MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in October

During October further upward revisions were made in the estimates of Government expenditures and of the necessary amount of Federal borrowing during the fiscal year ending June 30, 1943. While the new tax legislation, approved by the President on October 21, is expected to yield $6,900,000,000 to $8,000,000,000 for a full year, the added amount of revenue which it is anticipated will be collected during the fiscal year ending June 30, 1943—about $4,000,000,000—falls short of earlier calculations. On the other hand, war expenditures, estimated at $56,000,000,000 in the budget message of last January, and raised to $70,000,000,000 in April, are now calculated at $78,000,000,000, or an average of $6½ billion monthly for the current fiscal year. These figures include not only war expenditures within the regular budget, but also $4,000,000,000 to be spent by Government corporations, principally the Reconstruction Finance Corporation and its subsidiaries.

The amount which the Government will be called upon to borrow from the public during the current fiscal year has been successively raised from $34,000,000,000 in January to $47,000,000,000 in April and now to $60,000,000,000. The Federal debt, direct and guaranteed, is expected to reach $140,000,000,000 on June 30 next.

"Raising the sights" of the objective war effort thus involves a significant raising of our financial sights. Attention is focused not only upon the question of additional tax measures, but also, and more particularly for the immediate present, upon the necessity for an ever-widening public distribution and ever-increasing individual participation in the Government security offerings which must be made to meet the financial requirements of a maximum war effort. Banks and other financial institutions, under the leadership of the Victory Fund Committees and the War Savings Staff, can play a vital role in this undertaking.

Inasmuch as the production capacity of the country will be even more severely drawn upon for war purposes than had been earlier anticipated, there is a clear implication that estimates of the supplies of civilian goods must be revised downward. And it becomes of increased importance that the "disposable incomes" of consumers — those amounts remaining after meeting essential needs and tax payments—be invested in Government securities and thus help to finance the war effort. If such income remains idle, or tries to compete for a reduced supply of civilian goods, unnecessarily large purchases of Government securities will be forced upon the commercial banks of the country.

War expenditures under the regular budget reached a new peak during October, at approximately $5,500,000,000, and "new money" borrowings by the Government simultaneously rose to the highest level so far recorded. Sales of new issues of 1½ per cent Treasury notes and 2 per cent Treasury bonds, offered jointly October 8, aggregated $4,100,000,000. In addition, weekly offerings of Treasury bills, $400,000,000 on October 7 and 14, were further raised to $500,000,000 on October 21 and 28, and, as a result, the outstanding supply of Treasury bills was increased by $500,000,000. Sales of War Savings bonds and tax anticipation notes are estimated in excess of $1,500,000,000 for the month.

The banks added substantially to their holdings of Government securities during October. War Savings bonds, of course, went to nonbanking investors exclusively, and tax anticipation notes in large part. On the other hand, it was announced that investors other than commercial banks purchased only one quarter of the $4,100,000,000 of Treasury notes and Treasury bonds sold during the month. The New York banks are estimated to have added approximately $800,000,000 to their holdings of Government securities during October, as compared with an average of

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(In billions of dollars)

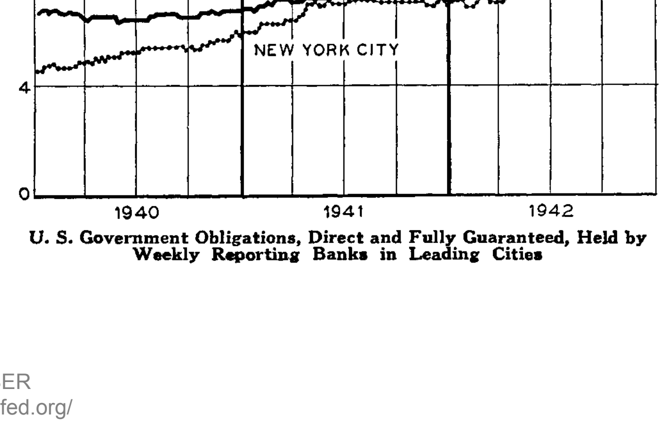
	Fiscal years ended June 30	
	1942 Actual	1943 October 3 estimates
Total war expenditures	28	78
Other expenditures	7	6
Total expenditures	35	84
Budget receipts	13	21
Borrowing from trust accounts	2	3
Borrowing from the public (net)	20	60
Total financing	35	84
Public debt, end of year (direct and guaranteed)	77	140

Note: Offsetting receipts and expenditures of trust accounts are omitted.

somewhat over $300,000,000 monthly during the preceding six months.

Member bank excess reserves were drawn against at an accelerated rate during October by expanding currency circulation which reduced reserve balances and by mounting deposits which enlarged reserve requirements. The month's increase in currency circulation apparently exceeded the September figure of $500,000,000. The expansion in deposits, resulting from increased bank purchases of Government securities, was larger than in recent months. Yet in spite of these large demands on their reserves, and their heavy purchases of new Treasury securities, member banks in the aggregate had more excess reserves at the end of the month than at the beginning.

The drafts upon excess reserves through the outflow of currency circulation and the growth of deposits were compensated for by action of the Federal Reserve System. Federal Reserve Bank purchases of Government securities were very large and the reserve requirement percentage against net demand deposits for the central reserve city banks was reduced from 22 per cent to 20 per cent, the third such reduction since August 15, 1942. As a matter of fact, excess reserves of all member banks rose temporarily from a low of $1,690,000,000 on September 30 to $2,710,000,000 on October 14, and amounted to $2,160,000,000 on the 28th. Excess reserves in New York City, which had fallen to $90,000,000 on September 30, were maintained at an average level above $500,000,000 during most of October, and excess reserves of all other



U. S. Government Obligations, Direct and Fully Guaranteed, Held by Weekly Reporting Banks in Leading Cities

member banks held generally between $1,800,000,000 and $2,200,000,000—about the same range as for some months past.

