Second Federal Reserve District

Federal Reserve Bank, New York — December 1, 1942

MONTHLY REVIEW
of Credit and Business Conditions

Money Market in November

War finance and banking were keyed to the expanded war effort in November, with the announcement by the Secretary of the Treasury of a drive for the sale of $9,000,000,000 of Government war obligations, during December. This amount, together with tax revenues and receipts during January from the sale of Tax Savings notes, War Savings bonds, and Treasury bills, will serve to cover Government expenditures for both December and January. Consequently, no further large-scale Treasury financing will be necessary until February.

Three issues of new securities are being offered under the December program: 2½ per cent bonds maturing in 1968 and callable on and after December 15, 1963 (not available to commercial banks for ten years); 1¾ per cent bonds due in 1948; and ⅞ per cent one-year certificates of indebtedness. As in the case of the two previous limited "tap" offerings of 2½ per cent bonds, in May and August, subscription books will be open on these issues for extended periods so far as non-banking investors are concerned. The Victory Fund Committees, with their large groups of volunteer workers drawn largely from the securities and banking fields, will carry on an intensive sales campaign on all three offerings, as well as Savings bonds of Series F and G, and Tax Savings notes of Series A and C. Thus they will be able to offer a well diversified assortment of Government securities, to meet various needs of various types of investors.

Primary emphasis is placed upon the sale of war obligations to investors other than commercial banks—individuals, trust funds, corporations, insurance companies, savings institutions, public bodies, etc.— to the maximum possible extent. There are no restrictions upon the amounts of the new securities which may be purchased by these classes of investors during the periods for which the subscription books are kept open. The widest possible participation by individuals and organizations of all kinds is sought. It is by maximum purchases of Government securities out of current income and accumulated funds that the necessity for bank financing of war expenditures can be held at a minimum and the attendant danger of an excessive expansion in bank deposits and in the aggregate money supply can be avoided. It is in the common interest of all to see that funds spent by the Government in the prosecution of the war represent funds previously drawn out of the pool of consumer spending power and do not involve net additions to it, especially in view of the diminishing supplies of goods available to consumers because of the diversion of productive facilities and supplies to war purposes. By increasing their savings and investing them in Government securities, consumers can not only make a personal contribution to the war effort, and reduce the danger of inflationary pressure on prices, but at the same time make financial provision for themselves and their dependents against the day of readjustment to peace-time conditions. Reduced spending now will provide money to spend when the war is over and a larger volume of consumer goods is again available.

While the sales campaign will be aimed primarily at obtaining subscriptions from investors other than commercial banks, the banks also are being called upon to

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play their part. The Secretary of the Treasury has announced that offerings of the 1¾ per cent bonds and the ⅞ per cent certificates of indebtedness, in the amount of $2,000,000,000 each, will be made to commercial banks as a part of the December program. In the case of bank subscriptions, the books will be kept open only for a brief period, and subscriptions in excess of $100,000 will be allotted on a pro rata basis. In addition to making payments for their own subscriptions, the banks will also have to be prepared to meet the payments drawn on them for subscriptions by their customers. While the payments will be spread out to some extent during the month of December, and the banks will not be called upon to meet payments for the entire $9,000,000,000 or more of securities on a single date, the operation is of such magnitude that it will be necessary for the banks to consider carefully the methods by which they are to make the payments. On November 20 this bank issued a circular to all banks in the District calling their attention to the advantages of qualifying as special depositaries of the Government, so that they will be able to make payments for their own subscriptions and for those of their customers by crediting a "War Loan Deposit Account" on their books to whatever extent seems necessary or desirable, instead of making cash payments in full.

Use of War Loan Deposit Accounts

Use of the book credit method of payment for new issues of Government securities provides an effective mechanism for smoothing the impact of Government financial operations upon the banks. To the extent that the book credit method of payment is utilized—in connection either with customers' subscriptions or subscriptions for banks' own portfolio—bank reserves are not immediately affected by payments for new Government security issues. As the calls for repayment of the War Loan deposits are issued, banks tend to lose reserve funds, but, inasmuch as the calls are made to provide the Government with money to meet expenses, there is a compensating volume of Government checks being deposited with banks. It is true that War Loan account withdrawals and receipts of Government checks may not balance up closely in the case of particular banking institutions, but for the banks taken as a whole, except when Treasury deposits with the Federal Reserve Banks are temporarily increasing or decreasing, the return flow of funds to the banks from the Treasury is equal to the flow of funds to the Treasury.

By making adequate use of this procedure, the banks can prevent the concentration of two months' Treasury financing in one from causing any unusual disturbances to their reserve positions. Immediate cash payments for the securities issued in December can be limited to the amounts the banks are readily prepared to make, and these funds, together with Treasury receipts from quarterly income tax collections, undoubtedly will be paid out rapidly by the Government. Treasury withdrawals of deposits credited to War Loan accounts in payment for securities sold in December will be made only as the funds are needed to meet Government disbursements. Moreover, means are available through the Federal Reserve System for meeting any temporary periods of strain upon bank reserves that may occur during the course of the month. Aside from the fact that many banks have excess reserves which may be drawn against, the System has been contributing heavily to the maintenance of bank reserves through open market operations, and in addition the Reserve Banks stand ready to assist member banks in meeting any needs for reserves which may arise, by purchasing Treasury bills at a fixed rate and by making advances to them at low rates of interest.

