MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in August

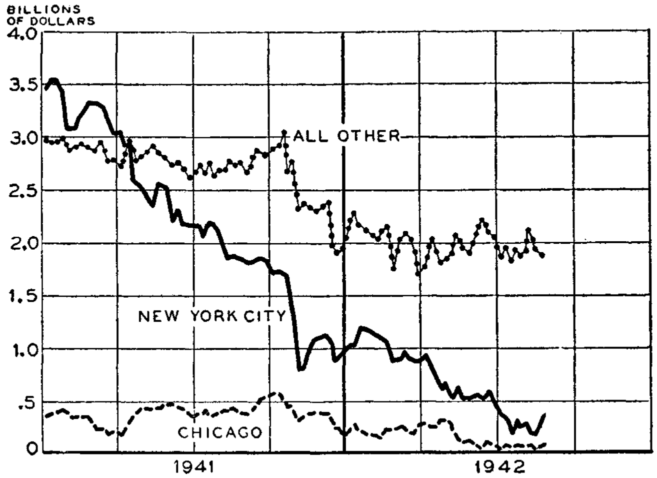
Member bank excess reserves continued to decline during the first weeks of August. Substantial purchases of Government securities by the Federal Reserve Banks for the System Open Market Account largely offset the loss in member bank reserve balances occasioned by the persistent and heavy outflow of currency into circulation. But member bank holdings of Government securities continued to grow and the associated expansion in bank deposits operated to raise the level of reserve requirements. The net result of the interplay of all these factors was a further reduction in the level of excess reserves.

The losses in excess reserves were not evenly distributed among various classes of member banks; rather, as in preceding months, they were heavily concentrated among the Central Reserve City banks of New York and Chicago. While excess reserves of all member banks, even at the lowest point of the month on August 19, still amounted to $2,100,000,000, these excess reserves were predominantly held by Reserve City and "country" banks. Excess reserves of the Central Reserve New York City banks, which a year and a half ago had amounted to over $3,500,000,000, or more than half of the total for all member banks (and which as recently as April 15, 1942 had amounted to $720,000,000 which was a quarter of all excess reserves), were down to $180,000,000. This was the lowest amount of excess reserves at New York since the third quarter of 1937 and less than a tenth of the total excess reserves of all member banks. In Chicago, for the first time since 1937, the excess reserves of the Central Reserve City banks fell below $50,000,000. By way of contrast, excess reserves of the Reserve City and "country" banks, combined, still amounted to $1,900,000,000 on August 19, or well within the general range ($1,700,000,000 to $2,200,000,000) maintained by the excess reserves of these classes of banks during the preceding seven months.

The fact that the main impact of the decline in excess reserves has fallen upon Central Reserve City banks is largely explained by net flows of funds from those centers to other parts of the country. All banks, in greater or less degree, have been tending to lose reserve funds through net currency withdrawals, and to experience growth in deposits—and thus in reserve requirements—through the effect of bank credit expansion. But the Central Reserve City banks and their depositors have been lending to the Government, via participation in new security issues, at a faster rate than the money has returned to the areas served by them, and thus the banks in other sections of the country have tended to gain funds through the clearings. Withdrawals by out-of-town banks of deposits due them from Central Reserve City institutions have also been a factor, but a smaller one, in the net flow of funds from Central Reserve City banks to other member banks.

To rectify partially, if only temporarily, the distribution of member bank excess reserves, as well as to readjust the relative reserve requirements of the different groups of banks, the Board of Governors of the Federal Reserve System on August 19 announced a modification in the schedule of member bank legal reserve requirement percentages. Reserve requirements were reduced from 26 per cent to 24 per cent of net demand deposits for Central Reserve City banks in New York and Chicago, to take effect as of the opening of business August 20. This action, which was in accordance with the Act of July 7, 1942, giving the Board the power to change reserve requirements of member banks in Central Reserve cities without changing requirements for member banks in other localities, still left a considerable spread between reserve requirement percentages against net demand deposits for Central Reserve City and banks in other classifications.

The change in reserve requirements,



Excess Reserves Held by the Central Reserve City Member Banks of New York and Chicago, and by All Other Member Banks

taken by itself, had the effect in New York City of transferring $345,000,000 from required reserves to excess reserves; in Chicago the resultant increase in excess reserves amounted to about $70,000,000. In consequence of the change in reserve requirements, excess reserves of New York City banks increased from $180,000,000 on Wednesday, August 19 to $525,000,000 at the opening of business on August 20, and for all member banks excess reserves rose from $2,100,000,000 to more than $2,500,000,000. By August 26, however, the excess reserves of New York City banks had been drawn down to $370,000,000, largely as a result of heavy Treasury withdrawals of Government "war loan" deposits, which substantially exceeded the amount of Government checks deposited in these banks.

Member Bank Reserve Requirements

Classes of deposits and banks	Basic statutory requirements	Apr. 16, 1938–Oct. 31, 1941	Nov. 1, 1941–Aug. 19, 1942	Effective Aug. 20, 1942
On net demand deposits:				
Central Reserve City.........	13	22¾	26	24
Reserve City................	10	17½	20	20
Country.....................	7	12	14	14
On time deposits:				
All member banks............	3	5	6	6

During August both Government expenditures and borrowings were at exceptionally high levels. War expenditures, which are currently accounting for nine tenths of Government disbursements, reached $4,800,000,000, a figure which compares with $4,500,000,000 in July and $1,450,000,000 in November, 1941, prior to our entrance into the war. As was also the case in July, new money borrowings by the Government (exclusive of special issues to Government trust funds) substantially exceeded $4,000,000,000. Securities sold during August included $1,609,000,000 of ⅞ per cent certificates of indebtedness, $1,236,100,000 of the "tap" issue of 2½ per cent Treasury bonds, 1962-67, reopened for a twelve day period, approximately $1,050,000,000 of War Savings bonds and tax anticipation notes, and $500,000,000 (net) of Treasury bills. On the certificate of indebtedness issue, the book credit method of payment was employed to approximately the same extent as on the June offering of ⅝ per cent certificates; in the Second Federal Reserve District the proportion of book credit payments was again somewhat over 80 per cent, while for the country as a whole the proportion of two-thirds book credit and one-third cash, which obtained on the June issue, was repeated on the August issue. On the "tap" 2½ per cent bonds of 1962-67 (excluding $135,000,000 for Government investment accounts) cash payments were made to the extent of 15 per cent in this District as compared with somewhat over 35 per cent for the country as a whole.

