MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in September

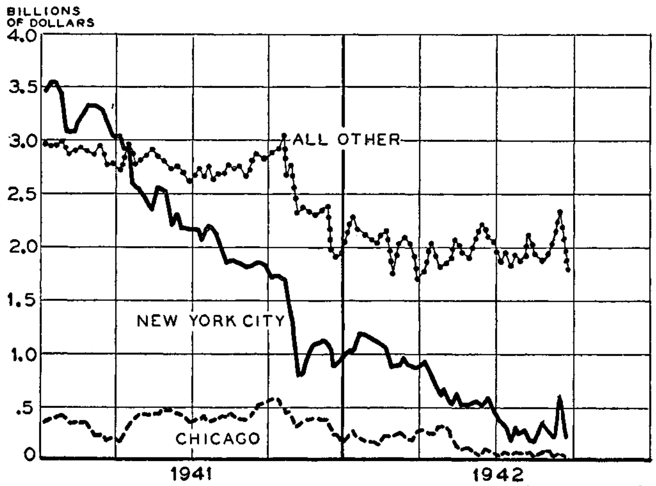
September was marked by a further substantial rise in the volume of war expenditures and the consequent necessity of large scale borrowing by the Treasury, despite the receipt by the Treasury of third quarter income tax instalments, and by a continued outflow of funds from New York which led to a further modification in the schedule of reserve requirements for Central Reserve City member banks. While member bank excess reserves fluctuated widely during September, trading in Government securities was relatively limited and prices of outstanding Government obligations moved within generally narrow ranges throughout the month.

On the basis of the Daily Statement of the Treasury for September 25, Government war expenditures during September may be estimated at approximately $5,400,000,000, equivalent to an annual rate approaching $65,000,000,000, or within striking distance of the rate ($67,000,000,000) forecast for the fiscal year ending June 30, 1943 in the revised budget estimates presented in April. The monthly totals for July and August were $4,500,000,000 and $4,900,000,000, respectively.

The cash requirements of the Government during September were somewhat enlarged by the necessity of paying off $342,000,000 of 2 per cent Treasury notes which matured on the 15th. On the other hand, the amount to be raised through additional borrowings was reduced by quarterly income tax collections. Of the total income tax collections of approximately $2,100,000,000, somewhat less than $1,600,000,000 were in cash, the remainder in tax anticipation notes. The proportion of income tax payments made by the use of the tax notes was moderately larger than in March and June.

In addition to the cash received through income tax collections, the Treasury obtained funds through withdrawals from war loan deposit accounts, through weekly Treasury bill offerings in excess of maturing issues, through cash payments for new issues of $1,500,000,000 each of Treasury certificates of indebtedness and Treasury notes sold during the month, and through sales of War Savings bonds and tax anticipation notes. "Calls" upon authorized depositaries for the repayment of war loan account balances, made almost daily during the period September 1-12, aggregated $1,500,000,000 over this period, drawing down the war loan balances from $1,880,000,000 on August 31 to $460,000,000 on September 12. The remainder was substantially exhausted by "calls" issued for payments on September 17-18. Of the total of $1,960,000,000 of "calls" September 1-18, 57 per cent represented withdrawals from New York City institutions, and since the volume of Government checks deposited by customers of these banks was substantially smaller than the amount of the war loan account withdrawals, deposits and reserve balances of the New York banks were substantially reduced.

Weekly Treasury bill offerings, which had been increased from $150,000,000 to $250,000,000 in May, and further advanced to $300,000,000 in June and $350,000,000 in July, were stepped up to $400,000,000 beginning with the issue dated September 16. The Treasury obtained an aggregate of $1,900,000,000 from the five issues of Treasury bills during September, as compared with the $1,450,000,000 needed to pay off five maturing issues. There was only one "special" bill maturity during the tax period; the maturity of the issue which ordinarily would have come due September 23 had been shortened so as to come due September 17. No special Treasury bill maturities have been arranged for the December period. With the high rate of Government war expenditures in relation to income tax collections, the need for "bunching" of Treasury bill maturities just after the quarterly income tax dates, to counteract the effect of tax collections on bank reserves, has been reduced this year, from one tax period to the next.



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

Payments were not due on the new market offerings of certificates and notes until September 21 and September 25, respectively, and meanwhile cash income tax receipts did not provide sufficient funds for war expenditures, quarterly interest payments, and redemptions of the $342,000,000 of maturing Treasury notes on September 15 and the $300,000,000 special maturity of Treasury bills on September 17. As in June, therefore, the Treasury found it necessary, not only to draw heavily upon war loan account balances with commercial banks, but also, for a number of days beginning September 15, to borrow from the Federal Reserve Banks on special one-day certificates of indebtedness. The largest of these temporary borrowings, $324,000,000, occurred on September 15, when the Treasury notes matured and large payments of interest on outstanding Government securities were also due. Cash receipts of $420,000,000 from the sale of the certificates of indebtedness on September 21, and $530,000,000 from the sale of Treasury notes on September 25, together with the proceeds from the sale of $400,000,000 Treasury bills on September 23 (when there were no maturing bills), enabled the Treasury to pay off the temporary borrowings from the Reserve Banks and provided a substantial remainder of working balances on deposit in the Reserve Banks.

Member Bank Excess Reserves

Excess reserves of the Central Reserve New York City banks have continued to show the persistently declining tendency that has prevailed since January, 1941 when they exceeded $3,500,000,000. While the New York City banks were disproportionately affected, the decline in excess reserves which set in at that time was, for a time, shared in to lesser extent by other member banks throughout the country, and, by April 15 of this year, excess reserves of all member banks were down to $2,890,000,000 from $6,900,000,000 fifteen months before. The Central Reserve New York City banks lost four fifths of their excess reserves over this period, while excess reserves of the Central Reserve City banks of Chicago, and those of Reserve City and country banks combined, showed declines of approximately one third in each case over this period.

