MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in May

The rapidly rising volume of Treasury expenditures in prosecution of the war has become a dominant factor in the flow of funds through banking and commercial channels and in the operation of the banking system. War expenditures for the first 25 days of May were equivalent to a monthly rate of about $3,600,000,000. Comparable monthly totals were $1,450,000,000 for November, prior to our entrance into the war, and $860,000,000 for May a year ago. While tax receipts this year have also been far larger than a year ago, the growth in tax and other revenue receipts has fallen far short of matching the pace of expenditures and the Treasury has been called upon to meet more and more of its financial requirements through borrowing operations. During May the Treasury raised more than $3,000,000,000 through borrowings, as follows:

$1,290,000,000 2 per cent bonds of 1949-51
880,000,000 registered 2½ per cent bonds of 1962-67
630,000,000 War Savings bonds (estimated)
300,000,000 Treasury bills (net receipts)
300,000,000 tax anticipation notes (estimated net receipts)

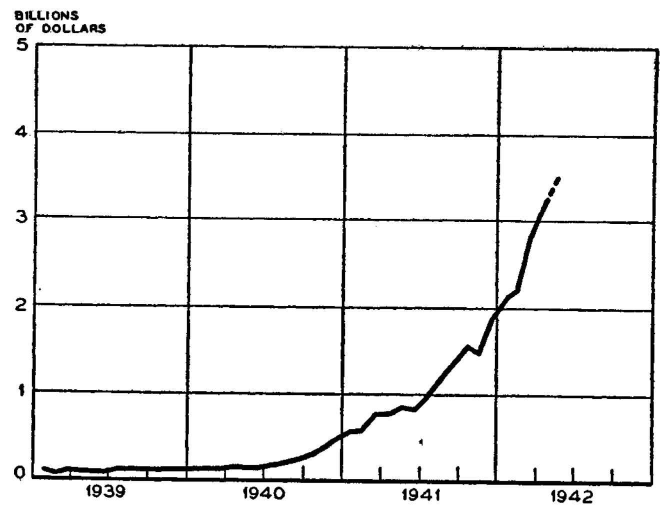
An unusual feature of the May financing was the sale of the 2½ per cent registered bonds of 1962-67. This issue was of a new type, available to investors other than commercial banks. It has been referred to as a "tap" issue, as the subscription books were held open for ten days, and the bonds could be bought at any time during that period without limitation as to the amount that might be taken by eligible subscribers. The offering of 2 per cent bonds of 1949-51, on the other hand, was of a specified amount, of the conventional "market" type. Details concerning the new offerings are presented in a later section of this Review.

With excess reserves at reduced levels, banks made increased use of the "book credit" method of payment for new issues of Government securities, bought by them or by their depositors. This method (crediting Government "War Loan" deposit accounts on their books, which are subject to call on short notice, instead of making immediate payment in cash) was used to make 61 per cent of the payments for the 1949-51 bonds and 64 per cent of the payments for the registered bonds of 1962-67 sold during the month. These figures compare with 48 per cent on the certificates of indebtedness issued during April and with 47 per cent on the 2¼ per cent Treasury bonds of 1952-55 sold in February. While payment by the "book credit" method spreads out the impact, on bank reserve positions, of Government security purchases by banks and their customers, Treasury expenditures are now so large that cash received by the Treasury in payment for new Government security issues is quickly disbursed and frequent calls must therefore be made on accumulated Government deposits in the banks. By the call, the Treasury directs that some of its deposits in commercial banks be transferred to the Treasury account with the Federal Reserve Bank for use in making current disbursements. During May, calls upon "War Loan" deposits reached a total of $1,385,000,000, of which $750,000,000 was withdrawn from New York City banks.

The particularly heavy calls made upon New York City banks resulted from two factors: the relatively greater use made in New York City of the "book credit" method of payment, and the disproportionate amounts of some recent Government issues sold in New York—for example, 45 per cent of the February issue of 2¼ per cent bonds (1952-55) was taken in this District and 55 per cent of the April issue of certificates of indebtedness.

Effects of Government Financing and Expenditures on the Banks

Even though disproportionate amounts of some Treasury security issues have been taken by New York City



U. S. Government Expenditures for National Defense Purposes (May, 1942, estimate based on Daily Statement of the Treasury for first 23 days of the month)

banks and their customers, experience here in recent months illustrates the fact that payments for new Treasury securities are largely offset by Government expenditures and do not result in corresponding reductions in bank deposits or reserves. Since the first of April (through May 27) Second District banks—mainly New York City institutions—have made cash payments for new Treasury securities (for their own account and for customers) of $1,000,000,000 over and above amounts received through redemptions of maturing Government obligations. In addition the New York banks have paid around $1,300,000,000 to the Federal Reserve Bank as a result of Treasury calls for transfers from "War Loan" deposits. Nevertheless, adjusted demand deposits—principally deposits of individuals and business enterprises—have been reduced only $160,000,000 and excess reserves are down about $440,000,000 (to $520,000,000). The principal offset to the Treasury's drain upon bank deposits and reserve funds has been the deposit with the New York banks of Government checks to an amount of roughly $2,000,000,000 during this period—representing the return flow of funds to the banks as a result of Government expenditures. Other factors which have helped to support reserve positions of banks in New York City have been disbursements of funds from foreign accounts (in part from loans to other United Nations by the Government), and net purchases in New York of Government securities for the System Open Market Account.

