are unaffected. Likewise, member bank reserve balances are unaffected when Government securities are bought and paid for by the "book credit" method, although reserve requirements do tend to increase (and excess reserves tend to be diminished) as a result of the accompanying expansion of total bank deposits.

Government Securities

April was marked by the offering of $1,500,000,000 one-half per cent Treasury certificates of indebtedness, the first time that securities of this type have been available to investors in eight years. Certificates of indebtedness were first used by the United States Treasury in 1917, and during the period April 25, 1917-October 31, 1919 about $25,000,000,000 of such securities (exclusive of certain special issues) were sold. These securities were then employed as a supplement to the Liberty Loans and taxation in financing the war and as an aid in stabilizing money market conditions, their maturities being geared to the dates of payments for Liberty bonds and dates when income taxes came due. The amount outstanding at any one time fluctuated widely; a peak of more than $6,000,000,000 was reached shortly before sale of the Victory notes in May, 1919. The Treasury continued to utilize certificates of indebtedness in its financing until 1934 when Treasury bills, first issued in December, 1929, became the sole medium of market financing by the Treasury for periods up to a year.

Certificates of indebtedness, unlike Treasury bills which are sold on a discount basis, carry coupons. Their maturity cannot exceed one year from date of issuance. The issue offered during April was dated April 15, to mature November 1, 1942. Despite the absence of offerings of this type for eight years, and resultant unfamiliarity with them, the certificates were well received, subscriptions totaling $3,062,000,000. Subscriptions of $25,000 or less, which totaled about $66,000,000, were allotted in full; 48 per cent allotments were made on the larger subscriptions. Of the $1,500,000,000 allotted, $270,000,000 went to New York City banks, $80,000,000 to Chicago banks, $250,000,000 to weekly reporting member banks elsewhere, and $900,000,000 to others, including banks outside the weekly reporting group, insurance companies and other corporations, and private investors. Market quotations immediately rose to a slight premium and subsequently fluctuated only slightly, the yield at the end of the month being 0.49 per cent bid; trading has been inactive.

After fluctuating within a narrow range during the first half of April, prices of Treasury bonds moved somewhat lower after the 18th to levels prevailing in the early part of March. Near the end of April the average yields on long term Treasury bonds were 2.06 per cent for the partially tax exempt bonds and 2.38 for the taxable issues. The average yields were 2.02 per cent and 2.33 per cent, respectively, on March 31.

Prices of Treasury notes also eased slightly, and the average yield on three to five year taxable Treasury notes rose from 0.94 per cent on March 31 to 1.03 per cent on April 28, the highest level since December 27, 1941. The yield on the tax exempt ¾ per cent Treasury note due March 15, 1945 moved irregularly in a limited range; near the end of the month the yield was 0.44 per cent.

Accepted bids on the five weekly issues of Treasury bills during April were tendered on average interest bases rising from 0.221 per cent on the April 1 issue to 0.335 per cent, the highest rate since the October 20, 1937 issue (which was $50,000,000 of 273 day bills), on the

April 29 issue. Each of the five issues was in the amount of $150,000,000, and, since only $450,000,000 of Treasury bills matured during April, a total of $300,000,000 of "new money" was put at the Treasury's disposal from this source. The April 1 issue was of 78 day term and the issue of the 8th of 72 day term; these issues consequently will mature during the next quarterly income tax collection period in June. The three later Treasury bill issues in April were of 91 day term.

The advance during April in the average interest rate at which new issues of Treasury bills were taken up is explained in part by the passing of the April 1 tax date in Chicago and the accompanying drop in demand for Treasury bills in that district. As another factor, the sale of the $1,500,000,000 Treasury certificates of indebtedness contributed substantially toward filling the demand for short term investments, which might otherwise have sought Treasury bills. The System Open Market Account exercised a stabilizing influence on the Treasury bill market in the latter part of April by net purchases of $89,000,000, which represented absorption of the floating supply.

Money Rates in New York

	Apr. 30, 1941	Mar. 31, 1942	Apr. 29, 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	0.43	0.44
Average yield on taxable Treasury notes (3-5 years)	0.73	0.94	1.03
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.00	2.02	2.06
Average yield on taxable Treasury bonds (not callable within 12 years)	—	2.33	2.38
Average rate on latest Treasury bill sale 91 day issue	0.097	0.203†	0.335
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.

Member Bank Credit

During the four weeks ended April 22, total loans and investments of the weekly reporting member banks increased $612,000,000 further to $31,393,000,000. The rise was concentrated entirely in investments and was accounted for principally by purchases by these banks of the new certificates of indebtedness; the volume of outstanding loans, in fact, showed a reduction of $160,000,000 over this period.