Member Bank Excess Reserves
(In millions of dollars)

	Central Reserve City banks		Reserve City and country banks combined*	All member banks*
	New York	Chicago		
Jan. 15, 1941	3,545	375	2,980	6,900
Apr. 15, 1942	720	250	1,920	2,890
Aug. 19	180	15	1,905	2,100
Aug. 20 (opening of business)	525	85	1,910	2,520
Sept. 12	175	65	2,300	2,540
Sept. 14 (opening of business)	505	135	2,310	2,950
Sept. 16	625	70	2,345	3,040
Sept. 23	210	25	1,795	2,030

* Estimated.

A minor part of these reductions in excess reserves was attributable to the lifting of member bank reserve requirement percentages to their statutory maxima, effective November 1, 1941, but the major part resulted basically from a decided slackening in the rate of gold inflow, an accelerated movement of currency into circulation, and continuously increasing deposits and reserve requirements. The gold inflow came to a halt altogether late in the summer of 1941, and money in circulation, which had been increasing at an average rate of somewhat less than $100,000,000 a month during 1940, rose at an average monthly rate of $200,000,000 during 1941. Bank deposits, which form the basis for reserve requirements, had been rising steadily since 1938.

Since last April the drain upon the excess reserves of member banks has been intensified by two principal factors: a further acceleration in the flow of currency into circulation, to 300-400 million dollars a month; a more rapid increase in bank deposits, and hence in reserve requirements, resulting from enlarged purchases of Government securities by banks. Although the Federal Reserve Banks, beginning April 15, have been adding an average of approximately $250,000,000 a month to their portfolio of Government securities, total excess reserves of all member banks have declined further. Practically all of the shrinkage in excess reserves in this period has occurred at Central Reserve City banks in New York and Chicago. Despite the heavy demand for currency and the accelerated rise in deposits and required reserves, total excess reserves of Reserve City and country banks, taken together, have been maintained at an average level of $1,900-2,000,000,000, as their reserves have been replenished, largely through Government expenditures, at the expense of Central Reserve City banks.

The concentrated impact of declining excess reserves upon the Central Reserve City banks has been the result, by and large, of purchases of Government securities by these banks and their customers at a rate disproportionate to the volume of Government checks deposited with them. Temporarily to correct, in some degree, the unequal distribution of member bank excess reserves, the Board of Governors of the Federal Reserve System on August 20 lowered the reserve requirement percentage against net demand deposits for Central Reserve City banks (i.e., the principal New York and Chicago banks) from 26 per cent to 24 per cent. This step had the effect of temporarily lifting the level of excess reserves in New York from $180,000,000 to $525,000,000. During the following three weeks, excess reserves in New York again dropped rapidly, a consequence of the exceptionally large subscriptions entered in this District to the Treasury certificates of indebtedness and 2½ per cent "tap" bonds sold during August. The book credit method was used to a predominant extent initially in making payments for these securities, and of the total war loan account deposits of $3,360,000,000 on August 15, more than half were held by the Central Reserve New York City banks. Thereafter the excess reserves of the New York banks were drawn against heavily through the Treasury "calls" upon the war loan accounts.

Within three weeks excess reserves of the New York banks were again below $200,000,000, and the Board of Governors, effective at the opening of business September 14, further lowered the reserve requirement percentage against net demand deposits for Central Reserve City banks from 24 per cent to 22 per cent. This action again had the effect of replenishing temporarily the excess reserves of the New York City banks to the extent of $330,000,000, and those of the Chicago banks to the extent of $70,000,000. As a result of an exceptional volume of Government disbursements at the middle of the month, excess reserves were even higher on Wednesday, September 16. But additional Treasury calls upon war loan deposit accounts, and cash payments for the purchase of new Government security issues, resulted in a rapid shrinkage in member bank excess reserves during the latter part of the month. To these factors was added, in the case of New York City banks, the effect of sizable withdrawals of funds by out-of-town banks from their New York balances. Between September 16 and 23, excess reserves of the Central Reserve New York City banks fell from $625,000,000 to $210,000,000; those of all member banks from $3,040,000,000 to $2,030,000,000.

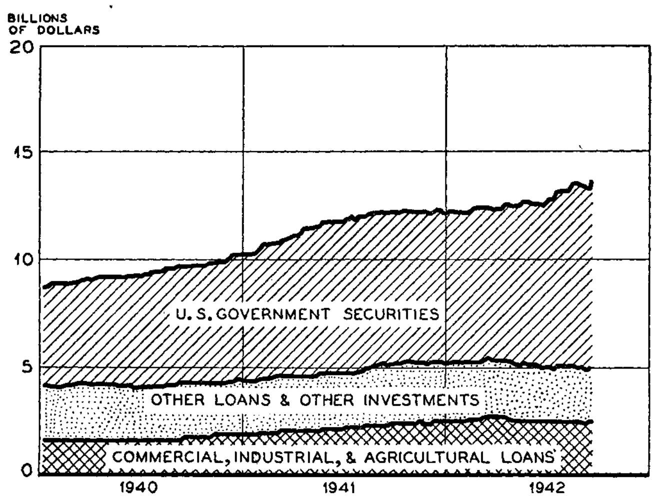
Member Bank Credit

During the five weeks ended September 23, total loans and investments of weekly reporting member banks rose $127,000,000 further in New York City and $705,000,000 in 100 other leading cities. These increases were largely accounted for by the participation by these banks in the September 21 issue of 0.65 per cent certificates of indebtedness. Of this $1,500,000,000 issue, the reporting member banks in New York City purchased for their own accounts somewhat more than 20 per cent, and reporting banks outside New York City purchased about 35 per cent. The increase in holdings of certificates of indebtedness of the reporting New York banks amounted to $327,000,000 over the five weeks and these banks also increased their holdings of Treasury bills and Government guaranteed obligations, but total holdings of Government securities expanded to the extent of only $214,000,000 through the effect of the maturity of 2 per cent Treasury notes on September 15 and net sales in the market of Treasury notes and bonds. Reflecting short term borrowings by New York City and New York State, the New York banks added $64,000,000 to their holdings of other securities.