For all member banks in the country reserve balances showed virtually no net change between April 1 and May 27, although excess reserves were reduced $460,000,000, to $2,540,000,000, under the influence of increasing required reserves. Required reserves rose because of deposit expansion, and deposits in turn expanded through growth in bank credit—principally represented by bank purchases of newly-issued Government securities. So far as aggregate member bank reserve balances are concerned, Treasury operations resulted in some net release of reserve funds to the banks, as funds absorbed by the Treasury through tax and other revenues, cash payments by banks for new Government security issues, and tranfers to Reserve Banks of "War Loan" deposits in response to Treasury calls, were somewhat more than offset by the return flow of funds resulting from the unprecedented volume of Government expenditures. Moreover, the System Open Market Account added $245,000,000 to its holdings of Government securities between April 1 and May 27. These factors tending to increase member bank reserves were counterbalanced by a $378,000,000 increase in currency circulation.

The current expansion in the aggregate volume of bank deposits is accounted for by bank purchases of newly-issued Government securities, although, as a result of currency withdrawals, the increase in bank deposits has been smaller than the increase in Government security holdings. It is perhaps easiest to observe how bank purchases of Government securities increase deposits by taking as an example a case where a purchase is made by the "book credit" method. When a bank buys newly-issued Government securities and pays for them by the "book credit" method, its investments and its deposit liabilities increase at the same time and by the same amount. The increase in deposits of the particular bank is only temporary, because the deposits will be transferred later to the Federal Reserve Bank, at the direction of the Treasury. But the purpose of transferring the funds is only to make them available for expenditure through the Treasury's checking account with the Reserve Bank, and most of the funds are again deposited promptly in the banks, so that bank deposits tend to maintain the higher level reached when the "book credit" was created. When banks buy Government securities and pay cash at the time of purchase, the result is similar, for the funds which the Government spends swell the bank deposits of the recipients.

On the other hand, as has frequently been pointed out, purchases of Government securities by individuals, insurance companies, and corporations tend to leave the aggregate volume of bank deposits unchanged; the deposits which result from Treasury expenditures represent funds which previously came out of the deposits of the purchasers. Government expenditures directly or indirectly reaching any particular locality may, of course, be greater or less than amounts paid for Government securities in that locality, but large discrepancies of this kind in any particular locality are not apt to persist indefinitely, because if the volume of available funds is diminished, Government security purchases by banks in that locality are apt to be diminished, and vice versa.

The effects of Treasury operations upon the volume of reserve funds available to banks may be important over short periods but tend to cancel out over longer periods of time. If in one week the Treasury receives more than it spends, in another week it is likely to spend more than it receives. Fluctuations in Treasury cash and deposits with Federal Reserve Banks provide a measure of temporary flows of bank reserve funds into and out of the Treasury, and out of and into the banks. The principal effect of Treasury financing on the reserve position of the banks in the long run is to increase the required reserves of the banks as their deposits grow, and thus to reduce gradually the amount of their excess reserves.

Adjustment of Reserve Positions of Banks Through Short Term Treasury Securities

A broadening market for short term Government obligations is providing a means by which banks can invest even temporarily idle funds and obtain cash when needed. This development has been facilitated by enlargement of the volume of available short term Government securities, and by the more attractive yields now obtainable. The weekly offerings of Treasury bills were raised from the prevailing $100,000,000 issues to $150,000,000 issues in October, 1941, and the supply was further increased, beginning May 13, 1942, by the raising of the weekly offerings to $250,000,000. Inasmuch as the weekly Treasury bill maturities during May were in the amount of $150,000,000 each, the $250,000,000 sales on May 13, 20, and 27 (91 day issues) added $300,000,000 to the market supply. Treasury bills now outstanding total $2,250,000,000 as compared with $1,600,000,000 a year ago, and the rate of return has advanced from 0.10 per cent or less to about 0.36 per cent (on the four May issues). Moreover, $1,500,000,000 of ½ per cent Treasury certificates of indebtedness were added to the supply of outstanding short term Government securities during April.

The adjustment of reserve positions of banks through purchases and sales of Government securities has also been promoted by open market operations for the System Open Market Account, in which all Federal Reserve Banks participate. On April 30, the Board of Governors of the Federal Reserve System announced that the Federal Open Market Committee had directed the Federal Reserve Banks to purchase for the System Open Market Account all Treasury bills offered to them, on a discount basis at the rate of ⅜ per cent per annum. This arrangement gives assurance to purchasers of Treasury bills that, in case of a need for cash before the maturity of the bills, they may obtain it by selling Treasury bills to the Federal Reserve Bank. Purchases of Treasury bills for the System Open Market Account under this provision, as well as other purchases and sales of Government securities for the Account, are helping to promote more active and more stable markets, by absorbing securities which may be temporarily in supply and releasing to the market securities which are in demand.

Government Security Market in May

Despite the growing volume of Treasury borrowing and a gradual shrinkage in excess reserves, the market for Government securities during May showed a satisfactory degree of stability. In fact, prices of long and intermediate term Treasury bonds firmed, particularly in the latter half of the month. Between April 30 and May 25 the average yield on long term partially tax exempt Treasury bonds declined from 2.05 per cent to 1.99, lowest since December 8, 1941. In similar fashion, the average yield on long term taxable Treasury bonds dropped from 2.38 per cent to 2.32, equaling the previous low point for 1942.

Treasury note prices weakened temporarily during May. Continuing an irregular rise which started late in March, the average yield on three to five year taxable Treasury notes rose to a new 1942 high of 1.05 per cent on May 22, but later dropped back to the April 30 level. Sharing in the rise in yields on other tax exempt notes, the yield on the tax exempt ¾ per cent Treasury note due March 15, 1945, moved up from 0.43 per cent on May 12 to 0.54 (highest since the beginning of January) on May 26. There was no change thereafter.

The ½ per cent Treasury certificates of indebtedness, issued in April, showed little fluctuation during the month, the yield remaining close to 0.50 per cent.

