MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

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

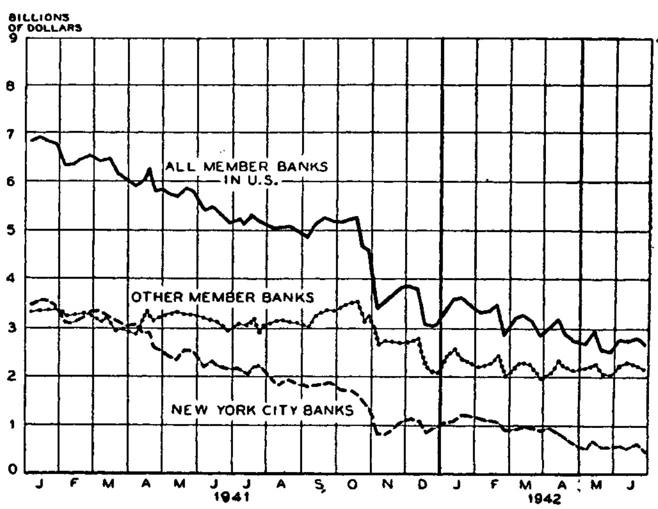
Money Market in June

As in March, the quarterly tax period in June passed without material disturbance to the money market or to bank reserve positions, despite the lower general level of excess reserves prevailing. Government security prices held steady and trading activity was light throughout the month. Income tax collections by the Federal Government during June, which came to $2,100,000,000 in the United States as a whole, and to about $570,000,000 in the Second Federal Reserve District, were, with the exception of March, the largest on record. Nevertheless, at no time during the period of heaviest collections did excess reserves of member banks fall below $2,700,000,000 in the country as a whole, or below $500,000,000 in New York City, thus maintaining approximately the same levels as had prevailed since early May. On the last "statement date" of the month, Wednesday, June 24, excess reserves fell slightly below those levels, to $2,650,000,000 for all member banks, and to $485,000,000 for Central Reserve New York City banks, principally as a result of payments for the $300,000,000 Treasury bills sold on that date. The next day, June 25, payments were due on the new issue of certificates of indebtedness, and excess reserves temporarily declined somewhat further, but funds transferred from member bank reserve accounts to Treasury balances with the Federal Reserve Banks—in payment for those securities—were largely returned to the banks within a relatively short period, through Government expenditures.

At the beginning of the year some concern was felt over the prospective impact of quarterly income tax collections during 1942, because of the joint effect on income tax revenues of a larger "tax base", and the increases in tax rates contained in the Revenue Act of 1941. Special arrangements were made for a concentration of Treasury bill maturities during the March tax period. By acquiring Treasury bills which would fall due during the period when heavy tax collections are made, banks could be assured of receiving funds with which to pay income tax checks drawn on them. Similar preparations were made for the June tax period; Treasury bill maturities, of $150,000,000 each, were arranged for June 16, 17, 18, and 19. But the first two of these maturities were offset by the sale of $300,000,000 of new bills on June 17, and the third and fourth maturities were followed by the sale of a like amount on June 24. The mounting volume of Government expenditures made net redemptions of Treasury bills during the June tax period unnecessary. When Government receipts, even though temporarily swollen by collections of income tax instalments, fail to exceed expenditures, those expenditures automatically provide the offset to the income tax payments.

In June the collection of checks drawn by individuals and corporations, in payment of second quarter income tax instalments, extended over a number of days, and the funds thus transferred from member bank reserve balances to Treasury balances with the Reserve Banks, were returned to the banks with unusual rapidity. Data published in the Daily Statement of the United States Treasury indicated that war expenditures reached about $3,800,000,000 during June, and total Government expenditures attained a level which required frequent withdrawals of funds from "war loan" accounts in depositary banks to supplement tax receipts. These withdrawals during June totaled $1,200,000,000 for the country as a whole, and $780,000,000 in this District.

Treasury deposits with the Reserve Banks remained at relatively low levels through the days when income tax collections were heaviest. In fact, on several occasions during the period June 16-23, the Federal Reserve Banks purchased, direct from the Treasury, special one day issues of certificates of indebtedness to adjust the Treasury's cash position. The authority of the Reserve Banks to purchase securities direct from the Treasury, which was revived by an amendment of the Federal Reserve Act, contained in the Second War Powers Act,



Excess Reserves Held by Member Banks

1942, was thus put to practical use. Temporary transactions of this type were employed extensively in the first World War financing and over tax periods during the 1920's.

The use of previously acquired tax anticipation notes by taxpayers to meet, in part, the June instalments on their income taxes also contributed to the close balance between Treasury receipts and payments during the tax period. Of the total income tax collections during June, tax anticipation notes were used to make 24 per cent of the payments, a considerably larger proportion than in March when the figure was 17 per cent. Consequently, out of the total collections of $2,100,000,000, cash payments came to $1,600,000,000.

Federal Reserve open market operations in Government securities continued to contribute to the volume of member bank reserves and to the maintenance of stable money market conditions during June, although, in view of the rather firm security market that prevailed during most of the month, net purchases were somewhat smaller than in May. These operations took the form largely of purchases of Treasury bills, partly under the 3/8 per cent buying rate established by the Federal Open Market Committee on April 30. During the four weeks ended June 24, purchases of bills, in excess of maturities, amounted to $63,000,000. Over this period the holdings of the System Open Market Account as a whole showed an increase of $94,000,000. Purchases and sales of particular issues of Government securities continued to be made during the month when ready markets for certain issues were unavailable or when other issues were in particular demand.

Adjustments in the reserve position of individual banks have been facilitated recently by an enlargement of the supply of short term securities, which the banks can acquire for temporary investment of available funds, and which they can readily sell to obtain additional reserves when necessary. The weekly offerings of Treasury bills were increased to $300,000,000 for the first time on June 10, as a means of further enlarging the supply of short term Government securities, as well as supplying the Treasury with additional funds. For the month as a whole, the outstanding volume of Treasury bills increased $250,000,000.

