MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York — *February 1, 1943*

Money Market in January

Early in January, the President presented to Congress the Federal budget estimates for the fiscal year beginning July 1, 1943 and ending June 30, 1944, together with revised estimates for the current fiscal year ending June 30 next. Total expenditures within the regular budget for 1943-44 are estimated at $104,000,000,000, as compared with approximately $80,000,000,000 during the current fiscal year, and actual expenditures of $32,500,000,000 during the year which ended June 30, 1942. The President also indicated that about $4,800,000,000 would be required for Government corporations and agencies during the coming fiscal year, of which $1,800,000,000 would be for retirement of their obligations; consequently, the amount of new money to be raised between the first of July, 1943 and the end of June, 1944 is estimated to be about $107,000,000,000.

War expenditures, both within the budget proper and by Government corporations, are expected to aggregate $100,000,000,000 for the 1943-44 fiscal year. This is 8⅓ billion dollars a month, which compares with recent monthly expenditures of approximately $6,000,000,000. Rough estimates of the gross national product (that is, the aggregate value of the country's production of goods and services, without deduction of allowances for depreciation and depletion) run around $190,000,000,000 for the coming fiscal year. It would thus appear that more than half of the aggregate national production may be diverted to the prosecution of the war during the fiscal year.

The amount to be raised by borrowing next year is not so great as might be expected on the basis of the indicated increase in expenditures. Aside from the prospect of a continued rise in the national income, which will swell tax receipts, the 1943-44 fiscal year will be the first one to reflect the full influence of tax increases embraced in the Revenue Act of 1942. It is estimated that net receipts, on the basis of present tax laws, will be $33,000,000,000, which is about $10,000,000,000 greater than in 1942-43, and $20,000,000,000 greater than in 1941-42. If no new taxes are levied the indicated amount to be raised by "new money" borrowing would be about $74,000,000,000, as compared with $61,000,000,000 during the current fiscal year, and $22,000,000,000 during 1941-42. Proposed additional taxation, however, would have the effect of reducing the necessary amount for borrowing during the coming fiscal year. In his message to Congress, the President expressed the belief that not less than $16,000,000,000 of additional funds, through taxation, savings, or both, should be sought during the 1943-44 fiscal year.

On June 30, 1943, at the end of the current fiscal year, the Federal debt, direct and guaranteed, will be approximately $138,000,000,000. This compares with $112,500,000,000 at the end of December, 1942. Of the indicated $25,500,000,000 rise in the direct and guaranteed debt during the first half of the current calendar year (the second half of the 1942-43 fiscal year), a relatively small part—about $1,500,000,000—presumably will take the form of special issues to social security trust funds, leaving approximately $24,000,000,000 to be borrowed from the public during the first half of 1943. Of this amount, approximately $3,200,000,000 was raised by borrowings in the period January 1 to February 1 inclusive: around $1,700,000,000 from net sales during January of War and Savings bonds and Tax Savings notes;

(In billions of dollars)

	Fiscal years ended June 30				
	Actual			Estimates	
	1940	1941	1942	1943	1944
Total war expenditures*	2	7	28	77	100
Other expenditures†	7	7	6	7	7
Total expenditures	9	14	34	84	107
Budget receipts (net)	5	8	13	23	33
Borrowing from trust accounts	1	1	2	3	4
Borrowing from the public (net)	2	5	19	58	70
Total financing	8	14	34	84	107
Public debt, end of year (direct and guaranteed)	48	55	77	138	212

* Includes war expenditures of Government corporations.
† Includes net outlays, aside from war expenditures, of Government corporations and trust accounts, but excludes redemptions of Government corporation obligations held by the public ($1.8 billion in 1942, $1.2 billion in 1943, and $1.8 billion in 1944).

$800,000,000 net from the sale of discount bills on January 6, 13, 20, and 27; and approximately $620,000,000 net from certificate of indebtedness financing February 1, involving the sale of $2,211,000,000 one-year 7/8 per cent certificates and the redemption of a $1,588,000,000 maturing issue.

Substantial funds accumulated from the Victory Loan Drive in December were, of course, available for helping to meet Government expenditures during January. Treasury deposits with the Federal Reserve Banks were at an unusually high level at the close of December and War Loan account deposits at commercial banks—accumulated credits from "book credit" payments for Government securities sold—were up to $8,166,000,000. Additional credits to War Loan accounts during the first few days of January raised the total to $8,206,000,000 on the 6th. Beginning January 7, and continuing through January 23, the Government availed itself of these deposits by calls for repayment aggregating $2,198,000,000. Over the January 7-23 period, calls were issued for each business day of the week with the exception of Wednesdays, when receipts from the sale of Treasury bills took care of the net excess of disbursements over receipts. In this manner, wide fluctuations in Treasury deposits with the Reserve Banks were avoided and aggregate cash receipts were maintained in relatively close balance, from day to day, with aggregate cash expenditures. Toward the end of the month, Treasury deposits with the Reserve Banks were drawn down in anticipation of net cash receipts from certificate of indebtedness financing on February 1.