Treasury bill holdings of the weekly reporting member banks declined $243,000,000 in the week ended April 1, despite an increase of $150,000,000 during that week in the amount of outstanding Treasury bills, owing to a temporary demand on the part of corporations and individuals for tax avoidance purposes in the Chicago District. Bill holdings of the weekly reporting group rose $365,000,000 in the following week, however, as banks, particularly those in Chicago, reacquired bills from other investors or were allotted portions of the $150,000,000 of "new money" bills issued by the Treasury during the week. For the entire four week period, bill holdings increased $180,000,000, Treasury bonds and notes were $37,000,000 higher, and acquisitions of certificates of indebtedness amounted to $609,000,000, while obligations guaranteed by the United States, together with holdings of other securities, declined $54,000,000. The volume of commercial, industrial, and agricultural loans, which had reached a peak of $7,035,000,000 on March 18, receded $134,000,000 further to $6,874,000,000 during the four weeks ended April 22.

Adjusted demand deposits, following the decline in the previous month attributable to withdrawals for payment of income taxes, showed a net rise of $571,000,000 between March 25 and April 22 for the weekly reporting banks as a whole, although for New York City banks there was a decline of $19,000,000.

Security Markets

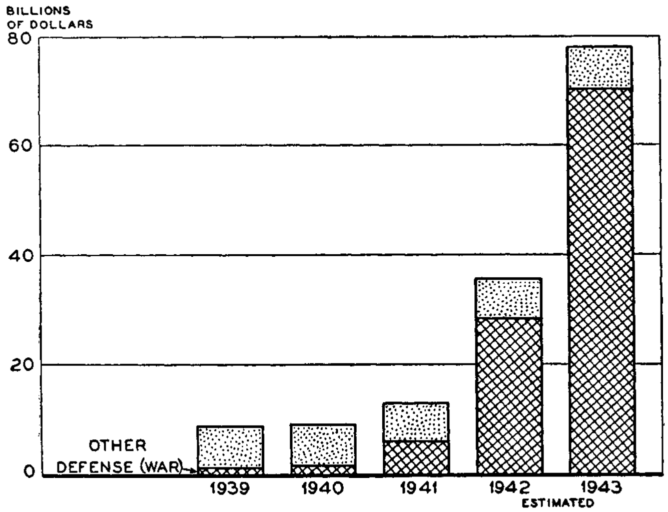
Unfavorable foreign news and domestic uncertainties affected the stock market adversely during April. The Standard 90 stock price index continued downward in a movement now extending over almost four months. On April 28 the index was 18 per cent below the 1942 high and at the lowest level in nine years. The net decline for April amounted to about 4 per cent. Trading on the New York Stock Exchange continued to be light.

Steadiness in domestic corporate bond prices again contrasted with declining stock quotations in April. The average price of high grade corporate bonds, measured by the Aaa index of Moody's Investors Service, showed little change in level during the month. The Aaa bonds at the end of April averaged about ⅜ of a point below the 1942 high. Medium grade corporate bonds, classified as Baa by Moody's, likewise moved within narrow limits. On April 7 the Baa price index equaled the 1941 high set last November. The average price of prime municipal bonds continued to edge upward during the first three weeks of April but weakened following the President's recommendation in his recent message to Congress that interest on such issues should be made subject at least to surtaxes. Standard's average yield on prime municipal bonds stood at 2.46 per cent on April 29, in comparison with 2.52 on March 25, 1942.

Following news toward the end of the month that gasoline rationing will be imposed during May in many Eastern States, highway, bridge, and port authority bonds were subjected to severe pressure.

Revised Budget Estimates

Revised budget estimates for the current and next fiscal year, issued April 24 by the Bureau of the Budget, reflect the expansion in the scope of the war program which has occurred since the previous forecasts were submitted to the Congress by the President last January. War expenditures (now running at an annual rate of close to $40,000,000,000) are now expected to reach $28,000,000,000 for the current fiscal year ending June 30, as against the earlier estimate of $26,000,000,000; and for the year ending June 30, 1943, the estimate of expenditures under this classification has been revised to $70,000,000,000, an amount 25 per cent greater than the $55,800,000,000 forecast in January. No revisions were made in the estimates for other expenditures, which are expected to amount to $6,600,000,000 this fiscal year and $6,100,000,000 in the following year. Estimates of net receipts (without giving effect to additional tax proposals now before Congress) were raised



U. S. Government Expenditures (For fiscal years ended June 30; 1942 and 1943 estimated)

slightly to $12,700,000,000 for the current year and $16,900,000,000 for the next fiscal year.

The growing magnitude of the war program will, of course, involve an increasing volume of Treasury financing. Secretary of the Treasury Morgenthau announced April 27 that the Treasury would borrow in the open market $2,000,000,000 in May and another $2,000,000,000 in June.

War Savings Bonds

Incomplete data based upon the Daily Statement of the United States Treasury of April 27 indicate that aggregate sales of United States Savings Bonds for the country as a whole declined slightly from March to April, but were close to the $529,000,000 figure for December, 1941, and continued to run substantially ahead of the rate prevailing prior to this country's entrance into the war. Defense Savings Bonds—presently to be called *War* Savings Bonds—have now been on sale for a full year, during which time a total of approximately $5,400,000,000 has been sold.