The change in the reserve requirement percentage, which was effective October 3, placed the reserve requirements of the central reserve city banks on the same basis as those of the reserve city banks. This move had the effect of transferring $335,000,000 from required reserves to excess reserves in New York and $75,000,000 in Chicago. Had it not been for the reduction in the reserve requirement percentage against their net demand deposits, reserve requirements of the central reserve New York City banks would have increased approximately $270,000,000 between September 23 and October 21. As it was, giving effect to the further adjustment in the requirement percentage against their net demand deposits, the reserve requirements of these banks showed a net decline of $85,000,000 over the four weeks' period. For all member banks reserve requirements increased about $100,000,000 net over the four weeks.

Purchases of Government securities by the Federal Reserve Banks reached a total of $830,000,000 between September 23 and October 21, much more than counterbalancing the loss of reserve funds to member banks through increased currency circulation. Treasury bill holdings of the Reserve Banks declined $93,000,000 over the four weeks, as banks enjoying improved reserve positions reacquired bills which had been sold to Reserve Banks under repurchase agreement, but substantial purchases were made by the Reserve Banks of Treasury bonds, notes, and certificates of indebtedness as the System Open Market Account undertook to absorb securities from individual banks adjusting their reserve positions and other offerings of securities which did not find ready markets elsewhere.

Discount Rate Changes

Between October 15 and 30, all of the Federal Reserve Banks established discount rates of ½ per cent for advances to member banks secured by Government obligations callable or maturing within one year. The change in the discount rate schedule of this bank was made effective October 30. Until these changes were initiated, the discount rates charged member banks on advances (except those under Section 10b of the Federal Reserve Act) had been 1 per cent for all the Reserve Banks.

One objective of the low rate on advances secured by short term Government obligations, is to promote wider distribution of such securities among all groups of banks throughout the country. Like the buying rate and repurchase facilities that have been arranged by the Reserve System for Treasury bills, it creates a means whereby individual banks can participate more freely in new offerings of short term Government obligations and utilize more fully their available reserve funds, with assurance that if, subsequently, additional reserves are needed, the banks can obtain them at low cost. A member bank can purchase short term Government securities and continue to hold them through any period of temporary strain upon its reserve position, borrowing the amount of reserves needed from the Reserve Bank at ½ per cent.

Establishment of the differential rate has the effect of placing the discount rate schedules in closer harmony with the current interest rate structure. At the present time yields on short term Government securities range between 3/8 per cent on Treasury bills and 7/8 per cent on one-year certificates of indebtedness. Yields on Treasury notes or bonds nearing maturity are correspondingly low. On the other hand, taxable Government bonds and notes callable or maturing in more than a year, and available for investment by commercial banks, range for the most part between 1 and 2 per cent.

Money Rates in New York

	Oct. 31, 1941	Sept. 30, 1942	Oct. 30, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4 to 6 months	1/2	5/8–3/4	5/8–3/4
Bills—90 days unindorsed	7/16	7/16	7/16
Average yield on taxable Treasury notes (3–5 years)	0.77	1.28	1.28
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.88	2.05	2.05
Average yield on taxable Treasury bonds (not callable within 12 years)	2.21	2.35	2.33
Average rate on latest Treasury bill sale 91 day issue	0.067	0.373	0.373
Reserve Bank discount rates			
On advances to member banks secured by Government obligations callable or maturing in one year or less	....	....	1/2
On other advances to member banks secured by Government obligations, and on rediscounts	1	1	1
Reserve Bank buying rate for 90 day indorsed bills	1/2	1/2	1/2

* Nominal

Member Bank Credit

Of the $5,800,000,000 of new money raised by the Treasury between September 23 and October 21 through the sale of public marketable issues, weekly reporting member banks in New York City absorbed $1,065,000,000, while reporting banks in 100 other leading cities took $1,380,000,000. Holdings of Government securities by New York City banks increased during these four weeks $794,000,000 for Treasury notes, $234,000,000 for Treasury bonds, and $213,000,000 for Treasury bills. On the other hand, these banks made net sales of $47,000,000 of certificates of indebtedness, and their holdings of guaranteed obligations decreased by $129,000,000. The latter decline represents primarily the redemption of 7/8 per cent R.F.C. notes on October 15. In addition, reporting New York banks reduced their holdings of other securities by $79,000,000.

In the 100 cities outside New York the reporting member banks added to their Government securities portfolios $1,071,000,000 of Treasury notes, $308,000,000 of Treasury bonds, and $68,000,000 of Treasury bills. Outside New York the reporting banks sold only $4,000,000 of certificates of indebtedness, and holdings of guaranteed issues were reduced by $65,000,000. The decline in other securities was relatively small, $14,000,000.

During the four weeks between September 23 and October 21 total loans of reporting New York City banks rose $69,000,000, while in the 100 other cities there was a decline of $54,000,000. In New York the most important factors in the expansion of loans were a $57,000,000 increase in commercial, industrial, and agricultural loans and a net rise of $23,000,000 in loans to brokers and dealers in securities. Outside New York City commercial, industrial, and agricultural loans showed a small increase amounting to $9,000,000, but there were declines of $31,000,000 in the "all other" loan classification and $19,000,000 in holdings of open market paper.

Accompanying the marked expansion in total loans and investments, total deposits of the weekly reporting banks in 101 cities rose $2,627,000,000 over the four weeks' period. Most of this increase was accounted for by a rise of $1,979,000,000 in U. S. Government deposits, reflecting extensive use of the book credit method of payment for new Government security issues. In New York, Government deposits of the reporting member banks rose $1,116,000,000 and in 100 other cities the increase amounted to $863,000,000. Adjusted demand deposits rose $129,000,000 in the New York City banks and $495,000,000 in other reporting banks.

