MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

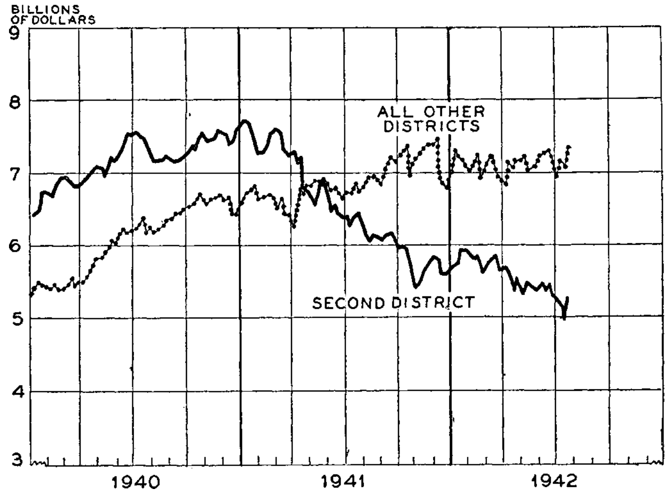
Money Market in July

The declining tendency of member bank excess reserves, which had been interrupted during June, was resumed in July. At $2,070,000,000 on July 15, excess reserves of all member banks were about $700,000,000 below the level prevailing during most of June. The drop was relatively much more pronounced in New York City than in other parts of the country. From a level in excess of $500,000,000 during the first three weeks of June, excess reserves of the Central Reserve New York City banks fell as low as $190,000,000 at the middle of July. As a result of a subsequent partial recovery, excess reserves on July 29 amounted to $2,200,000,000 for all member banks and to $255,000,000 for the New York City banks.

The dominant factor in the reduction in member bank excess reserves during the latter part of June and the first half of July was a rapid building up of Treasury deposits with the Federal Reserve Banks—to nearly $950,000,000. By way of contrast, Treasury deposits with Federal Reserve Banks had reached so low a level on several days just after the middle of June as to require "overdrafts" (covered by borrowing on special one-day certificates of indebtedness) at the Reserve Banks. One of the largest factors in the rise in Treasury deposits with the Federal Reserve Banks was that of cash payments for the $2,097,000,000 of 2 per cent bonds of 1949-51 sold on July 15. Not only was the issue of unusual size—representing the largest single "new money" offering by the Treasury in twenty-three years—but the percentage of cash payments, as opposed to "book credit" payments, was greater than on other recent Treasury offerings. On the June issue of $1,588,000,000 certificates of indebtedness, for example, cash payments came to 34 per cent of the total, whereas on the July issue of 2 per cent bonds the corresponding figure was 43 per cent. The breadth of distribution of the new bonds, and general participation in the issue in sections of the country where excess reserves have been relatively largest, may have accounted for the higher proportion of cash payments. The New York City banks absorbed only an eighth, and weekly reporting member banks throughout the country a third, of the new bonds; in comparison, the New York City banks took a fifth of the June certificates of indebtedness and all weekly reporting member banks one half. Of total allotments of $834,000,000 of the bonds to Second District banks and their customers, only $219,000,000, or a quarter, were paid for in cash—about the same proportion as on other recent issues.

Also contributing to the building up of Treasury deposits with the Reserve Banks were an enlarged volume of Savings bond sales and the issuance of calls for repayment of Government funds accumulated in commercial bank depositaries on "war loan account". The calls for repayment, during the period June 29-July 10, reached a total of $850,000,000. Moreover, $300,000,000 Treasury bills were sold on July 1, and again on July 8, dates when there were no maturing bills. Weekly Treasury bill offerings were further stepped up to $350,000,000 on July 15, but the "book credit" method of payment was permitted on the issues of July 15 and 22, and, since there were $150,000,000 bill maturities each week, these two bill offerings had relatively little net effect on bank reserve balances. Government expenditures, represented by Government checks drawn upon Treasury deposits with the Reserve Banks, were of record-breaking proportions, but even so fell well short of the cash receipts during the period from June 24 to July 15.

Between July 15 and July 22 Treasury balances with the Federal Reserve Banks were drawn down to $300,000,000, and there was a partial recovery in member bank excess reserves. The Treasury did not find it necessary, until July 24,



Reserve Balances of Member Banks in the Second Federal Reserve District, and in All Other Districts

to call for further repayments of Government funds in commercial bank depositaries, which were raised to a total of over $2,500,000,000 as a result of book credit payments for the 2 per cent bonds and Treasury bills. On July 24, 27, 30, and 31, however, calls were made for repayment of more than $600,000,000 from the "war loan" accounts, and these funds, together with $200,000,000 realized from Treasury bills on July 29, and month-end enlargement of sales of Savings bonds and tax anticipation notes, served to hold Treasury deposits with the Reserve Banks at a fair working level.

Rising reserve requirements and further expansion in currency circulation, which for some time have been the major factors in the downward trend in excess reserves, played important parts in cutting into excess reserves in July. Between June 24 and July 29, reserve requirements, through expansion in deposits associated with additions to bank investment portfolios, increased by $470,000,000, and over the same period net withdrawals of currency from the Reserve Banks to meet payroll and other requirements came to more than $400,000,000.

The principal offset to these factors tending to reduce member bank excess reserves was provided by Federal Reserve Bank purchases of Government securities for the System Open Market Account. The net increase in System Account holdings of Government obligations amounted to about $525,000,000 during the five weeks ended July 29. Purchases, largely concentrated between June 24 and July 15 when excess reserves were rapidly falling, were predominantly of certificates of indebtedness and Treasury bills, which were being offered by banks, particularly in New York City, in the adjustment of their reserve positions. With the improvement in member bank positions after the 15th, the scale of open market purchases for System Account was much reduced. Treasury bond prices remained steady throughout July, despite the shrinkage in excess reserves, and there was little occasion for System Account operations in maintaining stable markets for such obligations.