As a result of use of the book credit method of payment for bonds, certificates of indebtedness, and tax notes sold during August, the Treasury received aggregate credits to war loan accounts carried with qualified depositaries of approximately $2,000,000,000. On the other hand, frequent calls were issued for repayment of funds from those accounts on days when the Treasury was not receiving considerable direct cash proceeds from new security issues. The repayments, in fact, exceeded new credits to war loan account with the effect of reducing somewhat the aggregate of accumulated Government balances with war loan depositaries. Reflecting high percentages of participation by Second District banks and investors in recent market issues of Government obligations, together with greater use in this District of the book credit method of payment, a disproportionately high percentage of the repayments was made by Second District institutions, New York City banks in particular. Of the aggregate of $2,100,000,000 called for repayment during August, $1,200,000,000 was drawn from banks in New York City.

Net purchases of Government securities for the System Open Market Account, which had amounted to $382,000,000 during the four statement weeks ended July 29, came to $338,000,000 during the three weeks ended August 19. In the succeeding week, following the reduction in legal reserve requirement percentages applicable to the Central Reserve City banks, there was a net decrease of $60,000,000 in System Account holdings, primarily as a result of the redemption, without replacement, of Treasury bills maturing August 26, and as a result of the resale by System Account of bills which had been acquired under a "repurchase" option. Provision was made earlier in the month by the Federal Open Market Committee for the acquisition by Federal Reserve Banks of Treasury bills subject to the granting to the sellers of such repurchase options, as announced by the Board of Governors of the Federal Reserve System on August 7. The announcement covering this action, which has the effect of making it possible to liquidate Treasury bills to meet temporary needs for cash, is reproduced on the following page.

Member Bank Credit

As a result of further large purchases of new issues of United States Government securities, total loans and investments of weekly reporting member banks in 101 leading cities rose $1,121,000,000 during the four weeks' period ended August 19. The increase in holdings of Government securities amounted to $1,207,000,000, of which $373,000,000 was in the New York City banks. Reflecting purchases of the new ⅞ per cent issue, certificates of indebtedness held by reporting banks in 101 cities rose $797,000,000, of which slightly over one third was accounted for by the New York City banks. There was also a considerable increase in holdings of Treasury bills, $356,000,000, about equally divided between the New York City banks and those in the other reporting centers. During the four weeks' period the group of reporting banks taken as a whole enlarged their Government bond portfolios to the extent of $124,000,000 while reducing holdings of Treasury notes by $81,000,000.

In contrast to the substantially increased holdings of Government securities, total loans of reporting member banks declined $130,000,000 between July 22 and August 19. Loans of New York City banks declined $25,000,000, reflecting primarily a decreased volume of loans to brokers and dealers. Commercial, industrial, and agricultural loans of the New York City banks, however, were up $18,000,000, as the gain during the week ended July 29, when commodity loans aggregating about $40,000,000 were made, more than offset declines during the three following weeks. In the rest of the country, commercial, industrial, and agricultural loans of reporting banks declined $58,000,000 further.

Adjusted demand deposits for the reporting banks in 101 cities rose $405,000,000 during the period, but all of the rise was in out-of-town banks; New York City member banks reported a decline of $40,000,000. Through book credit payments on the certificates of indebtedness and 2½ per cent bonds, U. S. Government deposits were built up to the extent of $561,000,000, and in this case the major share, $451,000,000, was in New York City banks. This increase, however, was eliminated in the week ended August 26 by heavy Treasury calls on these deposits, and further reductions were in prospect.

Based upon preliminary call report data for June 30, Government security holdings of all member banks rose $4,546,000,000 during the first half of 1942. Of this amount $1,285,000,000 was accounted for by New York City banks. On June 30, 1942, holdings of Government securities amounted to 61 per cent of the total loans and investments of New York City banks compared with 56 per cent at the end of 1941. For all other member banks, the ratio of Government securities to total loans and investments rose from 40 per cent to 47 per cent between December 31, 1941 and June 30, 1942. On the other hand, a contraction in other investments and in loans has been in evidence in recent months. Loans and investments, other than U. S. Government securities, of all member banks declined $1,263,000,000 during the first half of the year. In New York City the reduction amounted to $163,000,000. Since the end of June, weekly reports from member banks in 101 leading cities indicate a continuation of the increase in holdings of U. S. Government securities and, for banks outside New York, some further decrease in loans and investments other than Government securities.

Money Rates in New York

	Aug. 30, 1941	July 31, 1942	Aug. 29, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½	⅝–¾	⅝–¾
Bills—90 days unindorsed	7/16	7/16	7/16
Yield on ¾ per cent Treasury note due March 15, 1945 (tax exempt)	0.34	0.56	0.55
Average yield on taxable Treasury notes (3–5 years)	0.59	1.22	1.25
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.96	2.00	2.02
Average yield on taxable Treasury bonds (not callable within 12 years)	2.12	2.34	2.34
Average rate on latest Treasury bill sale 91 day issue	0.114	0.369	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

Purchase and Resale of Treasury Bills by Federal Reserve Banks

On April 30, 1942, as an added means of assuring the liquidity of investments in Treasury bills, aside from the short maturity and ready marketability of the securities, the Board of Governors of the Federal Reserve System announced that the Federal Open Market Committee had directed the Federal Reserve Banks to purchase for the System Open Market Account all Treasury bills that might be offered to them, on a discount basis at the rate of ⅜ per cent per annum.

