MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *January 1, 1943*

Money Market in December

The Victory Loan Drive, which began November 30 and was largely completed by December 23, met with a gratifying public response. Aided by the active efforts of the Victory Fund Committees in each of the twelve Federal Reserve Districts, the Treasury sold $2,600,000,000 of the 2½ per cent Victory bonds of 1963-68 (exclusive of $239,000,000 sold to Government agencies and trust accounts), $3,100,000,000 of the 1¾ per cent Treasury bonds of 1948, and $3,800,000,000 of the one year ⅞ per cent certificates of indebtedness during the 24 days that subscription books were open. In addition to the $9,500,000,000 realized from the public sale of these three offerings, the Treasury during the month of December raised $900,000,000 of "new money" through weekly sales of Treasury bills in excess of current maturities, and possibly as much as $2,000,000,000 through the sale of Tax Savings notes and War and Savings bonds. The aggregate amount raised during December thus exceeded $12,000,000,000, surpassing the minimum objective of $9,000,000,000 by $3,000,000,000. This result compares with the slightly less than $7,000,000,000 obtained under the Fourth Liberty Loan in October, 1918, the largest of the Liberty Loan campaigns, and the largest amount heretofore raised by the Government through borrowing in a similar period of time.

The original expectation had been that a sufficient volume of funds would be realized from the sale of Government war obligations during December to carry the Treasury, with the benefit of continuing receipts from the sale of Tax Savings notes and War and Savings bonds, through the month of January. In actual fact, the campaign exceeded these minimum estimates to such an extent that it probably will not be necessary to make a sales effort of similar scope until April.

Lack of Disturbance to Member Bank Reserve Positions

The Victory Loan Drive represented a marked achievement not only from the standpoint of the volume of funds raised, but also by reason of the avoidance of accompanying disturbance to member bank reserve positions. In this accomplishment, the liberal use made by banks of the "book credit" method of payment, through War Loan deposit accounts, played an indispensable part. In addition, the Federal Reserve Banks, through purchases of Government securities for their own account, acted to maintain an ample supply of bank reserve funds, offsetting losses of reserves through the heavy preholiday increase in currency circulation and the rise in member bank reserve requirements associated with expanded bank holdings of Government securities.

Banks made use of credits to Government deposits on their books—that is, War Loan account deposits—not only in connection with purchases of Government securities for their own portfolios, but also in connection with the Government security purchases of their customers. Aside from Treasury bills, for which payments could be made in cash only, over three fourths of the Government securities sold in the Second Federal Reserve District during December were paid for by the book credit method. Outside this District, the book credit method of payment was employed to a less extent, but, even so, approximately half of the payments were made by that method. Another influence in the same direction was the substantial use of Tax Savings notes by corporations and individuals in meeting the December quarterly income tax instalments; of the total income tax collections of approximately $2,000,000,000 during December, about 32 per cent was represented by Tax Series Treasury notes received for taxes. The corresponding percentage was 25 per cent for September, 23 per cent for June, and 16½ per cent for March.

By these means—the use of the book credit method of payment for new security issues and payments of taxes through tax notes—the unbalance between Treasury cash receipts and expenditures was greatly reduced and unduly heavy drains upon bank reserve funds were avoided.

Allowing for $490,000,000 withdrawals from the War Loan account deposits over the period December 1-4, aggregate War Loan account deposits increased from

$1,695,000,000 on November 30 to about $8,200,000,000 at the end of the month. Aggregate credits to War Loan accounts during December exceeded $7,000,000,000, of which $4,200,000,000 was credited to such accounts of qualified depositaries in the Second Federal Reserve District.

The use of credits to War Loan deposits in payment for new Government security issues has been promoted by the designation of many additional special depositaries, and by increases in the maximum War Loan deposit limits of several hundred banks previously qualified. On October 31 there were 3,253 banks throughout the country qualified for the use of War Loan accounts as special depositaries, with an aggregate deposit limit of $6,229,000,000; on December 19, as a result of the joint efforts of the Treasury Department and the Federal Reserve Banks, 5,260 banks were qualified and the over-all limit was lifted to $9,355,000,000. In the Second Federal Reserve District, where War Loan accounts previously had been more generally employed than in many other sections of the country, the number of qualified institutions was raised from 500 to 656 over this period and the over-all deposit limit was increased from $3,243,000,000 to $4,317,000,000.

The accumulated War Loan account deposits, supplementing current tax revenues, net proceeds from the weekly sale of discount bills, and receipts from the sale of War and Savings bonds and Tax Savings notes, will provide the funds necessary for meeting war and other expenditures during coming weeks. As the Government makes its heavy day-to-day expenditures, "calls" will be issued against these War Loan account deposits; that is, the Government will withdraw these funds from the banks. In this way, the flow of funds to the Government from the banks will be roughly matched by Government expenditures which result in a return flow of funds into the banking system. By gearing calls closely with Government expenditures, it will be possible for the large and growing volume of fiscal operations to proceed without undue disturbance to the over-all reserve position of the banks. Individual institutions which gain funds on balance may add to their investment portfolios through purchase of Government securities, through reacquiring Treasury bills previously sold to the Federal Reserve Bank, or through entering tenders on the new Treasury bill offerings. Individual institutions which lose funds on balance have adequate means of adjusting their positions. Central reserve city banks (New York City and Chicago) will probably tend to lose funds, as they hold a large percentage of total War Loan deposits. They are well prepared to meet such losses, as, in addition to available excess reserves, they now hold large amounts of Treasury bills which can be sold to the Reserve Banks at a fixed rate of discount (with a repurchase option if they wish) when needs for additional reserves arise, or they can borrow on their short term Government securities at a differential rate. Reporting New York City banks have increased their holdings of Treasury bills by nearly $1,000,000,000 since the middle of October, and now hold close to $1,900,000,000 of such bills. Banks that are not so provided with Treasury bills, and find themselves losing funds, can replenish their reserves by borrowing from the Reserve Banks against Government securities maturing or callable in one year or less at the differential rate of ½ of one per cent.