On May 4, the United States Treasury offered $1,250,000,000 of taxable 2 per cent Treasury bonds of 1949-51, dated May 15. Limitations placed on subscriptions to the December and February bond offerings of the Treasury did not apply to this issue. Subscriptions up to $10,000, totaling about $69,000,000, were allotted in full; larger subscriptions were allotted on a 38 per cent basis and a total of $1,292,000,000 of the bonds was issued. The new 2 per cent bonds were quoted May 5 at 100 6/32 bid, on a "when issued" basis and at 100 19/32 bid, toward the end of the month.

During May the Treasury also offered an unspecified amount of registered 2½ per cent Treasury bonds of 1962-67, dated May 5, and available for purchase during the period May 5-14. This issue was designed especially for insurance companies, savings banks, trust funds, and large private investors. Commercial banks (banks accepting demand deposits) were not eligible to enter subscriptions for the new bonds for their own accounts, and will not be eligible to purchase them until 1952, at which time they will first become available in coupon form. Distinguishing characteristics of the issue were the absence of any specific limitation as to the amount which might be sold and the availability of the bonds for purchase for a number of days, and for these reasons it has been referred to as a "tap" issue. Total sales amounted to $882,100,000.

Continuing its program of refinancing guaranteed debt of the Federal agencies with direct Treasury obligations, the Treasury on May 25 offered 1½ per cent Treasury notes, dated June 5, 1942 and due December 15, 1946, in exchange for $875,000,000 of 2¼ per cent Home Owners' Loan Corporation bonds (called for payment July 1, 1942), and $276,000,000 of 1 per cent Reconstruction Finance Corporation notes, maturing July 1, 1942. The new notes were well received and were quoted on May 29 at 100 14/32 bid, on a "when issued" basis.

Money Rates in New York

	May 31, 1941	Apr. 30, 1942	May 28, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½–⅝	⅝	⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Yield on ¾ per cent Treasury note due March 15, 1945 (tax exempt)	0.45	0.43	0.54
Average yield on taxable Treasury notes (3-5 years)	0.71	1.02	1.02
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.00	2.05	2.00
Average yield on taxable Treasury bonds (not callable within 12 years)	....	2.38	2.33
Average rate on latest Treasury bill sale 91 day issue	0.069	0.335	0.365
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

Member Bank Credit

Total loans and investments of the reporting member banks in 101 leading cities advanced $495,000,000 to $31,888,000,000 during the four weeks ended May 20. As in the previous month, the rise was occasioned entirely by an increase in Government security holdings; total loans declined $230,000,000 further and investments other than in Government securities were $50,000,000 lower. Holdings of Treasury bonds increased $581,000,000, the greatest part of which represented purchases of the 2 per cent Treasury bonds of 1949-51 during the week ended May 20. Treasury bill holdings, reflecting acquisition by these banks of part of the $200,000,000 increase in outstanding bills over this period, were $133,000,000 higher, and additions to holdings of certificates of indebtedness amounted to $78,000,000. Enlarged holdings of Treasury bills were concentrated in banks outside New York City, but the major part of the aggregate increase in holdings of certificates of indebtedness was accounted for by purchases by the New York City institutions. Commercial, industrial, and agricultural loans declined $261,000,000 further, with $148,000,000 of the decline occurring in the week of April 29 and resulting in large part from the repayment of bank loans by the American Tobacco Company out of the proceeds of a security issue.

Adjusted demand deposits increased $251,000,000 in the country as a whole during the four weeks' period, although in New York City, where large payments by insurance companies were made for the registered 2½ per cent Treasury bonds of 1962-67, there was a $61,000,000 decline. United States Government deposits increased $224,000,000 in New York City banks, but declined $171,000,000 in all other reporting centers, because of relatively larger "book credit" payments for new Treasury bonds in New York than in other sections of the country, where withdrawals as a result of Government calls exceeded the establishment of new credits.

Use of Tap Issues: Great Britain and the United States

The new registered 2½ per cent bonds resemble certain so-called tap issues sold by the British Government, with the important difference that the British tap issues usually have been on sale for far longer periods. Several other foreign governments have also used tap methods of financing, but the British experience is probably of most interest in this country.

In the financing of its war effort the British Government has relied extensively upon various tap issues which, being unlimited in amount and continuously open to subscription for extended periods, are designed to absorb current savings as they accrue. This device was also widely used during and immediately after the first World War. Current tap issues are of two main types which, for want of better terms, may be designated as "large savings" and "small savings" tap issues, respectively. The former are designed to appeal to institutional and other large investors, and are negotiable. Since the outbreak of the war there have been five of these issues, which have accounted for the great bulk of the Government's medium and long term financing, and up to the end of March, 1942, had yielded almost £2,000,000,000. There have been three separate issues of 2½ per cent National War bonds, maturing in 1945-47, 1946-48, and 1949-51, respectively, and two issues of 3 per cent Savings bonds, maturing in 1955-65 and 1960-70, respectively. At the present time, only the 2½ per cent National War bonds 1949-51 and the 3 per cent Savings bonds 1960-70 are on tap.

The "small savings" tap issues—the counterpart of the present Series E War Savings bonds in the United States—have been designed for wage earners and others of limited incomes, and include an issue of National Savings certificates and an issue of 3 per cent Defence bonds, both of which were placed on tap in November, 1939. These issues are not negotiable but are redeemable at any time on short notice. From November, 1939, to the end of March, 1942, these issues had realized £879,000,000.

In December, 1941, the British Government also placed on tap an issue of Tax Reserve certificates—similar to our Tax Series Treasury notes —which bear interest at one per cent per annum if tendered in payment of taxes.