In the Second Federal Reserve District, total sales of all series of Savings Bonds, by agencies other than post offices, amounted to approximately $100,000,000 during April. This volume was less than in the preceding four months, but prior to that period was exceeded only in May, 1941, the month when Defense Savings Bonds first went on sale. Sales of the Series E bonds accounted for about $50,000,000 of the Second District total for April, or close to the amount sold in March.

Among the factors responsible for the recent decline in sales may be mentioned the waning of the type of buying which in recent months led some persons to withdraw deposits from savings institutions for investment in Savings Bonds; uncertainties with respect to personal budgets for the coming year caused by rising prices and taxes; and perhaps a tendency for some to delay enlarged purchases until the start of the Treasury's intensified campaign. As the program for financing the war and avoiding inflation unfolds, these influences should be overcome and a renewed expansion in sales should set in. Secretary Morgenthau has reported that 59,000 plants, employing about 20,000,000 persons, have adopted voluntary payroll deduction plans. In New York State alone, over 9,000 firms, employing about 4,600,000 persons, are participating. As the program develops, more and more emphasis will be needed on increasing rates of subscription out of current income, indeed to a point where genuine and general self-sacrifice is involved.

In the Treasury's campaign—just now being launched —the public is urged to set aside at least 10 per cent of income for the purchase of War Savings Bonds. National, State, and county quotas have been prepared, the aim of which is to effect sales by midsummer of about $1,000,000,000 a month, or more than double the average monthly rate during the first year these bonds were on sale.

The goal for New York State has been set at $125,000,000 for the month of May. This represents about 21 per cent of the National quota of $600,000,000 for May, or approximately the same ratio as obtained during the period July, 1941, through January, 1942, when New York State sales averaged $93,000,000 a month and country-wide sales $438,000,000. Quotas for subsequent months are to be higher.

On April 6, the Treasury Department announced that henceforward Defense Savings Bonds and Stamps would be known as War Savings Bonds and Stamps. For a few months, however, until present supplies are exhausted, new bonds sold will bear the word "defense", but the securities in other respects are identical.

War Contract Financing

On April 11, 1942, the Board of Governors of the Federal Reserve System announced the adoption of Regulation "V" to carry out the President's Executive Order of March 26, 1942, for the purpose of facilitating and expediting the financing of war production. Such purpose will be accomplished by arranging for the financing of contractors, subcontractors, and others engaged in businesses or operations, deemed by the armed services and the United States Maritime Commission to be necessary for the prosecution of the war, even though the amount of credit required might not, under ordinary circumstances, appear to be warranted by the financial condition of the borrowers.

Under the Executive Order, the War Department, the Navy Department, and the Maritime Commission are authorized to guarantee commercial banks, Federal Reserve Banks, the Reconstruction Finance Corporation, or other financial institutions against loss on loans made to concerns to finance the performance of war orders.

The Board's regulation authorizes the Federal Reserve Banks, acting in accordance with the provisions of the President's Executive Order and the instructions of the three military procurement agencies, to arrange loans and guarantees thereof wherever it is believed that they will contribute to the obtaining of maximum war production expeditiously.

To assist in carrying out the provisions of the President's Executive Order and to aid in decentralizing operations under it as fully as possible, the War Department plans to have a liaison officer stationed at each Federal Reserve Bank. Generally speaking the liaison officer will certify to the Reserve Bank that an applicant for financing is qualified from the technical or production standpoint to carry out a contract, subcontract, or order for war supplies or equipment.

It is expected that any applicant will first take up his credit needs with his commercial bank or other financing institution. When the necessary credit cannot be arranged by the financing institution without protection against undue risk of loss, the financing institution will apply to the Federal Reserve Bank for a guarantee of a part or all of the proposed financing. It will be the Reserve Bank's function to analyze the financial aspects of the application and determine the type of financing best suited to meet the situation, and after obtaining certification as to the necessary character of the production involved, to arrange such guarantee as may be required.

The Federal Reserve Bank of New York has been designated by the Secretary of the Treasury to act as a fiscal agent of the United States pursuant to the President's Executive Order. The cooperation of all banks, both members and nonmembers of the Federal Reserve System, and of all other financing institutions in the Second Federal Reserve District is requested for the purpose of facilitating the financing of war production.

Copies of the President's Executive Order of March 26 and Regulation "V" have been distributed widely and additional copies are available upon application to this bank or its Buffalo Branch. Inquiries arising in this District regarding this war financing program should be addressed to this bank or its Buffalo Branch.

New Financing

The outstanding event in the market for new corporate security issues during April was the public offering on April 24, at par, of $100,000,000 American Tobacco Company 20 year 3 per cent debentures, which attracted a substantial demand, especially from institutional investors. This issue was responsible for raising the month's total of corporate and municipal financing, exclusive of short term issues, to $182,000,000 from what would otherwise have been close to the lowest level reached in almost seven years. Corporate flotations totaled $118,000,000, of which $105,000,000 (including $87,000,000 of the American Tobacco Company issue which will be used to retire bank loans) was classified as new capital.