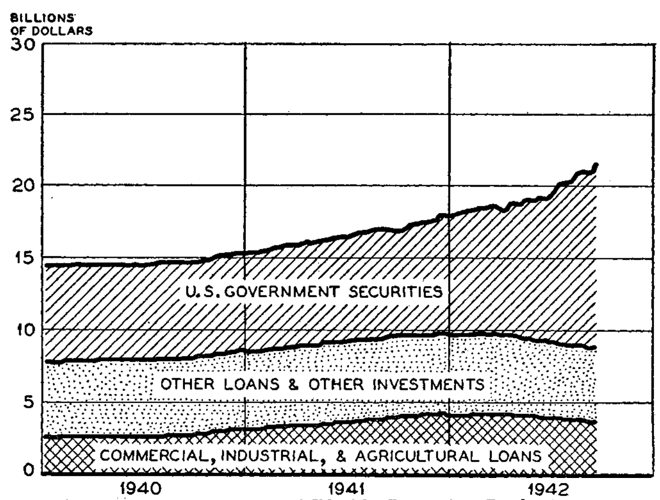
For the reporting banks in the 100 other centers, total investments increased $862,000,000 over the five weeks' period. Certificate of indebtedness holdings expanded $504,000,000; Treasury bills were acquired to the extent of $283,000,000, and Treasury bonds to the extent of $104,000,000. Treasury bill holdings of the reporting member banks outside New York City reached $1,673,000,000 on September 23. Since the end of April, accompanying a $2,550,000,000 increase in the outstanding supply, Treasury bill holdings of the reporting banks outside New York City have risen nearly $1,000,000,000.

Reductions were general among the loan classifications for reporting member banks both in New York City and outside. Commercial, industrial, and agricultural loans decreased $109,000,000 for the weekly reporting banks as a whole, despite the consummation of a number of loans for the provision of funds required to carry out war contracts. In New York, where the contraction in commercial, industrial, and agricultural loans was relatively small, a $67,000,000 decline in loans to brokers and dealers in securities was the largest single factor in the reduction in total loans over the five weeks' period.

Since the beginning of 1941 total loans and investments of the weekly reporting member banks have increased almost $10,000,000,000, or by 38 per cent. As the accompanying charts show, the dominating factor in the rise has been the expansion in bank holdings of U. S. Government securities, in turn associated with the large increase which has taken place over this period in the Federal debt. As was also true of 1940, the weekly reporting member banks in New York City added more than $1,000,000,000 to their holdings of Government securities in 1941; up to September 23 of this year the Government portfolios of these banks had been enlarged about



Loans and Investments of Weekly Reporting Banks in New York City



Loans and Investments of Weekly Reporting Banks in 100 Leading Cities Outside New York City

$1,800,000,000 more. Government security holdings of the other weekly reporting banks, which were not substantially changed during 1940, expanded to the extent of $1,500,000,000 during 1941 and $4,600,000,000 up to September 23 of this year. Of the $6,300,000,000 increase in the outstanding volume of market issues of U. S. Government obligations during 1941, the New York banks accounted for 18 per cent and the weekly reporting member banks elsewhere for 23 per cent. Between January 1 and September 23 of this year, the supply of market issues available for bank investment grew to the extent of $15,400,000,000, and of this amount purchases of the reporting banks in New York accounted for 12 per cent while reporting banks elsewhere accounted for 30 per cent. Despite the fact that the reporting banks outside New York have been purchasing Government obligations in increasing volumes, the ratio of Government securities to total loans and investments in the 100 cities, at 59 per cent on September 23, was still below the corresponding figure of 64 per cent for New York City banks.

The weekly reporting member banks as a whole added $3,000,000,000 to the volume of loans and investments, exclusive of U. S. Government securities, during 1940 and 1941, but so far this year there has been a net contraction of more than $1,000,000,000 in earning assets other than Government securities. From a peak in March, 1942, the volume of commercial, industrial, and agricultural loans has declined $240,000,000 for the New York City banks and $510,000,000 for the banks in the 100 cities.

Money Rates in New York

	Sept. 30, 1941	Aug. 31, 1942	Sept. 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)	0.37	0.55	0.57
Average yield on taxable Treasury notes (3-5 years)	0.65	1.25	1.28
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.97	2.02	2.05
Average yield on taxable Treasury bonds (not callable within 12 years)	2.11	2.34	2.34
Average rate on latest Treasury bill sale 91 day issue	0.037	0.369	0.373
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.

War Financing

In spite of the quarterly income tax collections in September, the Treasury borrowed a total of about $4,300,000,000 during the month. In addition to providing funds to meet the ever increasing volume of war expenditures, it was necessary to obtain funds for the redemption on September 15 of $342,000,000 maturing Treasury notes. The distribution of this borrowing was as follows:

$1,606,000,000—1¼ per cent Treasury notes
1,506,000,000—0.65 per cent certificates of indebtedness
750,000,000—War Savings bonds (estimated)
450,000,000—Treasury bills (net receipts)

The new issues of Treasury notes and certificates of indebtedness were offered by the Treasury on September 10. As in the case of other recent offerings, subscription books for these issues remained open for two days. The Treasury notes, bearing interest at the rate of 1¼ per cent, were dated September 25, 1942 and will mature March 15, 1945. Subscriptions to this issue, the first Treasury note issue sold for cash since January, 1941, totaled $3,637,000,000. Subscriptions of $25,000 or less (amounting to $134,000,000) were accepted in full, while the larger subscriptions were allotted on a 42 per cent basis. Allotments to subscribers in the Second Federal Reserve District ($592,000,000) amounted to 37 per cent of the total.