The most conspicuous example of tap financing by the United States Government is, of course, the United States Savings bonds, which first went on sale March 1, 1935. Sales of these bonds have aggregated nearly $10,000,000,000, of which $6,000,000,000 have been sold since May 1, 1941, when the present National Defense Series were inaugurated. Provisions relating to the eligibility of particular types of purchasers, terms of redemption, maximum limits for individual purchasers, and other features have been changed from time to time, but, subject to these changes, Savings bonds have been available "on tap" continuously for more than seven years.

Other United States Treasury issues "on tap" are 2 per cent Depositary bonds, issued only to banks for use in securing certain deposits of the Federal Government, and the Tax Series Treasury notes, designed to aid taxpayers in making provision for future tax payments. Of the Depositary bonds $77,000,000 have been sold since they were first made available a year ago. More than $3,500,000,000 of the tax notes have been purchased since they went on sale August 1, 1941. (Of these, $620,000,000 have been turned in for payment of taxes.)

War Savings Bonds

Sales of War Savings bonds during May, the first month of the Treasury's intensified campaign, evidently surpassed the quota of $600,000,000 announced earlier. The Daily Statement of the Treasury for May 25, showing receipts of $519,000,000 to that date, indicates sales for the full month of about $630,000,000. This amount would be approximately a fifth greater than last month's figure and the third largest monthly total so far recorded. The National quotas for June and July have been set at $800,000,000 and $1,000,000,000, respectively.

Plans for the Treasury's War Bond Pledge Campaign are rapidly taking shape. In the near future (beginning June 14 in Greater New York) thousands of volunteer workers will be engaged in visiting every home in the country in an effort to secure a voluntary signed pledge of 10 per cent of each person's income toward the systematic purchase of War Savings bonds.

In addition to the efforts described, which will be directed chiefly toward stimulating sales of Series E bonds and War Savings stamps, more attention is to be given to increasing the sales of Series F and G bonds to the larger investors and to corporations. The War Savings bonds of these series differ from Series E bonds in that yields are lower (2.53 and 2.50 per cent, respectively, as compared with 2.90 per cent on Series E), their term is twelve years instead of ten, and maximum purchase limits are much higher. Series F and G bonds in turn differ through the fact that the former are of the "appreciation" or interest accumulation type, whereas the latter provide a current interest income. Heretofore, purchasers of Series F and G bonds have been limited to a total of $50,000 in any one calendar year, of either series, or both series combined. On May 25, Secretary of the Treasury Morgenthau announced that the limitation on Series F and G bonds would be raised to $100,000 on July 1 as a result of numerous requests by purchasers who asked the opportunity to put more of their money into the war effort through the medium of War Savings bonds. During the period May, 1941, through April, 1942, Series E bonds accounted for 53 per cent of total sales of Savings bonds; Series F, 8 per cent; and Series G, 39 per cent. For New York State corresponding percentages (partly estimated) are 44, 7, and 49, respectively.

Consumer Credit Regulation

As part of the President's program for preventing an undue rise in the cost of living, the Board of Governors of the Federal Reserve System announced on May 6 the adoption of an amendment to Regulation W relating to consumer credit. The purpose of the amendment is to contract further the outstanding volume of consumer credit in line with the Government's purpose of preventing the rapid bidding up of prices. The principal changes made in the Regulation are:

1. The list of articles to which the Regulation applies has been broadened, to cover the bulk of consumers' durable and semidurable goods, including such items as wearing apparel, bedding and blankets, and almost all types of household equipment.

2. The maximum permissible maturity of instalment sales of listed articles has in general been reduced to 12 months, and the required down payment for most articles has been increased to 33 1/3 per cent. Exceptions to this rule are furniture and pianos, for which the required down payment is increased from 10 per cent to 20 per cent; and automobiles, for which the maximum maturity of 15 months is retained.

3. The scope of the Regulation has been broadened to include charge accounts. Unless charge accounts due either for listed or unlisted articles are paid by the tenth day of the second calendar month following the purchase, no further credit may be extended to purchase any listed article until the items in default have been paid for in full or have been placed on an instalment basis for payment within 6 months. No down payments are required on charge account purchases.

4. Single payment loans of $1,500 or less (not previously covered by the Regulation) are limited to a maturity of 90 days. Where the proceeds of such a loan are used to purchase a listed article costing $15 or more, a down payment is also required. If not paid in 90 days, the loan must be placed on an instalment basis.

5. Other revisions provide that instalment payments shall not be less than $5.00 a month or $1.25 a week; also, instalment sales maturing within three months will no longer be exempt from down payment requirements.

Copies of Regulation W, as amended, may be obtained upon application to this bank or to its Buffalo Branch.

Security Markets

The stock market was subjected to varying influences during May but, in the end, showed a fairly sharp net advance for the month. In their most pronounced upward reaction since January, share prices advanced sharply between April 28 and May 11, reflecting, at least to some degree, favorable war news from Madagascar and from the Australian area. Standard's 90 stock price index during this period advanced 7 per cent from the lowest level reached in nine years and thereby canceled about one third of this year's decline. During the following ten days, when a number of reductions in dividends were announced, the stock market tended to weaken slightly. Subsequently, stocks resumed their upward move, and, on May 28, the Standard index was at the highest point in seven weeks. For the month as a whole the index was up 6 per cent. The principal gains during May were shown by public utility and industrial shares. Trading activity was light; shares traded on the New York Stock Exchange fell to the lowest level since August, 1918.

As in recent months, domestic corporate bond prices pursued a steady course, apparently being little affected by either domestic or foreign news. Prime municipal bond prices moved up fractionally, and Standard's average yield on these issues was 2.43 per cent on May 27, about halfway between the year's high and low.