Between the first week in November, 1941, when legal reserve requirement percentages were raised to their statutory maxima, and July 29 of this year, System Account holdings of Government obligations increased by $925,000,000. This increase, of which half occurred during the three weeks ended July 15, has had the effect of moderating the decline in excess reserves. Despite the effect of these purchases in replenishing bank reserves, however, excess reserves of all member banks dropped by about $1,200,000,000 over this nine months' period. Between November 5 and July 29, member bank excess reserves were cut into to the extent of more than $2,200,000,000 through expansion in currency circulation, and almost $1,200,000,000 through rising reserve requirements resulting from deposit expansion.

During the nine months' period, a major part of the reduction in excess reserves has occurred at New York City banks (although Central Reserve City banks in Chicago also have had a similar loss of excess reserves). Federal Reserve open market operations, mainly conducted in New York, prevented a much more extensive change in bank reserve positions in this District. In addition to net currency withdrawals of $420,000,000, and a rise in reserve requirements of $380,000,000, excess reserves of Second District banks tended to be drawn down by an outflow of funds from this area to other parts of the country. As indicated in the accompanying chart, reserve balances of the banks in the Second Federal Reserve District have been showing a declining tendency for more than a year, while reserve balances in other Districts have been maintaining a general level somewhat in excess of $7,000,000,000 since last September.

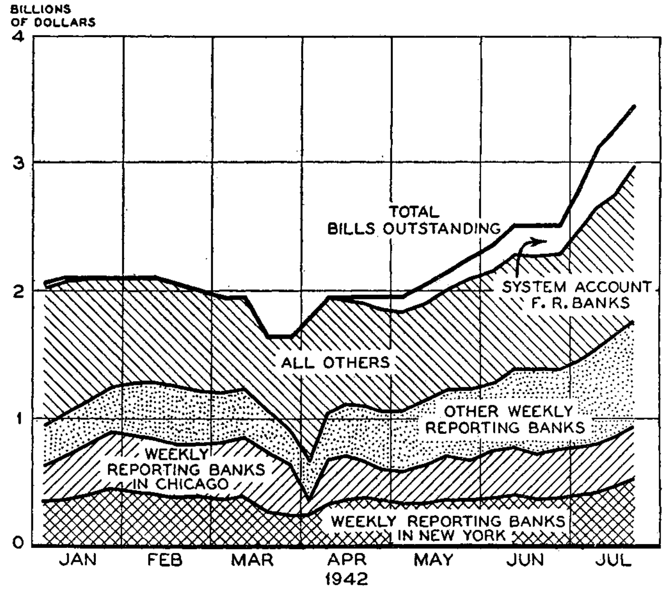
As excess reserves of the New York City member banks dropped off during the first half of July, losses of reserve funds were unevenly distributed among various institutions and in consequence there was increased activity in the market for "Federal funds". That is to say, banks which might otherwise have been deficient in reserves borrowed, on a day-to-day basis, reserve funds from banks whose reserve balances were well in excess of their reserve requirements. While such transactions were frequent around the middle of July, the rate paid was unchanged from its previous level of one-quarter per cent. Most borrowings of Federal funds were repaid during the third week of the month as aggregate excess reserves of the New York City banks recovered and as the distribution of excess reserves, among the individual banks, became more balanced.

Member Bank Credit

From June 24 to July 22 total loans and investments of weekly reporting member banks in 101 cities increased $1,809,000,000, reflecting primarily participation in market offerings of new Government securities. Total Government security holdings of reporting New York City banks expanded by $596,000,000 and for the banks in the 100 cities outside New York the increase amounted to $1,261,000,000. Over the four weeks' period, holdings of certificates of indebtedness rose $264,000,000 for New York City banks and $520,000,000 for banks in the other reporting centers, while holdings of Treasury bonds rose $219,000,000 and $509,000,000, respectively. Accompanying a $950,000,000 increase in the outstanding supply of Treasury bills between June 24 and July 22, reporting banks in New York City added to their holdings of bills to the extent of $145,000,000, and banks in the other centers enlarged their holdings by $222,000,000.

During the four weeks ended July 22 total loans of weekly reporting member banks in 101 cities increased \$46,000,000, a rise resulting from an expansion of \$175,000,000 in loans to brokers and dealers in securities (practically all in New York City), offset to a large extent by contraction in almost all the other loan items. Commercial, industrial, and agricultural loans declined \$14,000,000 further in New York City and \$61,000,000 in the out-of-town centers. Most of this decline in New York City occurred in the week ended July 1 when payments on a long term loan were made by a large oil company. Since the peak of March 18 such loans have fallen off \$231,000,000 in New York City and \$374,000,000 in the 100 other cities.

As a result of extensive use of the book credit method of payment for new Government securities sold during the period, Government deposits held by reporting member banks showed a net increase of \$1,401,000,000 to \$2,053,000,000. About half of the increase was accounted for by the New York City banks. Adjusted demand deposits rose \$45,000,000 in New York City and \$320,000,000 in the 100 other centers.



Outstanding Volume of Treasury Bills, Classified as to Ownership

Government Security Market in July

Only minor fluctuations disturbed the even tenor of the Government security market during July, as trading continued light. Thus, the average yield on long term partially tax exempt Treasury bonds was 2.00 per cent at the end of the month as at the beginning, while the average yield on long term taxable Treasury bonds held close to 2.34 per cent. The "tap" issue, the 2½ per cent taxable Treasury bonds of 1962-67 sold in May, became negotiable (except that commercial banks are not eligible to purchase this issue until 1952) for the first time on July 6 and has been recently quoted at about a ⅛ point premium, equivalent to a yield of 2.48 per cent.