On August 7, 1942, a further announcement was made by the Board of Governors of the Federal Reserve System, that

> **"The Federal Open Market Committee has supplemented its direction of April 30, 1942, to the Federal Reserve banks to purchase all Treasury bills that may be offered to such banks on a discount basis at the rate of ⅜ per cent per annum, by a further direction that any such purchases shall, if desired by the seller, be upon the condition that the Federal Reserve bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of a like amount and maturity at the same rate of discount."**

Sellers desiring this option to repurchase Treasury bills sold by them to this bank, are being requested to so notify this bank in writing at the time of sale. This arrangement enables banks and others, who have bought Treasury bills and encounter a temporary need for cash, to sell Treasury bills to a Reserve Bank with assurance that they will be able to repurchase the bills later at the same rate of discount.

War Financing

During August Government borrowing, in meeting the financial requirements of the war, aggregated about $4,400,000,000. The financing included a third issue of certificates of indebtedness, a renewed offering of the so-called "tap" issue of 2½ per cent bonds of 1962-67, and a further increase in the outstanding volume of Treasury bills, as well as continued sales of Savings bonds and tax anticipation notes. Sales of various types of securities during August are listed in the following table.

$1,609,000,000—⅞ per cent certificates of indebtedness
1,236,000,000—registered 2½ per cent bonds of 1962-67 (reopened "tap" issue)
700,000,000—War Savings bonds (estimated)
500,000,000—Treasury bills (net receipts)
350,000,000—tax anticipation notes (estimated net receipts)

Supplementing the activities of the War Savings Staff, in promoting the sale of War Savings bonds and stamps to smaller investors, the Victory Fund Committees played an active role throughout the country in soliciting subscriptions, on the part of institutional and other large investors, to Government obligations, particularly the reopened "tap" issue of 2½ per cent bonds, the ⅞ per cent certificates of indebtedness, and Series F and G War Savings bonds.

The new issue of $1,609,000,000 certificates of indebtedness, bearing interest at the rate of 7/8 per cent, dated August 15, 1942, and maturing August 1, 1943, was offered by the Treasury on August 6. The term, 11½ months, compared with a little over 7 months for the June issue of 5/8 per cent certificates and 6½ months for the original April issue which carried a coupon rate of ½ per cent. The books remained open two days and subscriptions totaled $3,273,000,000, a somewhat larger amount than on either of the two previous issues and the distribution was somewhat wider. Subscriptions of $25,000 or less were accepted in full ($71,000,000) and the larger subscriptions were allotted on a 48 per cent basis. Allotments to subscribers in the Second Federal Reserve District ($699,000,000) amounted to 43 per cent of the total; this compares with 46 per cent on the June issue of certificates and 55 per cent on the April offering. The relatively larger purchases of the new certificate issue in other districts apparently were accounted for by increased familiarity with this type of security, the higher coupon rate, and the generally more favorable excess reserve positions of banks in other sections of the country.

On August 3, the Treasury reopened its books for subscriptions to its 2½ per cent registered bonds of 1962-67, which had first been sold as a "tap" issue last May. During the twelve days, August 3-15, that the books remained open, subscriptions (which were accepted in full) totaled $1,236,100,000, including $135,000,000 purchased for Treasury investment accounts. In May, subscriptions for these bonds were taken for ten days and totaled $882,100,000, of which $55,200,000 were purchased for Treasury investment accounts. The issue was especially designed for purchase by insurance companies, savings banks, trust funds, and large private investors; commercial banks were not eligible to enter subscriptions for their own accounts, and will not be eligible to purchase them until 1952, at which time they will first become available in coupon form. As indicated in the table below, insurance companies purchased nearly 70 per cent of the total sales to the public under the new offering of these bonds. The bulk of the insurance company subscriptions were placed in the Second Federal Reserve District.

Subscriptions to Additional Issue of 2½ Per Cent Treasury Bonds of 1962-67

	Country total*	Second Federal Reserve District
Insurance companies	$ 762,000,000	$603,900,000
Savings banks	124,400,000	64,100,000
Individuals	35,600,000	10,200,000
All others	179,100,000	73,800,000
Total	$1,101,100,000	$752,000,000

* Exclusive of subscriptions entered by or for Government agencies.

Sales of War Savings bonds, estimated at $700,000,000 for August, were materially smaller than in July ($901,000,000), when larger investors, taking advantage of the increase in the limit upon holdings of Series F and G bonds, purchased large volumes of those bonds. (Total sales of Series F and G War Savings bonds during July almost exactly equaled the peak figure for January, when there was a concentration of purchases under the previous limit.) While sales of War Savings bonds of all classes fell not only below the July total but also below the $815,000,000 revised quota set by the Treasury for August, the aggregate was considerably ahead of the totals for May and June. Sales of bonds by agencies other than post offices in the Second Federal Reserve District during August were estimated at about $105,000,000, substantially below the July total, and also slightly below the February-June average, although nearly double the sales in August of last year.

About $500,000,000 in "new money" was raised from sales of Treasury bills during the four weeks ended August 26. In each of these weeks a new issue of $350,000,000 was offered, or a total of $1,400,000,000, whereas bill maturities during this period came to only $900,000,000. In addition, the Treasury received an estimated $350,000,000 from the further sale of tax anticipation notes.

On August 24 the Secretary of the Treasury announced that $342,000,000 of 2 per cent Treasury notes maturing September 15 and $320,000,000 of 7/8 per cent R.F.C. notes due October 15 would be paid off in cash and that part of the funds for these redemptions would be obtained from "new money" financing in September.