New Financing

During May a total of $140,000,000 corporate and municipal new security issues was publicly offered or privately sold. Of the May total, corporate financing accounted for $109,000,000, an amount 8 per cent below the monthly rate during the first four months of 1942. New capital raised by corporations amounted to $64,000,000, an 18 per cent decline from the January-April average. The volume of State and municipal issues, at $31,000,000, was the lowest since September, 1939, the first month of the war.

Temporary financing, not included in the $140,000,000 total, amounted to $100,000,000, nearly all of which was accounted for by two issues: $50,000,000 State of New York 0.375 per cent tax anticipation notes maturing in October, 1942, and $41,000,000 Federal Intermediate Credit Bank 0.75 and 0.85 per cent consolidated debentures maturing in January and April, 1943.

Foreign Exchanges

During May the widest fluctuations in New York rates for foreign exchange occurred in the quotation for Swiss francs for noncommercial purposes. This movement, however, was of little long-run significance and reflected merely the thinness of the market for this type of exchange in the present circumstances. Accompanying some demand in the face of the virtual absence of any supply, the rate for the so-called free Swiss francs, which had turned upward in the latter part of April, continued to advance sharply, reaching a peak of $0.3620 on May 12; this quotation was more than 50 per cent above the equivalent of the rate at which Swiss exchange is supplied by Swiss banks for certain specified purposes. Subsequently some supply of "free" Swiss francs reached the market, and, although these offerings would not be considered large in normal conditions, they apparently were sufficient to satisfy the existing demand. The "free" rate consequently reacted abruptly and by

May 19 had declined to $0.2725, thereby canceling all but 2¼ cents of the previous advance. At the end of May, "free" Swiss francs were quoted at $0.2900 in an extremely thin market.

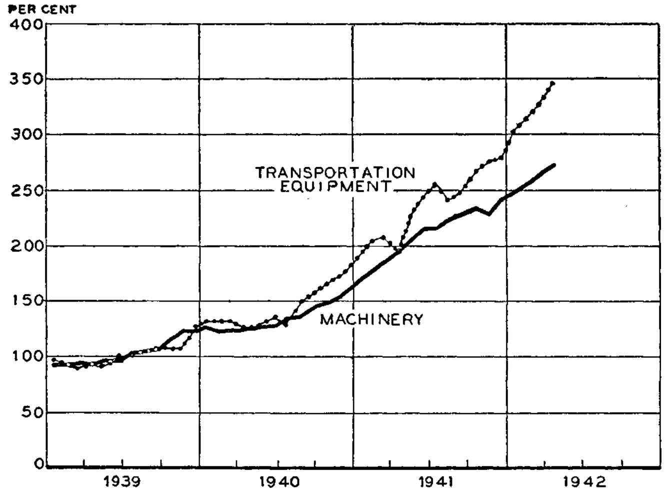
With respect to the Western Hemisphere currencies, the free market rate for the Venezuelan bolivar continued the advance which had persisted since the beginning of the year, and by the latter part of the month had reached a point about 13 per cent above that prevailing at the end of 1941. The current quotation, $0.2985 bid-$0.3015 offered, is about the level at which the bolivar reportedly is now being pegged through official Venezuelan intervention in the free market. The Cuban peso reacted slightly on May 8, accompanying reports that a 10 million peso currency issue—half the authorized amount—would soon be introduced in Cuba, but the peso has since recovered and at the end of May was quoted at a premium of ¼ per cent in terms of the dollar. The Canadian dollar appreciated further in the unofficial market during May, closing the month at a discount of 9⅝ per cent, as compared with 13¼ per cent early in April, when the current recovery began.

Production and Trade

Intensification of the war effort was again manifest during May. Preliminary data for the month indicate that industrial activity held or exceeded the record level attained during the first four months of this year. The steel mills again operated at virtually full rated capacity, electric power production during the first three weeks of the month averaged somewhat higher than in April, and mining of bituminous coal continued in heavy volume. The movement of bulk freight over the railroads increased further, although loadings of merchandise and miscellaneous freight averaged somewhat lower than in April.

	1941	1942		
	April	Feb.	March	April
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade†	106	111	110*p*	110*p*
Production	109	120	120*p*	121*p*
Producers' goods—total	114	143	144*p*	146*p*
Producers' durable goods	120	158	162*p*	164*p*
Producers' nondurable goods	108	126	124*p*	126*p*
Consumers' goods—total	102	92	90*p*	89*p*
Consumers' durable goods	100	56	49*p*	48*p*
Consumers' nondurable goods	103	105	104*p*	103*p*
Durable goods—total	114	128	129*p*	130*p*
Nondurable goods—total	105	113	112*p*	112*p*
Primary distribution†	98	104	104*p*	107*p*
Distribution to consumer	105	96	93*p*	89*p*
Miscellaneous services	101	115	114*p*	114*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	102	113	114	115
Wage Rates (100 = 1926 average)	118	131	132*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	56	62	60	60
Outside New York City	87	90	90	87

p Preliminary. * Adjusted for seasonal variation.
† For January, 1942, the index of production and trade has been revised to 113, and the index of primary distribution to 101.



Indexes of Production of Transportation Equipment and Machinery, Adjusted for Seasonal Variation (Board of Governors of the Federal Reserve System data; 1935-39 average=100 per cent)

In a further move to conserve strategic materials for war needs, the War Production Board on May 5 issued an order limiting the use of iron and steel in the production of over 400 articles of ordinary civilian use for a period of three months from that date and prohibiting use for those purposes thereafter. Adopting for the first time the principle of "concentration of production," the W.P.B. issued an order (applying to the stove industry) designed to release the facilities of the larger firms of an industry for war production, while permitting the smaller concerns to continue to meet essential civilian needs.