War Financing

During October, net borrowings of the Federal Government from the public (including banks and nongovernmental corporations and institutions) came to approximately $6,000,000,000 as compared with an average of around $4,500,000,000 in each of the three preceding months. The main feature of the October financing was the offering of about $4,000,000,000 of 2 per cent bonds of 1950-52 and 1 1/2 per cent notes maturing December 15, 1946. Additional amounts were obtained from a further increase in the outstanding volume of Treasury bills, as well as from continued sales of War Savings bonds and tax anticipation notes. The distribution of this borrowing was as follows:

$2,140,000,000—1 1/2 per cent Treasury notes
1,961,000,000—2 per cent Treasury bonds
850,000,000—War Savings bonds (estimated)
700,000,000—tax anticipation notes (estimated net receipts)
500,000,000—Treasury bills (net receipts)

The Treasury note and bond issues were offered for cash subscription on October 8 with subscription books remaining open for two days. In contrast with the previous simultaneous offering of two issues in September, the amount to be raised from each issue was not fixed in advance. Instead, the proportion was determined by the relative amount of subscriptions received for the two issues. Another new feature of this financing was the provision that allotments in full would be made to subscribers other than banks which accept demand deposits, so as to insure the placing of a maximum amount of these securities outside the commercial banks. According to an announcement by Secretary Morgenthau on October 12, about 25 per cent of the $4,100,000,000 total subscriptions received for the two issues came from sources other than banks which accept demand deposits.

The 1 1/2 per cent Treasury notes due December 15, 1946 constituted an additional offering of the notes originally issued on June 5, 1942 in exchange for $1,119,000,000 of H.O.L.C. and R.F.C. obligations. Subscriptions, which were allotted in full, totaled $2,140,000,000. Allotments to subscribers in the Second Federal Reserve District ($863,000,000) amounted to 40 per cent of the total, compared with 37 per cent on the September note issue.

The new 2 per cent Treasury bonds were dated October 19, 1942 and mature March 15, 1952, but are callable on and after March 15, 1950. Subscriptions to the bond issue, which were also allotted in full, totaled $1,961,000,000. Allotments to subscribers in this District ($876,000,000) amounted to 45 per cent of the total, compared with 40 per cent on the July issue of 2 per cent bonds of 1949-51.

On the basis of the Treasury Daily Statement for October 26, it would appear that receipts by the Treasury from sales of War Savings bonds approximated $850,000,000 in October, as compared with $755,000,000 in September. Included in the total for this month, however, are receipts from the large volume of sales made on the last days of September. Actual sales during October, therefore, were somewhat below the $838,000,000 sales reported in September, but apparently approximated the $775,000,000 quota for the month. Sales of War Savings bonds by agencies other than post offices in the Second Federal Reserve District during October were estimated at $130,000,000, as compared with $140,000,000 in September and $115,000,000 in August. The decline from September was accounted for by some falling off in sales of Series F and G Bonds; sales of Series E bonds were maintained near the September level which was the highest, with the exception of January, 1942, so far recorded.

About $500,000,000 in "new money" was raised from the sale of Treasury bills during October. On October 21 and 28 the weekly bill issues amounted to $500,000,000, as contrasted with weekly maturities of $350,000,000. In each of the two previous weeks, $400,000,000 Treasury bills were offered and $300,000,000 matured. Sales of tax anticipation notes, which are estimated at $700,000,000 to $800,000,000 for the month, provided net receipts of a somewhat smaller amount after deducting notes presented in payment of taxes. In September, when two new series of tax notes were offered in place of the earlier ones, sales totaled $929,000,000, second only to the figure of $1,037,000,000 in August, 1941 when the original tax notes were first placed on sale. During May-August, 1942 sales of tax notes averaged about $400,000,000 monthly.

On October 26 the Treasury announced the offering of $2,000,000,000, or thereabouts, of 7/8 per cent certificates of indebtedness to be dated November 2, 1942 and to mature November 1, 1943. About $500,000,000 of "new money" will be raised from this financing after providing for the redemption of $1,500,000,000 certificates maturing November 1. As in the case of the Treasury bond and note issues offered on October 8, subscriptions from all subscribers other than banks which accept demand deposits will be allotted in full.

Security Markets

The Government security market continued generally steady during October despite the offering of an additional $4,000,000,000 of Treasury securities. The easing of reserve requirements through a further reduction on October 3 from 22 to 20 per cent in the percentage to be maintained against net demand deposits of the central reserve city member banks, together with purchases of Government securities by the Federal Reserve Banks, contributed to price stability. The new bonds were quoted around par on initial trading and the price has subsequently held steady. The bid quotations on the previously outstanding 1½ per cent notes due December 15, 1946, which had ranged slightly above par before the announcement of the additional offering, dropped to par thereafter and remained at that level during the rest of the month.

Prices of the fully taxable long term Treasury bonds advanced somewhat during October and the average yield on these securities declined from 2.35 per cent to 2.32 per cent on October 20, the lowest since June. Little change occurred in the prices of either the partially tax exempt long term bonds, the intermediate issues, or the three to five year taxable notes. Among the certificates of indebtedness, the yields for the 7/8 per cent issue due August 1, 1943 declined 0.06 per cent to 0.73 per cent bid, while the 5/8 per cent issue due February 1, 1943 declined 0.09 per cent to 0.43 per cent bid. The Treasury bill rate continued close to the 3/8 per cent buying rate of the Federal Reserve Banks.

Municipal bond prices have continued into new high ground since the country entered the war. The average yield on prime municipal bonds computed by Standard and Poor's Corporation declined to 2.20 per cent on October 28. Prices of domestic corporate bonds continued the firming tendency apparent in recent months, the rise during the month being largely concentrated among the medium and lower grade railroad obligations.