Security Markets

Despite the continued heavy volume of Treasury borrowing, Government bond prices held relatively steady during August. Trading activity was relatively limited. Following the Treasury's announcement that subscription books for the 2½ per cent bonds of 1962-67 would be reopened on August 3, market prices of long term taxable Treasury bonds dipped slightly on August 3 and 4, reflecting sales of outstanding securities to obtain additional funds for purchases of the "tap" issue. These losses, however, were generally soon recovered and prices at the end of the month were at approximately the same levels as at the beginning.

Prices of three to five year taxable Treasury notes, in continuation of a tendency apparent during the preceding month, declined, and the average yield rose from 1.22 per cent on July 31, to 1.25 per cent at the end of August. On the other hand, yields on the three issues of certificates of indebtedness now outstanding tended downwards as the month progressed. The average rate at which new Treasury bill offerings were sold continued stable and close to the 3/8 per cent buying rate of the Federal Reserve Banks.

Municipal bond prices rose further during August, as evidenced by a decline in the average yield on prime municipal bonds computed by Standard and Poor's Corporation from 2.29 on July 29 to 2.26 on August 26. Highest grade corporate bonds also edged upwards during August, to the highest levels attained since last December. Prices of medium grade corporate bonds showed firming tendencies.

Following some further recession during the first few days of August, stock prices moved upwards through the 24th of the month. During this period Standard's 90 stock price index rose 3 per cent. Although industrial stock prices shared in the advance, railroad stocks, which were in particular demand reflecting much improved earnings reports, showed an average gain of 6 per cent. As a result of declining tendencies during the final week of the month, however, both industrial and railway stocks were quoted on August 31 at levels only slightly higher than had prevailed a month earlier; utility stocks showed little net change for the month as a whole.

New Security Issues

During August the volume of corporate and municipal new security issues declined further to the low level of $71,000,000. Corporate financing amounted to $56,000,000, or about the same as the reduced total of the previous month. Practically all of the corporate total represented funds to be used for new capital purposes. Municipal security awards aggregated only $15,000,000, the lowest monthly total in several years.

The bulk of corporate financing was accounted for by two private sales; there were no public offerings in excess of $2,000,000 during the month. The Southern Bell Telephone and Telegraph Company sold to a group of insurance companies $35,000,000 of 2¾ per cent debentures due in 1972, priced at 98½ to yield 2.83 per cent. Of the proceeds, $31,000,000 was to provide for repayment of advances from the parent American Telephone and Telegraph Company. The other large private sale was that of $12,000,000 Great Lakes Pipe Line Company 3¼ per cent debentures due in 1957.

Foreign Exchanges

During August the discount quoted for the unofficial rate on the Canadian dollar widened somewhat in New York. After holding at about 10 per cent for some time, the discount increased to 11 per cent on August 27, the lowest quotation at which the Canadian currency had been traded in the unofficial market since May 25. A discount of about 10⅞ per cent was quoted at the end of the month.

Although there was little net change shown for the month as a whole, the free rate for the Argentine peso fluctuated considerably during August. The peso advanced steadily during the first few days of the month to a quotation of $0.2390 on August 5, the highest level since December 5, 1941. Subsequently, the rate receded 23 points to $0.2367. However, the quotation again turned upward, recovering 8 points to reach $0.2375 at the end of August, as compared with $0.2380 at the close of July. The temporary rise in the early part of the month reflected a corresponding decline in the peso rate for dollars in Argentina. The only other noteworthy fluctuation occurred in the free Swiss franc, the rate for which had declined 35 points to $0.2985 offered, by August 27. However, the exchange recovered by the end of the month to $0.3025 offered, which was about the same as a month ago. Other foreign exchanges in the New York market remained inactive during August.

Commodity Prices

Wholesale commodity prices, as reflected in the Bureau of Labor Statistics comprehensive weekly index, rose a little further during August to the highest point since 1926, owing principally to increases in farm and food prices not under ceiling regulations. The index of food prices alone advanced nearly 2 per cent between July 25 and August 22. The all-commodities price index on August 22 stood about one-third higher than at the beginning of the war in 1939, and 7 per cent above the level at the time of our own entry into the war, as the accompanying table shows. Prices of farm products generally have risen nearly 75 per cent in the past three years and 17 per cent since December 6 of last year. On the other hand, prices of all commodities other than farm products and foods have fluctuated within relatively narrow ranges in recent months; the index for this group of commodities on August 22 showed an advance of 19 per cent over August 26, 1939.

Quotations for livestock showed substantial advances during August, owing partly to heavy demand for meat products for Lend-Lease and other Government purposes, and partly to limited marketings during this time of the year. Around the middle of the month hogs in Chicago reached $14.96 a hundredweight—the highest since 1920—and steers in the same market averaged $15.17 a hundredweight; the latter quotation was equal to the 1937 peak and otherwise was the highest since 1928. Subsequently, some downward reactions developed in livestock quotations, apparently reflecting the possibility that price ceilings might be set for farm products.

Despite the record carryover of wheat in this country, wheat prices moved irregularly higher during August, owing in part to the limited free offerings of the new crop. According to the Department of Agriculture, prices received by farmers for wheat on August 15 were still about 30 per cent below computed parity. On August 8 the Department of Agriculture's first estimate of this year's cotton crop placed the crop at 13,085,000 bales, which would be the largest crop since the record one of 1937.