The market supply of short term Government obligations was enlarged further by the one major piece of Treasury financing in June, which consisted of the offering of another $1,500,000,000 issue of certificates of indebtedness. Dated June 25, this issue will mature in about 7 months, as compared with 6½ months on the April issue of certificates of indebtedness, and carries a rate of 5/8 per cent as compared with ½ per cent on the earlier issue. Two thirds of the payments for the new certificates of indebtedness were made by the so-called "book-credit" method, and thus had the effect of replenishing Government deposits with commercial banks on "war loan account". These deposits had been drawn down by $1,000,000,000, to $640,000,000, as a result of heavy calls for repayment during the first twelve days of June.

In the Second Federal Reserve District, where excess reserves have been running at relatively lower levels than elsewhere in the country, banks used the "book credit" method to the extent of 80 per cent in making payments for certificates of indebtedness taken in this District. While purchases in this District of the new certificates of indebtedness were again relatively large, the issue was more widely distributed than the April issue of certificates of indebtedness, as reflected in the fact that 54 per cent of the June issue was taken in other Federal Reserve Districts, as compared with 45 per cent of the April issue.

Government Security Market in June

Stability and light trading activity were the predominant characteristics of the Government security market during June. The announcement on June 22 that the Treasury would borrow in the open market between $3,750,000,000 and $4,500,000,000 in July and August had only a slight effect on price quotations. Between May 29 and June 29 the average yield on long term partially tax exempt Treasury bonds fluctuated around 1.99 per cent, the 1942 low. The average yield on long term taxable Treasury bonds during the greater part of the month was 2.32 per cent, equaling the low for the year. A somewhat higher level was reached late in June. Intermediate term Treasury bonds were steady.

While yields on Government bonds were at or near the year's lows, yields on Treasury notes generally moved to somewhat higher levels, at or near the year's peaks. Thus, the average yield on three to five year taxable Treasury notes, moving within a narrow range, rose slightly between May 29 and June 5 to equal the 1942 high point, at which level the average remained during much of the remainder of the month. Yields on tax exempt Treasury notes also rose.

On June 18, the Treasury offered another $1,500,000,000 issue of Treasury certificates of indebtedness, designated Series A-1943, which were dated June 25 and mature February 1, 1943. Subscription books remained open two days, compared with one day for the earlier issue. This and several other changes in subscription rules, together with the slightly higher interest rate, had the desired effect of obtaining a wider primary distribution for the issue. The new certificates were well received, subscriptions totaling $3,113,000,000, compared with total subscriptions of $3,062,000,000 on the April offering, despite a much smaller volume of insurance company subscriptions. Subscriptions of $25,000 or less, which totaled about $61,000,000, were allotted in full; 50 per cent allotments were made on the larger subscriptions (such allotments on the April issue were on a 48 per cent basis). Total allotments on the new issue aggregated $1,589,000,000. Market quotations on the new certificates remained close to par, the yield at the end of the month being 0.62 per cent bid; trading has been inactive. The yield on the earlier issue of certificates of indebtedness declined from 0.49 per cent bid on May 29 to 0.46 on June 29.

The weekly offerings of Treasury bills were again raised during June. While the June 3 issue, like the three previous offerings, was in the amount of $250,000,000, the June 10 and the two subsequent offerings were raised to $300,000,000. Since Treasury bill maturities during June totaled $900,000,000, the Treasury through its weekly bill transactions obtained $250,000,000 of "new money" during the month. Short

The increased availability of Treasury bills, arising out of the larger offerings now being made, and the assurance of a market at a fixed rate at the Federal Reserve Banks have considerably broadened the Treasury bill market. Tenders for new issues of Treasury bills have been received in increasing numbers from outside of the principal money centers, where these bills have previously found their principal market, and many inquiries have been received, from banks and others, as to the correct procedure to follow in bidding for Treasury bills. In view of these inquiries and in the interest of a further broadening of the market, the procedure used in submitting tenders for new issues of Treasury bills and other pertinent data are outlined in a circular addressed by this bank to all incorporated banks and trust companies in the Second Federal Reserve District and to others concerned. Copies of this circular (No. 2453) may be obtained upon application to this bank or its Buffalo Branch.

term Government securities (maturities of less than one year) now outstanding total $5,600,000,000, of which $3,100,000,000 are certificates of indebtedness and $2,500,000,000 Treasury bills.

The Treasury bill rate during June continued stable, slightly under the 3/8 per cent rate at which the Federal Reserve Banks stand ready to purchase all Treasury bills offered them. The first three weekly bill offerings in June were of 91 day term; the June 24 issue was of 85 day term and will consequently mature during the next quarterly income tax collection period in September.

Money Rates in New York

	June 30, 1941	May 29, 1942	June 29, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4 to 6 months	1/2	5/8	5/8–3/4
Bills—90 day unindorsed	7/16	7/16	7/16
Yield on 3/4 per cent Treasury note due March 15, 1945 (tax exempt)	0.42	0.54	0.59
Average yield on taxable Treasury notes (3-5 years)	0.66	1.02	1.17
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.96	1.99	2.00
Average yield on taxable Treasury bonds (not callable within 12 years)	2.18	2.33	2.34
Average rate on latest Treasury bill sale 91 day issue	0.066	0.365	0.362†
Federal Reserve Bank of New York discount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	1/2	1/2	1/2

* Nominal † 85 day issue

Member Bank Credit

During the four weeks ended June 24 there was a contraction of $244,000,000 in the total loans and investments of the weekly reporting member banks in New York City. Weekly reporting banks in 100 cities outside of New York, however, added $105,000,000 in the aggregate to their loans and investments. Loans declined both for the New York City and the outside institutions, while total investments showed divergent movements—a reduction of $136,000,000 in New York City and an increase of $241,000,000 elsewhere.