The only other corporate offering worthy of note was $10,000,000 Union Electric Company of Missouri first mortgage 3⅜ per cent bonds of 1971, priced at 109⅞ to yield 2.87 per cent. As a result of a War Production Board order of April 7, placing certain restrictions on the delivery of new railroad equipment, scheduled offerings of a total of $15,600,000 of equipment trust certificates by two railroad companies were canceled. Two sizable municipal issues were offered during the month: $17,500,000 City of Cleveland, Ohio, 3¾ per cent transportation system revenue bonds, maturing from 1943 to 1962, priced to yield from 1.00 to 3.50 per cent, and $16,800,000 City of Detroit, Michigan, 2¼, 2½, and 3½ per cent bonds, maturing from 1943 to 1963, priced to yield from 0.60 to 2.70 per cent.

Foreign Exchanges

In a foreign exchange market which continued quiet and inactive during April, some improvement was shown in the Canadian dollar, the unofficial discount on which narrowed 1½ points to close the month at 11 11/16 per cent. This gain, which offset most of the previous month's loss, appears to have reflected in large part some demand for Canadian exchange in anticipation of the approaching tourist season. Accompanying a small volume of dealings, which has been typical of trading in all exchanges in recent months, the free rate for the Venezuelan bolivar continued its advance, rising to a new high of around $0.2870 during the month and thereby extending the appreciation so far this year to approximately eight per cent. The Cuban peso advanced to a premium of about ¼ per cent in terms of the dollar during the month, but later returned to about par.

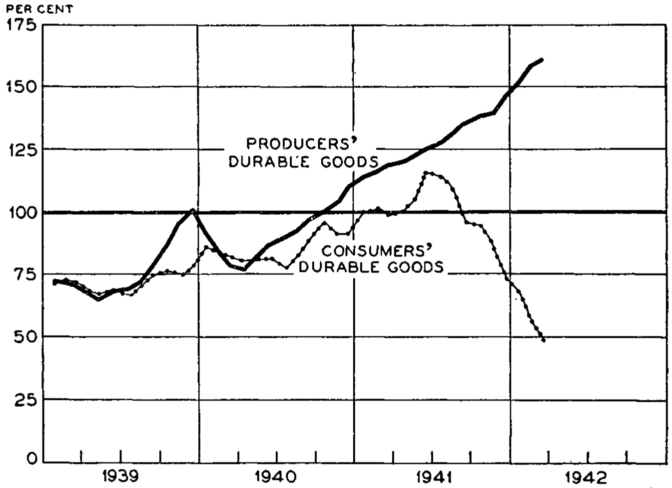
With the supply limited, a renewed demand in this market for so-called free Swiss francs was reflected in a rise of nearly two cents to $0.2700 in the rate for this exchange. This rate compares with $0.2331, the equivalent of the rate at which Swiss commercial banks will supply Swiss francs against dollars for certain specified purposes.

Production and Trade

Further progress toward the attainment of maximum production of war goods was made during April. As a result of the rapid acceleration of the war effort, the President intimated late in April that the war production goals would be raised and the Director of the Budget announced sharp upward revisions of projected war expenditures for the remainder of the present fiscal year and for the fiscal year ending June 30, 1943. The Chairman of the War Production Board stated that the conversion of industry to full war production had proceeded much more rapidly than had been expected and that restrictions on the output of consumers' durable goods would be broadened to include practically the entire field within the next two or three months.

Industrial conditions in April were similar to those which characterized recent months. Declining production of consumers' durable goods was again offset by further gains in the output of war materials, with the result that the general level of productive activity remained high. The record rate of steel production reached in March appears to have been maintained in April and the output of bituminous coal continued in large volume. Electric power production was maintained at the high rate of the three preceding months, seasonal factors considered. Incomplete figures indicate a pronounced contraseasonal increase in the movement of bulk freight over the railroads; loadings of merchandise and miscellaneous freight, however, appear to have declined slightly. Owing to continued transportation difficulties, output of crude petroleum was further curtailed in April, when the Texas Railroad Commission issued a proration order shutting down most of the Texas oil wells for 18 days during the month. Additional restrictions were placed on deliveries of gasoline to service stations in the Eastern Seaboard and Pacific Northwest areas.

Owing to the present and potential difficulties in ob-



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

taining adequate supplies of burlap from India, the W. P. B. on April 20 ordered the cotton textile industry to convert within two months a substantial portion of the looms still making civilian fabrics to the production of materials for bagging and other war uses. According to plans now being worked out, adequate supplies of essential civilian fabrics will be assured and it is expected that total production of cotton goods for all purposes will be increased considerably.

Production and Trade in March

In March the seasonally adjusted index of production and trade computed at this bank declined one point further to 111 per cent of estimated long term trend. The figure a year earlier was 105. The decline in the index in March, like that in February, resulted primarily from the fact that retail trade, on the whole, failed to show the usual seasonal increase. Productive activity in general continued at a record level.