Transportation and storage problems engaged increasing attention during May. In order to assure more adequate cargo space for iron ore, the Office of Defense Transportation banned all grain shipments on the Great Lakes after May 14, except by permit, and placed sharp restrictions on the use of vessels for certain coal movements beginning June 1. To prevent port congestion and delays, such as those which handicapped overseas shipments during the first World War, the O.D.T. issued instructions to carriers designed to prohibit the shipment of export goods into port areas until shipping space is available. The Association of American Railroads announced that beginning May 20 the shipment of all grains intended for storage would be restricted owing to congestion of storage facilities.

Production and Trade in April

In April, this bank's index of production and trade, seasonally adjusted, was unchanged from the March level of 110 per cent of estimated long term trend. This figure compares with 106 in April, 1941. Productive activity was at a new record level in April, but retail trade again failed to come up to seasonal expectations.

In response to war demands, the group index of producers' durable goods production rose further in April. Largely responsible for the continued rise in this index are the machinery and transportation equipment industries in which the production of war goods is highly concentrated. The accompanying chart portrays the rapid strides which these industrial groups have made since the beginning of the National defense program in the summer of 1940. In April the production of consumers' durable goods, which had dropped sharply between July and March, showed only a minor additional decline. The output of nondurable goods in the aggregate was about unchanged between March and April, seasonal factors considered. The daily rate of cotton consumption rose to a new peak, following a temporary decline in March, and bituminous coal mining was at an unusually high level. The output of crude petroleum was curtailed further, but the reduction was less marked than in March.

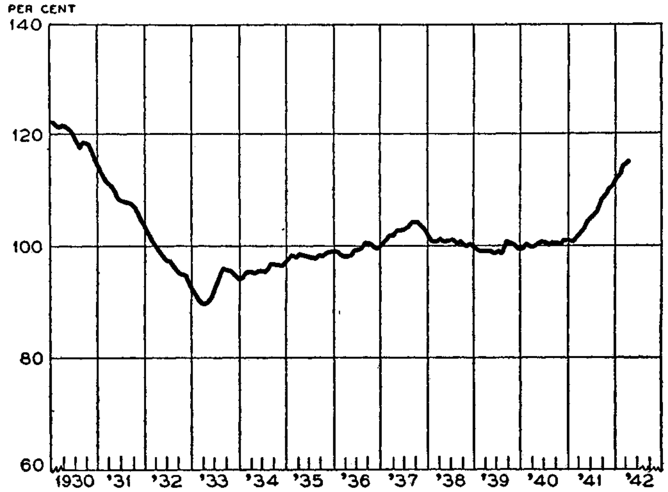
In respect to retail trade, the volume of department store sales was lower than in March, contrary to seasonal tendencies, and mail order house sales failed to increase as much as usual at this time of the year. Sales by chain store systems, on the other hand, showed a somewhat greater than seasonal increase. The movement of bulk freight over the railroads (represented in the index of primary distribution) registered a marked contra-seasonal increase in April, but loadings of merchandise and miscellaneous freight declined slightly.

Commodity Prices

Price movements throughout May were relatively slight, following the announcement at the end of April of the General Maximum Price Regulation. The order, which placed general ceilings at the highest levels reached in March, became effective on May 11 for most wholesale prices previously uncontrolled and on May 18 for retail prices of the items covered under the regulation. Ceilings on certain service charges will become effective July 1. The Office of Price Administration issued supplemental formulae during May for determining retail price maxima on certain seasonal goods.

Wholesale prices of the major crops, and of about 40 per cent (by value) of the food products included in the Bureau of Labor Statistics comprehensive wholesale price index, have not been subjected to ceiling regulations, but these were apparently influenced indirectly by the general order, showing little net change during May. The Senate's passage of a bill permitting limited sales of Government-owned holdings of grain at less than parity levels was no doubt an additional factor restraining agricultural price advances during May. Previously, advances in farm and food prices had been prominent in the general price rise. From August, 1939 to April, 1942 wholesale prices of farm products increased over 70 per cent and of foods (including many processed items) nearly 50 per cent, according to the Bureau of Labor Statistics indexes; the general index of wholesale commodity prices in April of this year was 32 per cent higher than in August, 1939.

According to the Bureau of Labor Statistics index, the cost of living for wage earners and lower salaried workers in the United States rose slightly further during April to the highest level since late in 1930, as the accompanying chart shows. At its April level the index was 17 per cent above the prewar June, 1939 level; the increase has amounted to 4½ per cent since November 15, 1941, immediately prior to our entry into the war.



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

The sharpest gains in living costs have occurred in retail prices of food, clothing, and housefurnishings, expenditures for which make up approximately one half of the family budget in lower income brackets. Rents and fuel items have shown relatively slight increases during the war period. Retail prices of about 60 per cent of the foods and of 75 per cent of other goods and services are reported to be covered under the new ceiling regulations.

In addition to its direct controls of prices, the O.P.A. has extended its rationing controls as a further measure to assure consumers of a fair distribution of the items that have become scarce, either because of curtailed production or because of insufficient transportation facilities. During May country-wide rationing of sugar was instituted and gasoline was rationed for noncommercial consumers in 17 Eastern States and the District of Columbia. Sales of automobiles, tires, bicycles, and typewriters had been made subject to restrictions before May 1.

Employment and Payrolls

Between March and April there was little net change in the total number of New York State factory employees, although payrolls increased somewhat. A continued expansion in employment at plants producing war goods was canceled out by reductions in working forces in consumers' goods industries. Shipyards and manufacturers of aircraft, railroad equipment, and other war material continued to report substantial employment gains, but firms engaged in the production of clothing and millinery, carpets, confectionery, and nonessential metal goods curtailed their working forces. Total manufacturing employment in April was 14½ per cent greater than in the corresponding month of last year and payrolls were 42 per cent larger.