Average living expenses for wage earners and lower salaried workers in large cities, according to the Bureau of Labor Statistics indexes, rose about ½ per cent further between June 15 and July 15 to the highest point since late in 1930, 19 per cent above the June, 1939 level, and 6 per cent higher than in November, 1941. The largest advances have occurred among food prices; the Bureau's group index of retail food prices in July was one-third higher than in June, 1939, and 10 per cent above November, 1941. Retail price indexes for items of clothing and housefurnishing are 25 and 22 per cent, respectively, higher than before the war; prices in these classifications, however, have shown relatively slight changes since last May, when the General Maximum Price Regulation became effective. Apparently reflecting rental controls by the Office of Price Administration

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

	August 22, 1942 (1926=100)	Percentage change Aug. 22, 1942 compared with			
		Aug. 26, 1939	Dec. 6, 1941	Mar. 28, 1942	July 25, 1942
All commodities	98.9p	+32.2	+ 7.3	+1.5	+0.5
Raw materials	101.0	+52.6	+12.2	+2.7	+1.2
Manufactured products	99.1p	+25.0	+ 5.5	+1.2	+0.3
Farm products	106.4	+74.1	+17.2	+2.9	+0.9
Foods	100.8	+51.1	+13.6	+5.1	+1.9
All commodities other than farm products and foods	95.7p	+19.0	+ 2.1	+0.4	—0.2

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in defense areas, the index of urban rents registered a decline between May and July, to a point only about 3 per cent above the June, 1939 level.

Employment and Payrolls

Working forces in New York State factories increased 2 per cent between June and July, and wage payments rose 4 per cent. Seasonal employment gains in the canning industry and additional hirings by war plants accounted for a large part of the gain. In the apparel industry, where a large number of workers were laid off in June, employment increased slightly in July, contrary to the usual seasonal tendency. Compared with July, 1941, manufacturing establishments in the State employed 8½ per cent more workers, and paid out 29 per cent more in wages.

The increases in industrial activity for the State as a whole stem principally from Upstate factories where working forces in July were 11 per cent above the year earlier level, and payrolls were 36 per cent larger. In New York City, the year-to-year gains were considerably smaller, 3 per cent in employment and 16 per cent in payrolls. Industrial employment Upstate has been stimulated by numerous war contracts let in various industrial centers in that area, but in New York City, where the manufacture of apparel and other nondurable civilian goods predominates, the unfavorable effects of curtailment orders and material shortages have been more evident. Furthermore, New York City industries have frequently been at a disadvantage in bidding for war contracts because of higher production costs than those of competing industries in other parts of the country. Over 400,000 persons were estimated to have been unemployed in New York City in July, and 82 per cent of the State's unemployment insurance benefit payments during the month went to New York City residents.

In the United States as a whole, factory employment in July was 2 per cent higher than in June, and payrolls were 2½ per cent greater. Employment in war production, as represented by the machinery and transportation equipment industries, continued to increase, and canneries made large seasonal additions to working forces. Manufacturing employment was 8½ per cent higher in July than in the corresponding 1941 period, and wage payments were almost a third larger.

Payroll disbursements in recent months have shown a consistently greater gain than employment, reflecting a continued rise in average weekly earnings. Increased earnings of factory workers have resulted from longer working hours, higher wage rates, and overtime payments. Average hourly earnings, which reflect the higher rate for overtime work as well as increases in basic wage rates, have risen steadily since the outbreak of the war in 1939. In an attempt to set up a "yardstick" for wage stabilization, the War Labor Board, starting with the "Little Steel" decision in mid-July, has been employing a formula for settling wage disputes which is based on the 15 per cent rise in the cost of living between January 1, 1941 and May, 1942, indicated by the Bureau of Labor Statistics index. Early in August the W.L.B. advocated Federal control over all general wage increases, and on August 25, President Roosevelt announced that forthcoming measures to curb increases in the cost of living would include wage stabilization.

A total of 37,100,000 persons was employed in civil nonagricultural occupations during July, according to the recently revised estimates of the Bureau of Labor Statistics, nearly 450,000 more than in June and 2,150,000 more than in July, 1941. (These figures exclude self-employed persons, casual workers, and domestic servants, as well as Federal emergency workers and members of the armed forces.) Manufacturing industries accounted for the largest part of both the month-to-month and year-to-year gains. The number of civil government employees also rose substantially. Retail and wholesale trade establishments, however, reduced working forces from both the June, 1942 and the July, 1941 levels.

Total employment in the United States rose 700,000 between June and July to a record level of 54,000,000 persons, according to estimates of the Work Projects Administration. The number of unemployed has remained about the same for the past four months; in July 2,800,000 persons were estimated to be out of work.

Building

The daily rate of construction contract awards in 37 Eastern States was maintained near a record level during July despite a drop of about one quarter from the exceptionally high June average. According to the F. W. Dodge Corporation report, with the exception of June, the rate for July was the highest for any month on record, and nearly 60 per cent above the rate for July of last year. Although contract awards for both nonresidential building and heavy engineering construction declined between June and July, both were more than double the figures for July, 1941. By way of contrast, awards for private residential building were at the lowest level for any July since 1934.

In New York and Northern New Jersey, the daily rate of construction contract awards during July was almost 50 per cent below June, but more than 40 per cent above the corresponding month of last year. All of the year-to-year increase was in Upstate New York, as the rate of awards in the Metropolitan New York and Northern New Jersey area was down sharply from the year earlier level.

In this region contracts for all major types of construction dropped sharply between June and July. Compared with July, 1941, however, awards for nonresidential construction were between two and three times the year earlier level. Factory building, which accounted for almost 40 per cent of all contracts awarded in the district during July, was primarily responsible for this gain. On the other hand, contracts for residential building amounted to less than one-third the volume of such contracts in July, 1941. In this area defense housing projects have been relatively less numerous than in other sections of the country, and the curbs upon nonessential building activity have caused a marked decline in other residential construction. During the first seven months of 1942, the total volume of residential contract awards was 36 per cent below the corresponding period of 1941. In contrast, for the 37 States as a whole, total residential building contracts showed little change between these periods as the volume of public housing projects was large enough to offset the decline in private building.