Member Bank Reserve Positions

Excess reserves of all member banks, which had temporarily dropped to $1,660,000,000 on December 30, rose to $2,330,000,000 on January 6, and thereafter tended to decline. On January 27 they amounted to $2,090,000,000. The recovery in excess reserves during the statement week ended January 6 resulted principally from a drawing down of Treasury deposits with the Federal Reserve Banks from the unusually high level of $811,000,000 on December 30. The decline between January 6 and 27 was in considerable measure the result of banks "putting their excess reserves to work," by actively bidding for the weekly issues of Treasury bills or reacquiring bills previously sold to the Reserve Banks under repurchase option. Aggregate tenders for Treasury bills ran between $1,000,000,000 and $1,300,000,000 each week during January.

Weekly offerings of bills were stepped up from $600,000,000 to $700,000,000 beginning January 20, resulting in an increase in the outstanding supply of $800,000,000 for the month. Nevertheless, Federal Reserve Bank holdings were reduced from $854,000,000 on January 6 to $611,000,000 on January 27, indicating an aggregate market absorption of Treasury bills of over $1,000,000,000.

Demand for Government securities during January was not restricted to bills, nor was the source of demand limited to banks. Despite the sale of nearly $13,000,000,000 of Government obligations in the December Victory Loan Drive, including more than $10,000,000,000 of the types which are traded in the open market, there was a persistent and strong demand for Treasury bonds, notes, and certificates of indebtedness, by banks and other investors alike. Certificates of indebtedness and bonds which had been acquired by dealers during the December campaign for later sale were rapidly absorbed. The shrinkage in the "floating supply" of Government securities may be measured, in a very rough way, by the reduction in outstanding loans to brokers and dealers in securities of the weekly reporting member banks in New York City. Such loans, which ran up from $333,000,000 on November 25 to $952,000,000 on December 23, dropped to $461,000,000 January 13.

Inasmuch as there will not be another major war financing drive until April, keen interest was displayed in the $2,000,000,000 certificate of indebtedness offering, formally made January 21. With the heavy over-subscription to this issue, and the allotment basis of only 14 per cent on the larger bank subscriptions, there was an added stimulus to the demand for outstanding Government securities. To help meet the demand, the Federal Reserve Banks, between January 6 and January 27 reduced their holdings of Government bonds by $75,000,000 and Treasury notes by $24,000,000; certificates of indebtedness holdings, however, were enlarged to the extent of $38,000,000 over the three weeks' period. Taking account of the drop in their Treasury bill holdings, discussed in a foregoing paragraph, the total of Government securities in Federal Reserve Bank portfolios declined $303,000,000 between January 6 and 27.

In New York City, excess reserves of the central reserve New York City banks rose from $235,000,000 on December 30 to $500,000,000 on January 6, and during the following three weeks dropped back to $210,000,000. The weekly reporting member banks in New York City enlarged their holdings of Treasury bills by $179,000,000, to an aggregate of $2,079,000,000, over the three weeks ended January 27. New York banks lost reserve funds, on balance, through Treasury transactions, in continuation of the general tendency which prevailed last year. Reflecting the high proportion of War Loan account deposits held here, repayments of such deposits by New York institutions during January, in response to Treasury calls, reached an aggregate of $1,115,000,000. These and other cash receipts by the Treasury from the New York market were greater than the offsetting flow of Government checks deposited in New York. On the other hand, there was a substantial inflow of commercial and financial funds into New York from other parts of the country during the month.

Money Rates in New York

	Jan. 31, 1942	Dec. 31, 1942	Jan. 30, 1943
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4 to 6 months	5/8	5/8–3/4	5/8–3/4
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on taxable Treasury notes (3-5 years)	0.94	1.39	1.26
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.10	2.08	2.06
Average yield on taxable Treasury bonds (not callable within 12 years)	2.37	2.34	2.32
Average rate on latest Treasury bill sale 91 day issue	0.231	0.365	0.370
Reserve Bank discount rates:			
On advances to member banks secured by Government obligations callable or maturing in one year or less	—	1/2	1/2
On other advances to member banks secured by Government obligations, and on rediscounts	1	1	1
Reserve Bank buying rate for 90 day indorsed bills	1/2	1/2	1/2

* Nominal

War Financing

In view of the large volume of funds accumulated from the Victory Loan Drive in December, no major financing was undertaken by the Treasury during January. Net public borrowing totaled only about $2,500,000,000 representing the sale of War and Savings bonds, Tax Savings notes, and net Treasury bill issues. In addition the Treasury sold for delivery on February 1, $2,211,000,000 of ⅞ per cent certificates of indebtedness, providing $623,000,000 of "new money" as well as funds for the redemption of $1,588,000,000 maturing certificates.

Sales of War and Savings bonds reached a record peak estimated at about $1,300,000,000 for the month, surpassing the previous high marks of $1,061,000,000 in January, 1942 and $1,014,000,000 in December, 1942. In part, the new high was accounted for by purchases of Series F and G bonds up to the $100,000 limit for any one calendar year. (The limit on such purchases in January, 1942 was $50,000.) Sales of Series E bonds, however, may also have exceeded the previous records of $667,000,000 in January, 1942 and $726,000,000 in December, 1942. Total sales during the calendar year 1942 amounted to $5,990,000,000 Series E bonds and $3,168,000,000 Series F and G bonds.