Accompanied by the highest rate of activity this year, stock prices advanced for the sixth consecutive month to new high levels since last November. The gain through October 26, amounting to 7 per cent according to Standard and Poor's 90 stock index, reflected in part relief from uncertainty with regard to the tax bill. In the next three days, however, prices declined 2 per cent accompanying news of the developing battle in the Solomon Islands. The sharpest gains for the month as a whole occurred in utility shares which were influenced by the provision in the tax law allowing preferred dividends to be deducted before computing the surtax.

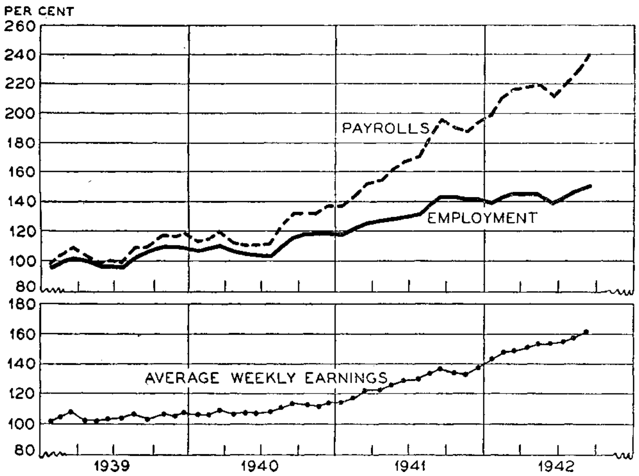
New Security Issues

The volume of corporate and municipal new security financing during October remained at the low level of recent months, with a total of about $76,000,000 publicly offered or privately sold. This preliminary total may be increased somewhat by additional private sales of corporate security issues announced after the close of the month. Corporate financing amounted to $44,000,000, practically all of which was for refunding purposes. Municipal awards during the month aggregated about $32,000,000.

The principal corporate offerings included in the monthly total were $30,200,000 Long Island Lighting Company first mortgage 3¼ per cent bonds due in 1972, sold privately to a group of insurance companies, and $9,500,000 Alabama Great Southern Railroad Company first mortgage 3¼ per cent bonds due in 1967, offered publicly at 99¾ to yield 3.26 per cent. Proceeds from the sale of these issues were to be used to refund outstanding bonds. Municipal financing during the month included $21,100,000 serial bonds of twelve local housing authorities.

Employment and Payrolls

The total number of persons at work in the United States during September was 52,400,000, according to estimates of the Bureau of the Census. Unemployment, estimated at 1,700,000, was at the lowest level since 1929. Compared with September, 1941, agricultural employment was about unchanged while there was an increase of 2,000,000 in nonagricultural pursuits. Practically all



Employment, Payrolls, and Average Weekly Earnings in New York State Factories, Without Adjustment for Seasonal Variation (1935-1939 average=100 per cent)

of this gain was among women workers, since, owing to withdrawals for military service, the number of men employed was at about last September's level.

Employment in New York State factories increased 2½ per cent between August and September, and payroll disbursements rose 4½ per cent in the same period, according to the New York State Department of Labor. Continued expansion of forces at war plants, and large seasonal increases at canneries were the major factors contributing to the month's gains. Compared with September, 1941, manufacturing establishments in the State employed 5 per cent more workers, and paid out 23 per cent more in wages. Average weekly earnings increased 17½ per cent over the September, 1941 level.

During September employment and payrolls in New York City increased somewhat more sharply than in the State as a whole, reflecting increased activity in the city's shipbuilding, instrument, and machinery plants, as well as sizable seasonal increases in the women's dress trade. In the Upstate area contraction in employment at plants producing civilian metal and textile products partially offset gains at canneries and factories manufacturing firearms and other war goods. The Albany-Schenectady-Troy area was the only Upstate district in which net gains in employment exceeded the State-wide average.

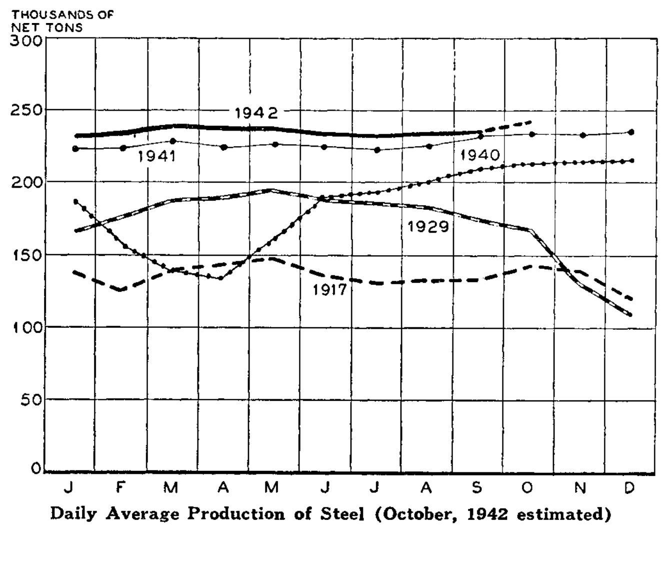
On October 3, President Roosevelt by Executive Order established an Office of Economic Stabilization, and appointed James F. Byrnes as director, charged with formulating and developing a comprehensive National economic policy designed to prevent avoidable increases in the cost of living and to help minimize labor migration. Under the terms of this order, all wage increases must be approved by the War Labor Board. The Board will attempt to stabilize wage rates at the level prevailing September 15, 1942, except in cases requiring the correction of gross inequities and the elimination of "substandards of living." The War Labor Board has tentatively approved all wage increases effective on or before October 3, has exempted individual promotions and wage increases due to merit or length of service, and has relieved firms with not more than eight employees from complying with the wage provisions of the order. On October 27, Director Byrnes issued regulations designed to hold salaries to an individual limit of $25,000 in 1943 after payment of Federal income taxes.