Member Bank Excess Reserves

Excess reserves of all member banks were maintained at $2,500,000,000 or more during most of December. As was to be expected, there was an acceleration of the outflow of currency into circulation prior to the holidays—the increase in currency circulation between November 25 and December 23 came to $680,000,000—and over the same period reserve requirements of all member banks rose approximately $700,000,000. These two forces cutting into member bank excess reserves were largely counterbalanced by an increase in outstanding Federal Reserve "float" and by Federal Reserve Bank purchases of Government securities. Between November 25 and December 23, the Federal Reserve Banks added to their holdings $403,000,000 in Treasury bonds, $220,000,000 in certificates of indebtedness, and $177,000,000 in Treasury bills. Holdings of Treasury notes showed a small decline due to maturities in this category. The aggregate increase in Government security holdings of all classes came to $784,000,000. Toward the end of the month, excess reserves of all member banks declined, owing to investments of such funds by banks, cash payments for Government securities purchased by their customers, and a post-holiday reduction in the "float" at Reserve Banks.

In New York City, excess reserves were maintained within a general range of $400,000,000—$600,000,000 during the first three weeks of December, although dropping to a lower level toward the year end. Here an outward movement of funds, associated in part with withdrawals resulting from purchases of Government securities in other sections of the country, constituted a principal influence tending to reduce excess reserves. This factor, together with the outflow of currency into circulation and rising reserve requirements, was compensated for in considerable measure by Reserve Bank purchases of Government securities.

Money Rates in New York

	Dec. 31, 1941	Nov. 30, 1942	Dec. 29, 1942
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	½–⅝	⅝–¾	⅝–¾
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on taxable Treasury notes (3-5 years)	1.02	1.28	1.40
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.07	2.09	2.08
Average yield on taxable Treasury bonds (not callable within 12 years)	2.40	2.36	2.35
Average rate on latest Treasury bill sale 91 day issue	0.310†	0.370	0.365
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. † 76 day issue.

War Financing

Largely through the Victory Loan Drive, a total of more than $12,000,000,000 of Government securities was sold during December to provide for the tremendous expenditures being required in the prosecution of the war. The campaign, which represented the largest financing effort ever undertaken by the Government, followed a month during which no major security offerings had been made. Net proceeds from Government borrowing in November amounted to no more than $2,600,000,000, the smallest total since April.

In commenting upon the success of the drive, Secretary of the Treasury Morgenthau stated that he was "deeply gratified by the superb public response to the financial needs of our country in this war," and he gave a full measure of credit to the many thousands of volunteer workers drawn from the banking, securities, insurance, and other fields, who acted as salesmen of the Victory Fund organization during the campaign.

The table at the bottom of this page summarizes the December war financing and the results of the Victory Loan Drive. Of the total volume of funds raised, more than 45 per cent was attributable to subscriptions obtained in the Second Federal Reserve District. On sales to nonbanking investors of each of the three new offerings—the 2½ per cent Victory bonds, 1¾ per cent Treasury bonds, and ⅞ per cent certificates of indebtedness—subscriptions entered in the Second District accounted for about 65 per cent of the totals for the country. These high percentages resulted in very considerable part from the heavy subscriptions placed by insurance companies, other large institutional investors, and corporations with headquarters in this District, or maintaining their principal bank accounts here. Life insurance companies alone placed subscriptions of more than $900,000,000 in the Second District, principally represented by purchases of the 2½ per cent Victory bonds of 1963-68. Of even greater significance than the dollar volume of securities sold, in reflecting the efforts of the Victory Fund organization in this District, was the fact that sales were made to 60,000 subscribers, a far larger number than in any previous Treasury financing operation during the current war period, with the exception of the continuous War Savings bond program.

Subscription books on the three new offerings were open to investors other than banks, without limitation as to the amounts that might be purchased, over the period November 30—December 23, and the total sales were $5,280,000,000. The 2½ per cent Victory bonds were not available for purchase by commercial banks. The 1¾ per cent Treasury bonds of 1948 and ⅞ per cent certificates of indebtedness were opened to subscription by banks for three day periods and sales to banks were limited to an aggregate of $4,170,000,000.

Books were open for bank subscriptions to the 1¾ per cent Treasury bonds from November 30 to December 2 inclusive, total subscriptions amounting to $2,360,000,000. Subscriptions of $100,000 or less ($346,000,000) were allotted in full, while the remaining subscriptions were allotted on an 85 per cent basis. Allotments in the Second Federal Reserve District ($651,000,000) amounted to 32 per cent of the total. Payment for these bonds was made on December 11.