In the Second Federal Reserve District, sales of War and Savings bonds during January by agencies other than post offices were $200,000,000, an amount second only to the $254,000,000 sold in January a year ago and a substantial increase over the sales of $161,000,000 in December. Sales of Series E bonds, amounting to $112,000,000, exceeded the $94,000,000 sold in December, but fell short of the record $135,000,000 in January, 1942. Second District sales during the year 1942 by agencies other than post offices totaled $880,000,000 for Series E bonds and $806,000,000 for Series F and G bonds combined.

Sales of Tax Savings notes, which had reached a record high of $1,312,000,000 in the December Victory Loan Drive, are estimated at about $500,000,000 for the month of January. Redemptions approximated $100,000,000. During the four months starting in September, when the new series tax notes were first placed on sale, a total of $3,944,000,000 was sold. At the end of December, tax notes outstanding aggregated $6,384,000.000.

About $800,000,000 in "new money" was raised from the sale of Treasury bills during January, $200,000,000 from each of the four weekly offerings. Weekly bill offerings were increased from $600,000,000 to $700,000,000 on January 20, when maturities increased from $400,000,000 to $500,000,000.

On January 21, the Treasury announced the offering of approximately $2,000,000,000 of ⅞ per cent one year certificates of indebtedness dated February 1, 1943 to provide funds for the redemption of $1,588,000,000 certificates maturing on that date. Subscriptions to the new issue totaled $6,402,000,000 as compared with $3,105,000,000 on a similar certificate refunding operation in November. Allotments in full, totaling $1,163,000,000, were made to all subscribers other than banks which accept demand deposits. Allotments in full, totaling $309,000,000, were also made on bank subscriptions of $100,000 or less. The remaining commercial bank subscriptions were allotted on a 14 per cent basis. Of the total allotments, 49 per cent were taken in the Second Federal Reserve District.

Member Bank Credit

Between December 23, 1942 and January 20, 1943 total loans and investments of the weekly reporting member banks in New York City declined $69,000,000. In contrast, in the 100 cities outside New York, reporting member banks added $973,000,000 to their earning assets. In New York City there was a contraction of $545,000,000 in the volume of loans to brokers, dealers, and others for the purpose of carrying securities; most of this fall was due to repayment of funds borrowed during December to finance purchases of Government securities in the Treasury's Victory Loan Drive of that month. There was also a further decline of $109,000,000 in commercial, industrial, and agricultural loans outstanding; in all, loans were off $701,000,000. In addition, these banks lightened their holdings of Treasury bonds by $100.000,000 over the four weeks' period, and sold $74,000,000 net of Treasury notes. However, holdings of certificates of indebtedness were enlarged by $698,000,000, primarily reflecting purchases of the December issue for which the banks made payment on December 28. Treasury bill holdings of the New York banks were reduced $62,000,000 during the week ended December 30 but were increased $159,000,000 during the three following weeks.

Outside New York City, where bank loans were employed to a much smaller extent to finance purchases of Government securities in December, security loans of the weekly reporting member banks in 100 cities were off only $44,000,000. Commercial, industrial, and agricultural loans declined by $100,000,000, and total loans fell by $260,000,000. On the other hand, the reporting banks outside New York made substantial purchases of Government securities. Their holdings of Treasury bonds rose $127,000,000, of Treasury bills $238,000,000, and of certificates of indebtedness $866,000,000.

During the first three weeks of January, as the Treasury spent funds it had received from the sale of new issues of Government securities in December, more than half of the drop in adjusted demand deposits that had occurred during that month was recovered. For the member banks in 100 cities outside New York City, all of the loss was made up, and adjusted demand deposits reached a new peak of $18,311,000,000 on January 20, some $72,000,000 above November 25, 1942. In New York, however, adjusted demand deposits recovered only part of the December loss; by January 20 they were still $824,000,000 short of the November 25 level. Government deposits with the reporting member banks as a whole were drawn down, through calls on the War Loan deposits, from $6,756,000,000 on December 30 to $5,360,000,000 on January 20.

Ration Banking

The widening system of wartime rationing is now placing upon the commercial banks a new task, albeit in principle one logically related to their role in our normal distributive mechanism. Since late October an experimental test in "ration banking" has been in operation in the Albany-Troy-Schenectady area of New York State. The results of this test, designed as a laboratory model, indicated that the plan would be feasible for nation-wide use. On January 6 explanatory letters went out from the Office of Price Administration to all banks in the United States, to prepare them to institute, January 27, a plan to clear ration coupons through banking channels on a country-wide basis.

The transfer of hundreds of millions or billions of ration coupons (or stamps) from stage to stage through the channels of distribution is necessarily a complicated process. For this task, the banking system, with its experience and facilities for handling and clearing currency and checks, appeared uniquely adapted. Under the ration banking plan, individual consumers will not have their own ration coupon bank accounts; for that matter, neither will individual gasoline stations nor many small food retailers. Coupons will continue to be distributed to consumers, as in the past, by the local War Rationing Boards. Consumers will continue to turn over their coupons to retail merchants, in the usual way, in making purchases of rationed commodities. Ration banking comes into play in distribution and processing channels, as a machinery for gearing the wholesale trade in rationed commodities to the retail trade.