In his Columbus Day speech, President Roosevelt called for efficient mobilization of the nation's manpower—through legislation if necessary—by eliminating labor "pirating", by utilizing older workers, handicapped persons, and women, and by stopping workers from moving from one job to another as a matter of personal preference. The need for some such manpower mobilization is indicated by the increasingly acute labor shortages which have developed in many localities. In an effort to direct war contracts into areas in which there are labor surpluses and to withhold them from areas in which shortages exist, the War Manpower Commission classified industrial areas of the nation into three categories: (1) areas already experiencing a shortage of labor (including Buffalo, Bridgeport, and Massena in the Second Federal Reserve District), (2) areas anticipating a labor shortage (such as Binghamton, Syracuse, and northeastern New Jersey), and (3) areas with a labor surplus (New York City and Yonkers).

Production and Trade

Preliminary information now at hand indicates that the high level of industrial activity reached in September was maintained or further increased during October. Helped by the success of the nation-wide drive for the collection of household and industrial steel scrap, the steel mills stepped up operations to 101 per cent of rated capacity in the last half of the month. Production for the month as a whole was undoubtedly the greatest on record. The accompanying chart indicates how steel production during the present war has far exceeded the earlier peak years of 1917 and 1929.

The War Production Board, in a further effort to reduce nonmilitary production to a minimum, ordered a sharp reduction in the manufacture of farm machinery and revoked priority assistance for certain classes of nonmilitary construction. A survey of metal-working industries by the W.P.B. indicated that manufacture of consumers' durable goods by these plants had virtually ceased by the end of the summer; the small amount of production for civilian use was chiefly repair and replacement parts. In many plants full conversion had been achieved, and on the whole employment in factories formerly producing consumers' durable goods was above the 1941 level.



Daily Average Production of Steel (October, 1942 estimated)

	1941	1942		
	Sept.	July	August	Sept.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	110	118	120*p*	120*p*
Production	115	126	128*p*	130*p*
Producers' goods—total	126	156	160*p*	164*p*
Producers' durable goods	135	184	191*p*	197*p*
Producers' nondurable goods	118	124	126*p*	127*p*
Consumers' goods—total	101	88	88*p*	87*p*
Consumers' durable goods	96	44	38*p*	35*p*
Consumers' nondurable goods	103	103	104*p*	104*p*
Durable goods—total	123	143	146*p*	149*p*
Nondurable goods—total	109	112	113*p*	113*p*
Primary distribution	113	134	133*p*	133*p*
Distribution to consumer	100	89	93*p*	88*p*
Miscellaneous services	102	124	125*p*	124*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	108	117	118*r*	118
Wage Rates (100 = 1926 average)	125	138	140*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	62	62	71	69
Outside New York City	89	86	87	85

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

Production and Trade in September

In September, the seasonally adjusted index of production and trade computed at the Federal Reserve Bank of New York was 120 per cent of estimated long term trend, unchanged from the previous month's record level, but ten points higher than in September, 1941. Industrial production continued to increase during September, but retail trade in general did not expand as much as usual over August.

The index of producers' durable goods output, including many types of war goods rose six points more during September, while consumers' durable goods production was still further curtailed.

Retail trade, on a seasonally adjusted basis, fell off again in September after a two-month recovery from the decline that occurred during the first half of 1942. Sales of department stores and variety and grocery chain store systems did not increase as much as expected at this time of year, although mail order house sales showed approximately the usual seasonal increase.

Building

During the first nine months of 1942 the total volume of construction contract awards in New York State and Northern New Jersey was 14 per cent greater than in the corresponding period of 1941, according to the F. W. Dodge Corporation. Although the effect of the war program has not resulted in a marked increase in the total volume of construction contracts awarded in this region, in the case of manufacturing building the amount of contracts awarded for such projects during the first nine months of 1942 was more than two and one-half times the volume of the corresponding period of 1941. In addition, there has been a substantial increase in contract awards for utilities projects. Most of the expansion of industrial facilities and utilities in this region has been concentrated in Upstate New York, rather than in the Metropolitan New York City area.

In order to provide the materials needed for plant expansion, most other types of building have been sharply curtailed. In the New York State—Northern New Jersey region, a contraction in the volume of awards for residential building has offset to a large extent the increase in awards for manufacturing building. During the first nine months of the year awards for residential building were almost 50 per cent below the corresponding period in 1941. Awards for commercial building, public purpose building, and public works construction were also substantially below the first nine months of last year.

For the entire 37 States covered in the F. W. Dodge Corporation survey, the volume of construction contract awards during the first three quarters of 1942 was more than one-third greater than in the same period in 1941. Although the volume of awards for private construction during the first nine months this year was less than half as large as in the same period of 1941, awards for public projects about doubled between these two periods. Because of the need for housing workers in war industries, awards for publicly financed residential building in the 37 States had increased nearly 80 per cent, whereas awards for private residential building were only about half as large as in the first three quarters of 1941.

Commodity Prices

Following enactment on October 2 of the Brown-Wagner bill to amend the Emergency Price Control Act of 1942, and the President's Executive Order of October 3 designed to stabilize the cost of living, wholesale commodity prices in general fluctuated within relatively narrow ranges. Quotations for a number of farm products showed downward reactions during the month.

Several factors operated during October to influence declines in grain prices, including an order from the Office of Economic Stabilization limiting loans on wheat and corn to the previous rate of 85 per cent of parity and the announced program for selling the Commodity Credit Corporation holdings of wheat. The declines were accelerated by the Department of Agriculture's upward revisions in the estimates of this year's principal cereal crops; the corn crop for 1942 was placed at 3,132,000,000 bushels—a record level. Hog prices, after reaching new 22-year highs on October 8, turned downward and showed sizable net declines for the month. On the other hand, an average of quotations for steers in Chicago rose $1.00 between September 30 and October 28 to $15.46 a hundredweight—the highest level since 1928. Cotton prices were relatively stable in October.