In the United States as a whole, there was a slight gain in the number employed in manufacturing establishments during April, and payrolls rose 2 per cent further. Compared with the April, 1941 level, employment was 11 per cent greater and payrolls were 38 per cent larger.

Building

During the past month there has been discussion of the need for reviewing the program of plant expansion in light of the growing shortage of raw materials resulting from the rapid increase in the rate of war production. A point may soon be reached where it may become necessary to choose between military equipment for immediate use and new facilities for the production of a much greater output some time in the future. Something of the magnitude of the plant expansion program which has already been planned may be indicated by the increase in United States Government commitments for industrial facilities from around $2,000,000,000 at the end of March, 1941 to nearly $6,000,000,000 by the end of last December. Our entrance into the war in December tended to accelerate the process of converting existing plants to war production, and meanwhile the program for the construction of new facilities continued to be pushed ahead. By March 30 commitments had reached $10,700,000,000, and by the end of April the total volume of funds authorized for such plants amounted to $16,300,000,000. The program for Government-financed plant expansion visualized at that time was about equal to all expenditures, both public and private, for manufacturing plant and equipment from 1929 through 1939. During the 1916-18 period public and private expenditures for such purposes have been estimated at a little over $5,000,000,000.

On the basis of the reports of the F. W. Dodge Corporation, which cover construction in 37 Eastern States, the volume of contracts awarded for manufacturing building during the first four months of this year was almost 50 per cent above the corresponding period of 1941. All other types of construction contracts combined showed a rise of about 20 per cent. In the case of residential building, the volume of contracts awarded for private dwellings during the first four months of 1942 was about 17 per cent below the corresponding period of 1941, while contracts for public residential projects, including barracks as well as homes for workers in war industries, were three times as great as in the year earlier period.

In New York State and Northern New Jersey the volume of contracts awarded during the first four months of 1942 was about one-quarter above the total for the corresponding months in 1941. The most important factor contributing to this increase was awards for manufacturing building, which more than doubled between the two periods. Of all such contracts awarded in the 37 States from January through April of this year, about one eighth was for industrial facilities in this region. Other types of construction awards in New York and Northern New Jersey rose only 10 per cent in the first four months of 1942 over the year earlier figure. In this District the year-to-year decline in the volume of awards for private projects has been especially marked, and in the case of private residential building the decrease amounted to almost 50 per cent. However, the increase in the volume of public awards over this period has been relatively greater than in the 37 States as a whole.

Department Store Trade

Average daily sales of the reporting department stores in the Second District apparently decreased during May somewhat more than usual, although, judging by figures for the three weeks ended May 23, sales ran slightly ahead of the corresponding period of 1941.

In April sales of the reporting department stores in this District were about 5 per cent higher than in the corresponding month last year, and the average daily rate of sales fell off from the level of March, contrary to the usual seasonal tendency. The largest gains over April, 1941 were reported in the sales of radios, household appliances, and piece goods.

During April retail stocks of merchandise on hand in department stores in this District expanded further. As the stores continued to accumulate fall merchandise, stocks on hand at the end of April were about 70 per cent higher than a year earlier. Although this rise doubtless is predominantly a reflection of larger physical inventories, some part of it is accounted for by price increases over the past year.

Returns from a limited number of department stores in this District indicate that at the end of April outstanding orders for merchandise purchased by the stores but not yet delivered were declining but were still about twice as large as those at the end of April, 1941.

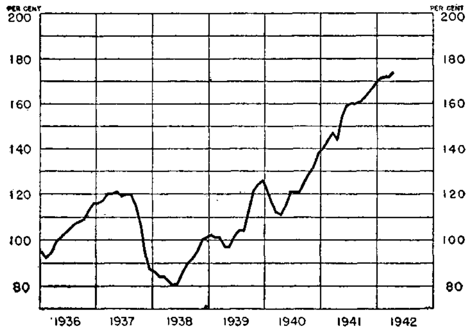
Department stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand end of month
	April, 1942	Jan. through April, 1942	April, 1942
New York City	+ 4	+18	+77
Northern New Jersey	+ 4	+20	+68
Newark	+ 4	+20	+67
Westchester and Fairfield Counties	+15	+27	+55
Bridgeport	+15	+29	+59
Lower Hudson River Valley	+ 1	+16	+37
Poughkeepsie	+ 8	+20	....
Upper Hudson River Valley	— 5	+17	+44
Albany	— 9	+12	....
Central New York State	+ 5	+26	+68
Mohawk River Valley	+14	+41	+72
Syracuse	+ 1	+21	+67
Northern New York State	—15	+ 6	....
Southern New York State	+ 2	+25	+52
Binghamton	— 2	+23	....
Elmira	+ 9	+30	....
Western New York State	+12	+26	+55
Buffalo	+15	+30	+55
Niagara Falls	+33	+45	+37
Rochester	+ 7	+20	+61
All department stores	+ 5	+20	+70
Apparel stores	+ 7	+21	+56