The 0.65 per cent certificates of indebtedness were dated September 21, 1942 to mature May 1, 1943. The term of slightly more than 7 months was almost the same as that on the ⅝ per cent June issue of certificates, but about 4 months shorter than the term on the ⅞ per cent August issue. Subscriptions to the new certificates totaled $1,992,000,000, compared with somewhat over $3,000,000,000 on each of the two previous issues, reflecting the effects on subscriptions of the simultaneous offering of the Treasury note issue. Subscriptions of $25,000 or less ($44,000,000) were accepted in full and those above $25,000 were allotted on a 75 per cent basis. Allotments to subscribers in this District ($599,000,000) amounted to 40 per cent of the total compared with 43 per cent on the August certificates and 46 per cent on the June issue.

Probably owing in part to the sales campaign led by the radio stations and moving picture theatres during September, and in part to the progressive increase in sales under payroll savings plans, total sales of War Savings bonds were the third highest of any month on record. While the $775,000,000 National quota does not appear to have been quite met, it is estimated that sales may have reached $750,000,000, which would compare with $697,000,000 in August, 1942, and $232,000,000 in September, 1941. Sales of War Savings bonds by agencies other than post offices in the Second Federal Reserve District during September were estimated at $125,000,000, 10 per cent above the August level and more than double the sales in September, 1941.

According to statistics recently released by the Treasury Department, 18,500,000 workers were participating in payroll savings plans for the purchase of War Savings bonds at the end of August. During that month, $225,000,000 or 7 per cent of the total wages paid these workers was deducted under these plans. As a further evidence of widespread participation in purchases of War Savings bonds, the number of $25 denomination bonds issued has shown marked increases from month to month.

About $450,000,000 in "new money" was raised from sales of Treasury bills during September. On September 16, the weekly bill issue was increased from $350,000,000 to $400,000,000; weekly maturities during September amounted to $250,000,000 on September 2 and $300,000,000 on each issue thereafter. Sales of tax anticipation notes, stimulated by the changes in terms of the notes described below, are estimated at well over $500,000,000 for the month as compared with an average of $400,000,000 during the May-August period. More than $500,000,000 of tax notes were presented in payment of taxes during September, however, so that the volume of these securities outstanding was not substantially changed.

Changes in the terms of the tax savings notes which have been on sale since August 1, 1941 were announced on September 14 by the Treasury. Two new series of tax notes, designated as Series A-1945 and Series C-1945, were offered for sale beginning September 14. The new Series C notes are designed to provide a security well adapted for the temporary investment of idle funds by corporations and other investors, as well as for the accumulation of tax reserves. These notes have been made more attractive by an increased yield and by a provision for cash redemption with interest. (The notes are not designed as an investment medium for banks which accept demand deposits; such banks may earn an interest return from the notes only when they are redeemed in meeting tax liabilities.) The Series C notes will be dated as of the first day of the month in which purchased, will mature three years thereafter, and will be issued at par. Interest accrues each month on a graduated scale so as to yield from 0.60 per cent, if held for six months, up to approximately 1.07 per cent, if held to maturity. The former Series B notes, which these replace, yielded 0.48 per cent and then only when used in paying taxes. The new Series A-1945 notes are substantially the same as the former Series A except that the maturity has been increased from two to three years, and the limitation, for both old and new series, on principal amount that may be presented on account of any one taxpayer's liability for each class of taxes (income, estate, or gift) for each taxable period has been raised from $1,200 to $5,000. These notes, which are designed primarily for smaller taxpayers, are redeemable in cash only at the purchase price, but yield 1.92 per cent when used in the payment of taxes.

Security Markets

General price stability and light trading activity characterized the Government security market during September. The announcement on September 2 that the Treasury would offer $3,000,000,000 of new securities during the month had little effect upon the market, nor did the actual offering, on the tenth, of the new issue of $1,500,000,000 certificates of indebtedness and a like amount of new notes. Both issues were well received, but the volume of subscriptions indicated that the note issue was considered the more attractive of the two.

As in recent months, prices of long term fully taxable Treasury bonds remained within an extremely narrow range in September, while quotations for the long term partially tax exempt bonds drifted slightly lower throughout the month. In continuation of the tendency prevailing in July and August, prices of the three to five year taxable Treasury notes declined, and the average yield on these securities rose from 1.25 per cent on August 31 to 1.28 per cent at the end of September. The price of the ¾ per cent tax exempt Treasury notes maturing March 15, 1945 declined somewhat during the early part of September, but subsequently recovered most of this loss. Prices of the various issues of certificates of indebtedness held generally steady throughout the month and the average rate at which new Treasury bill offerings were sold continued close to the ⅜ per cent buying rate of the Federal Reserve Banks.

Continuing the movement in evidence since February, municipal bond prices rose further during September, as indicated by a decline in the average yield on prime municipal bonds computed by Standard and Poor's Corporation from 2.26 on August 26 to 2.24 per cent on September 23. The current average yield is at the lowest point since early last December. Prices of domestic corporation bonds held steady throughout September, following a slight firming tendency in August.

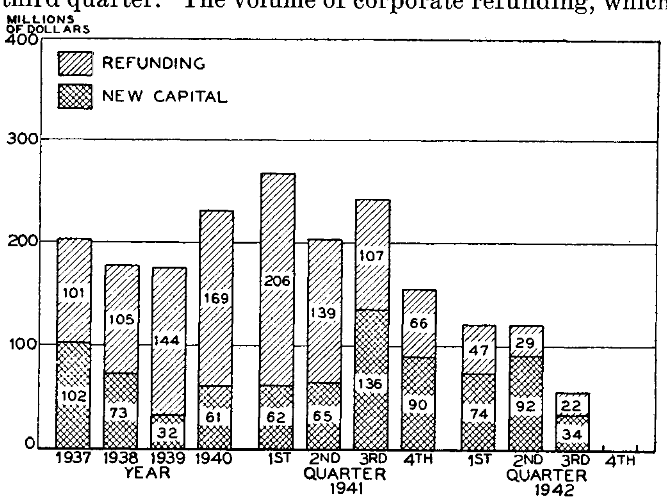
Stock prices, after remaining relatively steady in a quiet market during the first three weeks of September, moved into higher ground toward the end of the month as trading activity became more brisk. On September 24, 850,000 shares were traded on the New York Stock Exchange, the largest volume for any day this year. Although industrial stock prices participated in the advance, the principal strength was shown among the railroad and utilities equities.