The books on the ⅞ per cent certificates of indebtedness due December 1, 1943 were open for commercial bank subscriptions from the 16th through the 18th of December and payments were made on the 28th. Sub-

December War Financing—Results of the Victory Loan Drive†

	Sales in the Second Federal Reserve District		Sales in the country as a whole	
2½% Victory bonds, due December 15, 1968 and redeemable at par on or after December 15, 1963				
Sales to nonbanking investors (banks* are not eligible to hold these bonds for their own account until December 1, 1952)		$1,665,000,000		$2,600,000,000**
1¾% Treasury bonds, due June 15, 1948		1,290,000,000		3,060,000,000
Sales to banks*	*$650,000,000*		*$2,060,000,000*	
Sales to nonbanking investors	*640,000,000*		*1,000,000,000*	
⅞% Treasury certificates of indebtedness due December 1, 1943		1,810,000,000		3,790,000,000
Sales to banks*	*750,000,000*		*2,110,000,000*	
Sales to nonbanking investors	*1,060,000,000*		*1,680,000,000*	
Tax Savings notes, principally sold to nonbanking investors		420,000,000		1,100,000,000
War and Savings bonds				
Sales to nonbanking investors		160,000,000		850,000,000
Treasury bills				
New offerings in excess of weekly redemptions, principally sold to banks		520,000,000		900,000,000
Total		$5,865,000,000		$12,300,000,000

†Partly estimated.
*Commercial banks, defined as banks accepting demand deposits.
**Excluding $239,000,000 taken by Government agencies and trust accounts.

scriptions totaled $3,496,000,000, of which $2,114,000,000 were allotted; those up to and including $100,000, totaling $270,000,000, were allotted in full and the larger subscriptions on a 57 per cent basis. Allotments in this District ($748,000,000) constituted 35 per cent of the total.

The large sales of the three new offerings during December were not made at the expense of sales of War bonds, Savings bonds, and Tax Savings notes. On the contrary, it would appear that receipts from War and Savings bonds and Tax notes during December ran substantially ahead of the figures for November. Receipts from the sale of War and Savings bonds may be estimated at approximately $850,000,000 as compared with $740,000,000 in November. In the Second Federal Reserve District, sales by agencies other than post offices during December are estimated at $160,000,000, as compared with the November figure of $109,000,000. Both the National and District totals were the third highest reported for any month since these bonds first went on sale. The increase in December was in part accounted for by the vigorous drive conducted by the Victory Fund Committees to encourage the purchase of Series F and G bonds by larger investors and the work of these committees also was reflected to some extent in increased sales of Series E bonds.

Near the close of the month it appeared likely that the monthly sale of Tax Savings notes would exceed $1,000,000,000 for the first time since August, 1941 when these notes were first offered. In the Second Federal Reserve District, sales of Tax notes were in excess of $400,000,000.

The Treasury raised $900,000,000 in "new money" during December through weekly sales of Treasury bills in excess of current maturities. Sales of the December 2 and 9 issues each amounted to $500,000,000 against maturities of $350,000,000; on each of the three subsequent issues, dated December 16, 23, and 30, the amount offered was $600,000,000 compared with maturities of $400,000,000.

Member Bank Credit

Changes in member bank credit during the five weeks ended December 23 reflected, for the most part, the participation of banks and their customers in the Treasury's December financing program. The weekly reporting member banks in 101 leading cities added $2,087,000,000 to their Government securities portfolios, of which $1,074,000,000, or slightly more than half, was taken by New York City banks. Over the five weeks there was a net increase of $850,000,000 in the outstanding volume of Treasury bills, and $2,058,000,000 of the new 1¾ per cent Treasury bonds were allotted to commercial banks. (As banks were not called upon to pay for the ⅞ per cent certificates of indebtedness allotted to them until December 28, their purchases of this issue were not reflected in the statements of December 23.)

Weekly reporting New York City banks added $560,000,000 to their holdings of Treasury bills and $434,000,000 of Treasury bonds between November 18 and December 23. In addition these banks purchased $95,000,000 of certificates of indebtedness and $10,000,000 of guaranteed obligations, while holdings of Treasury notes dropped $25,000,000, reflecting the maturity of an issue December 15. Outside New York, member banks in 100 cities took $196,000,000 of Treasury bills, $877,000,000 of Treasury bonds, and $9,000,000 of guaranteed issues. On the other hand, these banks sold $52,000,000 of certificates of indebtedness and their holdings of Treasury notes were reduced $17,000,000.

In addition to purchasing new issues for their own account during the period, member banks in New York City made a substantial volume of loans to their customers for the purchase of Government securities. The total of loans to brokers and dealers and loans to others for the purpose of carrying securities rose $623,000,000 in the case of the New York City banks. Other types of loans, for the most part, declined during the five weeks' period. In New York City there was a further contraction of $87,000,000 in commercial, industrial, and agricultural loans, and outside New York such loans of member banks in 100 cities were reduced $37,000,000.

The Treasury's borrowing program also had a marked effect on the total, and on the composition, of bank deposits. Total deposits of the reporting banks in 101 leading cities rose $2,725,000,000. U. S. Government deposits alone, however, rose $3,936,000,000, reflecting the use of the book credit method of payment for Government securities purchased during the month. Purchases for banks' own account paid for by the book credit method increased Government deposits without affecting customers' deposits, while customers' purchases, paid for by this method, resulted in a shift of funds from adjusted demand deposits to U. S. Government deposits. During the period adjusted demand deposits were off $777,000,000 in the case of the New York City banks and $417,000,000 in the banks in 100 other cities.

Security Markets

The Government security market continued to show only minor price fluctuations during December and the market was again characterized by light trading. The offering of two additional Treasury bond issues and one additional certificate of indebtedness issue, under the Victory Loan Drive, resulted in some portfolio readjustments on the part of investors. In some instances, partially tax exempt Treasury bonds were offered by holders shifting to taxable issues, and some investors reduced holdings of outstanding certificates of indebtedness in order to acquire larger amounts of the new certificate issue. Toward the close of the month, all of the three new issues were quoted slightly above par.