At the start, on January 27, only sugar, coffee, and gasoline are being included in the program. As ration coupons are received by larger retailers or wholesalers the latter will deposit them in special ration coupon bank accounts. A merchant will open his special coupon account or accounts in the bank which carries his regular checking account. A dealer in food, for example, will have a ration coupon account for sugar, stated in pounds, and another in coffee, again stated in pounds. Special deposit slips and check books will be provided so that a dealer, in replenishing his stock of a rationed item, can transfer to his supplier, simply by drawing a check, the amount of ration coupons which he has received from his customers. Claims against the ration coupons deposited in the first instance at a bank may thus be transferred from stage to stage through the distribution and processing channels without subsequent physical rehandling of the coupons.

Amalgamation of Sterling Accounts

On January 26 the British Treasury announced that arrangements had been completed to simplify the management of sterling accounts held by residents of the United States. It will be recalled that since July, 1940 there have been three principal types of such sterling accounts, namely, United States registered, United States sterling area, and "old" ("free") accounts. As of February 2, the latter two will be converted into United States registered accounts. This will have the effect of extending to sterling area and "old" ("free") accounts the guarantee of convertibility into dollars at the rate of $4.02½, which has heretofore applied only to registered accounts. By virtue of this amalgamation, holders of the former accounts are enabled, after February 2, to use their sterling funds for the payment of sterling area exports which heretofore required registered sterling. In connection with this conversion and amalgamation, which it is expected will result in the elimination of New York quotations for "free" sterling, registered accounts may be opened in the names of individuals, as well as banks and corporations to which they had been limited in the past.

New Security Issues

During January, domestic corporate and municipal new security financing amounted to about $61,000,000 as compared with $93,000,000 in the previous month. In addition, the Dominion of Canada provided the first market offering of foreign Government obligations in recent years with the sale of $90,000,000 refunding bonds. Corporate issues amounted to only $9,000,000, the lowest for any month in recent years. Municipal awards, which aggregated about $52,000,000, included an issue of $37,013,000 New York City Housing Authority 2 to 4½ per cent refunding bonds maturing from 1944 to 1981, awarded at a net interest cost of 2.13 per cent and reoffered to yield from 0.70 to 2.14 per cent.

The Dominion of Canada financing consisted of three $30,000,000 issues: 2½ per cent bonds due in 1948, priced at par; 3 per cent bonds due in 1953, priced at 100½ to yield 2.94 per cent; and 3 per cent bonds due in 1958, priced at 98½ to yield 3.13 per cent. At the close of the month, market quotations on the three issues had advanced to a point where the yields were 2.23, 2.81, and 2.95 per cent, respectively, at the bid prices.

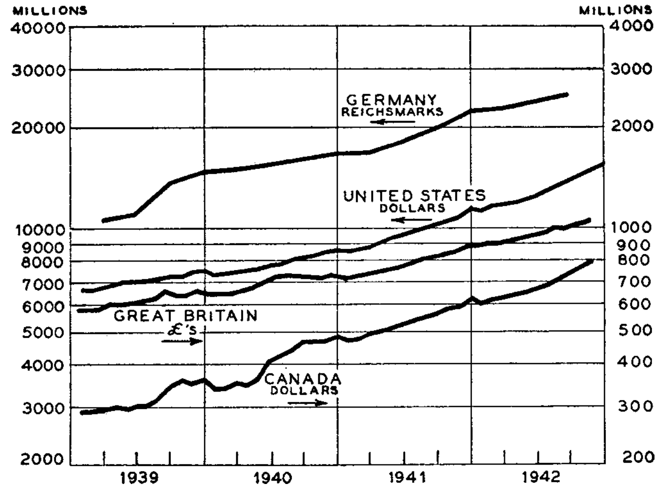
Security Markets

The Government security market displayed considerable strength during January. This strength was due to a variety of factors including the release of uninvested funds which had been held as cash over the year end for statement purposes, and the success of the December Victory Loan Drive. Interest in intermediate and long term Treasury bonds was most apparent during the first week of January and near the end of the month, while notes of longer maturities, certificates of indebtedness, and discount bills were in active demand throughout the month. The average yield on the taxable 3 to 5 year Treasury notes declined 0.13 to 1.26 per cent between December 31 and January 30. On January 30 the 1¾ and 2½ per cent Treasury bonds issued in December were selling at premiums of about ½ point. The new ⅞ per cent certificates of indebtedness to be issued on February 1 were quoted on a yield basis of 0.77 at the close of the month.

Movement of Stock Prices (Standard and Poor's 90 stock index; 1926=100 per cent)

Prices of municipal bonds held steady from the middle of December to the middle of January, following the downward reaction of early December. During the second half of January a slight recovery took place, as is indicated by a decline of 0.02 to 2.26 per cent between January 13 and 27 in the average yield on prime municipal bonds computed by Standard and Poor's Corporation. Accompanying a considerable increase in market activity, domestic corporation bond prices continued to rise in January. The principal strength was shown among the medium and lower grade railroad issues, which gained approximately 4 points on the average, according to Moody's Investors Service index of Baa railroad bonds.