Yields on intermediate term Treasury bonds generally showed little change during July, although the Treasury offering on July 8 of \$2,000,000,000 of taxable 2 per cent Treasury bonds of December 15, 1949-51 was reflected in a slight rise in the yields of outstanding taxable Treasury bonds of comparable maturity. Subscription books on the new bonds, which were dated July 15, were kept open for two days and primary distribution of this new issue was wider than on several previous issues. Subscriptions totaled \$3,849,000,000 and were allotted on a 52 per cent basis for amounts over \$25,000. Subscriptions in amounts up to and including \$25,000, totaling \$196,000,000, were allotted in full. Allotments totaled \$2,097,000,000. The new 2 per cent bonds were quoted slightly above par during the entire month (100 3/32 bid on July 30).

The average yield on three to five year taxable Treasury notes during the latter part of July rose to 1.23 per cent, a new 1942 high. Yields on most tax exempt Treasury notes also rose somewhat.

For the third time in as many months, weekly offerings of Treasury bills were increased during July. The issues of July 1, 8, and 15 were in the amount of \$300,000,000; the two subsequent offerings were raised to \$350,000,000. Treasury bill maturities during the month came to \$450,000,000. Consequently, the Treasury obtained \$1,150,000,000 in "new money" through its weekly bill transactions during July.

The Treasury bill rate in July continued stable and close to the ⅜ per cent buying rate of the Federal Reserve Banks. All five Treasury bill offerings during July were of 91 day term.

As indicated in the accompanying chart, the substantial enlargement of the outstanding supply of Treasury bills, together with the more attractive rates prevailing on them, has had the effect of inducing a substantially broader interest in and market for these securities. Between April 15 and July 22 the outstanding volume of Treasury bills expanded from \$1,950,000,000 to \$3,460,000,000, or \$1,510,000,000. Of this increase, only 15 per cent (\$219,000,000) was accounted for by enlarged holdings of New York and Chicago banks; weekly reporting member banks outside these cities took \$419,000,000 or 28 per cent of the increase, and banks not included in the weekly reporting group, together with other investors, took \$398,000,000 or 26 per cent. Net purchases of Treasury bills by the Federal Reserve Banks came to \$474,000,000 over this period, equivalent to 31 per cent of the expansion in the outstanding supply.

Money Rates in New York

	July 31, 1941	June 30, 1942	July 30, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½	⅝–¾	⅝–¾
Bills—90 day unindorsed	7/16	7/16	7/16
Yield on ¾ per cent Treasury note due March 15, 1945 (tax exempt)	0.34	0.56	0.56
Average yield on taxable Treasury notes (3-5 years)	0.63	1.17	1.22
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.96	2.00	2.00
Average yield on taxable Treasury bonds (not callable within 12 years)	2.09	2.35	2.34
Average rate on latest Treasury bill sale 91 day issue	0.094	0.362†	0.369
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 † 85 day issue

Security Markets

As a result of some further advance during July, added to that of the two preceding months, the major portion of the decline in stock prices earlier in the year has been erased. During the first half of July, Standard's price index of 90 stocks rose 6 per cent to a point only 3 per cent below the 1942 high set on January 5. Little movement was shown by stock quotations subsequently until July 23 when the Treasury's request for more severe tax legislation had a depressing effect on stock prices. For the month as a whole, the stock price index recorded a net advance of 3 per cent, as the volume of trading on the New York Stock Exchange picked up somewhat.

Medium grade domestic corporate bonds moved slightly higher during July to close the month at a level about 5/8 of a point below the year's high, measured by Moody's Baa index. The extreme range for the year has been only 1 7/8 points for these bonds. High grade corporate bonds continued inactive at or near the year's high; interests which usually dominate this market have turned increasingly to Treasury securities.

By July 29, according to Standard's index, prices of prime municipal bonds had canceled the sharp decline which followed the Treasury's recommendation to Congress last January that income from outstanding, as well as future, issues of municipal bonds be made subject to Federal taxation. The average yield on prime municipal bonds computed by Standard and Poor's Corporation stood at 2.29 per cent on July 29, as compared with 2.35 per cent on June 24.

Foreign Exchanges

Fluctuations in the rate for the "free" Swiss franc marked an otherwise quiet New York foreign exchange market during June. Quotations for the "free" franc turned upward on July 2 and advanced gradually until July 15 when a rather abrupt rise occurred in an extremely thin market. By July 16, a high of $0.3160 had been reached. Following the appearance of some offerings of this type of exchange, the rate reacted quickly and at the end of July was quoted at $0.3035, as compared with $0.2910 a month earlier. Except for some appreciation in the free rate for the Argentine peso in the latter part of the month, other foreign exchanges held steady vis-a-vis the dollar. On July 30 the Argentine peso was quoted in the free market at $0.2379, or 16 points above the end of June quotation.

As to the Cuban peso, which continued to be quoted at par with the United States dollar, an agreement designed to assist the Cuban Government's operations to stabilize the peso vis-a-vis the dollar was signed on July 6. Under the terms of the agreement, gold may be purchased from the United States by the Republic of Cuba with payment to be made within 120 days after delivery, provided the unpaid amount shall not exceed $5,000,000 at any time.

On July 10 the Chinese Stabilization Board lowered the rates for the Chinese yuan to 5 1/16 cents in terms of the United States dollar and 3 1/64 pence in terms of the pound sterling. This was the first change since September, 1941, when the quotations of 5 11/32 cents and 3 3/16 pence were established by the Board.