From the year's high in November, municipal bond prices showed a downward reaction during December; the average yield computed by Standard and Poor's Corporation advanced 0.08 to 2.28 per cent between November 25 and December 23 to reach the highest point since August. Among the Standard and Poor's indexes of domestic corporate bond prices, small gains were reported in the average quotations for industrials, rails, and utilities.

The general rise in stock prices which began last May was continued in December and by the end of the month about 75 per cent of the decline which occurred between September, 1941 and April, 1942 had been recovered, according to Standard and Poor's index of 90 stocks. Accompanying the highest daily rate of turnover in a year, stock prices advanced about 5 per cent to reach a new high since October, 1941. The December rise was largely concentrated among the industrial shares. Owing in part to changes in this year's tax law, tax selling appears to have been less of a market factor than formerly.

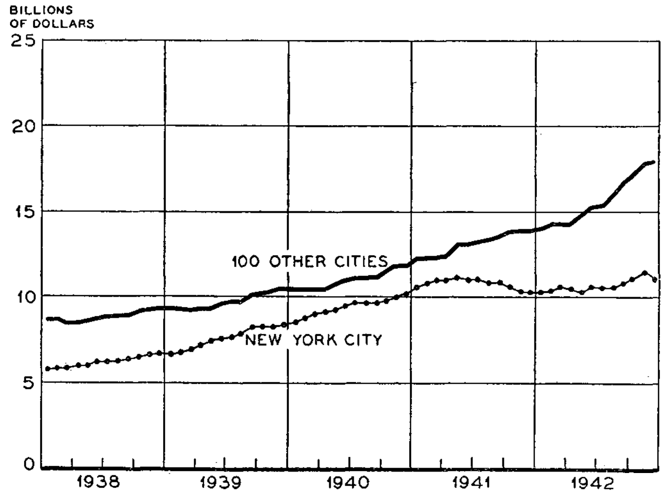
Expansion in Demand Deposits, 1938-1942

Over the past five years the volume of adjusted demand deposits of the weekly reporting member banks in 101 leading cities has risen by $14,100,000,000, to a total of $28,500,000,000 on December 23, 1942. This latter figure represents a major portion of the total of bank deposits belonging to the public against which checks may be drawn in making payments. During these years there have been important changes in the factors causing the expansion of deposits and an acceleration in the over-all rate of increase. While the inflow of gold from abroad was the chief factor in increasing deposits during 1938-40, more recently the expansion in bank holdings of U. S. Government securities has played the dominant role. Over the entire period the volume of currency in circulation has grown from $6,600,000,000 at the end of 1937 to $15,300,000,000 toward the end of 1942. To this extent the increase in demand deposits alone failed to reflect the full upward movement in the money supplies.

The geographical distribution of deposits has undergone a significant change during these years. Although adjusted demand deposits of the weekly reporting member banks in New York City rose faster than in the 100 other cities during the first three years, since 1941, as a result of a strong tendency for funds to flow from the metropolitan area, where much of the borrowing has taken place, to other parts of the country, where the bulk of war expenditures have been made, the increase in deposits in New York City has been relatively much smaller than for banks elsewhere.

During the three years 1938 through 1940, adjusted demand deposits in the 101 cities (including New York City), rose $7,900,000,000 — $1,600,000,000 in 1938, $2,600,000,000 in 1939, and $3,700,000,000 in 1940. An increase of $4,100,000,000 in loans and investments contributed to this increase, but the principal factor of gain was the tremendous inflow of gold which occurred during those years. A total of $9,200,000,000 was added to the United States gold stock between 1938 and 1940, including the sum of $4,300,000,000 in the year 1940 alone. However, the full effect of these factors in increasing demand deposits was offset to a certain extent by a rise of $2,200,000,000 in the volume of money in circulation. During this period deposits of the reporting member banks in New York City rose $4,700,000,000, while in the 100 other cities the increase amounted to $3,200,000,000.

In 1941 there was a marked change in the pattern. Although adjusted demand deposits increased in the 100 cities by about the same amount as in the preceding



Adjusted Demand Deposits of Weekly Reporting Member Banks in New York City and in 100 Other Leading Cities (Monthly averages of weekly figures)

year, in New York there was actually a small net decline for the year as a whole. Adjusted demand deposits of member banks in the 101 cities rose only $1,400,000,000, or less than half as much as in the preceding year. In 1941 the principal factor contributing to the expansion in deposits was a $4,600,000,000 increase in total loans and investments, of which slightly more than half represented purchases of U. S. Government securities. As the inflow of gold came to a virtual halt during the first part of 1941, and only a little over $700,000,000 was added to the gold stock during the entire year, this factor became relatively unimportant as a source of new deposits. On the other hand, during 1941 two factors tending to hold down the rise in deposits of member banks in the 101 cities became increasingly important. The first of these was an increase of $2,400,000,000 in the volume of money in circulation, which was about double the increase of the previous year. The other factor was a sharp rise in the volume of deposits outside the 101 cities. As an indication of the flow of funds from banks in the weekly reporting group to other banks, adjusted demand deposits of member banks outside the 101 cities rose $2,000,000,000 during 1941, compared with the $1,400,000,000 increase for the member banks in the 101 cities.

The expansion in adjusted demand deposits in 1942, which amounted to $4,800,000,000 in the 101 cities, was associated primarily with increased bank holdings of U. S. Government securities. The weekly reporting banks added approximately $11,500,000,000 to their holdings during the year. Another factor which contributed to this expansion was $3,400,000,000 net purchases of Government securities by the Federal Reserve Banks. Part of these gains, however, was offset by a decline of $1,100,000,000 in loans and investments other than Government securities, an increase of $4,200,000,000 in money in circulation, and a further increase in deposits of banks outside the 101 cities. Within the 101 cities, the difference between the movement of deposits in New York and in the 100 other cities was again pronounced. Adjusted demand deposits of the New York City banks rose only $800,000,000 during the year, while deposits of the reporting member banks outside New York rose $4,000,000,000.