Stock prices again moved up in January, extending the general advance which got under way last May. In this nine month period, the general level of stock prices rose nearly 40 per cent, according to Standard and Poor's index of 90 stocks. At the end of January the index was about 7 per cent higher than a month earlier and at the highest point since September, 1941.



Currency in Circulation in Four Countries (Plotted on ratio scale to show proportionate rates of increase)

Wartime Increases in Currency Circulation—Four Major Countries

The adjoining chart compares the increases since early in 1939 of currency in circulation in the United States, Great Britain, Canada, and Germany. A semi-logarithmic scale is used to facilitate comparison of the *rates* of increase.

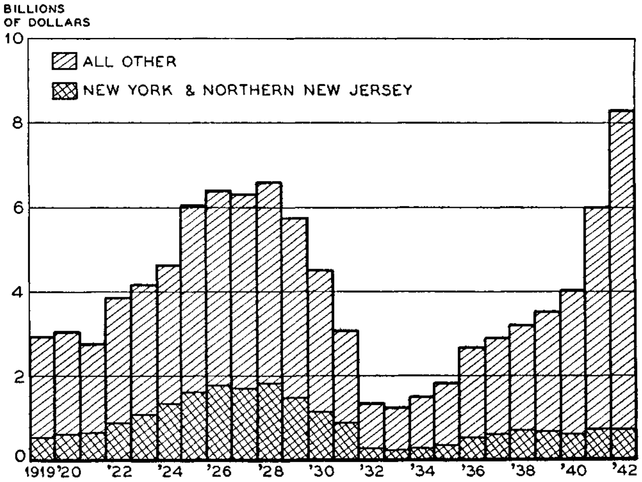
Currency in circulation has risen sharply in all four countries since the beginning of the war—in general, more sharply than bank deposits. These increases stem directly from the higher levels of business activity and national income arising out of the war. The expansion in currency circulation frequently has been more rapid than the rise in the national income. This tendency is explainable in large measure by the fact that income payments to wage earners, who predominantly use cash rather than checks, have risen at a considerably faster rate than the total of income payments. Beyond that, there appears to have been in a number of countries an increased preference since the beginning of the war for currency as compared with bank deposits. A number of reasons have been cited for this shift. In many countries, numerous individuals apparently have been induced to hold a larger proportion of their incomes in the form of cash because of such factors as the fear of unforeseeable emergencies arising out of wartime conditions, migration from one area to another, disruption of the normal channels of trade, reduction in banking facilities in some areas, and lowered interest rates on deposits. Other factors leading to an increased proportion of cash to deposits may have been "black market" transactions, and efforts by some persons to conceal income and thus to evade taxation. In the case of Germany a minor factor has been the extension of the use of German currency to annexed territories, such as the Sudetenland, Danzig, Memel, Luxembourg, and Alsace-Lorraine.

The chart reveals a rather striking parallelism in the rates of change of monetary circulation in the four countries, particularly after the end of 1940, indicating the basic underlying similarity of forces at work. The greater proportionate rise in the case of Canada, particularly from the beginning of the war to the end of 1940, corresponds to the somewhat more rapid rate of expansion of national income during this period in Canada than in the other three countries.

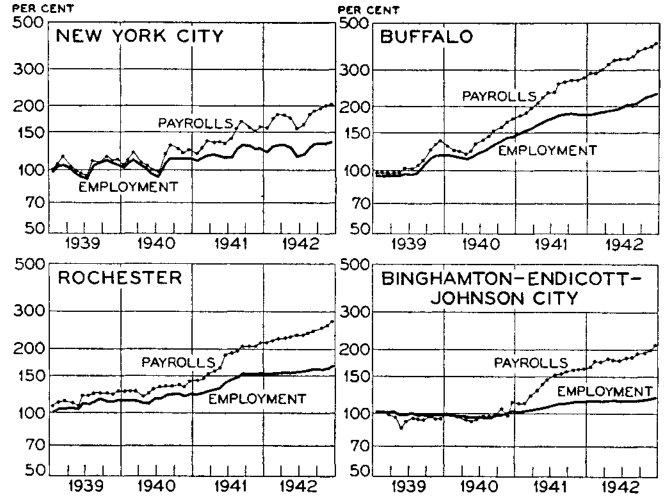
The sharp rise in British currency circulation from May to August, 1940, apparently reflected note hoarding induced by the collapse of France. This was also the period of the sharpest rise in Canadian currency circulation. It is of interest to note that the rate of expansion of German circulation was considerably less in 1940 than in 1939, 1941, and 1942. This may have been due in part to the belief which is said to have prevailed among sections of the German population, after the fall of France, that an early peace was in prospect; such a belief would have tended to encourage bank deposits and reduce note hoarding. In the main, however, the smallness of the 1940 increase in German currency circulation was probably due to the fact that the German invasion armies, which had been paid in reichsmarks while on German soil, were paid in a special currency (Reichskreditkassenscheine) in the occupied territories; this special currency is not included in the statistics of German currency circulation. The curve for the United States reveals a remarkably smooth upward trend throughout the entire period, although the rate of growth increased somewhat in 1942 as a result of the greatly accelerated mobilization of the American economy after Pearl Harbor.