New Security Issues

Corporate and municipal new security financing during September continued at the low level of recent months, with a total of about $68,000,000 of issues publicly offered or privately sold. Corporate financing amounted to $43,000,000, of which slightly more than one third represented funds to be used for new capital purposes. Municipal awards during the month aggregated $25,000,000.

The principal corporate financing during the month was the offering of $32,925,000 Southwestern Public Service Company securities. This offering consisted of $20,000,000 first mortgage 4 per cent bonds due in 1972, $6,000,000 of 2½ and 3 per cent serial notes maturing from 1943-1954, 60,000 shares ($6,000,000) of 6½ per cent preferred stock, and 185,000 shares ($925,000) of common stock. Proceeds from this financing are to be used in connection with a plan of integration involving retirement of subsidiary obligations and purchase of the securities of three additional companies. The only municipal award of appreciable size was that of $8,286,000 Boston Metropolitan District 1¼ per cent refunding bonds maturing from 1943 to 1967.

As shown in the accompanying chart, the volume of corporate new security issues in the third quarter of 1942 averaged only $56,000,000 monthly, the lowest for any quarter in several years. Issues for new capital purposes, which had been maintained at a relatively high level during the first half of the year, fell off substantially in the third quarter. The volume of corporate refunding, which



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

had already been reduced sharply in the first six months of this year, continued at a low level in comparison with the large amount of refundings during the period 1936-1941.

Foreign Exchanges

Aside from irregular fluctuations in the unofficial rate for the Canadian dollar and the so-called free rate for the Swiss franc, New York foreign exchange quotations were stable in a continued quiet market during the past month. Accompanying a seasonal slackening in the tourist demand for Canadian exchange, the discount in the unofficial market continued to widen steadily during the first part of September to reach 13 1/16 per cent on September 10, the largest discount since the middle of April. Subsequently, however, some demand developed and the discount narrowed gradually to 11 5/16 per cent on September 24; at the end of the month it was quoted at 12½ per cent, as compared with 10 15/16 per cent at the end of August. As a result of the appearance of some demand in its usually thin market, the "free" Swiss franc appreciated substantially vis-a-vis the dollar during the early part of the month and by September 12 the "free" rate had advanced to $0.3050 bid. Some supply subsequently appeared in this market, however, and the quotation receded gradually to close September at $0.3000 bid, unchanged for the month as a whole.

Production and Trade

Business activity in September held close to the advanced level reached in August, according to early indications. Weekly estimates of steel production reveal the continuation of the high rate of output maintained in earlier months of this year. Production during the first nine months of 1942 ran at a rate more than one-third above the average level of 1929 and more than 70 per cent above that of 1917, the peak year for steel production during the first World War. Although actual or threatened shortages of steel scrap have been a matter of concern throughout the past year, the vigorous collection drives conducted by numerous municipalities, newspapers, and other organizations are said to be bringing encouraging results. According to the W.P.B., more than three fourths of the output of finished steel is now going into direct war use.

For the first three weeks of September the daily average rate of electric power production was at a new high point and the daily output of bituminous coal increased somewhat over the level maintained in August, but the production of crude petroleum was off slightly from the average of the preceding month. Loadings of railway freight in the week ended September 19 exceeded 900,000 cars, the highest weekly volume since the peak of last October.

Early in September the special committee appointed by the President to investigate the rubber situation reported that the country's stockpile of crude rubber would be exhausted within a year by military and export needs alone unless new supplies could be obtained. In consonance with recommendations contained in this report to conserve rubber tires, preparations were made to institute nation-wide gasoline rationing, effective by November 22, on the same basis as the program now in effect in seventeen Eastern States, and a country-wide speed limit of 35 miles per hour was ordered. Late in September, the O.P.A. announced plans for restricting the use of fuel oil in homes in thirty Eastern and Midwestern States during the coming winter.

	1941	1942		
	August	June	July	August
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade†	116	114	118*p*	120*p*
Production	116	123	126*p*	128*p*
Producers' goods—total	124	152	156*p*	160*p*
Producers' durable goods	131	177	184*p*	191*p*
Producers' nondurable goods	118	124	124*p*	125*p*
Consumers' goods—total	105	88	89*p*	88*p*
Consumers' durable goods	108	45	44*p*	38*p*
Consumers' nondurable goods	105	102	103*p*	104*p*
Durable goods—total	124	138	143*p*	146*p*
Nondurable goods—total	110	111	112*p*	113*p*
Primary distribution†	119	130	134*p*	133*p*
Distribution to consumer	115	84	89*p*	94*p*
Miscellaneous services	105	120	124*p*	126*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	106	116	117	117
Wage Rates (100 = 1926 average)	124	136	138*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	65	61	62	71
Outside New York City	93	85	86	87

p Preliminary. * Adjusted for seasonal variation.
† For May, 1942, the index of production and trade has been revised to 113, and the index of primary distribution to 128.

Production and Trade in August

During August the monthly index of production and trade computed at this bank rose 2 points further to 120 per cent of estimated long term trend, a new record level. The figure for August last year was 116. While production of consumers' durable goods continued the decline in evidence since July, 1941, there was an additional seven point rise in the output of producers' durable goods, a group which includes many important war materials, and production of nondurable goods increased slightly further. The recovery in retail trade which got under way in July was continued in August, the component index of distribution to consumer advancing 5 points further to approximately the level of last March.