	1941	1942		
	Mar.	Jan.	Feb.	Mar.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	105	114	112*p*	111*p*
Production	109	120	120*p*	120*p*
Producers' goods—total	116	140	143*p*	143*p*
Producers' durable goods	119	151	158*p*	161*p*
Producers' nondurable goods	113	127	126*p*	123*p*
Consumers' goods—total	101	97	93*p*	92*p*
Consumers' durable goods	99	68	56*p*	49*p*
Consumers' nondurable goods	101	107	106*p*	106*p*
Durable goods—total	113	127	128*p*	128*p*
Nondurable goods—total	106	115	114*p*	113*p*
Primary distribution	98	109	110*p*	109*p*
Distribution to consumer	103	103	96*p*	91*p*
Miscellaneous services	101	111	113*p*	112*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	101	112	113	114
Wage Rates (100 = 1926 average)	118	131	131*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	58	63	62	60
Outside New York City	89	89	90	90

p Preliminary. *Adjusted for seasonal variation.

The output of war goods mounted higher in March, and conversion of the automobile and other industries formerly producing consumers' durable goods proceeded at a rapid rate. The component index of output of producers' durable goods, which includes important war industries such as steel, aircraft, shipbuilding, and machinery, again advanced, while the index of production of consumers' durable goods fell further. The sharp divergence between these two types of industrial activity since last summer is portrayed in the accompanying chart.

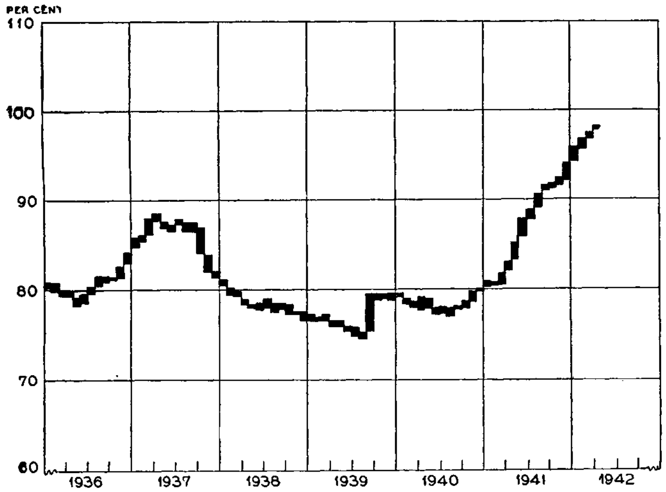
After seasonal adjustments, the output of nondurable goods in the aggregate declined slightly between February and March, reflecting a pronounced curtailment in the production of crude petroleum (owing to transportation difficulties), and some slackening in the rate of cotton consumption from the record attained in February.

Commodity Prices

Anticipation of the early adoption of over-all price ceilings apparently served as a restraining influence upon commodity price advances during most of April, although the general tendency was again toward higher price levels. Failure of selective price fixing policies to check persistent increases in a broad list of wholesale commodity prices, and the resulting impetus given to advances in retail prices and living costs, led to the formulation of a program of more inclusive price control. The Office of Price Administration announced on April 28 a General Maximum Price Regulation, freezing prices of the major items affecting living costs. The new comprehensive program places general ceilings at the highest levels prevailing in March, 1942, not only upon wholesale commodity prices previously uncontrolled but also upon retail prices, and upon certain service charges. The order becomes effective on prices of manufacturers and of wholesalers, May 11; on retail prices, May 18; and on service charges, July 1. Certain items, however, are exempted from control under the new regulations, among which are prices on farm products calling for parity treatment, and food prices subject to wide seasonal variations. Supplementing the general order, ceilings were announced on residential rents in many newly designated areas (including a large number in the Second Federal Reserve District).

During April the Office of Price Administration issued a general program of price control over all commodities sold for export, effective April 30, to supersede all previous regulations; maximum prices for certain fuels, machinery, and a number of other items, to supplement the general price freezing order, were announced to become effective during May.

According to the Bureau of Labor Statistics comprehensive weekly index, wholesale commodity prices on April 25 reached the highest point since 1928, showing an increase of 7 per cent since we entered the war last December and of 19 per cent from April 26, 1941. The largest price advances over a year earlier were concentrated in raw materials; prices of manufactured products as a whole were about 5 per cent above December 6 and 15 per cent higher than a year earlier. Important in this group of commodities are processed foods and textiles, prices for which have moved sharply upward over the



Index of Wholesale Commodity Prices (Monthly range of Bureau of Labor Statistics weekly indexes; 1926 average=100 per cent)

past twelve months, accompanying advances in the prices of raw materials.