Building

During the year 1942 the total volume of construction contracts awarded in 37 Eastern States was the largest on the records of the F. W. Dodge Corporation. The year's total exceeded 1941 by roughly one third and topped the previous peak of 1928 by a substantial margin. The tremendous demands of the war construction program much more than offset the sharp curtailment of private construction which became neces-



Value of Construction Contract Awards in New York and Northern New Jersey and in All of the 37 States Covered in the Reports of F. W. Dodge Corporation



Factory Employment and Payrolls in Selected Industrial Areas in New York State, as Reported by New York State Department of Labor (1935-39 average=100 per cent; data plotted on ratio scale to show proportionate changes)

sary during 1942 in order to conserve critical materials. During the current year the volume of war plant construction is expected to drop sharply, releasing a large supply of materials and labor which can be used effectively in putting new plants into operation.

As the accompanying chart indicates, construction contract awards in New York and Northern New Jersey during 1942 ran at about the same level as in 1941, and accounted for slightly less than one tenth of total contract awards in the 37 Eastern States. The same ratio also applies to the distribution of public construction awards during 1942. It is clear that the reduced proportion of construction work in this area is but another aspect of the fact that war production centers have been developed in other sections of the country to a relatively greater extent than in the New York area. In the 1930's, the total volume of construction contract awards in New York and Northern New Jersey accounted for a little over one fifth of the total for the 37 States. During the 1920's, when building was exceptionally active in this region, the proportion was about one fourth of the 37 State total.

Employment and Payrolls

Factory employment in New York State increased 10 per cent during the course of 1942, and factory payrolls increased 34 per cent over the year. According to the State Department of Labor, average weekly earnings in factories were $41.52 in December, 1942, as compared with $34.07 in December, 1941, and $26.23 in August, 1939. From mid-November to mid-December, 1942, employment in manufacturing industry in New York State expanded 1½ per cent, and payrolls 3½ per cent. Employment in war plants increased generally throughout the State, more than compensating for a slight reduction in the working forces engaged in the manufacture of food products, chemicals, apparel, and petroleum products. Payrolls increased in all major industrial groups except apparel and petroleum.

The impact of the war on manufacturing employment and payrolls has varied considerably among certain of the industrial areas in the State, as may be seen from the accompanying chart. In the Buffalo and Albany districts, factory employment has roughly doubled and payrolls quadrupled since August, 1939. In Utica, where employment increased 59 per cent in the same period, payrolls were almost three and one-half times as great as in August, 1939. In general, manufacturing employment and payrolls have expanded most rapidly in the "heavy" manufacturing centers, where industrial capacity could be easily converted to making war equipment. On the other hand, in centers where production of nondurable or semidurable consumer goods is of predominant importance—New York City and Binghamton are examples—expansion in employment has been comparatively moderate, though increases in payrolls have frequently been very substantial. In Binghamton, where employment has increased only 20 per cent over the war period, payrolls have more than doubled. Employment and payrolls in New York City, showing their usual wide seasonal fluctuations, were 29 and 84 per cent larger, respectively, in December, 1942 than when war broke out in Europe.

Production and Trade

The 1943 war production program, while providing for a lean but sound and healthy civilian economy, anticipates munitions production double that of 1942, according to a joint statement by the War Production Board and the War and Navy Departments. The program calls for about twice the number and four times the weight of planes produced last year, more than twice the merchant ship tonnage, a considerable increase in the naval escort program, and more combat vessels.

Preliminary information now at hand indicates that the high level of industrial activity reached late in 1942 was at least maintained during January. Although steel production was temporarily reduced somewhat during the early days of the month, owing to interruptions caused by flood conditions in some producing areas, the operating rate subsequently recovered to the highest point since the end of October, and for the month as a whole production was probably about the same as in December. Electric power production appears to have continued near the record level reached in December, whereas some decline usually occurs between December and January. The daily output of the bituminous coal mines during the first half of January ran at a somewhat higher rate than in December, but the production of anthracite was curtailed owing to the strike affecting mines in the Pennsylvania fields. Production of crude petroleum in January continued at about the same rate as in recent months.

Production and Trade in December

In December the seasonally adjusted index of production and trade computed at this bank declined to 123 per cent of estimated long term trend, 2 points below the record figure for November, but 10 points above that for December, 1941. The decline in December was largely attributable to the failure of retail trade to increase as much as in most other years from the level reached last November, when sales were enlarged by a considerable amount of early Christmas shopping. After adjustments for seasonal variations, sales by department stores, chain store systems, and mail order houses were all lower in December than in November.

Productive activity advanced slightly further in December, although the various component groups of the production index showed relatively minor changes from the preceding month. Although the production of war goods continued to mount, the index of output of producers' durable goods was little changed between November and December largely owing to an offsetting decline in nonresidential construction and a slight reduction in steel mill operations. Electric power production, which generally reaches its yearly peak in December, showed more than the usual increase over November. The daily rate of cotton consumption dropped a little below the high level maintained during the earlier months of the year.