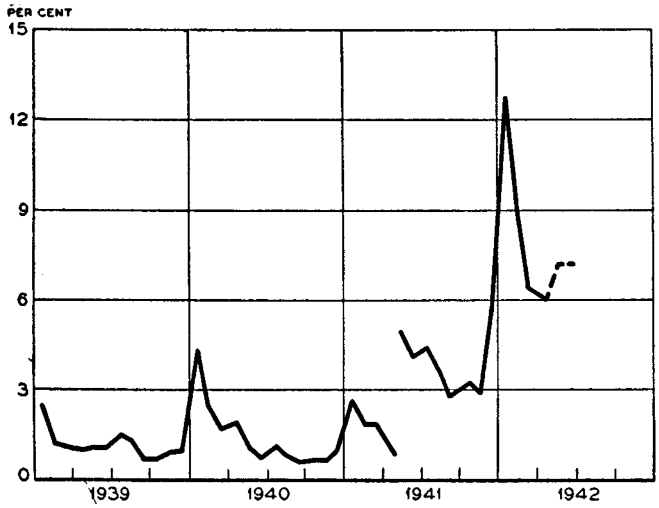
Of the decline in total investments shown by New York City banks, a considerable part was accounted for by a reduction in holdings of "other securities", owing principally to the maturity of an issue of New York State notes and of short term notes of the Commonwealth of Pennsylvania. Holdings by all reporting member banks of Government guaranteed obligations dropped sharply and holdings of Treasury notes increased, as a result of the exchange offering of new 1½ per cent Treasury notes, dated June 5, for outstanding Home Owners' Loan Corporation 2¼ per cent bonds and Reconstruction Finance Corporation 1 per cent notes. Treasury bills held by the reporting institutions were enlarged to the extent of $158,000,000 over the four weeks' period, the bulk of the increase, as during the previous month, being concentrated in banks outside New York City. Commercial, industrial, and agricultural loans showed a small increase in New York City but declined $58,000,000 further in other reporting centers. The total for all weekly reporting member banks, at $6,505,000,000, on June 24, was $530,000,000 below the high point reached March 18. New York City banks' loans to brokers and dealers in securities dropped $78,000,000.

Adjusted demand deposits increased $437,000,000 in the 101 cities during the four weeks and $164,000,000 in New York City, most of the increases occurring during the week ended June 10. Reflecting a series of calls by the Treasury on depositary banks, Government deposits declined $869,000,000 in the 101 cities and $579,000,000 in the New York City banks. As of June 17, U. S. Government deposits were the lowest since last October for the banks in the 101 cities and since last November for the banks in New York City.

War Savings Bonds

Despite the fact that sales of War Savings bonds during June, estimated at about $650,000,000, were approximately double those of the corresponding month a year ago, the goal of $800,000,000 was not reached. On the basis of reports through June 26, sales of Savings bonds in the Second Federal Reserve District by agencies other than post offices will probably show about the same total as in May. The payment of second quarter income tax instalments and continuing uncertainties with respect to new tax legislation may have been partly responsible for the failure of War Savings bond sales to increase in June. On the other hand, encouraging reports of the progress of the Treasury Pledge Campaign, and of increasing numbers of persons enrolled in company payroll deduction plans, point to an ever widening public participation in the program.

As shown in the following diagram, the percentage of National income devoted to the purchase of War Savings bonds has averaged substantially higher than was the case with the old type Savings bonds sold prior to May 1, 1941. The peaks shown for May, 1941 and January, 1942 were accentuated by numerous purchases, especially of Series F and G bonds of amounts equal to the calendar year limitations for individual subscribers established by the Treasury Department, and included substantial purchases with previously accumulated funds. During the period January, 1939—April, 1941, sales of Savings bonds averaged slightly under 1½ per cent of income payments to individuals while from May, 1941 to date sales have averaged about 5½ per cent. In May and June sales amounted to somewhat above 7 per cent of the National income. The Treasury Department's announced objective is 10 per cent.

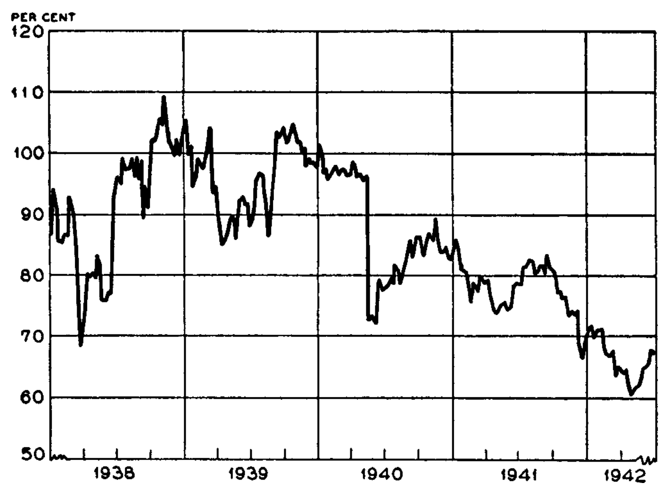


Cash Receipts from the Sale of U. S. Savings Bonds Expressed as a Percentage of National Income Payments (June, 1942, sales of U. S. savings bonds estimated on basis of Daily Statement of the Treasury for first 22 days of the month; National income payments estimated for May and June)

Indications are that Series E bonds are accounting for a considerably enlarged proportion of the sales of all series, and that, of the Series E bonds, the greatest sales increases are occurring in the smaller denominations. Latest figures available show the Series E bonds as making up about 65 per cent of the sales of Series E, F, and G combined. Sales of $25 and $50 denomination bonds, indicative of purchases by small savers out of current income, in March, 1942 accounted for 30 per cent of total Series E bond sales, as compared with about 12 per cent in May, 1941.