Financing of War Expenditures in November

During November there was an absence of major new security offerings by the Government. Beyond funds made available through revenue receipts, the Treasury's heavy cash requirements were largely met by withdrawals from War Loan deposit accounts, by receipts from current sales of War Savings bonds and Tax Savings notes, by net receipts from weekly Treasury bill offerings, and by the net proceeds of the Treasury certificate sale on November 2.

The Government's War Loan deposits in the banks, which had been built up to a level in excess of $3,800,000,000 during the third week of October, as a result of book credit payments on the Treasury note and bond issues sold during October, amounted to approximately $3,400,000,000 at the beginning of November. The ⅞ per cent one-year certificates of indebtedness, which had been offered late in October, yielded the Treasury, on November 2, $530,000,000 in excess of the amount needed to pay off the maturing issue of ½ per cent certificates. Thus, the necessity for issuing calls against the War Loan account deposits was obviated during the first few days of the month. Between November 5 and November 23, however, withdrawals from War Loan deposit accounts provided the major part of the Treasury's cash requirements; calls for repayment reached an aggregate of $2,125,000,000. The four weekly offerings of Treasury bills, in the amount of $500,000,000 each, provided an aggregate of $600,000,000 above the amounts needed to pay off maturing issues. Sales of Savings bonds and Tax notes supplemented these sources of Treasury receipts, especially toward the end of the month.

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Member Bank Excess Reserves

Between October 21 and November 25, excess reserves of all member banks showed a net increase, and in central reserve New York City banks were maintained in substantial volume. The outflow of funds from New York to other parts of the country, in considerably diminished volume as compared with the previous month, was more than counterbalanced by further heavy Reserve Bank purchases of Government securities, and excess reserves at these banks amounted to $550,000,000 on November 25 as compared with $520,000,000 on October 21. For all member banks, excess reserves advanced from $2,350,000,000 on October 21 to $2,520,000,000 on November 25. The increase in currency circulation throughout the country amounted to $650,000,000 over the five weeks, drawing down member bank reserve balances correspondingly, and reserve requirements for all member banks advanced $270,000,000. These factors tending to reduce excess reserves were, however, more than compensated for by a reduction in Treasury deposits with the Federal Reserve Banks and by Reserve Bank purchases of Government securities. Government security holdings of the twelve Federal Reserve Banks showed a net increase of $618,000,000 over the five weeks, through enlarged holdings of Treasury notes, bonds, and certificates of indebtedness. On the other hand, Treasury bill holdings were reduced by $104,000,000, principally as a result of resales to banks of bills which had been purchased from them by the Reserve Banks under resale agreements.

Money Rates in New York

	Nov. 29, 1941	Oct. 31, 1942	Nov. 28, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½	⅝–¾	⅝–¾
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on taxable Treasury notes (3-5 years)	0.94	1.28	1.28
Average yield on tax exempt Treasury bonds (not callable within 12 years)	1.92	2.05	2.09
Average yield on taxable Treasury bonds (not callable within 12 years)	2.24	2.33	2.36
Average rate on latest Treasury bill sale 91 day issue	0.267	0.373	0.370
Reserve Bank discount rates:			
On advances to member banks secured by Government obligations callable or maturing in one year or less	...	½	½
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	½	½	½

* Nominal.

Member Bank Credit

Compared with other recent periods, the $191,000,000 increase in total loans and investments of the weekly reporting member banks in 101 cities during the four weeks ended November 18 was relatively small. This was due primarily to the fact that during the period the Treasury raised only $1,100,000,000 of new money through the sale of public marketable issues and, as a result, member banks added relatively fewer Government securities to their investment portfolios than had been the case in most recent months. In the 100 cities outside New York total loans and investments of the reporting member banks rose $212,000,000, while in New York City they declined $21,000,000.

In New York City holdings of Government securities of the weekly reporting member banks rose $181,000,000. This was accounted for by an increase of $166,000,000 in certificates of indebtedness, comprising primarily purchases of the November 2 issue, and a $346,000,000 increase in Treasury bills, which amounted to over half the $600,000,000 increase in total bills outstanding. Offsetting these increases, New York City banks reduced their holdings of Treasury notes by $245,000,000, and over the same period sold $83,000,000 of Treasury bonds. In addition, there was a sharp decline of $101,000,000 in their holdings of other securities, chiefly municipal and local housing authority obligations. Outside New York, reporting member banks added $311,000,000 to their holdings of Government securities; their portfolios of certificates of indebtedness rose by $218,000,000 and Treasury bills by $151,000,000. On the other hand, holdings of Treasury notes and bonds declined $28,000,000 and $33,000,000, respectively. Other securities declined $31,000,000.

During the four weeks, October 21 to November 18, total loans of the New York City banks were reduced by $101,000,000. There was a net contraction of $39,000,000 in the volume of commercial, industrial, and agricultural loans and of $47,000,000 in loans to security brokers and dealers. In the 100 cities outside New York the reduction in loans amounted to $68,000,000. The largest declines were $19,000,000 in commercial, industrial, and agricultural loans and $25,000,000 in the "all other" loan classification which includes consumer credit.