In order to make equitable disposition of available supplies of commodities which have become scarce, largely because of transportation difficulties, the O.P.A. during April announced that rationing would become effective in May, covering consumer purchases of sugar and also gasoline to be used in noncommercial passenger cars. Sugar rationing is to be country-wide. The gasoline rationing order applies only in 17 Eastern States and the District of Columbia and, in effect, will result in a further curtailment of the deliveries previously allowed to filling stations in this area.

Employment and Payrolls

President Roosevelt, on April 18, established a War Manpower Commission charged with the formulation of plans and establishment of basic policies to assure the most effective mobilization and utilization of the nation's manpower in the prosecution of the war. Among its other functions, the commission will estimate labor requirements of industry, review and coordinate all other estimates of needs for military and civilian manpower, and direct Government agencies (including the Selective Service System) as to the proper allocation of available manpower. The chairman of the commission, Paul V. McNutt, indicated that, although most of the 13,000,000 war production workers who, it is estimated, will be hired in the next year will come from those employed at present in civilian industries, several million must be added to the labor force from the ranks of women, young people, self-employed persons, and retired workers.

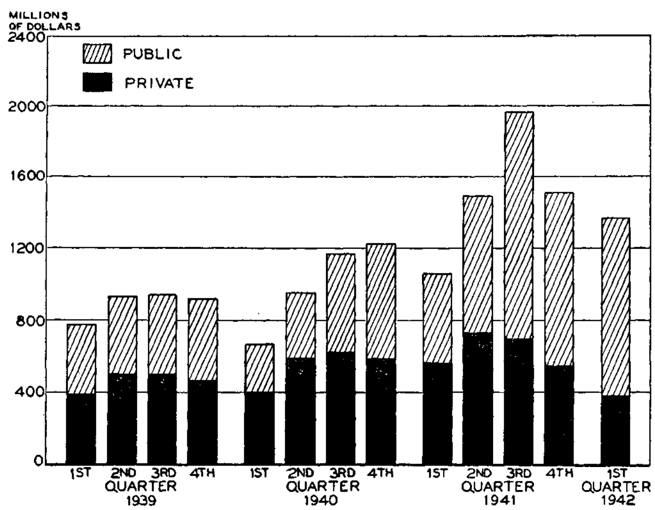
During March, the number employed in civil nonagricultural occupations in the United States as a whole increased 370,000 to a total of 40,300,000 persons, according to estimates made by the Bureau of Labor Statistics. The largest gain during the month occurred among civilian government employees; factories and construction firms also added substantially to their working forces. Total civil nonagricultural employment in March was more than 2,500,000 above the March, 1941 level, and over half of this gain occurred in manufacturing industries.

United States factory employment during March rose about 1 per cent above the February level, and payrolls increased 2 per cent. Industries producing war goods continued to hire additional workers, more than offsetting the temporary layoffs due to conversion to war production of automobile factories and other consumers' durable goods plants. In nondurable goods industries there was, on the whole, little change in employment during the month. Compared with March, 1941, factory working forces were 12 per cent greater and payrolls were 39 per cent larger.

In New York State, manufacturing employment increased 1½ per cent during March, and payroll disbursements rose 3 per cent further, according to the State Department of Labor. More persons were at work in most of the war industries, but these gains were partially offset by curtailed production in plants manufacturing typewriters, cans, heating apparatus, and other nondefense products requiring the use of metals. The apparel industry increased its working forces somewhat over February, but woolen mills and the carpet industry reduced employment. As a whole, factory employment was 16 per cent above the March, 1941 level, and payrolls were 43 per cent greater.

Building

The decline in the volume of nondefense construction, which has been going on since the middle of last year, will apparently be accelerated by the order of the War Production Board, dated April 9, drastically curtailing nonessential building. Last October the Supply Priorities and Allocations Board announced that projects requiring the use of certain critical materials and not required for defense or for public health and safety would not receive priority assistance. Under the new order, however, while ordinary maintenance and repair work may continue without restriction, no new construction, except on small projects or those essential to the war effort or to public health and safety, may be started without the specific permission of the W.P.B. The order also states that construction now under way may be halted if the materials used are needed for war projects.



Value of Construction Contracts Awarded in 37 States, Classified by Type of Ownership (F. W. Dodge Corporation data)

However severe this order may be, the W.P.B. expects that the total volume of new construction in 1942 will exceed the total for 1941, owing to the upward trend in the volume of awards for military projects.