Employment and Payrolls

Developments during the month of September demonstrated an increasing tendency toward a unified National labor policy embracing more comprehensive Government regulation of wages, working hours, and the labor supply. On Labor Day, President Roosevelt indicated a determination to stabilize all elements entering into the cost of living, including the prices of farm products and wages. Later in the same week, he signed an order, effective October 1, prohibiting double pay for Saturday, Sunday, and holiday work as such, but making double pay compulsory for any seventh consecutive day of labor "on all work relating to the prosecution of the war." Under another executive order (effective September 27) the Chairman of the War Manpower Commission was given complete control over the transfer of any of the 2,300,000 Federal employees. The War Labor Board adopted a policy of "equal pay for equal work" for women employees in war industry. Other developments of the month included steps taken by the War Manpower Commission to stabilize employment in the lumber and nonferrous metal industries of twelve Western States in order to check manpower losses due to labor "pirating" and migration, and a War Production Board order for a 48-hour work week in the Pacific Northwest lumber industry.

The total number of persons at work in the United States in August was unchanged from the record high July level of 54,000,000 persons, according to estimates of the Department of Commerce. A gain of half a million in nonagricultural employment offset a seasonal decrease in agricultural working forces during the month. Total employment in August was 3,000,000 higher than in the corresponding month last year, and 6,300,000 above the August, 1940 level. Unemployment was estimated at 2,200,000 persons in August, the lowest level in recent years.

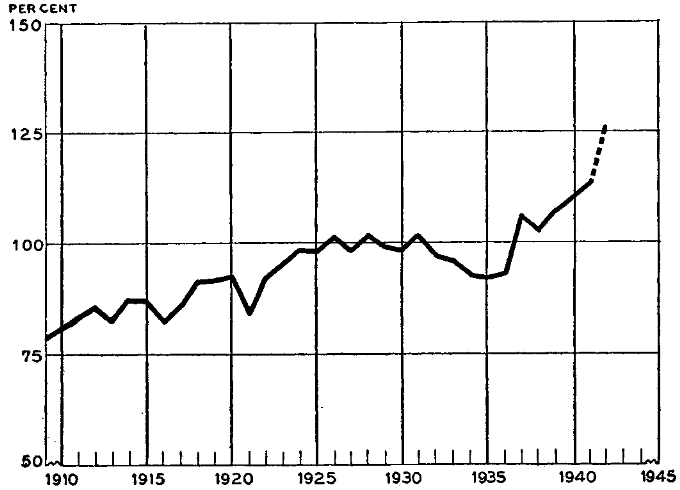
A large part of the month-to-month increase in nonagricultural employment occurred in manufacturing establishments, where working forces in August were 2 per cent larger than in July, and wage payments were 5 per cent greater. Not only was there an expansion of employment at plants producing machinery, various types of transportation equipment, and other war goods, but more workers were employed in the manufacture of apparel and food products, largely as a result of seasonal expansion in these industries. Factory employment was 9 per cent above the August, 1941 level, and payrolls increased 36 per cent.

In New York State, factory employment rose 3 per cent during August and payrolls increased 4½ per cent, largely as a result of seasonal expansion in the apparel industry. Most other consumers' goods industries, however, reduced working forces somewhat between July and August. War plants, especially those producing tanks, ships, and aircraft, continued to add to their working forces. Taken as a whole, reporting factories in New York State employed 6 per cent more workers than in August, 1941, while they increased their payrolls 25 per cent, reflecting an increase of 18 per cent in average weekly earnings during the year.

Commodity Prices

The general average of wholesale commodity prices rose slightly further during September to a new high level since 1926, according to the Bureau of Labor Statistics comprehensive weekly index. Price advances were again concentrated largely in commodities not subject to ceiling regulations—chiefly farm products and foods. In the controlled markets, including the majority of finished industrial materials, price movements tended to show the steadiness that had prevailed since the General Maximum Price Regulation became effective in May.

Accompanying Congressional discussion during September, of the President's proposal to stabilize farm prices, quotations for a number of farm products showed considerable advances. On September 24 winter wheat in Kansas City rose to $1.26¾ a bushel, which was about 10 cents above the price at the end of August and the highest since January; quotations for other grains also moved higher. Despite some increase in receipts at the primary markets, prices for hogs in Chicago showed



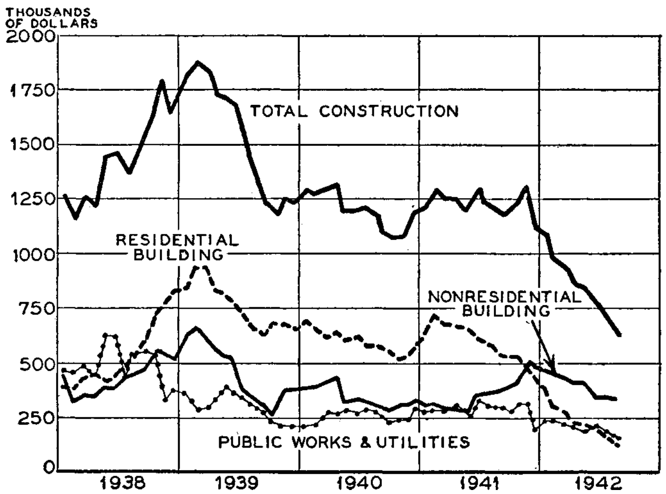
Index of Physical Volume of Total Agricultural Production in the United States (1935-39 average=100 per cent; 1942 production estimated)

advances for the month of about 70 cents to new 22-year record levels, above $15.00 per hundredweight. Butter quotations rose to new high levels since 1929. Quotations for cotton and steers fluctuated irregularly, but showed slight net changes for the month.