U. S. Government deposits at the reporting member banks, which had been built up $1,979,000,000 to $3,103,000,000 during the preceding four weeks' period, were sharply reduced during the four weeks ended November 18. In New York City such deposits declined $714,000,000, and in the 100 other cities $689,000,000. During the same period adjusted demand deposits rose $485,000,000 in New York City and $782,000,000 in the 100 other cities.

War Financing

In contrast to the four to six billion dollar totals of other recent months, net public borrowings of the Treas-

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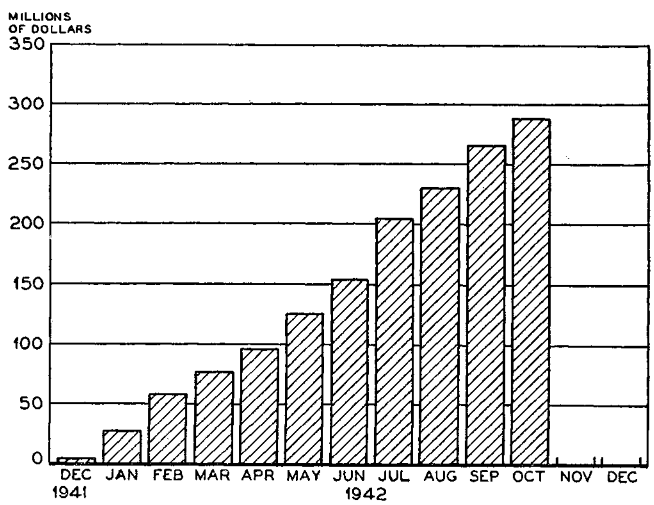
ury in November amounted to only about $2,600,000,000. Government expenditures were met to a large extent by drawing down balances accumulated from securities sold during October. The distribution of November borrowing was as follows:

$700,000,000—War Savings bonds (estimated)
800,000,000—Tax Savings notes (estimated net receipts)
600,000,000—Treasury bills (net receipts)
530,000,000—⅞ per cent certificates of indebtedness (net)

It was estimated, on the basis of the Daily Treasury Statement for November 27, that the Treasury received somewhat more than $700,000,000 from the sale of War Savings bonds during November; this compared with a quota for the month of $800,000,000 and with sales for October reported at $814,000,000. In the Second Federal Reserve District, an estimated $110,000,000 of War Savings bonds were sold during November by agencies other than post offices; during the previous month these sales totaled $125,000,000. Decreased sales, other than under the payroll deduction plan, of the Series E bonds apparently accounted for the major part of this month-to-month decline in the District total.

Irregular fluctuations from one month to another in sales of War Savings bonds principally reflect changes in the volume of sales on single subscriptions. These fluctuations conceal a remarkably steady rise in the amounts sold under the payroll deduction plan. As shown in the accompanying diagram, the monthly total of deductions from salaries and wages for the purchase of War Savings bonds had increased from $5,000,000 last December to $287,000,000 in October. The October figure represented nearly 8 per cent of the pay of the more than 21,000,000 workers participating in these payroll allotment plans. As a part of the December financing program, discussed earlier in this Review, the War Savings staff will intensify its drive during the coming month to add more workers to those already covered.



Aggregate Dollar Amount Deducted for Purchases of War Savings Bonds Under Payroll Savings Plans, as Reported by U. S. Treasury

About $600,000,000 in "new money" was raised from the sale of Treasury bills during November as new issues of $500,000,000 weekly replaced maturities of $350,000,000. Sales of Tax Savings notes are estimated at about $800,000,000 for the month, as compared with slightly over $920,000,000 in each of the two preceding months and about $400,000,000 monthly during May-August. Except during the quarterly tax months, these sales have usually been offset to only a relatively small degree by redemptions in payment of taxes or for cash.

The ⅞ per cent certificates of indebtedness due November 1, 1943 were offered in the amount of approximately $2,000,000,000 on October 26, but payment was not made until the date of issue on November 2. Of the $2,035,000,000 raised from this financing, about $1,500,000,000 provided for the redemption on November 2 of maturing ½ per cent certificates. Subscriptions to the new issue totaled $3,105,000,000, of which $1,616,000,000 were entered in the Second Federal Reserve District. 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 (totaling $667,000,000) were allotted in full. Subscriptions of $25,000 or less from commercial banks (amounting to $64,000,000) were also allotted in full, while the remaining bank subscriptions were allotted on a 55 per cent basis. Allotments in the Second Federal Reserve District ($1,096,000,000) amounted to 54 per cent of the total for the country as compared with 40 per cent on the September certificate issue.