War Savings Bonds

Owing to intensified sales efforts, in combination with the raising of the limitation on purchases of Series F and G bonds (from $50,000 to $100,000 effective July 1), total sales of War Savings bonds were sharply higher in July. On the basis of reports through July 27, it is estimated that total sales came to more than $900,000,000, which would be within $100,000,000 of the amount set by the Treasury early in May as the National quota for July. This figure, which compares with $640,000,000 in June, and $342,000,000 in July, 1941, was exceeded only in January, 1942, when numerous purchases of all series of War Savings bonds were made in the full amounts then permitted individual subscribers under Treasury Department regulations. Secretary Morgenthau recently announced that present plans of the Treasury call for a continuance of the voluntary Savings bond sales program coupled with a National quota of $1,000,000,000 every month.

Sales of Savings bonds in the Second Federal Reserve District by agencies other than post offices were, with the exception of January, 1942, the highest on record. For the period July 1 to 30, sales by or reported to this bank amounted to $186,000,000, as compared with $117,000,000 for the full month of June. From May 1, 1941, to date such sales have accounted for about one fifth of the total (including post office sales) for the entire country.

In addition to the pledge campaign conducted by the Treasury Department during July, moves were initiated to expand the number of outlets for the sale of Savings bonds to the general public. Whereas post offices, banks, and certain other financial institutions and corporations were heretofore permitted to issue Savings bonds of Series E to the public, hundreds of retail stores and radio stations have recently been invited by the Treasury Department to become issuing agents, and regulations have been liberalized to allow many organizations to obtain bond supplies for sale without the necessity of posting collateral or paying in advance for the bonds. On July 18, qualified issuing agents for the sale of War Savings bonds numbered 23,800 (exclusive of post offices) for the entire country; about 2,500 of these were located in the Second Federal Reserve District.

New Financing

Reflecting a sharp decline in corporate flotations, the volume of corporate and municipal new financing fell off from $170,000,000 in June to $97,000,000 in July, the lowest level for any month in more than four years. Corporate security issues during the month totaled only $45,000,000, or about one third of the average monthly volume during the first half of the year. Of this corporate total, only $20,000,000 represented funds to be used for new capital purposes.

The principal corporate offering during the month was that of $35,000,000 Celanese Corporation of America 3½ per cent debentures due in 1962, priced at 99½ to yield 3.54 per cent. The largest municipal award was that of $17,100,000 City of Detroit, Michigan, refunding bonds maturing from 1943 to 1962, priced to yield from 0.60 to 2.60 per cent.

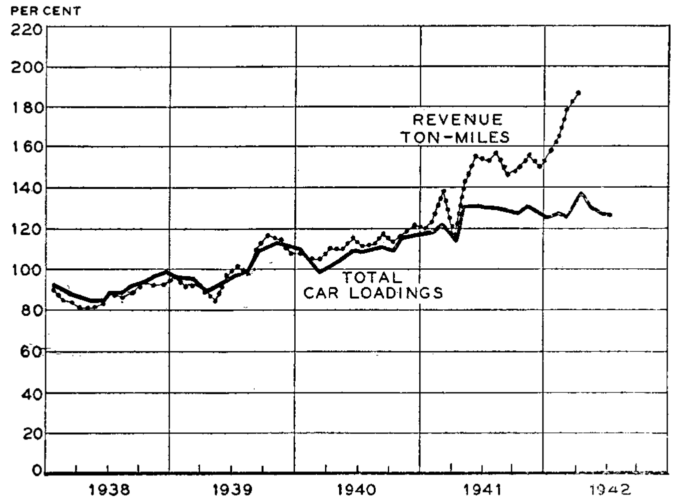
Temporary financing, not included in the above totals, amounted to $166,100,000, nearly all of which was accounted for by the following issues: $45,000,000 City of New York revenue bills, $35,000,000 Federal Intermediate Credit Bank consolidated debentures, and $83,100,000 short term notes of several local housing authorities.

Production and Trade

During the first half of 1942 production of munitions was one and one-half times as great as in the entire year 1941, according to a report issued by Chairman Nelson of the War Production Board. In June, the output of war material, including planes, ships, tanks, guns, ammunition, and equipment, was nearly three times as large as in November, 1941, the last month before our entry into the war. According to present indications, a further gain presumably occurred in July.

The War Production Board has approved the principle of concentrating the production of essential civilian goods in certain plants and regions to utilize the nation's industrial facilities more effectively. The W.P.B. will select "nucleus plants" to produce essential consumer goods at or near capacity. As a general rule, small plants will be kept in operation on civilian work and the larger ones will be devoted to war work. The concentration plan will involve simplification and standardization of many products and consolidation of distribution channels. The plan was put into operation on an experimental basis by the W.P.B. in the case of the domestic cooking and heating stove industry last May.

On the basis of data now available for July, industrial activity as a whole appears to have at least maintained the record level reached in June. The steel mills continued to operate at virtually full rated capacity, and electric power production and loadings of railway freight during the first four weeks of the month averaged somewhat higher than in June. The mining of bituminous coal and the output of crude petroleum, however, appear to have declined somewhat.



Total Car Loadings and Revenue Ton-Miles of Freight Hauled by the Railroads, Adjusted for Seasonal Variation (1939 average=100 per cent)

	1941	1942		
	June	April	May	June
*Indexes of Production and Trade** (100=estimated long term trend)				
Index of Production and Trade†	112	114	113*p*	114*p*
Production	115	121	121*p*	123*p*
Producers' goods—total	122	146	148*p*	152*p*
Producers' durable goods	125	163	167*p*	175*p*
Producers' nondurable goods	119	126	125*p*	125*p*
Consumers' goods—total	108	89	87*p*	88*p*
Consumers' durable goods	115	47	45*p*	45*p*
Consumers' nondurable goods	105	103	101*p*	103*p*
Durable goods—total	122	129	131*p*	137*p*
Nondurable goods—total	111	112	111*p*	112*p*
Primary distribution†	114	131	133*p*	133*p*
Distribution to consumer	104	89	85*p*	82*p*
Miscellaneous services	102	118	120*p*	119*p*
Cost of Living, Bureau of Labor Statistics (100=1935-39 average)	105	115	116	116
Wage Rates (100=1926 average)	123	133	134*p*	...
*Velocity of Demand Deposits** (100=1935-39 average)				
New York City	63	57	66	61
Outside New York City	93	85	88	85

p Preliminary. * Adjusted for seasonal variation.
† These indexes have been revised Jan., 1940 to date. The revised indexes are available upon request.