Under the Brown-Wagner Act a number of supplemental regulations affecting commodities and services were issued during October. The Office of Price Administration placed a nation-wide ceiling on residential rents and price ceilings were established for the most important foods not previously regulated. To relieve the hardships which had developed for certain retailers and wholesalers operating under ceiling regulations at March levels, alternative pricing formulae were announced for 11 groups of food products and percentage mark-ups for 14 seasonal foods were announced. The O.P.A. increased the maximum prices that may be charged by the Rubber Reserve Company for scrap rubber. Any proposed changes in rates or charges of common carriers or other public utilities were made subject to the intervention of the Director of Economic Stabilization. Coffee was added to the list of rationed items, effective November 29.

The amendment to the Emergency Price Control Act of 1942 authorized the President to issue a general order stabilizing prices, wages, and salaries affecting living costs. This legislation and the Executive Order under it, followed a series of steps taken in this country to arrest the rising price tendencies growing out of war conditions.

Price Control in Canada and Great Britain

A brief comparison of direct methods of curbing price advances in the United States with those which have been adopted in Canada and Great Britain reveals considerable variation between the three countries. In Canada the Wartime Prices and Trade Board was established in September, 1939, with wide powers to control prices, but measures of direct price control were at first used only sparingly. On December 1, 1941, a rigid over-all price ceiling policy, covering virtually all goods sold at retail, as well as rents and essential services, went into effect. Wages and salaries were stabilized, with provision for partial adjustments to increases in living costs. In Great Britain direct price control has been selective in character, and its execution has been somewhat hampered by the country's dependence on outside sources of supply, the sharp external depreciation of the pound sterling which occurred at the beginning of the war, and increased shipping freight and insurance rates. The Ministry of Food has exercised its authority to set maximum prices for a wide range of foods, but has permitted a number of upward revisions of such maxima. The Prices of Goods Act of 1939, giving the Board of Trade power to limit non-food prices, became effective January 1, 1940 on many lower priced articles of clothing and household necessities; the list of items was broadened in June, 1940. This law was supplemented in June, 1941 by the more general Goods and Services Act, which limited profit margins for manufacturers, wholesalers, and retailers. No general wage ceiling has been imposed, but wages in many industries are tied by agreement to the cost of living index. As in the case of these direct price control measures, there have been substantial differences between the indirect methods of price regulation practiced in the United States, Canada, and Great Britain.

The rise in living costs in the three countries during the present war reflects in some measure differences in the timing and character of their price control legislation, but is also partly due to the depreciation of the British and Canadian exchange rates vis-a-vis the United States dollar at the outbreak of war. Since August, 1939 the Ministry of Labour index of the cost of living in Great Britain has risen nearly 30 per cent. As the accompanying table shows, the official indexes of living costs in Canada and the United States have increased during the same interval by 17 and 19 per cent, respectively. However, the cost of living in Great Britain has been relatively stable since June, 1941, and in Canada has shown little further rise since last November. In the United States, on the other hand, the cost of living has advanced continuously for the past year and a half, and the current level is about 7 per cent above November, 1941.

	Indexes of Living Costs August, 1942 (1935-39=100)	Percentage change August, 1942 compared with				
		Aug., 1939	June, 1940	June, 1941	Nov., 1941	May, 1942
United States (Bureau of Labor Statistics).....	117.5	+19.2	+16.9	+12.3	+ 6.6	+ 1.3
Canada (Dominion Bureau of Statistics)....	117.7	+16.8	+12.2	+ 6.5	+ 1.2	+ 1.4
Great Britain (Ministry of Labour)..........	132.2	+29.6	+11.0	+ 0.5	+ 0.5	+ 0.5

Consumer Credit

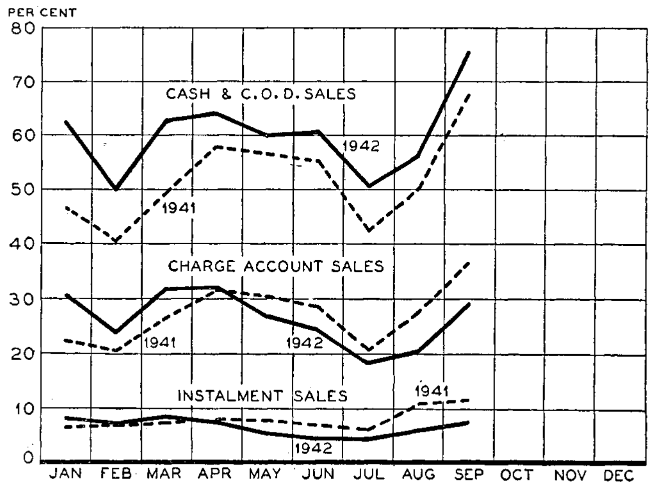
During the year ended August 31, 1942 the total volume of consumer instalment credit outstanding is estimated to have declined approximately 40 per cent. Part of this decline may be attributed to the effect of Regulation W of the Board of Governors of the Federal Reserve System, which first went into operation on September 1, 1941. Under this regulation limits were set on the amount of instalment credit which might be extended for the purchase of listed articles and rules governing the length of maturity for consumer instalment credits were established. However, probably a greater part of the decline in the volume of such credit outstanding was due to the curtailment of the production of many consumers' durable goods which are usually sold on the instalment basis. For example, retail automotive paper held by sales finance companies fell off about 60 per cent between August 31, 1941 and the end of August, 1942, and outstanding instalment credit of household appliance stores was roughly cut in half. On the other hand, personal cash loans of commercial banks declined about one fifth, and outstanding instalment credit of personal finance companies by about one eighth.