Security Markets

Influenced by news of heavy bombing raids over Germany and of naval successes in the Pacific, stock prices continued to move up strongly early in June. On the 17th Standard's 90 stock price index reached its high point for the month, culminating a seven week advance during which the index rose 14 per cent. This was the most considerable upward movement in about a year, as the accompanying chart indicates. The Libyan defeat was a factor lending a heavy tone to the market in the latter part of June, and, as a consequence of declining tendencies that then developed, share prices ended the month at levels close to those prevailing on May 29. Even so, the index at its June 30 level was 11 per cent above the year's low point reached in April. Stock trading on the New York Stock Exchange again was light, rising above 400,000 shares on only two days.



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

Medium and lower grade railroad bonds weakened further during June, reportedly as a result of appraisals of postwar prospects for many of the roads. Largely reflecting this decline in railroad bonds, Moody's index of Baa grade bonds was off 5/8 of a point to a level within half a point of the year's low. High grade corporate bond prices continued to show little fluctuation during June.

Prime municipal bonds, on the other hand, extended the irregular price recovery which they have shown since February. Between May 27 and June 24 the average yield on Standard's prime municipal bonds declined 0.08 per cent, to 2.35 per cent, the lowest since January of this year.

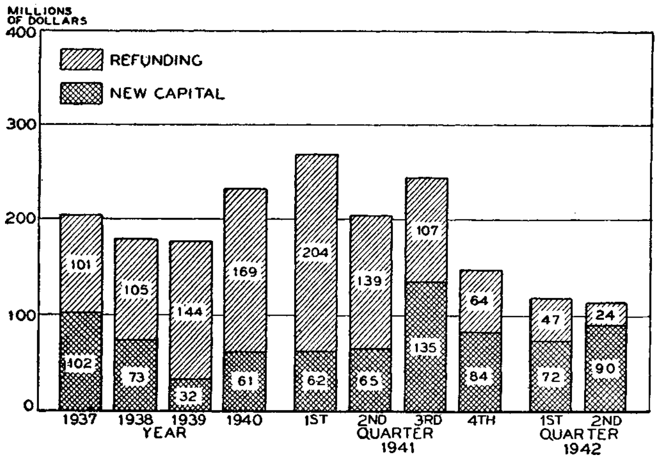
New Financing

A total of $162,000,000 corporate and municipal new security issues was publicly offered or privately sold during June. The volume of corporate financing, at $124,000,000, was slightly in excess of the average for the first five months of 1942, but municipal flotations were only about two thirds of the January-May average. Almost half of the corporate total represented private sales; about $76,000,000 was for new capital purposes.

The principal public offerings of corporations during the month were $36,500,000 Virginia Public Service Corporation bonds and debentures and $15,000,000 Public Service Electric and Gas Company bonds. In addition, the following were sold privately: $30,000,000 Aluminum Company of America debentures, $12,000,000 El Paso Natural Gas Company bonds, and $15,000,000 Standard Oil Company of Ohio debentures (of which $5,000,000 were issued in exchange for outstanding securities). The largest municipal award was that of $7,100,000 Buffalo Municipal Housing Authority bonds.

Temporary financing, not included in the $162,000,000 total, amounted to $99,000,000 and included $32,000,000 New York City revenue bills, $31,000,000 Federal Intermediate Credit Bank consolidated debentures, and $20,000,000 Pittsburgh Housing Authority short term notes.

The volume of corporate new security issues floated during the second quarter of 1942 is compared with that for earlier periods in the accompanying chart. During the three months ended June 30, 1942, corporate financing averaged approximately $114,000,000 a month, the lowest since the first quarter of 1939. Of this amount, however, new capital flotations accounted for $90,000,000, a somewhat higher figure than in either of the preceding two quarterly periods. For the entire first half of 1942 corporate issues for new capital purposes ran more than a quarter larger than in the corresponding period a year earlier; as this was accompanied by a substantial decline in corporate refundings, the proportion of new capital



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (Second quarter of 1942 data preliminary)

to total corporate flotations rose from 27 per cent during the first half of 1941 to 70 per cent during the six months ended June 30, 1942. Issues of $10,000,000 or over accounted for nearly two thirds of the new capital raised by corporations during the first half of 1942.

Of the $491,000,000 of new capital raised by corporations through new security issues during the first half of 1942, a sizable amount was accounted for by two tobacco companies, the American Tobacco Company and Philip Morris and Company which together raised $98,000,000, nearly all of which was to be used for retiring bank loans previously incurred for the purpose of enabling the corporations to enlarge their inventories. In addition, Schenley Distillers Corporation, National Distillers Products Corporation, and R. H. Macy and Company raised $42,000,000, all of which was to be employed in retiring bank loans and increasing working capital. In the category of concerns engaged in activities related to war production, five companies in the oil industry obtained $68,000,000 to finance new construction and purchase existing plant, and four public utility companies borrowed $60,000,000, most of which was scheduled to be used for additions to plant and equipment. Proceeds from the sale of the $30,000,000 Aluminum Company of America debentures will be used in the expansion of producing facilities; the United Aircraft Corporation floated $26,600,000 of new securities to obtain funds for research and development and later repurchase of emergency plant facilities.

Foreign Exchanges

Foreign exchange trading in New York remained inactive during June. The only appreciable fluctuation in rates occurred in the so-called free Swiss franc, the quotation for which declined rather abruptly during the early part of the month to reach $0.2750 on June 11. Some demand soon developed, however, and by June 15 the rate had returned to $0.2950. At the end of the month, the "free" franc was quoted at $0.2910 to show little net change from the end of May.