Bank Earnings Reports

In the past there has been a notable lack of uniformity in the practices followed by commercial banks with respect to reports of their earnings to their shareholders. Many banks have not published earnings reports and those that have published such reports have followed widely different practices with respect to the treatment of various earnings, expense, and profit and loss items.

During the past month circulars have been issued both by the Committee of Bank Management and Research of the New York State Bankers Association and by the Bank Management Commission of the American Bankers Association, which contain suggested forms for condensed reports of bank earnings for shareholders and others. The forms suggested in the two publications are identical. The proposed reports are, of course, much less detailed than the earnings and dividends reports which are required by Federal supervisory agencies, and differ substantially from those reports in their treatment of certain items. Nevertheless, the work done by the State and National bankers' organizations in this field constitutes an important step toward more uniform and more enlightening reports on bank earnings.

Circulation of Federal Reserve Bank Notes

The Board of Governors of the Federal Reserve System, on December 12, issued the following statement for publication on December 13:

> As a part of the program of the Government to conserve both labor and materials during the war period, the Board of Governors, after consultation with the Treasury Department, has authorized the Federal Reserve Banks to utilize at this time the existing stock of currency printed in the early Thirties known as "Federal Reserve Bank notes".
>
> The stock of these notes, which is in $5, $10, $20, $50, and $100 denominations, amounts to approximately $660,000,000. By making available for use, as needed, this stock of unissued paper currency, which is identical with Federal Reserve Bank notes now in circulation, it is estimated that more than $300,000 will be saved in the cost of printing new currency. In terms of labor and materials, there would be a saving of 225,000 man hours in printing alone, and of 45 tons of paper in addition to a substantial saving of nylon and ink.

Some use was made of Federal Reserve Bank notes in 1933, and the amount in circulation reached a maximum somewhat in excess of $200,000,000 at the end of that year. Subsequently, their circulation was gradually reduced, dropping below $100,000,000 early in 1935. At that time all of the Federal Reserve Banks paid to the Treasury sums corresponding to the amounts of such notes still in circulation, and subsequently the Federal Reserve Bank notes outstanding have been shown in the public debt statements as a liability of the Federal Government. The outstanding volume of the notes continued to contract, to less than $20,000,000 at the end of November, 1942; those outstanding were retired from circulation as they reached Federal Reserve Banks and corresponding charges were made against the Treasury's account.

The notes now being put into circulation represent the remaining stock of Federal Reserve Bank notes which has been lying idle for several years. The same procedure is now being followed as in 1935—the Federal Reserve Banks are making payments to the Treasury for the redemption of Federal Reserve Bank notes put into circulation, and the amount outstanding is included in published reports of "Treasury currency" outstanding, rather than as a liability of the Federal Reserve Banks. As the notes now being issued become worn out and unfit for further circulation, they will be redeemed by the Treasury, and so will tend gradually to disappear from circulation again.

Production and Trade

The magnitude of the war production effort during 1942 is revealed by the estimates recently released by the Office of War Information which indicated that 49,000 planes, 32,000 tanks and self-propelled artillery, 17,000 anti-aircraft guns, and 8,200,000 deadweight tons of merchant shipping were produced during the year. Expenditures for munitions and war construction for the year amounted to some $47,000,000,000, while the number of persons engaged in war work rose from 7,000,000 to 17,500,000. The major task of converting industry from a peace to a war basis proceeded rapidly and was largely completed by the autumn of the year.

More than 86,200,000 tons of steel ingots and castings were produced in 1942, according to the estimates of the American Iron and Steel Institute. This figure exceeded that of the previous peak year, 1941, by 3,400,000 tons, and, by the middle of 1943, it is expected that the steel industry will have facilities capable of producing at the rate of 96,000,000 tons annually. Shipments of iron ore over the Great Lakes during 1942 totaled over 92,000,000 tons, an amount greater than in any previous season.

Business activity in December, according to early indications, held close to the advanced level reached in No-

	1941	1942		
	Nov.	Sept.	Oct.	Nov.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	113	120	122*p*	123*p*
Production	117	129	131*p*	133*p*
Producers' goods—total	130	163	168*p*	169*p*
Producers' durable goods	139	195	202*p*	205*p*
Producers' nondurable goods	120	126	128*p*	129*p*
Consumers' goods—total	103	87	86*p*	88*p*
Consumers' durable goods	87	36	37*p*	39*p*
Consumers' nondurable goods	108	103	103*p*	105*p*
Durable goods—total	123	148	154*p*	156*p*
Nondurable goods—total	113	113	113*p*	115*p*
Primary distribution	118	137	140*p*	139*p*
Distribution to consumer	101	89	91*p*	91*p*
Miscellaneous services	107	128	129*p*	131*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	110	118	119	120
Wage Rates (100 = 1926 average)	128	142	143*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	70	69	60	62
Outside New York City	95	85	81	82

p Preliminary. * Adjusted for seasonal variation.

vember. Steel mill operations averaged approximately 98½ per cent of capacity throughout the month, a rate comparable with that of the last half of November. Electric power production, which generally reaches its yearly peak in December, seems to have shown a more than seasonal increase over November. Production of crude petroleum continued at approximately the same rate as during the four preceding months. The daily output of the bituminous coal mines during the first three weeks of the month was somewhat below the November average; loadings of railway freight continued to show a slight decline of a seasonal character.