Security Markets

During most of November, as in other recent months, the Government security market on the whole was characterized by general price steadiness and light trading activity. Substantial purchases of Government securities by the Federal Reserve Banks again contributed to the stability of prices. Up to the time of the announcement on November 20 of the Treasury's December financing program, prices of Treasury bonds showed practically no movement. Thereafter some decline occurred in the premiums on the longer term Treasury bonds (callable in 1952 or later), affected by the forthcoming issue of 2½ per cent bonds of 1963-68. The shorter term Treasury bonds and Treasury notes remained fairly steady throughout the month. Yields on

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the four issues of certificates of indebtedness now outstanding tended downwards as the month progressed; the average rate at which new Treasury bill offerings were sold continued slightly below the 3/8 per cent buying rate of the Federal Reserve Banks.

Municipal bond prices, which had been rising steadily since early this year, leveled off in November. The average yield on prime municipal bonds computed by Standard and Poor's Corporation held steady at 2.20 per cent between October 21 and November 25. Prices of high grade domestic corporation bonds were generally little changed in November, following a slight firming tendency in October.

The rise in stock prices which started last May continued on through November 9, when prices, as measured by the Standard and Poor's index of 90 stocks, reached the highest point since October, 1941. This high point in prices was accompanied by the heaviest turnover for any day this year. From this high level stock prices drifted gradually lower during the rest of November and, at the end of the month, their general level was slightly lower than that at the end of October.

New Security Issues

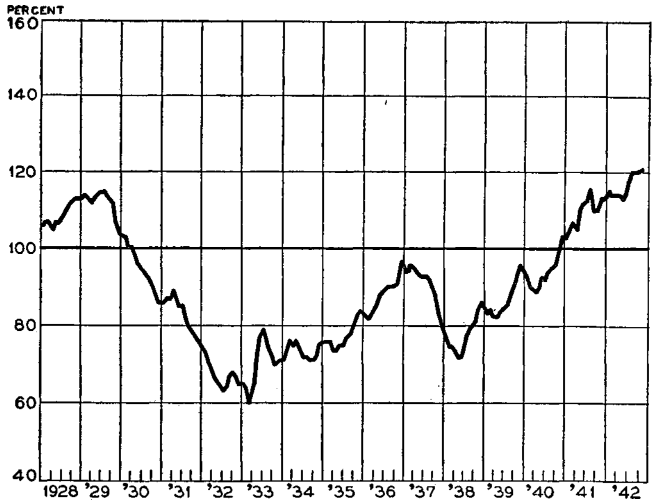
Corporate and municipal new security financing declined still further during November to about $34,000,000, a new low level for recent years. Corporate issues amounted to only $12,000,000, as compared with the low previous average of $58,000,000 for July-October. As in the preceding month, only a negligible amount of funds was raised for new capital purposes during November. Municipal awards aggregated about $22,000,000.

The bulk of the corporate total was accounted for by the private sale to institutional investors of $11,000,000 Champion Paper and Fibre Company first mortgage 3¾ per cent bonds due in 1957. The largest municipal offering was that of $4,258,000 City of Detroit refunding bonds, maturing serially from 1944 to 1956, priced to yield from 0.75 to 2.10 per cent.

Temporary financing, not included in the above totals, amounted to $62,000,000. The $55,500,000 Federal Intermediate Credit Bank 0.70 and 0.80 per cent consolidated debentures, maturing in June and September, 1943, comprised the bulk of this total.

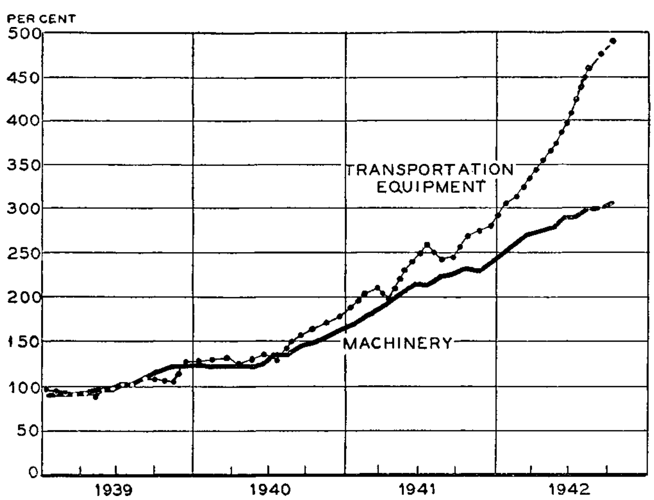
Production and Trade

Judging from preliminary data, industrial activity in November appears to have at least maintained the record level reached in October. Weekly estimates of steel production indicate that there was some reduction from the record tonnage produced in the preceding month, presumably owing to the closing down of some furnaces for repairs; nevertheless, the mills operated at nearly full rated capacity. Electric power production appears to have reached a new record level in November, the daily output of crude petroleum during the first three weeks of the month averaged about the same as in October, while the mining of bituminous coal appears to have fallen off slightly. After reaching their fall peak in October, loadings of railway freight declined somewhat in the early weeks of November.



Index of Production and Trade in the United States (Federal Reserve Bank of New York index expressed as a percentage of estimated long term trend and adjusted for seasonal variation)

Early in November the War Production Board announced a new plan—known as the Controlled Materials Plan—designed to control the flow of critical materials into war production. The present priority system, including the Production Requirements Plan, will be gradually replaced. The first materials to be allotted under the new plan are steel, copper, and aluminum.