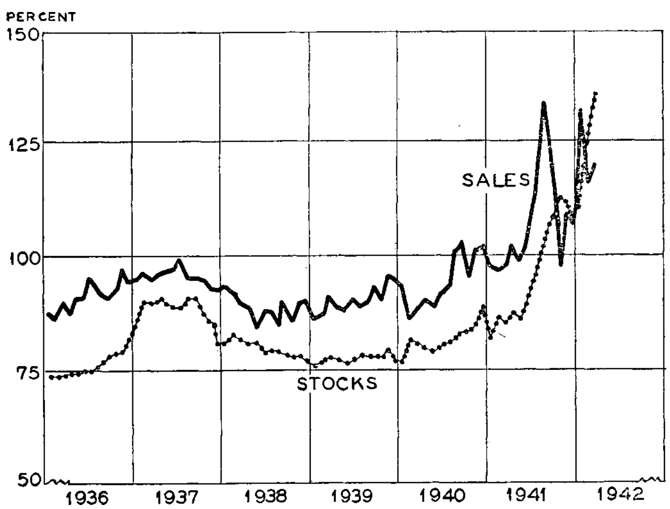
The effect of the war on the relationship between private and public construction is indicated in the preceding chart which presents quarterly data on construction contract awards in 37 Eastern States, based on F. W. Dodge Corporation figures. The expansion in the volume of awards for private construction from the second quarter of 1940 (at the start of the defense program) to the high point in 1941 was relatively slight, compared with the marked increase in public construction. In the first quarter of 1942 private construction accounted for only about one quarter of all contracts awarded in the 37 States, compared with about one half in the corresponding period in 1941. This comparison is all the more striking inasmuch as a portion of private construction includes projects essential to the war program. The W.P.B. order referred to above indicates that private construction will be further curtailed during the remainder of 1942.

In New York State and Northern New Jersey the volume of construction contracts awarded during the first quarter of 1942 was slightly below the corresponding period last year. Awards for private projects in the first three months of this year amounted to only half the volume recorded during the first quarter of 1941, but awards for public construction more than doubled between the two periods.

Department Store Trade

In April sales of the reporting department stores in the Second District fell off from the level of March, contrary to the usual seasonal tendency. The rate of sales ordinarily expands between March and April even when, as this year, Easter is early and Easter buying largely concentrated in March. For the four weeks ended April 25, total sales of the reporting department stores in this District are estimated to have increased by about 4 per cent over the corresponding 1941 period.

In March, sales of the reporting department stores in this District were about 22 per cent higher than in March, 1941, and the average daily rate of sales increased more than usual over February. Substantial year-to-year gains continued to be reported during March in sales of radios, women's and misses' coats and suits, and men's and boys' clothing. Considerable gains also were reported in sales of sporting goods, while sizable reductions were reported in the sales of mechanical refrigerators.



Indexes of Sales and Stocks of Reporting Department Stores in Second Federal Reserve District, Adjusted for Seasonal Variation (1923-25 average=100 per cent)

During March retail stocks of merchandise on hand in department stores continued to expand. At the end of March stocks were about 57 per cent higher than in March, 1941 and this bank's seasonally adjusted index of department store stocks rose further to 135 per cent of the 1923-25 average, a new peak. The indexes of department store sales and stocks adjusted for seasonal variation are shown for the Second District in the accompanying chart. Both sales and stocks have tended upward since the beginning of 1939, but during the past year the increase in stocks has become especially marked, while sales have shown wide fluctuations. The behavior of these indexes over the latter period reflects advancing prices as well as increasing physical stocks and fluctuating physical volumes of sales.

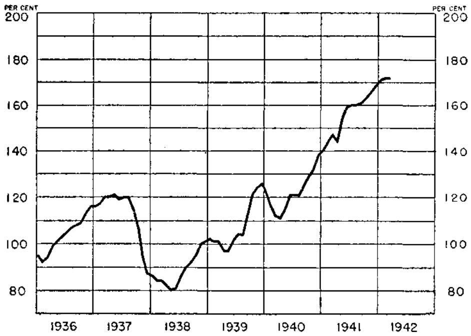
Returns from a limited number of department stores in this District indicate that at the end of March outstanding orders for merchandise purchased by the stores, but not yet delivered, continued to be about 2½ times as large as those at the end of the corresponding month in 1941.

Department Stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand end of month, March, 1942
	March, 1942	Jan. through March, 1942	
New York City	+20	+23	+61
Northern New Jersey	+23	+27	+59
Newark	+24	+27	+57
Westchester and Fairfield Counties	+29	+32	+40
Bridgeport	+30	+35	+47
Lower Hudson River Valley	+21	+23	+36
Poughkeepsie	+24	+26	....
Upper Hudson River Valley	+25	+29	+38
Albany	+19	+25	....
Central New York State	+34	+37	+59
Mohawk River Valley	+54	+57	+71
Syracuse	+28	+31	+56
Northern New York State	+24	+23	....
Southern New York State	+35	+38	+41
Binghamton	+35	+38	....
Elmira	+39	+43	....
Western New York State	+26	+32	+47
Buffalo	+31	+37	+48
Niagara Falls	+50	+51	+40
Rochester	+20	+26	+48
All department stores	+22	+26	+57
Apparel stores	+34	+28	+43