	1941	1942		
	Dec.	Oct.	Nov.	Dec.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	113	122	125p	123p
Production	118	131	134p	135p
Producers' goods—total	133	168	171p	171p
Producers' durable goods	146	202	206p	206p
Producers' nondurable goods	119	128	131p	131p
Consumers' goods—total	101	86	88p	90p
Consumers' durable goods	74	37	38p	39p
Consumers' nondurable goods	110	103	105p	107p
Durable goods—total	124	154	157p	157p
Nondurable goods—total	114	113	116p	117p
Primary distribution	121	139	138p	136p
Distribution to consumer	98	91	93p	84p
Miscellaneous services	111	135	138p	139p
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	111	119	120	120
Wage Rates (100 = 1926 average)	131	143	144	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	64	60	62	69
Outside New York City	93	81	82	82

p Preliminary. * Adjusted for seasonal variation.

Department Store Trade

For the three weeks ended January 23, sales of the reporting department stores in this District were about 6 per cent below the corresponding period last year. In January, 1942, however, sales were unusually active, as actual or threatened shortages of certain articles, together with the prospect of higher prices, resulted in a heavy buying wave that affected many lines of goods. On the basis of the three weeks' figures for January, 1943, it appears that the decline in sales from December to January was somewhat less than is usual between these two months.

During December department store sales in this District were 7 per cent higher than in December, 1941, and 4 per cent above December, 1929. The rise in sales between November and December, 1942, however, was somewhat smaller than in many other years. For the year 1942, sales were 7 per cent higher than for the year 1941, compared with an increase of 13 per cent between 1940 and 1941.

Stocks on hand of the reporting department stores in this District, which started falling off in August, 1942 after a prolonged rise beginning in June, 1941, continued to decline rapidly through December 31, 1942. The index for December was only 12 per cent higher than in December, 1941. Figures received from a limited number of department stores in this District indicate that at the end of December outstanding orders for merchandise purchased by the stores, to be delivered to them at a later date, were 11 per cent below November, 1942, but were still 31 per cent higher than in December, 1941.

Department stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand, December 31, 1942
	December, 1942	Jan. through Dec., 1942	
New York City	+ 7	+ 6	+14
Northern New Jersey	+ 2	+ 3	+13
Newark	+ 3	+ 5	+13
Westchester and Fairfield Counties	+11	+12	+ 9
Bridgeport	+10	+13	+ 7
Lower Hudson River Valley	+ 3	+ 4	− 5
Poughkeepsie	+ 4	+ 7	—
Upper Hudson River Valley	− 1	− 1	+ 5
Albany	− 6	− 8	—
Central New York State	+10	+11	+ 6
Mohawk River Valley	+19	+23	+24
Syracuse	+ 6	+ 8	0
Northern New York State	+ 2	− 3	—
Southern New York State	+12	+10	+21
Binghamton	+10	+ 7	—
Elmira	+ 5	+11	—
Western New York State	+10	+12	+ 5
Buffalo	+10	+14	+ 7
Niagara Falls	+26	+35	0
Rochester	+10	+ 9	+ 2
All department stores	+ 7	+ 7	+12
Apparel stores	+12	+ 7	+ 6

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

	1941	1942		
	Dec.	Oct.	Nov.	Dec.
Sales (average daily), unadjusted	194	130	144	215
Sales (average daily), seasonally adjusted	107	115	121	119
Stocks, unadjusted	105	158	151	118
Stocks, seasonally adjusted	108	145	134	121

Labor Markets and Migration

In an effort to promote more deliberate consideration of local labor resources in the allocation of war contracts, in early January the War Manpower Commission again classified the industrial areas of the United States according to the adequacy of their labor supplies. Although the Commission acknowledged that factors other than the immediate availability of labor might well be paramount in procurement policy, it advised, where possible, against renewal of old or allocation of new contracts to areas of acute labor shortage, those classified in Group I. In the Group II areas, where the labor market is currently in balance but unable to meet further demands upon it, the Commission recommended the renewal of contracts not in excess of current volumes. In general, to ease the pressure on manpower resources in the various localities, the War Manpower Commission asked that "all possible effort should be made to renew contracts, place new contracts and locate new production facilities" in areas of labor surplus, that is, centers classified in Group IV.

It is apparent from the classification of Second District industrial areas given below, that although the largest city in the District is still an area of labor surplus, most of the important industrial centers have reached about as high a level of employment as they can at present attain with the local labor supply.

Group I Areas of acute labor shortage:
- Connecticut—Bridgeport
- New York —Buffalo

Group II Areas of approximate balance of labor supply and demand:
- Connecticut—Stamford
- New Jersey—Morristown, Newark, Paterson, Jersey City, Perth Amboy, Long Branch
- New York—Albany, Elmira, Rochester, Utica

Group III Areas where current balance of labor market is expected to last six months:
- Connecticut—Norwalk
- New York—Auburn, Batavia, Binghamton, Dunkirk, Jamestown, Kingston, Newburgh, Poughkeepsie, Sidney, Syracuse, Watertown

Group IV Areas of labor surplus:
- New York—New York City, Yonkers, Central Long Island

It is generally true throughout the country that those cities which are currently short of labor are the same cities which received considerable additions to their working forces between 1940 and 1942. In those years a substantial migration occurred to industrial centers participating heavily in the production of war materials and, to a lesser extent, to those communities near large military encampments. The movement originated, on the other hand, in communities where industry had proved less adaptable to war production.