Production and Trade in June

The monthly index of production and trade computed at this bank rose from 113 per cent of estimated long term trend for May (revised) to 114 for June. The indexes for recent months have been revised to take account of the substantial increase that has occurred in ton-miles of railway freight carried in comparison with the number of cars loaded.

The increase in the total index between May and June was due to a rise in productive activity to a new peak. Most of the gain in production during June was associated with a further substantial increase in the "producers' durable goods" group (which includes much of the war production), as newly constructed or converted plants swung into active operation on war contracts.

There was a further slackening in the volume of retail trade in June, seasonal factors considered, but the decline was less pronounced than in the four preceding months. Sales by department stores and mail order houses declined more than usual in June, while sales by chain store systems were relatively well maintained.

Revision of Index

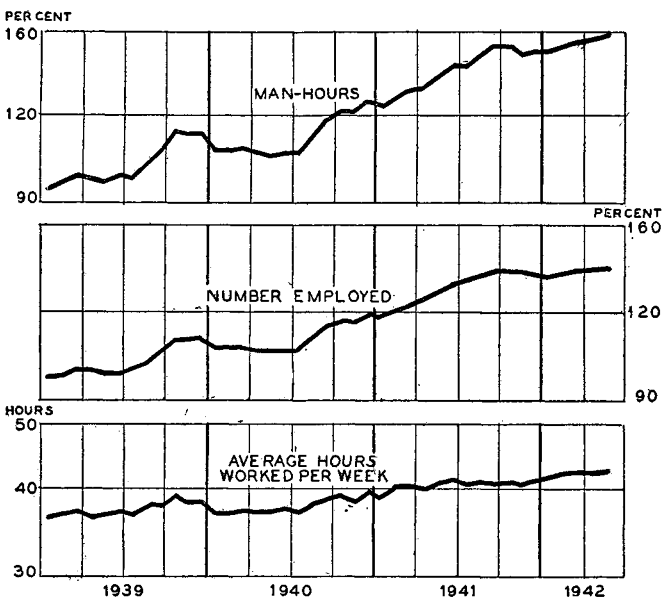
For many years ton-miles of freight per car loaded (i.e., the ratio between ton-miles of freight moved and car loadings) increased gradually through such factors as an increase in the proportion of long-haul freight traffic and employment of larger cars. As the accompanying chart indicates, however, divergent tendencies between the two series have increased rapidly during the past year or two. The very rapid expansion in ton-miles per car loaded that has recently taken place reflects a much more intensive use of railway equipment under the pressure of the war emergency.

As long as ton-miles per car loaded increased gradually, car loadings provided a satisfactory measure of railway freight traffic for the purposes of this bank's production and trade indexes, since ton-miles expressed in terms of per cent of their estimated long term trend showed a fairly close resemblance to car loadings, similarly expressed. But the disparity between the two series has recently become so marked that the use of car loadings figures has led to substantial understatement of the volume of freight being handled by the railroads. For this reason the index of production and trade and the index of primary distribution have been revised back to January, 1940, a series of data on revenue ton-miles of railway freight carried being substituted for two series on railway freight car loadings.

Employment and Payrolls

The total number of persons employed in the United States during June, 1942 was 53,300,000 (exclusive of members of the armed forces), the highest level on record, according to estimates of the Work Projects Administration. This represents an increase of 1,700,000 persons over May, largely owing to the seasonal upswing in agricultural employment, and a rise of 3,000,000 since June, 1941. Unemployment in June was estimated at 2,800,000 persons (including public emergency workers), only half the number unemployed a year previous and only one-third the number out of work in June, 1940.

In recent months, manufacturing employment in the United States has gradually risen, as is shown in the accompanying diagram, and more persons have been engaged in factory work than ever before. The large additions to working forces at war plants have more than offset layoffs due to normal seasonal movements or to material shortages and curtailed employment during plant conversion to war work. The average number of hours worked per week has also been increasing, and, as a result, the total number of man-hours worked in United States factories, which measures labor "input" in manufacturing and hence represents a kind of overall measure of production, rose above the already high level prevailing prior to the entrance of the United States into the war. The increase in man-hours employed in war production, of course, has been much greater, owing to the shift from civilian to war work in many lines. During the period of the National defense program, the greater part of the rise in man-hours was due to increased working forces, which showed a gain of 30 per cent between June, 1940 and December, 1941; average working hours rose 10 per cent during the same period. Since December, however, the percentage increase in working hours has tended to be greater than the rise in employment.