Indexes of Production of Transportation Equipment and Machinery, Adjusted for Seasonal Variation (Board of Governors of the Federal Reserve System data; 1935-39 average=100 per cent)

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Production and Trade in October

During October the monthly index of production and trade computed at this bank rose one point to a record high of 121 per cent of estimated long term trend, as is indicated on an accompanying chart. The index stood eleven points above the level a year earlier. Industrial production moved into new high ground in October, and retail trade in general was slightly above the September level, when seasonal factors are considered.

Evidencing the mounting production of war goods, the component index of output of producers' durable goods advanced seven points further in October. The continued rise in this index has been due very largely to the increasing activity of the machinery and transportation equipment industries in which the production of war goods is so highly centered. The rapid advances which these industrial groups have made since the inauguration of

	1941	1942		
	October	August	Sept.	October
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	110	120	120p	121p
Production	116	128	128p	130p
Producers' goods—total	128	160	162p	166p
Producers' durable goods	138	191	194p	201p
Producers' nondurable goods	118	126	126p	126p
Consumers' goods—total	103	88	87p	86p
Consumers' durable goods	95	39	36p	37p
Consumers' nondurable goods	105	104	103p	102p
Durable goods—total	125	146	148p	153p
Nondurable goods—total	111	113	113p	112p
Primary distribution	116	135	137p	139p
Distribution to consumer	94	91	89p	90p
Miscellaneous services	103	129	128p	129p
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	109	118	118	119
Wage Rates (100 = 1926 average)	126	140	142p	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	69	71	69	60
Outside New York City	90	87	85	81

p Preliminary. * Adjusted for seasonal variation.

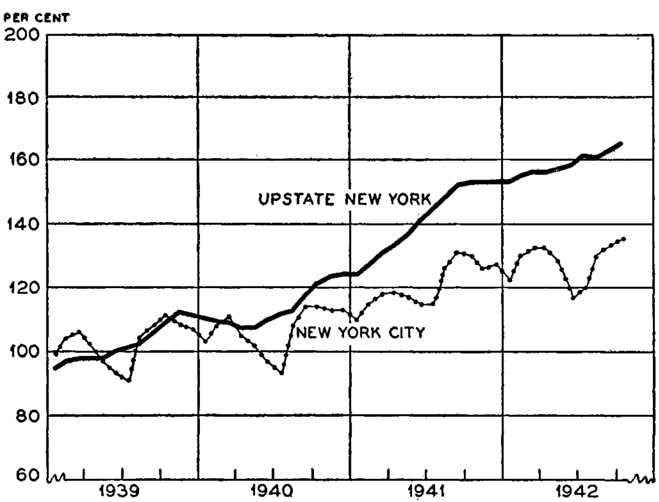
the National defense program in the summer of 1940 are shown on an accompanying chart. During October the output of producers' nondurable goods, and of consumers' goods—both durable and nondurable—was maintained at approximately the September level.

In retail trade, sales by department stores, mail order houses, and variety chain store systems, after allowance for seasonal factors, were somewhat higher in October than in September, whereas grocery chain store sales declined slightly.

Employment and Payrolls

During October continued increases in employment at New York State factories producing war goods more than offset seasonal layoffs by canneries and other food processing plants. On the whole, manufacturing working forces were 1½ per cent larger than in September. Factory payrolls in the State rose 3½ per cent in the same period. Large numbers of workers were hired during the month by shipyards and plants manufacturing aircraft, tanks, and electrical goods, but employment in most consumers' goods plants was unchanged or somewhat lower than in September. Compared with October, 1941, factory employment was 6½ per cent higher, while payrolls were 31 per cent greater, reflecting a rise of 22½ per cent in average weekly earnings during the year.

As the accompanying diagram shows, Upstate New York has benefited much more from the defense program and war production than has New York City. Although the employment gains in the Upstate region have tended to taper off in the past year, during October working forces there were 8 per cent larger than a year previous, while in New York City the year-to-year gain was only 3½ per cent. The various Upstate industrial areas are for the most part well fitted to do war work, but New York City is handicapped by the predominance of consumers' nondurable goods production, by high costs, and by the relatively small size of most plants in the city. Out of 27,200 New York City factories listed by the 1939 Census of Manufactures, 26,400 or 97 per cent employed fewer than 100 persons, and 46 per cent employed not more than five workers. As a result of these factors, New York City received only about 2 per cent of the total volume of war orders awarded up to August, 1942, although in 1939 it produced over 7 per cent of the nation's manufactures. At the present time material shortages and restrictions on production of civilian goods are seriously affecting the city's industries. According to the United States Employment Service,



Factory Employment in New York City and Upstate New York, Without Adjustment for Seasonal Variation (1935-39 average=100 per cent)

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New York City now has approximately 200,000 unemployed—a decided contrast to most other industrial areas where labor shortages either are imminent or already exist.

In the United States as a whole, the number of persons at work in October was estimated by the Bureau of the Census at 52,400,000, the same as in September, but a gain of 2,200,000 from October, 1941. The year-to-year increase was about evenly divided between agricultural and nonagricultural pursuits. Unemployment declined further to an estimated 1,600,000 persons, the lowest level in recent years. Despite large withdrawals for the armed forces, the total labor force has remained at approximately the year earlier level through the entrance into the labor force of many housewives, students, and others not normally or formerly employed. It is interesting to note that although the number of men in the total labor force was 1,400,000 less than in October, 1941, this decrease was almost entirely offset by the increasing number of women workers.