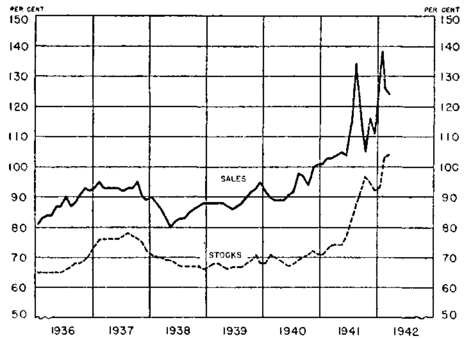
Indexes of Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1941 March	1942 January	1942 February	1942 March
Sales (average daily), unadjusted	85r	104	94	106
Sales (average daily), seasonally adjusted	98r	132	116	120
Stocks, unadjusted	86r	100	119	137
Stocks, seasonally adjusted	86r	110	127	135

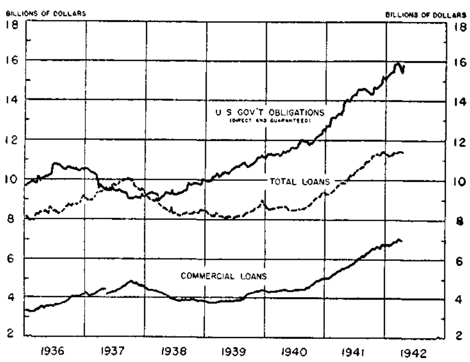
r Revised.



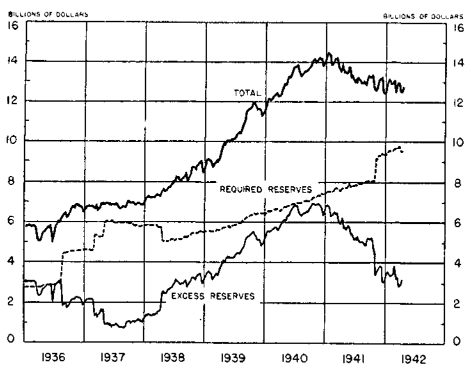
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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



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



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity continued at a high rate in March and the first half of April. Distribution of commodities to consumers was maintained in large volume and commodity prices advanced further.

Production

Volume of industrial production increased seasonally in March and the Board's adjusted index remained at 172 per cent of the 1935-39 average. Output of durable manufactured products, now mostly war materials, continued to advance, reflecting mainly increased activity in the iron and steel, machinery, aviation, and shipbuilding industries. Production of lumber and cement, which had been maintained at unusually high levels during the winter months, increased less than seasonally in March.

In most industries manufacturing nondurable goods activity was sustained at earlier high levels. In some, however, notably wool textiles and petroleum refining, there were declines owing to restrictions on production for civilian use and, in the case of petroleum products, to transportation difficulties. Mineral production declined in March and the first half of April, reflecting sharp curtailment in output of crude petroleum. Coal production, which usually declines at this season, was maintained in large volume. The Great Lakes shipping season opened in the latter part of March and the first boatload of iron ore reached lower Lake ports 12 days earlier than the record set last year. Shipments during the coming season are expected to exceed considerably the total of 80 million gross tons brought down the Lakes last year.

Value of construction contract awards continued to increase in March, according to figures of the F. W. Dodge Corporation, and the level of the first quarter of 1942 was the highest in recent years, being some 30 per cent above that of the corresponding period last year. Awards for public work amounted to close to 80 per cent of the total and in the residential field accounted for 52 per cent of the value of all projects. Publicly-financed contracts for factory construction showed a sharp increase, partly offset in the total by a decline in private factory construction.

On April 9 the War Production Board issued an order which required explicit permission of the Government for initiation of all new private construction involving expenditures in excess of specified small amounts and not covered by specific priority ratings.

Distribution

Value of retail trade in March continued at the high level of other recent months, making allowance for customary seasonal changes. Sales at department and variety stores increased by somewhat less than the usual seasonal amount while sales by mail-order houses rose more than seasonally.

On the railroads total loadings of revenue freight were maintained in large volume in March and the first half of April. Shipments of coal and coke declined less than seasonally and ore loadings increased sharply, while grain shipments declined further from the peak reached in January. Loadings of miscellaneous merchandise, which had been unusually large in the preceding three months, increased less than seasonally.

Commodity Prices

The general level of wholesale commodity prices advanced 1½ per cent further from the middle of March to the middle of April. Among manufactured products, finished consumers' goods, such as foods, clothing, and shoes, continued to show the largest price increases. Prices of most raw materials were unchanged or showed increases, which in a number of cases reflected the raising of Federal maximum price levels. There were declines in prices of wheat and of a few other commodities, including gasoline at Gulf ports and turpentine.

In retail markets maximum prices were fixed in this period for a number of electrical products, most of which will no longer be produced for civilian use after May 31. Prices of many other commodities and services advanced further.

Bank Credit

During the four weeks ended April 15 holdings of Government securities at banks in leading cities increased by nearly 700 million dollars, while commercial loans declined somewhat, following a rise in previous weeks. Changes in member bank reserves and deposits reflected principally the temporary effects of Treasury operations in connection with income tax collection and the sale of certificates of indebtedness. Money in circulation continued to increase.

United States Government Security Prices

Following an advance from the mid-February low, prices of U. S. Government bonds remained relatively steady in the first half of April.