Indexes (1935-39=100) of Man-Hours of Employment and Number Employed in Manufacturing, and Average Hours Worked Per Week (Based on Bureau of Labor Statistics data, plotted on equivalent ratio scales)

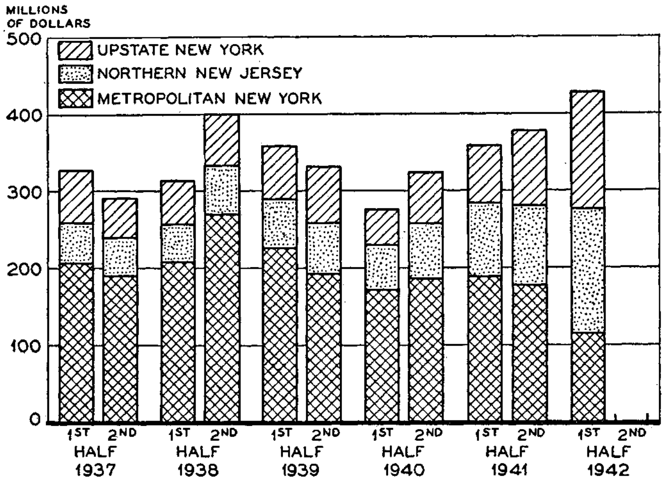
During June, employment in New York State factories decreased 3 per cent from the May level and payrolls were 3½ per cent smaller, according to the New York State Department of Labor. Large layoffs in civilian goods plants, especially those manufacturing apparel, more than offset the continued hiring of new employees by most war goods plants. The apparel industry laid off one sixth of its previous working force during June; the decline was largely seasonal in character, although material shortages and uncertainty regarding Government style and price control regulations were also reported to have been factors. Other employment declines during the month occurred at textile mills, shoe factories, and plants producing nonessential metal goods. Compared with June, 1941, however, factory employment was 8 per cent higher and payrolls were 27½ per cent greater.

In New York City factory employment dropped 9 per cent between May and June mainly in reflection of large decreases in the apparel lines. Substantial curtailment in employment was also reported by New York City manufacturers of food products, textiles, and metals and machinery. In Upstate New York as a whole there was a slight increase in employment over May. Compared with June, 1941, working forces in New York City were only 2 per cent greater, while in the rest of New York State employment gained 12 per cent during the year.

Building

During the first half of 1942 the total volume of construction contract awards reported by the F. W. Dodge Corporation for New York State and Northern New Jersey was about 20 per cent larger than in the corresponding period of 1941. Compared with the first half of 1940, at the start of the defense program, awards in this region have increased about 55 per cent.

As the accompanying chart indicates, this latter increase has not been evenly distributed throughout the district. In Upstate New York the volume of awards more than tripled between the first halves of 1940 and 1942, and in Northern New Jersey the gain between the two periods amounted to 175 per cent. In contrast, the volume of contracts awarded during the first half of 1942 in the Metropolitan New York City area was one-third below the corresponding period of 1940. While in Upstate New York and Northern New Jersey the increase in contracts awarded for public construction connected with the war program has much more than offset a falling off in private construction, in New York City the influence of the war program has been relatively slight.



Value of Construction Contract Awards in Metropolitan New York, Upstate New York, and Northern New Jersey (F. W. Dodge Corporation data)

For the 37 States included in the F. W. Dodge Corporation report, the total volume of contracts awarded in the first half of 1942 was the largest half-year total on record, nearly 50 per cent above the volume awarded in the corresponding period of 1941, and more than double the total for the first six months of 1940. During the first half of the current year, restrictions on nonessential building, together with growing shortages of certain critical materials, have resulted in a marked contraction in private construction. On the other hand, as a result of our entry into the war, the size of the war construction programs for such projects as manufacturing buildings, utilities, airports, and public housing has been sharply stepped up, and has more than offset declines in other types of construction activity.

Commodity Prices

Continued steadiness in the general level of wholesale commodity prices during July reflected not only the ceilings widely affecting industrial prices but also offsetting movements within the agricultural commodity group. Stimulated by Lend-Lease and other Government buying, hog prices advanced to new highs since the fall of 1920 but spot cotton declined, accompanying a delay in Senate action upon the parity loan bill. A rise in cash wheat quotations during the first part of the month was subsequently canceled. The Government crop report, based on conditions as of July 1, indicated a 1942-43 wheat supply equal to more than two years' domestic requirements. But the report indicated a smaller corn crop than the trade had expected, and corn prices were somewhat firmer.

During July, the Office of Price Administration established several new practices and, in other instances, modified certain price regulations to meet changing circumstances. The first important "punctures" of civilian price ceilings since the General Maximum Price Regulation went into effect occurred during the month. Price advances were permitted for fruit and vegetables processed from the 1942 crop, for certain pigments, and for gasoline and fuel oil sold in the East at retail. A Federal subsidy, effective August 1, however, will absorb part of the increased cost of transporting petroleum products. The added expense of moving refined sugar from the West Coast is also to be met from Federal funds. The O.P.A. issued on July 17 the first Commodity Practices Regulation, which directs that the size and quality of soaps be maintained. Beginning July 31, the buying public can sue retailers for charging more than is allowed by the O.P.A. New price ceilings were issued during the month for men's and boys' tailored clothing and women's fur garments. A formula was announced by O.P.A. for determining the manufacturer's ceiling price on new lines of specified building materials and consumers' goods (other than apparel) which were introduced after April 1, and are not covered under other price regulations. The order becomes effective August 1 for sales to civilians.

Consumer Credit

It is now almost a year since the President on August 9, 1941 announced that consumer instalment credit would be subject to regulation by the Board of Governors of the Federal Reserve System. On September 1, restrictions placed by the Board of Governors on the further granting of consumer credit took their place alongside other Governmental measures designed to combat inflation. As a result of the application of the Board's Regulation W (covering consumer credit) and diminishing supplies of consumers' durable goods, the volume of outstanding consumer instalment credit is estimated to have declined by more than one quarter—or from somewhat under $7,000,000,000 to about $5,000,000,000—between August 31, 1941 and May 31, 1942. The President's seven-point "anti-inflation" program announced this spring pointed out the desirability of further liquidating consumer debt, since "this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War bonds". Accordingly, Regulation W was amended by broadening its coverage and by tightening restrictions.