Contrary to the rising tendency of the two preceding months, the unofficial discount of the Canadian dollar, after having narrowed to 9⅝ per cent on May 29, widened to 10 per cent on June 2 and held at about this point for the remainder of the month. Among the other Western Hemisphere currencies, the free market rate for the Venezuelan bolivar was quoted at $0.3005 during most of June. This was approximately the level at which the bolivar reportedly was stabilized toward the end of May, following a steady appreciation which had occurred since the end of 1941. Other leading Latin American exchanges were steady vis-a-vis the dollar during the past month.

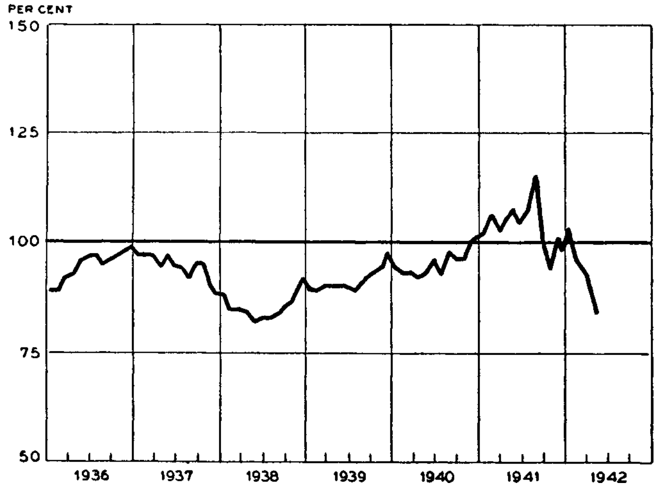
Production and Trade

Judging from preliminary data now at hand, industrial conditions which characterized recent months continued to prevail during June—increased output of war goods was again partially counterbalanced by a smaller production of goods for civilian consumption. Weekly estimates of the tonnage of steel produced during June indicate a continuation of mill operations at approximately full rated capacity. Seasonal factors considered, electric power production was maintained at the high rate attained in the earlier months of this year and the output of crude petroleum was somewhat higher in June than in May. Figures for the first three weeks of June show a slight tapering off in the daily rate of bituminous coal mining and in loadings of railway freight.

The nation's war production program will call for the expenditure of $140,000,000,000 for war goods during 1942 and 1943, according to Chairman Nelson of the War Production Board. Mr. Nelson has stated that, although the conversion of industry to war production is still in progress, "the spotlight has shifted from manufacturing facilities to raw materials". Measures which are being taken to fill raw material needs include the development of new natural resources and the production of substitute materials, increased imports, resort to accumulated inventories, stimulation of scrap flow,

	1941	1942		
	May	March	April	May
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	110	111	110p	109p
Production	113	120	120p	121p
Producers' goods—total	121	145	146p	149p
Producers' durable goods	123	162	164p	168p
Producers' nondurable goods	118	125	126p	126p
Consumers' goods—total	105	90	89p	87p
Consumers' durable goods	105	49	47p	45p
Consumers' nondurable goods	105	104	103p	102p
Durable goods—total	118	129	129p	132p
Nondurable goods—total	110	113	113p	112p
Primary distribution	106	104	109p	106p
Distribution to consumer	107	93	89p	84p
Miscellaneous services	102	114	115p	116p
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	103	114	115	116
Wage Rates (100 = 1926 average)	121	132	133p	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	59	60	57r	66
Outside New York City	87	90	85r	88

p Preliminary. r Revised. * Adjusted for seasonal variation.



Index of Distribution to Consumer (Federal Reserve Bank of New York index, expressed as a percentage of estimated long term trend, and adjusted for seasonal variation)

and the precise scheduling of the movement of materials to and between production units.

Much stricter controls over the use of metals and other scarce materials than the present priorities system has provided are to be set up by the War Production Board. The emphasis in the new "Production Requirements Plan", which it is expected will eventually supersede the priorities system, will be on tailoring the volume of available materials to the consumers' needs with due regard to the "end use" of those materials. The distribution and use of metals will receive first attention—presumably during the third quarter. Priority instruments covering other materials will continue in effect for the time being.

Production and Trade in May

For May the monthly index of production and trade computed by this bank is placed at 109 per cent of estimated long term trend, as compared with 110 in April, 1942 and in May, 1941. Production moved into new high ground in May, but there was a further slackening in the volume of retail trade. The decline in retail trade has been attributed to a number of factors, among them, the effect of plant conversions and the unavailability of certain war materials in creating shortages of particular types of commodities, the influence of higher income tax obligations and war bond purchases, the consumer credit regulations, and a subsidence of the anticipatory buying which had particularly characterized the months preceding our entrance into the war.

Sales of department stores, mail order houses, and grocery chain systems were all lower in May than in April, although variety chain stores reported a slightly larger volume of business. Railroad loadings of merchandise and miscellaneous freight declined further in May, while loadings of bulk freight increased less than in other recent years. Although the total number of cars loaded in May was slightly lower than in the corresponding month last year, the volume of freight carried, as measured in ton-miles, was considerably above the May, 1941 level, owing to more efficient use of rolling stock and longer hauls.

Under the continuing stimulus of war demands the output of producers' durable goods mounted higher in May, while the production of consumers' goods—nondurable as well as durable—declined somewhat further. On June 26 the President disclosed that in May nearly 4000 planes and over 1500 tanks were produced, as well as large quantities of other materiel. (In May, 1941 plane production approximated 1300.) The value of new machine tools, presses, and other metal-working machinery shipped during May again increased and showed a gain of 80 per cent over the figure for the corresponding month last year. The March peak in steel production was practically equaled in May, while the daily rates of cotton consumption and bituminous coal mining, although slightly lower than in April, remained at high levels.