Production and Trade

Such data as are available for August indicate the maintenance or further advance of the general level of production and trade. The problem of adequate scrap supplies continued to be critical in the steel industry, but even so mills were able to maintain output at near capacity levels. According to trade comment, industry-wide scrap piles on July 1 averaged only two to three weeks' supply at the current rate of consumption, compared with stocks on January 1, 1941 representing over six weeks' supply at the 1940 rate of consumption. During the month, the W.P.B. announced its approval of a program providing for new iron ore routes, supplementing the present one through the Soo locks. When completed, these facilities will be adequate for handling the shipment of 100,000,000 tons of ore annually. The American Iron and Steel Institute estimates that the steel making capacity of the country increased 628,000 tons during the first half of 1942 to 89,200,000 tons, mostly in electric furnace capacity. Electric power production was at a record level in August, and the output of crude petroleum, during the first three weeks of the month, averaged somewhat higher than in July.

Production and Trade in July

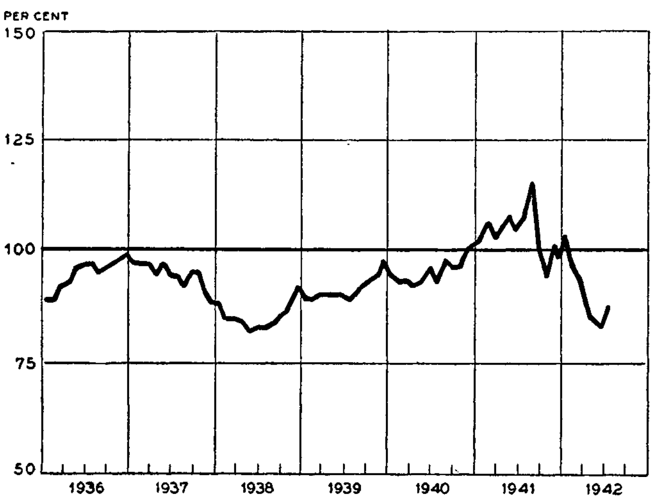
During July the monthly index of production and trade computed at this bank rose three points to a record high of 118 per cent of estimated long term trend. (The previous peak, 116, occurred in August, 1941.) Each of the major components of the index—production, primary distribution, and distribution to consumer—shared in the advance between June and July.

The rise of 4 points in the group index of distribution to consumer represented a reversal of the uninterrupted downward movement of this index since January. Improvement in sales volumes in July, on a seasonally adjusted basis, was largely restricted to department stores, sales of which dropped much less than in most other years between June and July. Sales of leading mail order houses are also estimated to have shown smaller decreases than usual in July, while declines in sales of variety and grocery chain store systems were of approximately the average seasonal magnitude. In comparison with July, 1941 there appears to have been a considerable reduction in the physical volume of retail trade. While merchants in some lines reported considerable increases in dollar sales between July, 1941 and July, 1942, an adjustment for the higher prices prevailing this year results in substantially smaller gains, or actual reductions, in physical sales volumes. Moreover, the business of selling new passenger cars has virtually disappeared, and in other fields as well material shortages and curbs upon production have resulted in severe curtailment of sales.

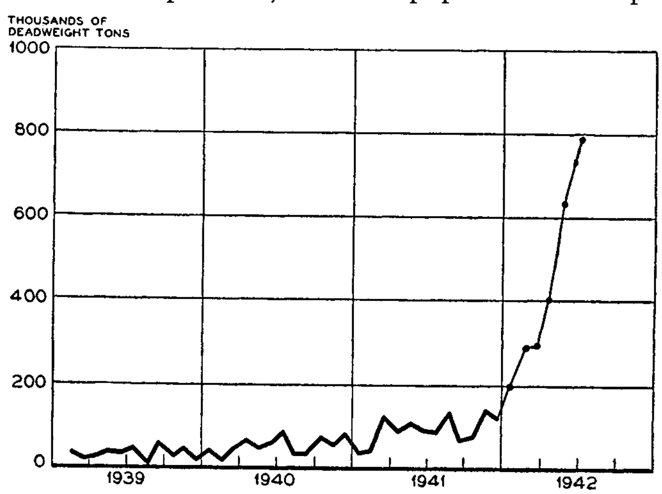
Productive activity during July was at a new high level. While production of nondurable goods and of consumers' durable goods held at approximately their June levels, and in many lines showed considerable reductions from the levels of a year before, there was a continuation of the rapid rise in the output of producers' durable goods, a classification which includes many types of war materials. According to the W.P.B., aircraft production was up 11 per cent over June, ordnance 26 per cent, naval ship production 22 per

	1941	1942		
	July	May	June	July
*Indexes of Production and Trade** (100 = estimated long term trend) Index of Production and Trade	113	114	115*p*	118*p*
Production	116	121	123*p*	126*p*
Producers' goods—total	123	148	152*p*	156*p*
Producers' durable goods	127	168	177*p*	185*p*
Producers' nondurable goods	120	125	124*p*	124*p*
Consumers' goods—total	107	87	88*p*	88*p*
Consumers' durable goods	114	45	45*p*	44*p*
Consumers' nondurable goods	105	101	102*p*	103*p*
Durable goods—total	123	132	138*p*	143*p*
Nondurable goods—total	111	111	111*p*	112*p*
Primary distribution	116	136	137*p*	140*p*
Distribution to consumer	107	85	83*p*	87*p*
Miscellaneous services	102	124	124*p*	125*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935–39 average)	105	116	116	117
Wage Rates (100 = 1926 average)	123	135	136*p*	...
*Velocity of Demand Deposits** (100 = 1935–39 average)				
New York City	59	66	61	62
Outside New York City	89	88	85	86

p Preliminary. * 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)