Production and Trade in November

During November the seasonally adjusted index of production and trade computed at this bank increased one point further to a record level of 123 per cent of estimated long term trend. In the year following our entry into the war, the index rose 10 points. Industrial production was still on the upgrade in November, while retail trade and primary distribution remained at approximately the same levels as in October, after adjustment for seasonal variations.

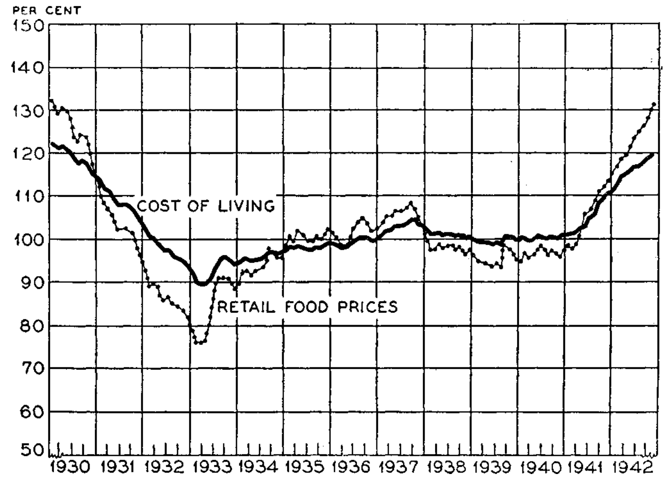
Although productive activity was at a new high level in November, the increase in the output of producers' durable goods—the classification which includes many important types of war material—was not quite so pronounced as in recent months, owing in part to the fact that steel production was down slightly from the October peak because of the shutdown of some furnaces for repairs. Output of producers' nondurable goods and of consumer goods was slightly higher in November than in October.

In retail trade, department store sales increased more than seasonally between October and November, reflecting early Christmas shopping, while sales by variety chain store systems rose about as usual. Mail order house and grocery chain store sales, which show no definite seasonal tendency at that time of the year, were slightly lower in November than in October.

Cost of Living

Between October 15 and November 15 the cost of living of wage earners and lower salaried workers rose 0.7 per cent further to the highest level since June, 1930, according to the Bureau of Labor Statistics index. This increase reflected primarily advances in prices of foods, especially of those not under control, and also of several items on which ceiling adjustments were permitted. Between mid-October and mid-November retail food prices as a whole showed an increase of 1.2 per cent, reaching the highest level since January, 1930. The average price of foods not under direct control, chiefly fresh fruits, vegetables, and fish, showed an advance of 6.6 per cent over October.

Retail food prices fluctuate more widely than most other elements in the cost of living and hence the overall cost of living index tends to move less rapidly than the food index. Both indexes have been rising steadily since early in 1941; in November the cost of living was nearly 9 per cent above the year earlier level, while food prices were 16 per cent higher.



Indexes of Cost of Living and Retail Food Prices (Based on Bureau of Labor Statistics data; 1935-39 average=100 per cent)

Increases that have occurred in food prices since the outbreak of war are due to a number of factors. Among them are the exceptions made in favor of farm prices in the establishment of ceiling regulations, the increasing amounts bought for our armed forces and our Allies, expanding civilian purchasing power at home, as well as manpower and distribution difficulties. Wholesale prices of farm products have risen nearly 25 per cent since November of last year.

Secretary of Agriculture Wickard, recently appointed as Wartime Food Administrator with wide control over the production and distribution of farm and food products, has established minimum 1943 agricultural goals which, for a number of foods, are substantially higher than even the record volumes produced this year. It is estimated that in 1943 our military forces and the other Allied nations will require about 25 per cent of our food output. The War Production Board announced that between 50 and 55 per cent of our 1943 pack of canned fruits and vegetables must be set aside to fulfill these requirements.

The Office of Price Administration announced on December 27 that it had been directed by the Department of Agriculture to undertake the rationing of virtually all commercially processed vegetables and fruits—canned, bottled, and frozen vegetables, fruits, juices, dried fruits, and all soups. The list includes more than 200 commodities and it is estimated that approximately three quarters of the average amount available in 1937-1941 will be allocated to civilians in 1943. Rationing of these commodities will be administered through a new point system which is expected to be inaugurated some time in February.

Employment and Payrolls

Largely as the result of continued hiring by war plants, factory employment in New York State rose 1 per cent further during November, and payrolls increased 2 per cent, according to the New York State Department of Labor. Working forces in shipyards and in plants producing tanks, planes, and firearms continued to expand. In many civilian lines, however, employment decreased between October and November;

in the manufacture of clothing and food products there were seasonal layoffs of employees, and furniture plants curtailed operations, partly because of Government restrictions. Compared with November, 1941, employment was 9 per cent greater and payrolls were 35 per cent larger.