Commodity Prices

Throughout June—the first full month in which the General Maximum Price Regulation was effective—wholesale prices of most industrial commodities held steady. Prices of farm and food products, which are largely uncontrolled, fluctuated irregularly during the month, reflecting among other influences war developments. Cotton prices on June 8 touched the lowest levels since early in January, but afterwards developed considerable strength, as the prospective duration of the conflict seemed to be lengthened by unfavorable war news; quotations for hogs moved in a somewhat similar pattern, reaching on June 26, the highest level since 1920. Wheat prices also moved over a wide range, reflecting uncertainties as to the position of Congress with regard to pending agricultural legislation, but showed small net changes for the month as a whole. Based on conditions as of June 1, the Department of Agriculture estimated this year's total wheat crop at 868,000,000 bushels, 8 per cent less than last year's. It is indicated, however, that 1942 will be a record year for crop production generally.

The accompanying table shows the Bureau of Labor Statistics weekly indexes of wholesale prices by major groups for June 20, compared with selected previous dates. As the table indicates, the current price indexes are only slightly above the March peaks and in general are fractionally below the levels on May 9—immediately prior to the effective date of the General Maximum Price Regulation for wholesale prices.

During June the Office of Price Administration clarified numerous features of the General Maximum Price Regulation and added supplemental rulings. New ceiling regulations were announced to become effective July 1 on charges for many types of consumer services, the number of areas to be affected by rental ceilings was further increased, and new wholesale price ceilings were imposed on seasonal woolen fabrics for civilian use. In a decision of apparently broad implications, the O.P.A. denied the petition of a manufacturer to raise above ceiling levels prices of certain items selling at losses, on the grounds that profits on the company's operations as a whole were satisfactory. Large soap concerns agreed during June to "roll back" factory prices to February levels to enable retailers to sell at March ceilings. Effective June 29, the O.P.A. permitted increases in the prices charged for gasoline and fuel oil on the East Coast.

According to a special survey by the Bureau of Labor Statistics showing immediate effects of the imposition of the General Maximum Price Regulation, the cost of living for wage earners and lower salaried workers in 21 urban centers of the United States was estimated to have declined fractionally between May 15 and June 2. For the preceding year and a half the Bureau of Labor Statistics data had shown a virtually uninterrupted rise in the cost of living. While many retail prices have tended to show slight downward reactions since May 15, food prices in general again advanced, especially in New York City, where the food index was about 1½ per cent higher on June 2 than on May 15. In the past three years—since June, 1939—the all items cost of living index for the country as a whole has risen 17½ per cent and retail food prices alone about 30 per cent.

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

	Index June 20, 1942 (1926=100)	Percentage change June 20, 1942 compared with			
		Aug. 26, 1939	Dec. 6, 1941	Mar. 28, 1942	May 9, 1942
All commodities	98.1p	+31.1	+ 6.4	+ 0.7	— 0.5
Raw materials	98.7	+49.1	+ 9.7	+ 0.4	— 0.8
Manufactured products	98.8p	+24.6	+ 5.2	+ 0.9	— 0.5
Farm products	104.5	+71.0	+15.1	+ 1.1	+ 0.5
Foods	98.4	+47.5	+10.9	+ 2.6	— 0.9
All commodities other than farm products and foods	95.9p	+19.3	+ 2.3	+ 0.6	+ 0.1

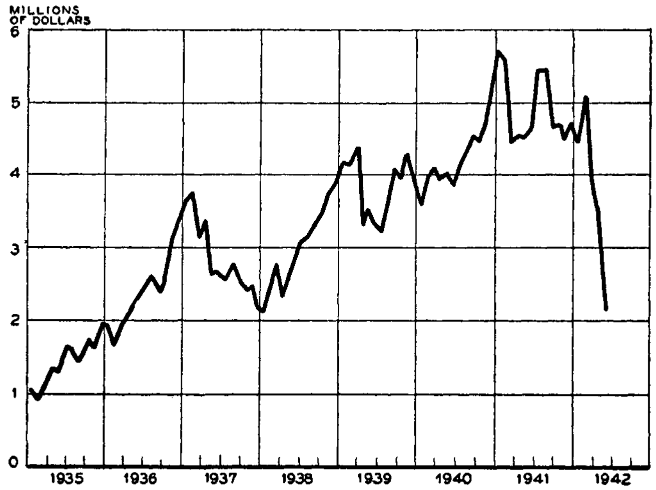
p Preliminary

Building

On June 15 the War Production Board indicated that nonessential building had been virtually halted since April 9, when it was announced that all nonessential civilian construction, except a limited number of small projects, must receive specific authorization from the Board. For the year as a whole the W.P.B. estimated that only $650,000,000 would be spent on such building compared with $4,000,000,000 in 1941. The volume of essential construction, on the other hand, was expected to amount to $13,500,000,000 in 1942, 20 per cent above the total volume of construction in 1941.

Owing to the rapidly expanding rate of war production, demands on the existing supply of critical materials have become so great that some modifications have recently been made in the program of war construction. In the field of plant expansion, the W.P.B. announced on May 30 that no new war plants would be built unless they were deemed absolutely essential to the war effort. In the future, emphasis will be placed as far as possible on the use of existing facilities, and, in the event that new plants are considered necessary, on structures of the simplest type which require a minimum of scarce materials.

During May the volume of construction contract awards in the 37 Eastern States included in the F. W. Dodge Corporation survey rose to the second highest level on record, the previous high being reached in August, 1941. Three fourths of the total contracts awarded in the month were for defense construction financed by the Federal Government, 9 per cent was for other public projects, including State and municipal construction,



Daily Average Value of Private Residential Building Contracts Awarded in 37 States, Adjusted for Seasonal Variation (Based on F. W. Dodge Corporation data)

and the remaining 16 per cent was for private construction. Compared with the corresponding month of last year, when only one quarter of all contracts was for Government financed defense work, the daily rate of awards in May was up almost one quarter. All major types of private construction were off more than 50 per cent, while public projects were more than double the rate prevailing in May, 1941.