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

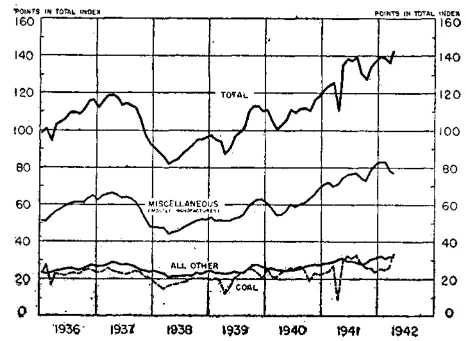
	1941 Apr.	1942 Feb.	1942 Mar.	1942 Apr.
Sales (average daily), unadjusted	100r	94	106r	106
Sales (average daily), seasonally adjusted	102r	116	120r	110
Stocks, unadjusted	89	119	137r	152
Stocks, seasonally adjusted	87	127	135r	149

r Revised

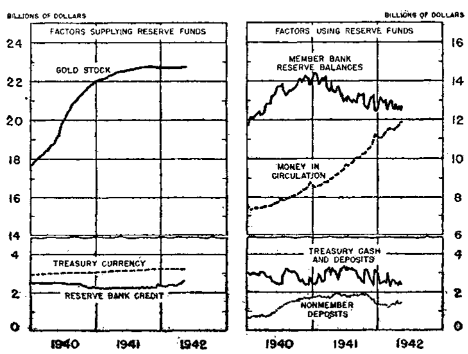
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, JUNE 1, 1942



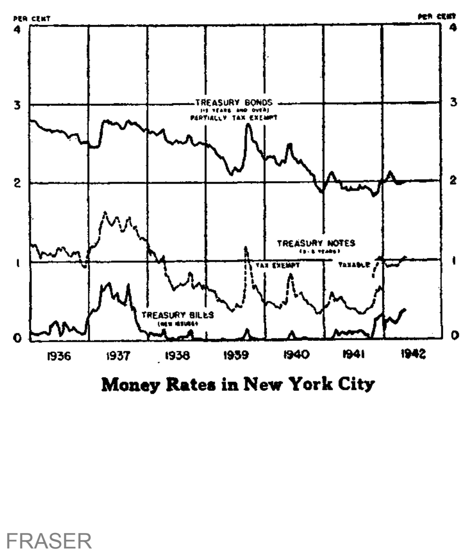
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Member Bank Reserves and Related Items



Money Rates in New York City

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity increased in April and the first half of May reflecting continued advances in armament production. Following an increase in buying during the first quarter, retail trade declined somewhat. Wholesale commodity prices advanced further.

Production

Expansion of industrial production in April was reflected in an advance in the Board's seasonally adjusted index from 172 to 174 per cent of the 1935-39 average. This increase followed upon a period of relative stability during the first quarter of the year, when growing war production was offset by decreased civilian output.

Since the beginning of the year total volume of industrial output has shown little change but there have been marked differences among individual industries. In general output of machinery, chemicals, and armament of all kinds has continued to expand at a rapid rate. There have also been substantial increases in output of electric steel, nonferrous metals, glass containers, wood pulp, and coal. On the other hand, output of many products for civilian use such as automobiles, tires and tubes, wool textiles, electrical appliances, alcoholic beverages, petroleum, and petroleum products has been sharply reduced either by direct order or by shortages of material or transportation facilities. In the month of April crude petroleum and petroleum products were the principal commodities showing a decline in output. Output of furniture, cotton and rayon textiles, manufactured foods, paper products, and tobacco products has been maintained in large volume.

Value of construction contracts awarded in April, as reported by the F. W. Dodge Corporation, was almost one-fifth below the high March total, reflecting a decline in publicly financed construction. Residential contracts decreased by one fourth and for the month were at about the same level as last year. Awards for nonresidential building increased slightly, mainly because of a 40 per cent increase in awards for factory construction, practically all publicly financed.

In the first four months of 1942, total awards were about one-fourth greater than in the corresponding period last year; public awards more than doubled, while those for private projects were down by about two fifths. Public awards in this period made up over 70 per cent of the total, compared with about 40 per cent last year.

Distribution

Retail sales declined somewhat in April, following a considerable amount of anticipatory buying during the first quarter of this year. At department stores, dollar sales in April were about 10 per cent below the first quarter average, making allowance for usual seasonal variations, but were 5 per cent above the level prevailing during the latter part of 1941. During the first half of May sales showed a further decrease and were around 6 per cent larger than a year ago in contrast to price increases amounting on the average to about 20 per cent over the year period.

Total freight car loadings increased sharply in April owing chiefly to larger shipments of coal and forest products, and to a sharp rise in iron ore loadings as the Great Lakes shipping season got under way. Shipments of merchandise in less than carload lots, which had begun to decline in March, were reduced sharply further in April, reflecting Government action to increase the average load per car in order to effect fuller utilization of railroad equipment.

Commodity Prices

Beginning on May 11, wholesale prices of most commodities were limited to the highest levels reached during March, according to the general maximum price regulation issued April 28. Effective May 18, retail prices of most commodities were likewise limited. Retail prices of related services will be limited beginning July 1.

About 30 new maximum price schedules for industrial products were issued from the middle of April to the middle of May. Most of these covered wholesale prices of items previously subject to informal or temporary controls. Upward adjustments in maximum prices were allowed for coal, ferromanganese, tires, petroleum products, and a few other items.

Wholesale prices of most farm products and basic foods, which are exempt from direct control, showed little change in this period, following sharp increases earlier in the year.

Bank Credit

During the five weeks ended May 20 Federal Reserve Bank holdings of Government securities increased by about 200 million dollars, while currency in circulation rose by 260 million. Member bank deposits increased during the period and required reserves showed a corresponding growth. The net result was a decline of 300 million in excess reserves. Holdings of United States securities at banks in leading cities increased further, while commercial loans declined. Liquidation of loans was concentrated at banks in New York City and in the Kansas City district.

United States Government Security Prices

Prices of U. S. Government bonds declined in the last half of April, but steadied in the first half of May. Rates on current Treasury bill issues rose from about 0.20 per cent in March to 0.36 per cent in May. The Federal Open Market Committee announced on April 30 that Federal Reserve Banks stood ready to purchase all Treasury bills offered at 0.375 per cent.