Commodity Prices

Wholesale commodity prices were relatively stable during November, although the Bureau of Labor Statistics comprehensive weekly index of prices went up slightly. This increase reflected advances in the prices of some agricultural products, particularly corn, certain permitted upward adjustments in price ceilings, and higher prices on tobacco products and alcohol, due to the addition to prevailing quotations of new Federal excise taxes. Prices for wool and hogs tended to show declines for the month. In response to the heavy seasonal marketings of this year's record pig crop, hog quotations reached the lowest levels since March.

Based on conditions as of November 1, the Department of Agriculture confirmed its earlier estimates of a record output this year for agriculture as a whole. It was indicated that the 1942 production of corn, hay, fruits, commercial vegetables, oilseed, sugar crops, livestock, poultry, milk, and eggs would be unprecedented. The 1942 cotton crop was placed at 13,329,000 bales, based on conditions as of November 1. This estimate, while 2,585,000 bales larger than last year's harvest, is about 700,000 less than the forecast of two months earlier, owing among other factors to excessive rainfall and labor shortage.

The accompanying table shows the Federal Crop Reporting Board's estimates of the 1942 output of ten major crops which in 1940 were the source of about 60 per cent of the cash agricultural income from all crops. The production of five of the ten crops is expected to be at record levels this year, while increases over the 1941 levels are indicated for all of the items. The estimate of

	1942 Production of major crops*	Year of record output (through 1941)	Percentage change 1942 production compared with	
			1941 Production	Production in record year
Cotton (1,000 bales of 500 lbs.)	13,329	1937	+24.1	−29.6
Tobacco (1,000,000 lbs.)	1,436	1939	+13.9	−23.4
Potatoes (1,000,000 bu.)	380	1928	+ 6.1	− 9.5
Oats (1,000,000 bu.)	1,370	1920	+16.5	− 5.1
Wheat (1,000,000 bu.)	984	1915	+ 4.0	− 2.5
Corn (1,000,000 bu.)	3,185	1920	+19.2	+ 3.7
Sugar beets (1,000 tons)	12,784	1940	+24.0	+ 4.0
Hay, tame (1,000,000 tons)	92	1940	+12.2	+ 8.2
Peanuts (1,000,000 lbs.)	2,811	1940	+90.3	+60.6
Soybeans (1,000,000 bu.)	210	1941	+96.3	+96.3

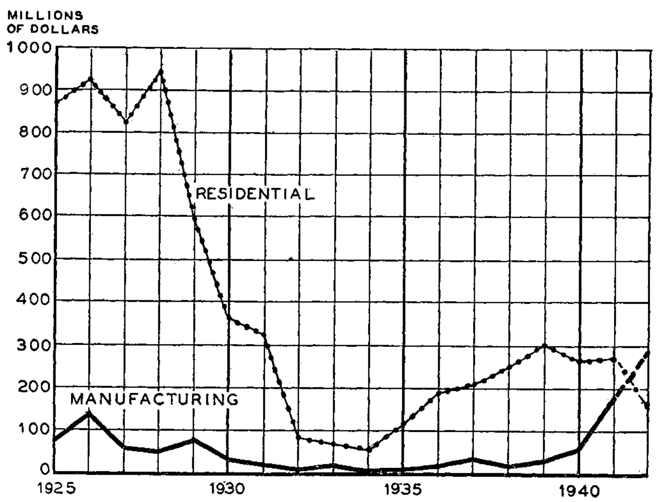
* Preliminary estimates based on conditions as of November 1; U. S. Department of Agriculture.

this year's crop of soybeans and peanuts, the production of which has been stimulated sharply as sources of vegetable oils, is nearly twice as large as in 1941.

The average living costs of wage earners and lower salaried workers in urban centers rose 1 per cent further between September 15 and October 15, according to the Bureau of Labor Statistics index. This increase was due largely to advances in retail food prices which occurred late in September and early in October, prior to the action of the Office of Price Administration bringing under control an additional 30 per cent of family food expenditures. Retail prices of foods under control before September 1 advanced only fractionally between mid-September and mid-October, while those placed under control on October 5, as well as the remaining items not under regulation, increased nearly 6 per cent in this period.