Last May Regulation W was broadened to include open book credit as well as instalment credit. These regulations stipulated that unless payment was made for charged purchases by the tenth day of the second calendar month following the purchase, no further purchases of listed items might be charged until the original account was settled or placed on an instalment basis for payment within six months.

Although regional figures are not available covering all types of consumer credit, for certain types of business it is possible to indicate the extent of the decline in consumer credit in this District on the basis of data collected by this bank from leading department and furniture stores and commercial banks in the area.

Department and Furniture Stores in the Second District

Reports received at this bank from representative groups of department and furniture stores in this District indicate that the ratio of credit sales to total sales



Cash, Open Book Credit, and Instalment Credit Sales of a Representative Group of Department Stores in the Second Federal Reserve District (The monthly average of total sales in 1941=100)

Department and Furniture Stores in the Second Federal Reserve District

Percentage Breakdown, Cash and Credit Sales

	Sept. 1941	Sept. 1942
Department stores		
Net sales—total	100	100
Cash sales	58	67
Open book credit sales	32	26
Instalment credit sales	10	7
Furniture stores		
Net sales—total	100	100
Cash sales	14	19
Credit sales*	86	81

Percentage of August 31 Accounts Collected during September

	1941	1942
Department stores		
Open accounts	40	49
Instalment accounts	20	24
Furniture stores		
Total accounts*	12	16

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

	Open book credit	Instalment credit	Total accounts receivable
Department stores	—31	—30	—30
Furniture stores	*	*	—28*

* Separate data not generally available; predominantly instalment credit.

has fallen off considerably during the past year. In the case of department stores, as the accompanying chart shows, while cash and "C.O.D." sales have been running substantially above the year earlier levels, since April and May the volumes of charge account and instalment sales have dropped considerably below the corresponding months in 1941. For both department and furniture stores the per cent of accounts outstanding at the end of August that were collected during September showed an increase between 1941 and 1942. As a result of the decline in the volume of credit sales and the faster rate of payment for such sales the total amount of accounts receivable declined 30 per cent in the case of department stores and 28 per cent for furniture stores during the year ended September 30, 1942.

Commercial Banks in the Second District

For the Second District available data on consumer instalment credit extended by commercial banks indicate that the volume of such credit outstanding declined by about one third between the end of 1941 and September 30, 1942. In this District retail automotive credit and other retail instalment credit extended by banks show the largest declines, about two fifths in each case. Loans for repair and modernization and personal cash loans showed somewhat smaller, though still substantial, declines. The accompanying table compares the volume of consumer credit outstanding for a group of member banks in this District on December 31, 1941 and September 30, 1942.

Consumer Instalment Credit Outstanding
39 Member Banks in the Second District

	(In thousands of dollars)		Percentage change
	December 31, 1941	September 30, 1942	
Retail automotive	40,178	23,956	—40
Other retail	72,198	41,688	—42
Repair and modernization	39,428	28,034	—29
Personal cash loan	68,847	51,960	—25
Total	220,651	145,638	—34

Department Store Trade

During September, department store sales in this District, while advancing considerably over August, failed to show all of their usual seasonal rise. Estimates based on the first three weeks of October, however, indicate an increase in sales of about the usual magnitude between September and October.

Sales during September were about 5 per cent lower than in September, 1941, when retail trade was running at an unusually high level in anticipation of the Federal excise taxes effective on October 1, 1941. Compared with September, 1940 sales this year were about 14 per cent higher.

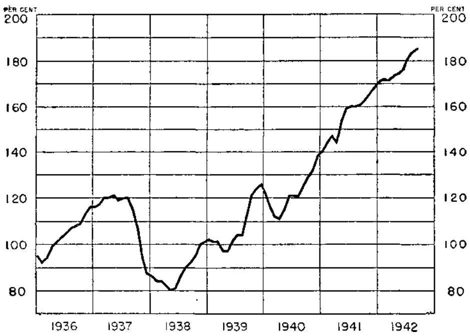
The increase over a year ago in department store stocks continued to narrow during September, when stocks on hand at the end of the month were 39 per cent higher than on September 30, 1941, compared with a year-to-year increase of 59 per cent at the end of August, and 82 per cent at the end of July. This bank's seasonally adjusted index of department store stocks in this District declined 9 points between August and September. Returns from a limited number of department stores in this District indicate that at the end of September outstanding orders for merchandise purchased by the stores, but not yet delivered, were about 29 per cent below September, 1941, but about 47 per cent higher than in September, 1940.

Department stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand, Sept. 30, 1942
	September, 1942	Jan. through Sept., 1942	
New York City	— 8	+ 4	+44
Northern New Jersey	— 7	+ 3	+38
Newark	— 5	+ 5	+40
Westchester and Fairfield Counties	+ 9	+11	+18
Bridgeport	+13	+13	+21
Lower Hudson River Valley	0	+ 2	+16
Poughkeepsie	+ 1	+ 6	—
Upper Hudson River Valley	— 9	— 3	+10
Albany	—16	— 9	—
Central New York State	+ 7	+10	+27
Mohawk River Valley	+19	+23	+69
Syracuse	+ 4	+ 6	+17
Northern New York State	— 2	— 6	—
Southern New York State	+ 7	+ 8	+29
Binghamton	+ 4	+ 5	—
Elmira	+ 8	+12	—
Western New York State	+ 6	+11	+30
Buffalo	+ 3	+12	+27
Niagara Falls	+38	+34	+21
Rochester	+ 7	+ 8	+35
All department stores	— 5	+ 5	+39
Apparel stores	—13	+ 5	+17