The accompanying chart indicates the extent to which the rate of awards for private residential building has already been curtailed as a result of the demands of the war construction program. From August, 1941 to May, 1942 the daily rate, adjusted for seasonal variation, declined about 60 per cent, and in May was at a level corresponding to the low point reached during the recession of 1937-38.

In New York State and Northern New Jersey the daily rate of construction contract awards declined about one fifth from April to May, owing primarily to a decrease in the volume of awards for heavy engineering projects. Compared with May, 1941, however, the rate of awards in this region was up about 10 per cent. As in the case of the 37 States as a whole, awards for private construction were off more than 50 per cent, while awards for public projects more than doubled between May, 1941 and May, 1942.

Employment and Payrolls

The War Manpower Commission has recently estimated that 10 million new workers will be needed for war work during 1942, as well as 2½ million who will probably be required for the Army and Navy. At the end of 1941 about 7 million persons were working in war industry and by April 1, 1942 this number had grown to approximately 9 million. The Commission believes that the 12½ million added to war industry and the armed forces during 1942 will be raised as follows: 7 to 8 million from peacetime industries, about ½ million from farms and a like number from the ranks of the self-employed, 1½ million from the unemployed, and 2 million from housewives, students, and others not regularly in the labor force.

On June 24, the War Manpower Commission issued eight directives to Federal agencies covering plans to coordinate information regarding the manpower supply and to mobilize available manpower where it is needed in war industry and in agriculture. Under this program, the United States Employment Service is directed to analyze and classify workers' skills, to establish priorities for the placement of workers with critical skills in essential industries, and to recruit and allocate workers in essential activities.

According to the New York State Department of Labor, employment in New York State factories declined somewhat during May from the level of the two preceding months, but owing to a large number of wage rate increases, payrolls continued to rise. Although factory employment as a whole was only slightly smaller, there were sizable changes in the working forces of individual industries. Producers of transportation equipment, ordnance, electrical machinery, and other war goods continued to hire more workers, while shortage of materials for civilian production caused layoffs at plants making carpets, woolen fabrics, radios, cans, and heating apparatus. In addition, there were large seasonal reductions in employment by clothing manufacturers. Compared with May, 1941, factory working forces were 12½ per cent greater, and wage payments were 36 per cent larger.

In New York City, both employment and payrolls declined during May, largely as a result of seasonal layoffs in the garment industry. In Upstate New York, however, larger working forces and increased payrolls were reported, as employment gains in war industries more than offset declines at plants manufacturing consumers' goods and nonessential metal products.

In the United States as a whole, manufacturing employment rose about 1 per cent during May, and payrolls were 3 per cent greater, according to the Bureau of Labor Statistics. Manufacturers of war goods, as represented by the transportation equipment and machinery industries, continued to hire more workers; automobile factories increased employment for the first time since November, indicating progress in the conversion of the industry to war production. However, all major industrial groups in the nondurable goods category, except food products, reported reduced working forces, although in many cases the declines were seasonal in character. Total factory employment in May was 10 per cent greater than in the corresponding month last year, and payrolls were 34 per cent larger.

During May, the number employed in civil nonagricultural pursuits in the United States as a whole increased 330,000 to a total of 41,200,000 persons, according to estimates made by the Bureau of Labor Statistics. The largest gains during the month occurred among those engaged in construction work, civil government employees, and factory workers. Total civil nonagricultural employment in May was 2,300,000 above the May, 1941 level and nearly half of this gain occurred in manufacturing industries.

Department Store Trade

For the four weeks ended June 27, total sales of the reporting department stores in the Second District were about 7 per cent lower than in the corresponding 1941 period, and were also below the May average, whereas little change usually occurs between these two months. Inasmuch as these figures are in dollar terms, and inasmuch as retail prices average considerably higher than a year ago, indications are that the physical volume of Second District department store trade—as opposed to the dollar volume—was quite substantially below the level of June, 1941.

Total sales during May of the reporting department stores in this District were 5 per cent below May, 1941, owing in part to the fact that there was one less shopping day and one less Saturday this year than last. On an average daily basis, sales were somewhat higher than in the corresponding month last year, but fell below the April, 1942 level. Large gains between May, 1941 and May, 1942 were reported in sales of yard goods, carpets, and radios, while substantial decreases were shown in linens, sheetings, millinery, furs, men's clothing, furniture, sporting goods, and wines and liquors.

A further gain was reported during May in retail stocks of merchandise on hand in the reporting department stores in this District, and at the end of the month stocks were 79 per cent higher than a year earlier.

Returns from a limited number of department stores in this District indicate that at the end of May outstanding orders for merchandise purchased by the stores, but not yet delivered, were still declining, but were about one-half larger than those at the end of May, 1941.

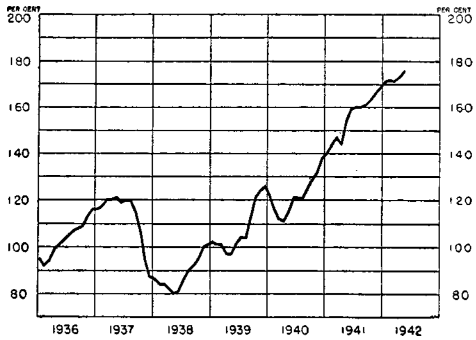
Department stores	Percentage changes from a year earlier		
	Net sales		Stock on hand end of month, May, 1942
	May, 1942	Jan. through May, 1942	
New York City	— 4	+13	+86
Northern New Jersey	—10	+13	+75
Newark	— 8	+14	+74
Westchester and Fairfield Counties	+ 2	+21	+54
Bridgeport	+ 5	+24	+61
Lower Hudson River Valley	—11	+ 8	+43
Poughkeepsie	—10	+12	....
Upper Hudson River Valley	—17	+ 8	+59
Albany	—23	+ 2	....
Central New York State	— 5	+18	+75
Mohawk River Valley	+ 5	+31	+75
Syracuse	— 8	+14	+75
Northern New York State	—21	— 3	....
Southern New York State	— 9	+17	+67
Binghamton	—12	+14	....
Elmira	— 4	+22	....
Western New York State	— 1	+19	+64
Buffalo	0	+22	+65
Niagara Falls	+26	+40	+34
Rochester	— 2	+15	+68
All department stores	— 5	+14	+79
Apparel stores	— 3	+16	+61