The physical volume of all agricultural production, including livestock and products as well as crops, is expected to reach an all-time high this year, according to estimates of the Department of Agriculture. The indicated production in 1942 is substantially above the 1941 total—about 12 per cent—and is nearly 40 per cent above the low level in 1935. The Department of Agriculture published revised estimates of individual crops based on conditions as of September 1, which in most instances were higher than those of a month earlier. The latest estimate of the 1942 cotton production was placed at 14,028,000 bales, which would compare with the crop of 10,744,000 bales in 1941, and exceed that of any year since 1937. Forecasts of the corn and wheat crops this year indicate the largest volumes since the respective peaks in 1920 and 1915. It was estimated that the oil seed crops this year would be at record levels, offsetting the deficiency in imported oils.

Building

The daily rate of construction contracts awarded in the Metropolitan New York City area showed a further sharp decline between July and August according to the F. W. Dodge Corporation report. As the accompanying chart shows, since the beginning of 1939 the rate of contract awards in the metropolitan region (including, in addition to New York City, Nassau, Suffolk, and Westchester Counties) has been more than cut in half. The previous peak period, at the end of 1938 and the first part of 1939, reflected the inclusion of several large public and private housing projects, including the Metropolitan Life Insurance Company housing development in the Bronx, and, in the nonresidential building field, a considerable volume of World's Fair and public projects. During 1940 and 1941, when the volume of awards in many other sections of the country was being raised to record levels by the defense program, the volume of awards in this area remained at a relatively steady level. Residential building began to fall off in 1941, but for a



Daily Average Value of Construction Contract Awards in Metropolitan New York (F. W. Dodge Corporation data; six month moving average of seasonally adjusted figures)

while the increase in nonresidential building was enough to offset this decline. Some defense projects, more particularly for the construction and expansion of manufacturing and shipbuilding facilities, were included in the nonresidential building figures for that period. Beginning in 1942, however, the rate of awards for all construction has declined sharply, reflecting primarily a further curtailment in residential building. Awards for nonresidential building and for public works and utilities construction also have fallen off this year, but much more moderately.

Figures for the 37 Eastern States included in the F. W. Dodge Corporation report present a striking contrast to the New York City data. Although the rate of awards in the 37 States as a whole dropped during August from the near-record level of July, it was only slightly below the August, 1941 rate, which was the highest reported for last year. The demands of the war construction program have been large enough during recent months substantially to counterbalance the enforced curtailment of nonessential construction. Although August awards for private construction, which include some volume of war projects, amounted to only a little over one-third those of the corresponding month of last year, additional steps were taken during September by the War Production Board to curtail even further the amount of nonessential building. Effective September 7, limits on the amount of civilian construction which could be undertaken without the specific authorization of the Board, were cut from \$500 to \$200 in the case of residential buildings, from \$5,000 to \$200 for such buildings as clubs, assembly halls, etc., and from \$5,000 to \$1,000 in the case of such construction as highways and utilities. However, in the case of multiple residential buildings providing accommodations for more than five families the limit was raised, from \$500 to \$1,000.

Department Store Trade

Department store sales in this District continued to evidence a rising tendency during August, on the basis of reports made by a representative group of stores. While sales frequently have risen between July and August, the increase this year—15 per cent on an average daily basis—was larger than usual. Sales in August were considerably smaller than in the corresponding month of last year, when retail trade was exceptionally active as consumers sought to anticipate shortages and price advances, but were about 17½ per cent higher than in August of 1940. Estimates based on the first four weeks of September, however, indicate that sales failed to show all of the usual seasonal rise between August and September.

For the first eight months of 1942, total dollar sales of the reporting department stores in this District were 7 per cent higher than in the corresponding 1941 period. Considering the higher prices prevailing this year, however, it is evident that the physical volume of sales was lower than a year ago. There has been a wide variation in relative sales volumes among the various departments. Sales of piece goods and women's coats and suits showed pronounced gains, while there were declines in sales of mechanical refrigerators, furniture, millinery, and cameras from those of the corresponding eight months of 1941.

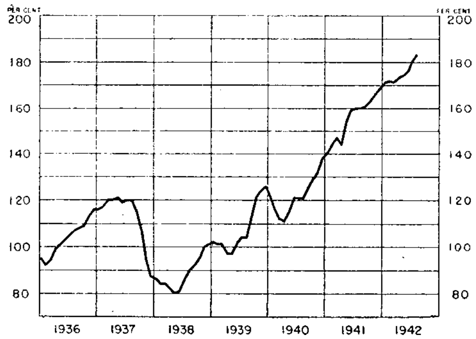
The seasonally adjusted index of department store inventories declined slightly in August for the first time this year, and the increase over 1941 narrowed from 82 per cent in July to 59 per cent in August. Returns from a limited number of department stores in this District indicate that at the end of August outstanding orders for merchandise purchased by the stores, but not yet delivered, were about 10 per cent lower than at the end of July, and 33 per cent below August, 1941, but 46 per cent higher than in August, 1940.