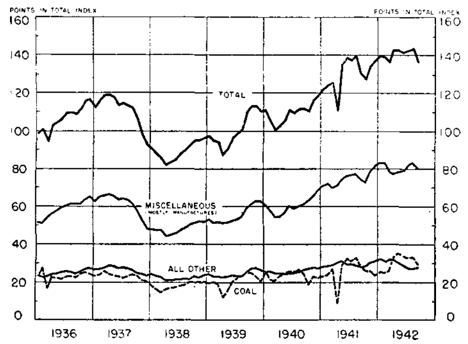
Indexes of Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average=100)

	1941	1942		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted	125	81	93	120
Sales (average daily), seasonally adjusted	116*r*	114	123	112
Stocks, unadjusted	113	156	162	161
Stocks, seasonally adjusted *r*	108	168	165	156

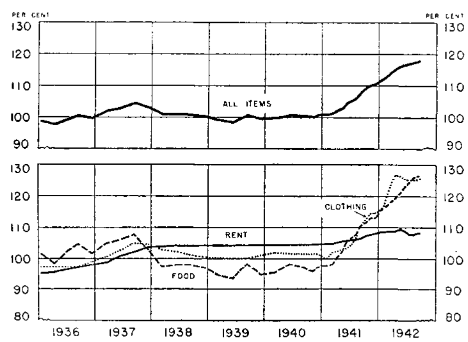
r Revised.



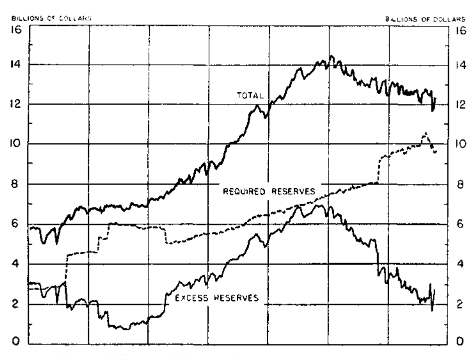
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



U. S. Bureau of Labor Statistics Indexes of the Cost of Living (1935-39 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 October 14)

General Business and Financial Conditions

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

INDUSTRIAL activity expanded further in September and the first half of October. Prices of uncontrolled commodities continued to advance in September. Early in October an Office of Economic Stabilization was established with a view to more effective control of prices and wages affecting the cost of living.

Production

Industrial production increased more than seasonally in September and the Board's adjusted index rose 2 points to 185 per cent of the 1935-1939 average. Armament production continued to advance. Steel production was maintained at a high level during September and then increased during October, reaching 101 per cent of rated capacity in the third week of the month. Cotton consumption continued at a high rate and output of manufactured food products rose more than seasonally owing chiefly to increased activity in the meat packing and canning industries. Coal production, which had been maintained in large volume during the summer months, did not show the usual sharp seasonal rise in September and the first half of October. Output of crude petroleum showed little change following a considerable increase in August.

Value of construction contracts awarded in September was about the same as in August, according to reports of the F. W. Dodge Corporation. As in other recent months, awards were mainly for publicly-financed work which, in September, amounted to over 90 per cent of the total.

Contracts for manufacturing buildings reached the highest total yet reported, and increased awards for defense housing raised the total for residential building by about one fourth despite a decline in privately-financed work. Awards for public works and utilities and for commercial buildings dropped substantially.

Distribution

Department store sales, which had been unusually large in August, showed somewhat less than the usual sharp seasonal rise during September. In the first half of October sales were sustained near the high level prevailing at the beginning of the month. Variety store sales increased seasonally from August to September, while sales in small towns and rural areas rose by more than the usual seasonal amount.

Railroad freight car loadings increased further in September and the first half of October. The rise was small for this time of year, however, owing mainly to the fact that shipments of many commodities, particularly coal, had been maintained at unusually high levels during the summer months.

Commodity Prices

Prices of uncontrolled commodities advanced further in September. During the first half of October, after passage of an amendment to the Price Control Act of 1942, more widespread controls were announced. Maximum prices at the highest levels reached around the end of September were established for butter, cheese, eggs, and various other foods. These items constitute nearly one third of the food budget and now the proportion of the total under control is about 90 per cent. Another action directed residential rents throughout the country to be limited to the levels of March 1, 1942, wherever rent control procedures were not already in effect.

Agriculture

The October 1 official crop report confirmed earlier prospects that unusually heavy crop yields were in sight. The Department of Agriculture pointed out, however, that, as the harvest progresses under difficulties, particularly as to labor supply, farmers are showing less assurance that it can be completed in season. Record crops of grain, hay, oilseeds, sugar, vegetables, and probably fruits are still likely.

Bank Credit

Following a temporary peak of 3 billion dollars in mid-September, excess reserves of member banks declined to 1.7 billion dollars in the latter half of September but increased considerably in the first three weeks of October. This increase resulted in part from the action of the Board of Governors of the Federal Reserve System in reducing reserve requirements on demand deposits at central reserve city banks from 22 to 20 per cent, which added about 400 million dollars to excess reserves. In addition member bank reserves were increased through purchases of Government securities by the Federal Reserve Banks. As a result of these developments excess reserves of all member banks on October 21 amounted to 2.4 billion dollars, of which about 500 million dollars were in New York City.

At reporting banks in leading cities heavy purchases of new Treasury certificates of indebtedness and Treasury notes were reflected in an increase of 1.6 billion dollars in Government security holdings during the four weeks ended October 14. Further large increases occurred in the following week as banks received their allotments of the new 1½ per cent notes and 2 per cent bonds. Commercial loans, after declining in August and September, increased in the first two weeks of October, mainly in New York City, while other loans declined further.

United States Government Security Prices

Prices of United States Government securities continued steady last month. Long term taxable bonds are yielding 2.33 per cent on the average and long term partially tax exempt bonds are yielding 2.05 per cent.