The extent to which the volume of outstanding credit has declined among the various types of agencies engaged in advancing consumer credit has shown marked variation. In general, outstanding credits of agencies making personal cash loans have fallen off more moderately—about 10 per cent on the average since the peak of last August—than those of agencies advancing credit for the purchase of consumers' goods. By far the largest decline has occurred in the field of automobile financing, owing primarily to drastic restrictions upon the production and sale of automobiles. In the nine months following August, 1941, the volume of retail automotive paper held by sales finance companies fell almost 50 per cent. Credits extended by household appliance stores declined about one third during the same period, while furniture, jewelry, and department stores showed considerably smaller decreases in outstanding credits.

Sales and credit data collected by this bank from representative groups of department and furniture stores in the Second Federal Reserve District indicate that increasing proportions of cash sales are a common experience among these stores, that collections against outstanding accounts are running definitely higher, and that

Department and Furniture Stores in the Second Federal Reserve District

Percentage Breakdown, Cash and Credit Sales

	June, 1941	June, 1942
Department stores		
Net sales—total	100	100
Cash sales	63	69
Open book credit sales	30	26
Instalment credit sales	7	5
Furniture stores		
Net sales—total	100	100
Cash sales	11	18
Credit sales*	89	82

Percentage of May 31 Accounts Receivable Collected during June

	1941	1942
Department stores		
Open accounts	42	48
Instalment accounts	18	20
Furniture stores		
Total accounts*	11	14

Percentage Change in Outstanding Accounts Receivable
June 30, 1941 to June 30, 1942

	Open book credit	Instalment credit	Total accounts receivable
Department stores	—12	—11	—11
Furniture stores	*	*	—15*

* Separate data not generally available; predominantly instalment credit.

aggregate accounts receivable are falling off. These tendencies are brought out in the accompanying tables.

One of the amendments to Regulation W adopted May 6, 1942, provided for the "freezing" of unpaid charge accounts after the tenth day of the second calendar month following the purchase. Under this provision, unless payment is made within the time limit, no further purchases of listed items may be charged until the original account is settled or placed on an instalment basis for payment within six months. As a result, about one fourth of all charge accounts of a representative group of stores in this District were frozen on July 10. In the case of women's apparel and accessories stores, the proportion frozen amounted to about one third, for department and jewelry stores one fourth, and for men's clothing and furnishings stores one fifth.

Department Store Trade

For the four weeks ended July 25, total sales of the reporting department stores in the Second District ran slightly ahead of the corresponding 1941 period. Sales comparisons with last year have tended to be improved by the practice of keeping stores open one evening a week, to facilitate shopping by employed persons; moreover, in the week ended July 4 almost all of the stores had one more shopping day this year than last. The July, 1942 sales, on the basis of the four weeks' figures, fell below the June average, but the decline was substantially less than in other recent years.

In June, total sales of the reporting department stores in this District were 3 per cent below June, 1941, and after allowing for one more shopping day this year than last, the decline (in average daily sales) amounted to about 7 per cent.

The effective date of the Office of Price Administration's general price ceiling regulation at the retail level, May 18, coincided with a sharp reversal of the previously favorable year-to-year comparisons of department store sales in the Second District. As shown in the accompanying table, large year-to-year gains for the first four months of this year were reported in total store sales and in the major departmental classifications. However, during May and June, when fear of rising prices for many types of department store merchandise was dissipated or at least lessened, substantially less favorable year-to-year comparisons were shown.

	Percentage changes from a year earlier	
	January through April, 1942	May and June, 1942
Grand total—entire store	+18	—3
Women's and misses' wear	+16	0
Men's and boys' wear	+26	—9
Homefurnishings	+20	—7

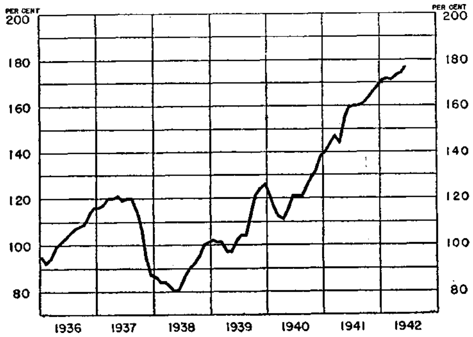
Retail stocks of merchandise on hand in the reporting department stores in this District at the end of June—little changed from May—were 80 per cent higher than a year earlier. Returns from a limited number of department stores in this District indicate that at the end of June outstanding orders for merchandise purchased by the stores, but not yet delivered, were still declining, and were only slightly higher than those at the end of June, 1941.

Department stores	Percentage changes from a year earlier		
	Net sales		Stock on hand end of month, June, 1942
	June, 1942	Jan. through June, 1942	
New York City	— 4	+10	+ 85
Northern New Jersey	— 7	+ 9	+ 87
Newark	— 5	+10	+ 87
Westchester and Fairfield Counties	+ 3	+18	+ 49
Bridgeport	+ 5	+20	+ 63
Lower Hudson River Valley	— 1	+ 7	+ 34
Poughkeepsie	+ 3	+10	...
Upper Hudson River Valley	—12	+ 4	+ 42
Albany	—19	— 2	...
Central New York State	+ 2	+15	+ 84
Mohawk River Valley	+14	+28	+103
Syracuse	— 2	+11	+ 78
Northern New York State	— 7	— 4	....
Southern New York State	+ 2	+14	+ 53
Binghamton	— 1	+11	....
Elmira	+10	+19	....
Western New York State	+ 2	+16	+ 64
Buffalo	+ 4	+19	+ 62
Niagara Falls	+24	+37	+ 36
Rochester	— 2	+12	+ 74
All department stores	— 3	+11	+ 80
Apparel stores	— 1	+13	+ 58