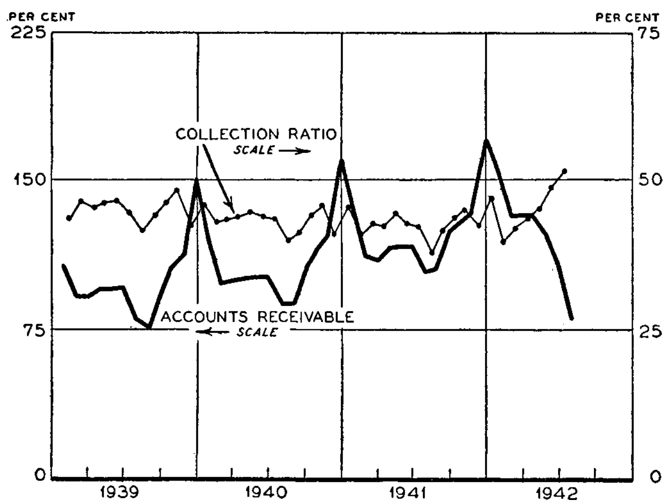
Merchant Vessels Completed in American Shipyards (Figures for 1939-41 as published by American Bureau of Shipping; data for 1942 as reported by U. S. Maritime Commission) cent, and merchant ship tonnage 6 per cent. The accompanying chart portrays the sharp rise in the tonnage of merchant vessels completed at American shipyards during the first seven months of this year. On the basis of the performance of the nation's shipyards and the increased need for cargo space, the W.P.B. is reported to have raised the schedule for the remainder of the year, which, if realized, would bring the total for 1942 ten per cent above the 8,000,000 ton goal originally set by the President.

In his second war production report, issued on August 22, Chairman Nelson of the W.P.B. indicated that while the output of munitions as a whole had increased 16 per cent between June and July, progress was uneven, and production fell somewhat short of forecasts made at the beginning of July. He stated that the war production effort had now entered a phase involving a careful balancing of requirements calling for effective direction of the flow of materials and a comprehensive system of production control.

Department Store Trade

As was also the case in other sections of the country, department stores in the Second Federal Reserve District, in a reversal of the tendency of recent months, reported relative sales improvement during July. While there was a decrease in the actual dollar volume of sales between June and July, the decline was considerably smaller than usually occurs. (In August, on the basis of figures made available by a group of department stores for the three weeks ended August 22, sales appear to have advanced more than usual over the July level.)

Second District department store sales on a seasonally adjusted basis declined sharply between March and June. One influence doubtless was the extension of consumer credit restrictions, effective May 6. Another was the imposition of retail price ceilings, effective May 18, which provided an assurance to consumers that March price levels would continue to prevail for many classes of commodities. There appeared to be some disposition on the part of individuals to draw upon stocks which they had previously accumulated, and at the same time enlarged income tax payments and War bond purchases drew upon consumer spending power. In July and August, on the other hand, department store trade appears to have benefited from tendencies to spend vacations at or near home and, in many areas, by an absence of seasonal reductions in employment and consumer incomes.



Outstanding Charge Account Balances (1939 average=100 per cent), and Percentage of Collections Made During the Month to Accounts Receivable at Beginning of the Month, as Reported by a Representative Group of Department Stores in the Second Federal Reserve District

Reflecting the application of consumer credit restrictions to charge accounts, as announced by the Board of Governors of the Federal Reserve System on May 6, there has been a marked increase in recent months in the rate of collections against such accounts on the part of department stores in the Second Federal Reserve District. As indicated on the accompanying chart, of charge account balances outstanding at the beginning of July, 1942, 51 per cent were collected during the month; in July a year ago, the corresponding figure was 42 per cent. Largely as a result of the more prompt payment of bills, together with a reduced proportion of credit sales, aggregate charge account balances, which frequently have shown some rise in May and June, declined during these months this year, and in July there was a further drop of greater than usual proportions. Outstanding charge account balances on July 31 were 22 per cent smaller than on the same date of 1941.

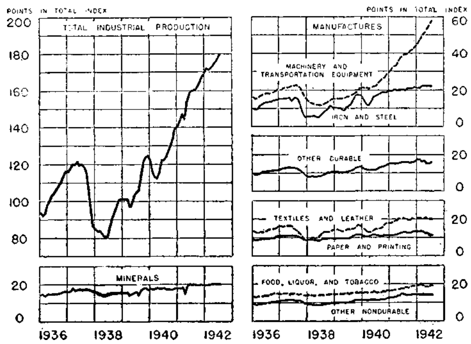
Retail stocks of merchandise on hand in the reporting department stores in this District at the end of July were 82 per cent higher than a year earlier. Returns from a limited number of department stores in this District indicate that at the end of July outstanding orders for merchandise purchased by the stores, but not yet delivered, were little changed from June, but were approximately 18 per cent lower than those at the end of July, 1941.

Department stores	Percentage changes from a year earlier		
	Net sales		Stock on hand end of month, July, 1942
	July, 1942	Jan. through July, 1942	
New York City	+ 1	+ 9	+ 87
Northern New Jersey	+ 1	+ 8	+ 90
Newark	+ 6	+10	+ 93
Westchester and Fairfield Counties	— 2	+14	+ 52
Bridgeport	— 1	+17	+ 72
Lower Hudson River Valley	— 6	+ 5	+ 32
Poughkeepsie	+ 2	+ 9	....
Upper Hudson River Valley	—12	+ 2	+ 44
Albany	—21	— 4	....
Central New York State	+ 2	+13	+ 80
Mohawk River Valley	+ 9	+25	+115
Syracuse	— 1	+ 9	+ 70
Northern New York State	—17	— 6	....
Southern New York State	— 6	+11	+ 54
Binghamton	—13	+ 8	....
Elmira	+ 6	+17	....
Western New York State	+ 9	+15	+ 65
Buffalo	+10	+18	+ 63
Niagara Falls	+34	+36	+ 34
Rochester	+ 8	+11	+ 74
All department stores	+ 1	+10	+ 82
Apparel stores	— 2	+11	+ 60