Building

In New York and Northern New Jersey the volume of contracts awarded for factory construction during the first ten months of the year was almost one-fifth greater than for the whole of 1941, according to the reports of



Annual Value of Construction Contract Awards in New York State and Northern New Jersey (F. W. Dodge Corporation data)

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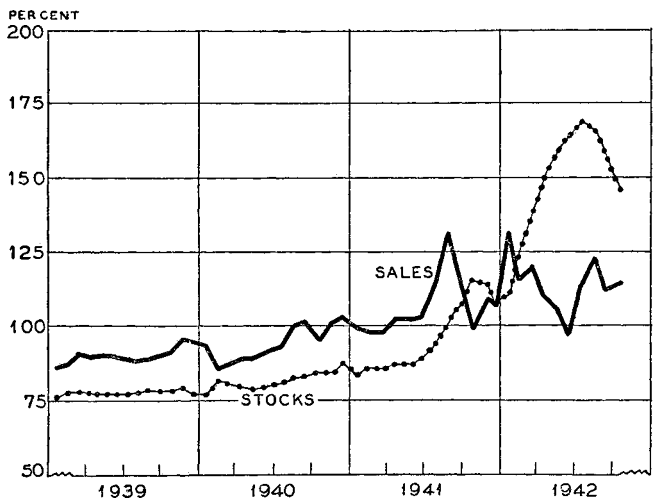
the F. W. Dodge Corporation. During the last two years the volume of contracts awarded for such purposes has reached record levels as a direct result of the war construction program. As the accompanying chart shows, the increase during these years represents the major plant expansion undertaken in this area during the period from 1925 to 1942. In fact, the 1941 total and the estimated total for 1942 are about equal to the total volume of factory building contracts awarded during the fourteen year period from 1927 through 1940. Roughly three quarters of such contracts awarded during 1941 and the first ten months of 1942 were Government contracts for war plant construction.

The movement of contract awards for residential building in this area presents a strikingly different picture. Although the volume of such contracts increased somewhat after 1934, it never approached the record level of the twenties and since 1939 it has fallen off almost 50 per cent. During 1942 the volume of awards for private residential building has declined sharply owing primarily to restrictions on nonessential building and the shortage of certain building materials. The volume of awards for public residential building, though considerably higher than in 1941, has not been large enough to offset the fall in private building. All of the decline in residential building during 1942 has occurred in the Metropolitan New York and Northern New Jersey area. In contrast, the volume of contracts for such projects awarded in Upstate New York during the first ten months of 1942 was two-thirds greater than in the corresponding period of 1941.

Department Store Trade

Total department store sales in this District during October showed more than the usual advance over the September level to reach 115 per cent of the 1923-25 average, and were only slightly below the relatively high level of September, 1941. Estimates based on the first three weeks of November, indicate that sales in this month rose by about the usual seasonal amount over the October average. This bank's seasonally adjusted indexes of department store sales and stocks are shown on the accompanying chart from 1939 through October, 1942. Stocks on hand, which evidenced a fairly steady gain from 1939 through May, 1941, rose rapidly to a record high level in July, 1942, but in each month since they have shown a decline. The index for October, 1942, however, is still 67 per cent above May, 1941.



Indexes of Sales and Stocks of Reporting Department Stores in the Second Federal Reserve District, Adjusted for Seasonal Variation (1923-25 average=100 per cent)

Large year-to-year gains in sales during October were made in practically all localities in this District, and for the first ten months of this year, total sales of the reporting department stores in the Second Federal Reserve District were 7 per cent higher than in the corresponding ten months of 1941.

Figures received from a limited number of department stores in this District indicate that at the end of October outstanding orders for merchandise purchased by the stores, to be delivered to them at a later date, were about 8 per cent below October, 1941, but were slightly higher than in either August or September, 1942.

Department stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand, October 31, 1942
	October, 1942	Jan. through October, 1942	
New York City	+18	+ 6	+26
Northern New Jersey	+ 8	+ 4	+19
Newark	+12	+ 6	+21
Westchester and Fairfield Counties	+20	+12	+10
Bridgeport	+21	+14	+11
Lower Hudson River Valley	+15	+ 4	+ 1
Poughkeepsie	+17	+ 7	—
Upper Hudson River Valley	+ 8	− 1	− 3
Albany	− 1	− 8	—
Central New York State	+22	+12	+11
Mohawk River Valley	+38	+25	+36
Syracuse	+17	+ 8	+ 4
Northern New York State	+13	− 4	—
Southern New York State	+17	+ 9	+15
Binghamton	+15	+ 6	—
Elmira	+10	+12	—
Western New York State	+18	+12	+17
Buffalo	+21	+13	+18
Niagara Falls	+48	+36	+11
Rochester	+13	+ 9	+16
All department stores	+16	+ 7	+22
Apparel stores	+16	+ 6	+ 8

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

	1941	1942		
	October	August	Sept.	October
Sales (average daily), unadjusted	112	93	120	130
Sales (average daily), seasonally adjusted	99r	123	112	115
Stocks, unadjusted	128	162	161	158
Stocks, seasonally adjusted r	116	165	156	145

r Revised.