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

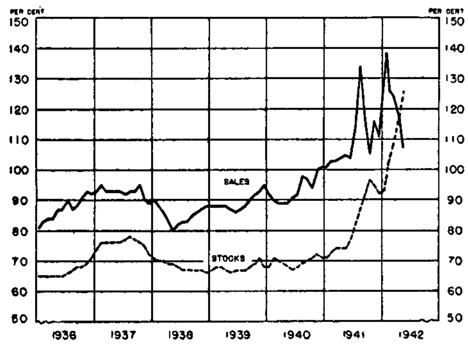
	1941 May	1942 Mar.	1942 Apr.	1942 May
Sales (average daily), unadjusted	95	106	106	99
Sales (average daily), seasonally adjusted	99	120	110	103
Stocks, unadjusted	89r	137	152	160
Stocks, seasonally adjusted	86r	135	149	156

r Revised

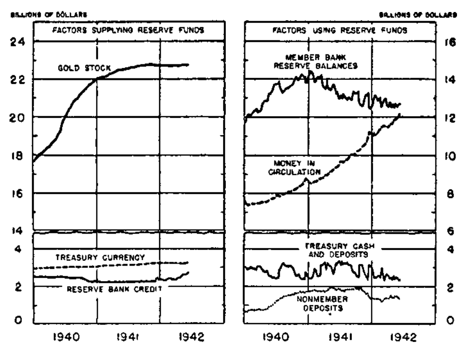
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, JULY 1, 1942



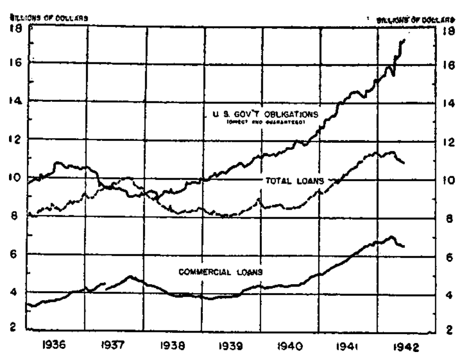
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Member Bank Reserves and Related Items (Latest figures are for June 10)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for June 10)

General Business and Financial Conditions

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

INDUSTRIAL activity continued to advance in May and the first half of June. Commodity prices showed little change after the middle of May when the general maximum price regulation went into effect. Retail trade declined further in May but increased somewhat in the first half of June.

Production

Volume of industrial production increased in May and the Board's seasonally adjusted index advanced to 176 per cent of the 1935-39 average, as compared with 173 in April and 171 during the first quarter of this year. Output of manufactured products continued to increase, reflecting chiefly further growth in production of war materials, while mineral production showed a seasonal rise.

The largest increases in May, as in other recent months were in the machinery and transportation equipment industries which are now making products chiefly for military purposes. The amount of copper smelted rose sharply and output of chemicals continued to advance. Activity in the automobile industry, which since January had been retarded during the conversion of plants for armament production, showed an increase in May.

Steel production was maintained at about 98 per cent of capacity in May and the first half of June. Lumber production increased seasonally and activity at furniture factories, which usually declines at this time of year, was sustained at a high rate. In industries manufacturing textiles and food products, output continued large in May. Gasoline production declined further, however, reflecting the effects of transportation difficulties. There was a further marked decrease in paperboard production which, according to trade reports, reflected a slackening in demand.

Coal production was sustained at a high rate in May and output of crude petroleum increased somewhat, following considerable declines in March and April. Copper production and iron ore shipments rose sharply to new record levels.

Value of construction contract awards increased sharply in May, following a decline in the previous month, and was close to the record high level reached last August, according to figures of the F. W. Dodge Corporation. Awards for publicly financed work increased in May and, as in other recent months, constituted around three quarters of the total. Awards for residential building continued to decline.

Distribution

Retail trade declined further in May. Department store sales were about 7 per cent smaller than in April and sales by mail-order houses showed a similar decrease. In the first half of June department store sales increased somewhat.

Car loadings of revenue freight increased in May by about the usual seasonal amount. There was a further substantial decline in the number of cars loaded with merchandise in less than carload lots, reflecting the effect of Federal orders raising the minimum weights for such loadings. Increases were reported in shipments of most other classes of freight, particularly coal, ore, and miscellaneous freight.

Commodity Prices

Prices of most commodities both at wholesale and retail showed little change after the general maximum price regulation went into effect around the middle of May. Declines occurred in prices of cotton and some other agricultural commodities, and prices of some industrial commodities were reduced to conform with the general order that prices should not exceed the highest levels reached in March. Action was taken to exempt most military products from the general regulation and to allow for special treatment of women's coats and dresses and a few other nonmilitary items.

Bank Credit

During May and the first half of June, the Federal Reserve Banks purchased about 200 million dollars of United States Government securities. Additions to member banks' reserves from this source, however, were offset by continued withdrawals of currency by the public. Excess reserves fluctuated around 2,700 million dollars during the six week period.

Reporting member bank holdings of United States Government securities increased by nearly a billion dollars during the period. Two thirds of the increase came in the week ended May 20 with delivery of new Treasury 2 per cent 1949-51 bonds, and the balance represented mainly increased bill holdings. Loans declined somewhat in the period. Adjusted demand deposits continued to increase, while United States Government deposits were reduced.

United States Government Security Prices

Prices of taxable United States Government bonds, which declined by about ½ point at the time of the early May financing, subsequently regained that loss and during the first half of June remained steady.