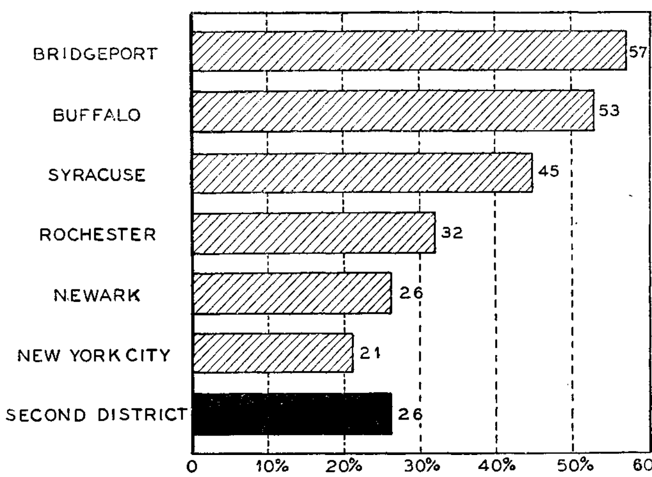
In New York City, the seasonal layoffs in the apparel industry offset employment gains in other lines, and there was little net change in factory working forces during the month. In the rest of the State, gains in war plants were chiefly responsible for an employment increase of 1½ per cent in November. In the year-to-year comparisons, New York City factory employment was 7 per cent above the November, 1941 level, and Upstate the gain was 10 per cent.

The total number of civilians at work in the United States rose 400,000 during November to 52,800,000, according to estimates of the Bureau of the Census. The number of male workers in November was approximately the same as in November, 1941, while the number of women at work was 2,800,000 greater than a year previous. The number of unemployed was estimated at 1,700,000, about the same as in the preceding two months.

In order to promote the most effective mobilization and utilization of the nation's manpower, the President on December 5 issued an Executive Order transferring the Selective Service System to the War Manpower Commission. The order also gave Paul V. McNutt, chairman of the Commission, authority over all hiring and recruitment of workers in any designated plant, occupation, or area, and the power to order that no employer retain in his employ any worker whose services are more urgently needed elsewhere.

Department Store Trade

During the year 1942, the dollar volume of department store sales in the Second Federal Reserve District continued the expansion which began in 1940. Comparative sales increases, 1939-42, for six of the largest cities within the District, are shown on the accompanying diagram. In general, the most substantial gains in retail trade have occurred in cities where, as in Bridgeport and Buffalo, rapidly expanding war plants have exercised a dominating influence on local business conditions. In comparison with sales increases of 50 per cent or more in such cities over the three years, the growth in department store sales in New York City amounted to approximately 21 per cent. Sales records have, of course, been strongly influenced by advancing retail price levels; it is estimated that prices of the types of goods handled by department stores have risen, on the average, 20-25 per cent during the three years. It appears doubtful that the physical volume of goods sold by department stores in New York City during 1942 was on the whole any larger than it was in 1939.



Percentage Increases in Dollar Volume of Sales of Reporting Department Stores in Second Federal Reserve District and in Selected Cities, Year 1942 (estimated) Compared with Year 1939

During December department store sales in this District exceeded the figures for December, 1941 and closely approximated December, 1929. However, as a result of an apparently considerable amount of Christmas shopping during November, the rise in department store sales between November and December was estimated to have been somewhat smaller than in many other years.

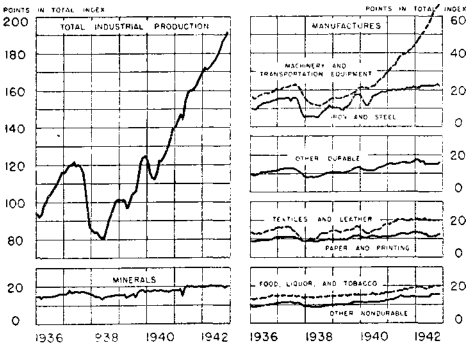
Retail stocks of merchandise on hand in the reporting department stores in this District at the end of November were only 13 per cent higher than those on hand November 30, 1941, and this bank's seasonally adjusted index of department store stocks declined further to 134 per cent of the 1923-25 average. Returns from a limited number of department stores in this District indicate that at the end of November outstanding orders for merchandise purchased by the stores, but not yet delivered, were 10 per cent higher than in November, 1941, but were about 12 per cent lower than in October, 1942.

Department Stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand, Nov. 30, 1942
	November, 1942	Jan. through Nov., 1942	
New York City	+ 6	+ 6	+16
Northern New Jersey	+ 2	+ 4	+12
Newark	+ 4	+ 6	+13
Westchester and Fairfield Counties	+12	+12	+ 4
Bridgeport	+11	+14	+ 3
Lower Hudson River Valley	+ 3	+ 4	— 5
Poughkeepsie	+ 3	+ 7	—
Upper Hudson River Valley	— 2	— 1	— 2
Albany	—10	— 8	—
Central New York State	+12	+12	+ 8
Mohawk River Valley	+16	+24	+28
Syracuse	+10	+ 8	+ 2
Northern New York State	+ 4	— 3	—
Southern New York State	+12	+ 9	+13
Binghamton	+11	+ 7	—
Elmira	+ 8	+12	—
Western New York State	+19	+13	+ 7
Buffalo	+25	+15	+ 9
Niagara Falls	+36	+36	+ 6
Rochester	+10	+ 9	+ 5
All department stores	+ 7	+ 7	+13
Apparel stores	+ 8	+ 7	+ 7

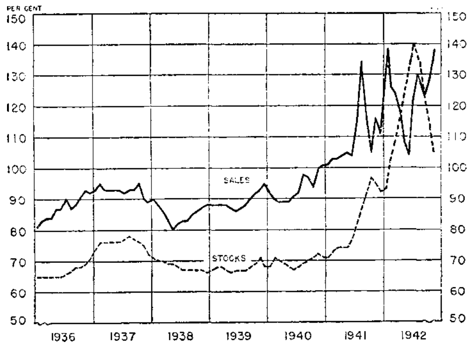
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1941	1942		
	Nov.	Sept.	Oct.	Nov.
Sales (average daily), unadjusted	130	120	130	144
Sales (average daily), seasonally adjusted	109	112	115	121
Stocks, unadjusted	132	161	158	151
Stocks, seasonally adjusted *r*	115	156	145	134