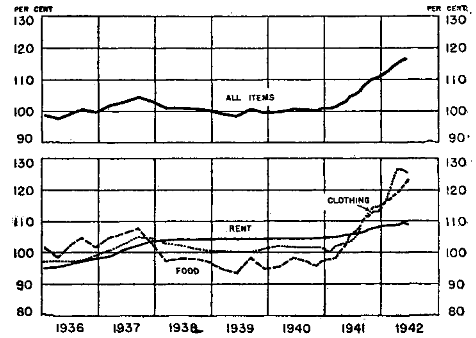
Indexes of Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1941 June	1942 Apr.	1942 May	1942 June
Sales (average daily), unadjusted	97r	106	99	92
Sales (average daily), seasonally adjusted	101r	110	103	96
Stocks, unadjusted	85	152	160	158
Stocks, seasonally adjusted	90	149	156	167

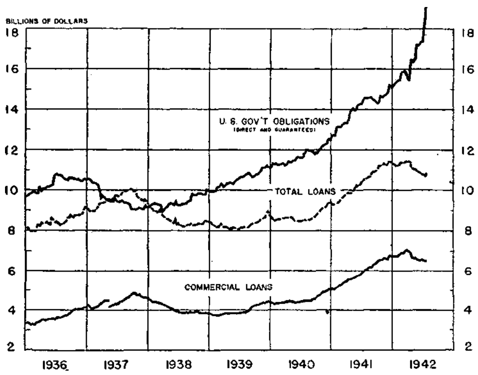
r Revised



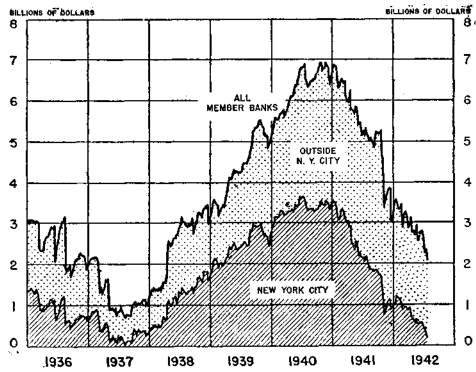
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



U. S. Bureau of Labor Statistics Indexes of the Cost of Living (1935-39 average=100 per cent)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for July 15)



Wednesday Figures of Estimated Excess Reserves of All Member Banks (Latest figures are for July 15)

General Business and Financial Conditions in the United States

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

Industrial activity continued to advance during June and the first half of July. Volume of goods distributed to consumers continued substantially below a year ago and commodity prices generally showed little change.

Production

Industrial output increased further in June and the Board's seasonally adjusted index rose from 174 to 177 per cent of the 1935-39 average. Production in the machinery, transportation equipment, and other armament industries continued to advance, reflecting further progress toward meeting the requirements of the war production program. Steel production declined somewhat in June but increased to earlier high levels in the first three weeks of July. Lumber production increased seasonally in June, while in the furniture industry, where activity usually rises at this time of year, there was a decline, reflecting in part the fact that a number of plants in the industry are being converted to the manufacture of war products.

In industries manufacturing nondurable goods, output as a whole showed little change from May to June. Textile production declined somewhat, reflecting a reduction in activity at cotton mills from earlier peak levels. Paperboard production decreased sharply further and there was also a decline in activity in the printing industry. On the other hand, output of manufactured food products increased and shoe production showed less than the customary seasonal decline.

Mineral production continued large in June. Coal production was maintained at peak levels; output of crude petroleum showed little change, following the sharp decline that occurred during March and April. Lake shipments of iron ore in June amounted to 12,600,000 gross tons and at the month end stocks at lower Lake ports totaled 31,000,000 tons as compared with 26,600,000 tons a year ago.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued to increase in June and was 57 per cent above the previous record high month of August, 1941. The sharp rise in June reflected a continued increase in awards for public projects, which accounted for about 93 per cent of all contracts let during the month.

Distribution

Distribution of commodities to consumers declined somewhat further in June. Smaller sales were reported by both department stores and mail-order houses, while sales at variety stores were maintained at about the May rate. In the first half of July department store sales showed less than the customary sharp seasonal decline.

Volume of railroad freight traffic was maintained in large volume during June and the first half of July. The number of cars loaded was below the level that prevailed a year ago, however, reflecting a sharp reduction in car loadings in less-than-carload lots as a result of orders by the Coordinator of Transportation which raised the minimum permissible weights for such loadings and thereby effected a fuller utilization of existing equipment.

Commodity Prices

Prices of most commodities both at wholesale and retail continued to show little change from the middle of June to the middle of July. Prices of cotton, wool, and some other agricultural commodities, which had declined in the early part of June, advanced in this period.

About twenty additional maximum price schedules were announced covering a wide variety of products and in some cases requiring price reductions. On the other hand, Federal approval was given for higher prices on various processed fruits and vegetables, textile products, petroleum products sold on the East Coast, and services supplied to consumers.

Retail prices of uncontrolled foods advanced sharply from May to June and the Bureau of Labor Statistics price index for all foods rose 1½ points to 123 per cent of the 1935-39 average—an increase of one fourth since the beginning of the current advance in March, 1941.

Bank Credit

Member banks in leading cities increased their holdings of Government securities sharply during the first half of July. Purchases included portions of increased Treasury bill issues and of the new 2 per cent 7 to 9 year bond. This followed a substantial growth in the second quarter of the year when member banks absorbed about 3.3 billion dollars, or more than half of the increase in Treasury open market issues. All classes of banks showed large increases, the largest percentage increases being in Chicago and at Reserve City banks.

Excess reserves of member banks have been at a lower level in July than in June, because of increased need for reserves arising out of deposit growth, the continued currency drain, and a large temporary increase in Treasury deposits at Reserve Banks. Substantial System open market operations partially offset the loss of reserves from these sources. The decrease in excess reserves was concentrated in New York and Chicago, reducing excess funds in those cities to low levels. Adjusted demand deposits continued to rise at reporting banks in leading cities except in New York.

Yields on United States Government securities and other money rates have shown little change in recent weeks.