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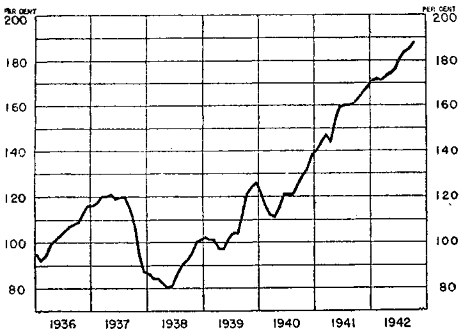
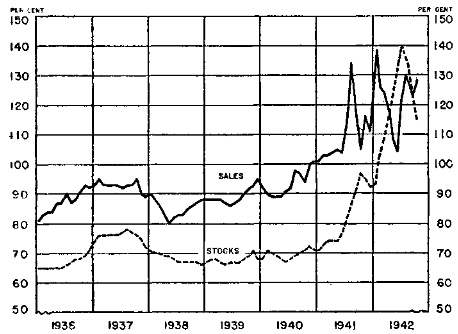
FEDERAL RESERVE BANK OF NEW YORK

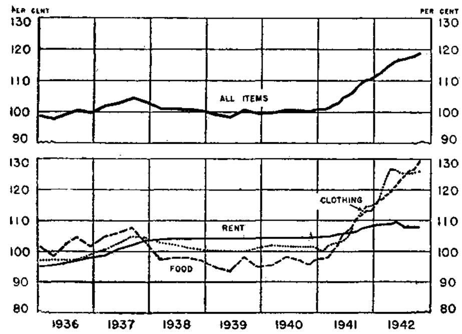
MONTHLY REVIEW, DECEMBER 1, 1942



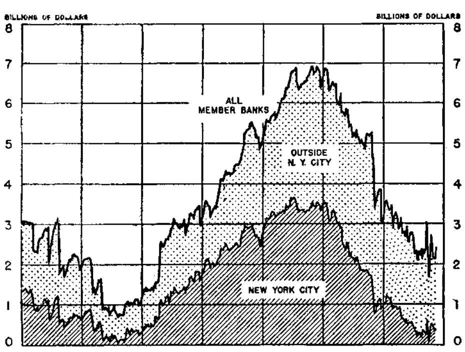
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



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



Wednesday Figures of Estimated Excess Reserves of All Member Banks (Latest figures are for November 11)

General Business and Financial Conditions in the United States

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

INDUSTRIAL output expanded further in October and the first half of November. Retail food prices continued to advance while prices of other commodities generally showed little change. Distribution of commodities to consumers was maintained in large volume.

Production

Industrial production continued to advance in October and the Board's seasonally adjusted index rose 3 points to 188 per cent of the 1935-1939 average. Gains in armament production accounted for most of the increase, and it is estimated that currently well over 50 per cent of total industrial output is for war purposes. In lines producing durable manufactures, approximately 80 per cent of output now consists of products essential to the war effort.

Steel output reached a new high level in October as production expanded to 100 per cent of rated capacity. In the first half of November output declined slightly to around 99 per cent, reflecting some shutdowns for furnace repairs, according to trade reports. Activity in industries producing nondurable goods declined less than seasonally in October. Production of foods, especially canning, was unusually large for this time of year and output of textiles continued at a high level. Mineral production, which usually increases in October, declined slightly this year owing chiefly to a decrease in coal production which had been maintained in large volume throughout the summer.

Value of construction contracts awarded in October increased somewhat over that of September, according to reports of the F. W. Dodge Corporation. Publicly financed projects continued to account for over 90 per cent of total awards.

The Department of Commerce estimates that, in the third quarter of 1942, expenditures for new construction amounted to 4.2 billion dollars, of which 3.5 billion came from public funds. For the first nine months of this year the corresponding figures were 10.2 and 7.7 billion dollars. Construction of military and naval facilities and of industrial buildings accounted for the bulk of the expenditures.

Distribution

Department store sales increased in October and the Board's seasonally adjusted index rose to 129 per cent of the 1923-1925 average as compared with 123 in September and 130 in August. In the first half of November sales increased further and were 17 per cent larger than in the corresponding period last year, reflecting in part price advances of about 10 per cent.

Railroad shipments of freight were maintained in large volume during October and declined seasonally in the first half of November.

Commodity Prices

Retail food prices continued to advance sharply from the middle of September to the middle of October and further increases are indicated in November. Prices of most other goods and services increased slightly in this period. In the early part of October maximum price controls were established for a number of additional foods. Maximum price levels for many other food products have been raised, however, and the Office of Price Administration reports on the basis of a recent survey that in numerous instances sellers are not complying fully with the regulations now in effect.

Bank Credit

Excess reserves of member banks were 2.5 billion dollars in the middle of November, a somewhat higher level than generally prevailed in the preceding four months. At New York City banks excess reserves amounted to about 500 million dollars.

Additions to member bank reserve balances during the four weeks ended November 18 were the net result of an increase of 500 million dollars in Reserve Bank holdings of Government obligations, which approximately covered the continued heavy currency drain, and a decrease of 200 million in Treasury balances at the Reserve Banks.

Holdings of Government securities by reporting banks in 101 cities increased by 1.9 billion dollars to 24 billion during the four weeks ended November 11. Almost half of the increase occurred at New York City banks. There were substantial increases in holdings of Treasury notes, bonds, and certificates, and a smaller increase in Treasury bills, while holdings of guaranteed obligations declined. These changes reflected new offerings and retirements by the Treasury during the period.

Commercial and industrial loans at reporting member banks in leading cities increased somewhat during the first two weeks of November. Brokers loans in New York City increased around Government financing dates, but subsequently declined.

United States Government Security Prices

Prices of United States Government securities were steady in the four weeks ended November 18. Long term taxable bonds yielded 2.32 per cent, and 3 month Treasury bills sold at a yield of 0.37 per cent.

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