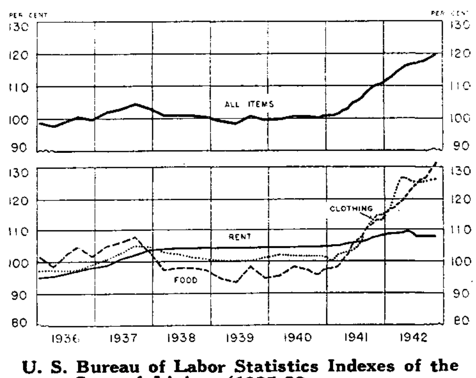
r Revised



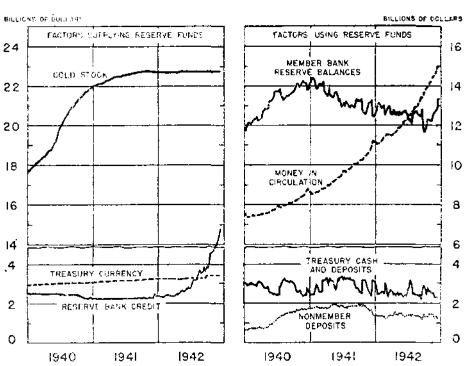
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent; subgroups shown are expressed in terms of points in the total index)



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



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



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

General Business and Financial Conditions in the United States

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

AGGREGATE industrial production in November was maintained close to the October level, reflecting a continued growth of output in war industries and a seasonal decline in production of civilian goods. Distribution of commodities to consumers rose further in November and the first half of December, reducing somewhat the large volume of stocks on hand. Retail food prices continued to advance.

Production

Maintenance of industrial production in November when the seasonal tendency is downward was reflected in a rise of the Board's seasonally adjusted index from 189 to 191 per cent of the 1935-1939 average. This rise was largely accounted for by a further advance in output of durable manufactures. Nondurable manufactures declined seasonally, while output of minerals showed less than the usual seasonal decrease. In all groups of products the proportion of output for war purposes was considerably larger than a year ago.

The increase reported for durable manufactures from October to November was in finished munitions and industrial equipment for new plants which will be completed in large number over the next few months. Steel production, at 98 per cent of capacity in November and the first three weeks of December, was down slightly from the October peak, but the reduction appeared temporary as the scrap supply situation had been relieved and as further progress was being made on construction of additional iron and steel capacity. Supplies of iron ore on hand are regarded as sufficient for operations at capacity until movement of ore down the lakes is resumed in the spring. Shipments from Upper Lake ports this year totaled 92 million tons, and were 15 per cent above the record established in 1941.

At cotton textile mills activity was maintained at a high level in November and at shoe factories production declined less than is usual at this season. Output of manufactured foodstuffs showed a seasonal decline.

Construction contract awards in November were 10 per cent below the level of the three preceding months, according to data of the F. W. Dodge Corporation, but were still about forty per cent higher than in November of last year. As in other recent months, publicly-financed work accounted for over ninety per cent of all awards.

Distribution

Distribution of commodities to consumers increased further in November and December with active Christmas buying. At department stores, variety stores, and mail order houses serving rural areas, sales in November expanded more than seasonally. In the first half of December department store sales continued to rise sharply and were considerably larger than a year ago.

Freight car loadings in November declined about 7 per cent from their peak levels in September and October but on a seasonally adjusted basis rose slightly over the October level. Coal loadings rose somewhat although a decline is usual in November. Shipments of other commodities declined seasonally.

Commodity Prices

Grain prices advanced from the middle of November to the middle of December, while most other wholesale commodity prices showed little change.

Retail food prices increased further by 1 per cent in the five weeks ended November 17 to a level 16 per cent higher than in November, 1941. Prices of such fresh foods as are uncontrolled—fruits, vegetables, and fish—showed the largest advances from October to November, but price increases in controlled items contributed about two fifths of the total rise.

Bank Credit

During the period of large scale Treasury financing in December, total excess reserves of member banks were generally above 2.5 billion dollars. Substantial purchases of Government securities for the Federal Reserve System offset the effect of drains on reserves by the continued heavy currency outflow and further increases in required reserves resulting from a rapid growth in bank deposits.

Reserve Bank holdings of Government securities showed an increase of 850 million dollars in the four weeks and reached a total of 5.5 billion on December 16.

At reporting member banks in 101 leading cities holdings of United States Government securities increased by 800 million dollars in the four weeks ended December 9. Treasury bills accounted for practically the entire increase, with almost two thirds of the amount going to New York City banks. In the week ended December 16, bond holdings rose sharply as banks received their allotments of the new 1¾ per cent bonds subscribed on November 30-December 2; allotments of this issue to all banks totaled 2 billion dollars, representing 85 per cent of subscriptions.

Total loans showed little change over the four weeks ended December 9. Commercial loans declined by 200 million dollars, with about half the decline at New York City banks, while loans to brokers and dealers increased over the period, reflecting largely advances made to security dealers in New York in connection with the Victory Fund drive.

Payments by bank depositors for new Government security issues resulted in a decline of adjusted demand deposits and a rise of U. S. Government deposits to 5.8 billion dollars in mid-December, the largest total on record.

United States Government Security Prices

Prices of United States Government securities have been steady in the past three weeks following an adjustment in the latter part of November when the Treasury announced the drive to sell 9 billion dollars of securities in December. Long term taxable bonds are selling on a 2.36 per cent yield basis on the average and long partially tax exempt bonds on a 2.09 per cent basis.