Department stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand, end of month, August, 1942
	August, 1942	Jan. through August, 1942	
New York City	−8	+7	+63
Northern New Jersey	−15	+5	+61
Newark	−11	+7	+62
Westchester and Fairfield Counties	−9	+11	+37
Bridgeport	−7	+13	+49
Lower Hudson River Valley	−11	+2	+26
Poughkeepsie	−6	+7	—
Upper Hudson River Valley	−19	−2	+39
Albany	−26	−8	—
Central New York State	−2	+11	+55
Mohawk River Valley	+12	+23	+94
Syracuse	−7	+7	+44
Northern New York State	−14	−7	—
Southern New York State	−10	+8	+44
Binghamton	−13	+5	—
Elmira	−10	+13	—
Western New York State	−7	+12	+51
Buffalo	−7	+14	+49
Niagara Falls	+18	+34	+29
Rochester	−7	+9	+60
All department stores	−9	+7	+59
Apparel stores	−8	+8	+36

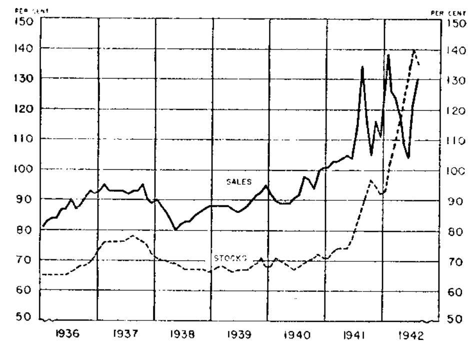
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1941	1942		
	August	June	July	August
Sales (average daily), unadjusted	100	92	81	93
Sales (average daily), seasonally adjusted	132r	97r	114	123
Stocks, unadjusted	98	158	156r	162
Stocks, seasonally adjusted r	102	163	168	165

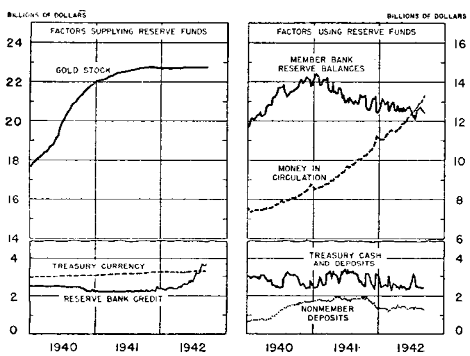
r Revised.



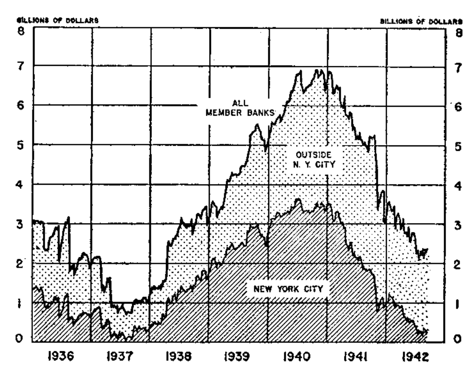
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Member Bank Reserves and Related Items (Latest figures are for September 9)



Wednesday Figures of Estimated Excess Reserves of All Member Banks (Latest figures are for September 9)

General Business and Financial Conditions

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

INDUSTRIAL output continued to rise in August and the first half of September and retail distribution of commodities also increased. Prices of farm products and foods advanced further.

Production

Industrial output increased in August and the Board's seasonally adjusted index rose 3 points to 183 per cent of the 1935-1939 average. There were further marked increases in activity in the machinery, transportation equipment, and other armament industries. Crude petroleum production increased considerably from the reduced level of recent months and output of manufactured food products rose more than is usual at this time of year. Production of materials, such as steel, nonferrous metals, coal, and lumber, continued in large volume.

Value of construction contracts awarded in August declined from the record high levels of June and July, according to figures of the F. W. Dodge Corporation. The extent to which the continuing large volume of construction reflects the war program is indicated by the fact that in the first eight months of this year 84 per cent of total awards have been for publicly financed projects and in recent months the percentage has been higher.

Distribution

Distribution of commodities to consumers increased considerably in August, reflecting particularly marked increases in department store sales and in sales of general merchandise in small towns and rural areas. Dollar value of sales to consumers in August was somewhat lower than the unusually large sales a year ago, when there was a considerable amount of anticipatory buying, while average prices were about 12 per cent higher. On the basis of physical volume, therefore, sales were smaller than a year ago.

Railroad freight car loadings were sustained at a high level during August and the first half of September, reflecting continued large shipments of most classes of freight.

Commodity Prices

During August and the first half of September the general wholesale price index advanced about half a point to 99.2 per cent of the 1926 average, reflecting chiefly increases in prices of livestock products. Prices of wheat, flour, and some other uncontrolled commodities also advanced. New crop tobacco prices showed sharp increases over last year and a temporary ceiling at current levels was established for flue-cured types.

Retail food prices continued to rise from the middle of July to the middle of August and further increases are indicated in September. Prices of uncontrolled foods in August were 10 per cent higher than in May.

Agriculture

Crop prospects improved considerably during August and aggregate production this year is expected to be about 15 per cent greater than in 1941, which was close to a record year for crops. Unusually high yields per acre are indicated for most major crops and for some others, like oilseed crops, substantially increased acreages are expected to be harvested. Feed grain supplies are expected to be of record proportions, but owing to the growing number of livestock on farms the supply per animal will probably be about the same as last season.

Bank Credit

Excess reserves of member banks, which have generally fluctuated between 2.0 and 2.5 billion dollars in recent months, rose temporarily to over 3 billion on September 16. This increase was due partly to a further reduction in reserve requirements on demand deposits at Central Reserve City banks from 24 to 22 per cent and partly to Treasury disbursements out of its balances with the Reserve Banks in connection with September 15 tax collections and fiscal operations. Funds for these disbursements arose in part from the issuance of special one-day certificates to the Reserve Banks.

Excess reserves of New York City banks have been declining for a number of months owing principally to the excess of funds raised in that city by the Treasury over amounts expended there. The effect of this drain has been offset in part by purchases of Government securities by the Federal Reserve System and by the two successive reductions in reserve requirements.

At banks outside New York City excess reserves have shown little change in recent months. These banks have lost reserves through currency drain and their required reserves have increased owing to growth of their deposits; both these factors, however, have been largely offset by transfers of funds from New York.

Holdings of Government securities at New York City banks, which increased substantially in July and August, declined somewhat in the first half of September. At banks outside New York City holdings have continued to increase.

United States Government Security Prices

The recent 3 billion dollar Treasury cash financing operation had little effect on the Government securities market, and prices continued steady.