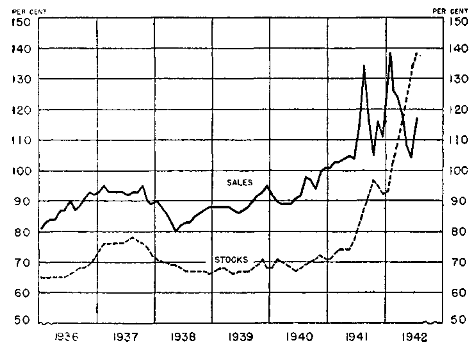
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1941 July	1942 May	1942 June	1942 July
Sales (average daily), unadjusted	81	99	92	81
Sales (average daily), seasonally adjusted	114	103	96	114
Stocks, unadjusted	84r	160	158	157
Stocks, seasonally adjusted	96r	156	167	180

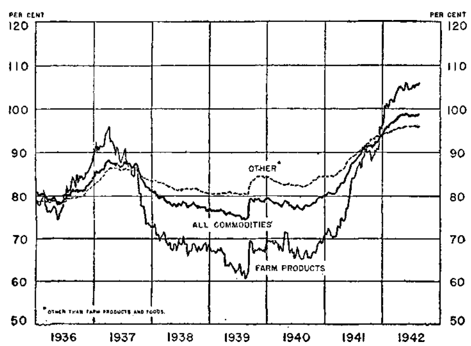
r Revised



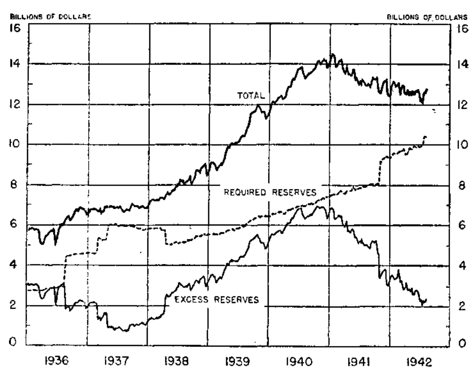
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent; subgroups shown are expressed in terms of points in the total index)



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



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



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves (Latest figures are for August 12)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity increased further in July and the first half of August, reflecting continued growth in output of military products. Retail sales increased during this period, following a decline, on a seasonally adjusted basis, during the first half of the year.

Production

Industrial output rose further in July and the Board's seasonally adjusted index advanced from 176 to 180 per cent of the 1935-39 average.

Activity continued to increase in the machinery and transportation equipment industries and in other lines producing war products. Shipbuilding expanded further and 71 merchant vessels were delivered in July. These had an aggregate deadweight tonnage of 790,300 tons—an all-time record for a single month's deliveries. In the automobile industry armament production increased in July to an annual rate of about $5 billion as compared with a peak year's civilian output of $4 billion. Iron ore shipments down the Great Lakes reached a new record of 13.4 million gross tons in July and plans were announced for improving rail and harbor facilities so that shipments next season could exceed considerably prospective shipments of 90 million tons or more this year. Last season 80 million tons were shipped.

In most other lines of manufacturing and mining, activity in July was maintained at about the levels prevailing in June. There were reports that some plants were forced to curtail operations owing to lack of certain materials, and further investigations were undertaken to determine present and prospective availability of material supplies.

Value of construction contracts awarded in July showed a reduction of about 20 per cent from the record level reached in June, according to figures of the F. W. Dodge Corporation. Declines were reported for most types of construction; awards for manufacturing buildings, however, increased further and constituted about one third of total contracts let. As in June, publicly financed work amounted to over 90 per cent of the total. In the first seven months of this year, awards were about 50 per cent larger than in the corresponding period last year.

Distribution

Distribution of commodities to consumers declined less than seasonally in July. The Board's adjusted index of department store sales, which had dropped from a peak of 138 per cent of the 1923-25 average in January to 104 in June, rose to 117 and sales by variety stores and mail-order houses also advanced, after allowance for usual seasonal changes. In the first half of August department store sales increased by more than the usual seasonal amount.

Railroad freight car loadings increased more than seasonally in July and rose somewhat further in the first half of August. Shipments of miscellaneous merchandise, which include most manufactured products, and of forest products continued to rise. Grain shipments also increased but the rise was less than is usual at this time of year. Loadings of coal declined somewhat from the high level of other recent months.

Commodity Prices

Wholesale and retail food prices advanced further in July and the early part of August, while prices of petroleum products on the East Coast were reduced, and those for most other consumer goods continued to show little change. In raw material markets price declines occurred for cotton, inedible fats and oils, and some scrap items, particularly nonferrous metals and paper. Demand for materials used more exclusively for war products continued strong and prices of these materials were sustained at ceiling levels.

Federal subsidies were arranged for additional commodities and Government war risk rates on shipments of imported commodities were reduced. These actions were taken to bring about price reductions, as in the case of petroleum products on the East Coast, and to prevent further price increases, particularly for imported commodities. About 30 new maximum price schedules were announced, chiefly for miscellaneous civilian products, and in some instances these schedules permitted substantial increases over ceilings set by the General Maximum Price Regulation.

Bank Credit

Excess reserves of member banks declined by about 200 million dollars in the four weeks ended August 19. An increase of about 400 million dollars of currency in circulation during this period was paralleled by a corresponding amount of Reserve Bank purchases of Government securities. There was an increase of 300 million dollars in required reserves resulting from a growth in deposits at member banks. Excess reserves in New York and Chicago reached the lowest levels since the third quarter of 1937. Effective August 20 reserve requirements on demand deposits at Central Reserve City banks were reduced from 26 per cent to 24 per cent by action of the Board of Governors of the Federal Reserve System. This had the effect of converting over 400 million dollars from required to excess reserves.

Member banks in leading cities continued to increase their holdings of United States Government securities, particularly in the week ended August 19, in which delivery of the new 11½ months' ⅞ per cent certificates of indebtedness was made. Loans, which had declined during the second quarter of the year, have recently shown little change.

Adjusted demand deposits continued to increase at reporting banks, although purchases of Government securities, particularly the 2½ per cent Treasury bonds of 1962-67, by investors other than banks temporarily reduced demand deposits of individuals and added to United States Government deposits.