Although large scale migration is not a new phenomenon in this country, considerable attention has been drawn to the migration which occurred after the beginning of the defense program. The registration for sugar ration books in May, 1942, provided a count of civilian population at that time, and a comparison with the census of April, 1940, yields a basis for appraising changes in population which occurred between the two dates. Although it is estimated that civilian population in the country as a whole was virtually unchanged in the two years, the regional figures may reflect withdrawals to the armed forces, as well as migration.

For the nation as a whole, population increases from 1940 to 1942 were reported in the Pacific. South Atlantic and East North Central States. Of the New England and Middle Atlantic States, only Rhode Island, Connecticut, and New Jersey have shown gains. The civilian population of Connecticut increased 67,000 or 3.9 per cent in the period, and that of New Jersey increased by 85,000 or 2.0 per cent, while New York State lost 506,000 or 3.8 per cent of its 1940 civilian population. The largest absolute population gains were recorded by California with 303,000 and Michigan with 312,000. The population of the Detroit area alone increased by 336,000 persons.

In Second District metropolitan areas, listed below, population gains were registered only in Buffalo and Bridgeport. There occurred a net influx of about 31,000 persons into Bridgeport in the two years; in the same period, Buffalo's civilian population increased by 12,000 or 1.3 per cent. Labor shortages, however, have developed in both localities despite the inward migration.

It would seem possible that some in-migration of civilian workers occurred in the Albany area, but a definite outward movement from the Rochester, Syracuse, Binghamton, and the New York City-Northeastern New Jersey areas is indicated. There can be no doubt that there was a decided movement of civilian population from the Utica-Rome area. Although detailed information is lacking on the New York City-Northeastern New Jersey figures, in view of the high level of war production in the New Jersey portion of the metropolitan area and the relatively less favorable condition of many of New York City's industries, it is probably true that most of the 365,000 decline in civilian population occurred in New York City proper.

While areas of labor surplus remain, it should be noted that the number of such areas has been steadily diminishing, and the amounts of unutilized labor resources in them have been tending to contract. Difficulties of finding adequate help in the centers of most intensive war activities operate two ways in reducing surplus labor resources in other areas, on the one hand through migration, and on the other hand through leading to the allocation of additional primary contracts or subcontracts in the latter areas. So far as there is a choice between the two methods of gaining full utilization of the national labor resources, the allocation of additional contracts to the surplus areas has clear-cut advantages, involving as it does, an absence of the social and economic problems of migration.

Estimated Changes in Civilian Population, 1940-42
Selected Industrial Areas of the Second Federal Reserve District

Area and labor market classification	Civilian population April 1, 1940	Change in civilian population April, 1940 to May, 1942	
	Persons	Persons	Per cent
Albany-Schenectady-Troy (II)	466,000	— 2,000	—0.4
Binghamton (III)	166,000	— 6,000	—3.6
Bridgeport (I)	418,000	+ 31,000	+7.4
Buffalo-Niagara (I)	958,000	+ 12,000	+1.3
New York City (IV)-Northeastern N.J. (II)	11,117,000	—365,000	—3.3
Rochester (II)	438,000	— 15,000	—3.4
Syracuse (III)	295,000	— 7,000	—2.4
Utica-Rome (II)	263,000	— 22,000	—8.4

Source: U. S. Bureau of the Census.

Business and Financial Conditions in the United States

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

INDUSTRIAL activity continued at a high level in December and the first half of January and distribution of commodities to consumers was sustained. Prices of farm products and retail foods advanced further, while prices of most other commodities showed little change.

Production

Industrial production in December showed less than the usual decline from November and the Board's seasonally adjusted index rose two points further to 196 per cent of the 1935-39 average. Munitions output continued to increase, raising total durable goods production to a level 33 per cent higher than in December a year ago, while for the same period production of nondurable goods was only 4 per cent larger and mineral output was somewhat lower.

Steel production in December and the first half of January averaged 97 per cent of capacity, down slightly from the October and November levels. Total steel production for the year showed a 4 per cent increase over 1941 while the output of steel plate, important in shipbuilding and tank production, rose 90 per cent over the previous year. This increase over a year ago was largely obtained by conversion of existing facilities. Output of lumber, and stone, clay, and glass production in December showed larger declines than are usual at this time of year.

Output of nondurable goods showed little change from November to December. Textile production continued at the high level which had prevailed for the past year and a half. Meat packing increased sharply, reflecting exceptionally large hog slaughter and output of most other manufactured foods was maintained at a high level.

Mineral production was lower in December, reflecting a decline in coal output from the peak reached in November. Bituminous coal production in 1942 was the second largest in the history of the industry, averaging 13 per cent greater than 1941. Crude petroleum production in December continued at the level of earlier months and for the entire year was slightly lower than 1941, reflecting transportation shortages. In the first half of January production of bituminous coal and petroleum was maintained, but a number of anthracite mines were closed by an industrial dispute.

Value of construction contracts awarded in December, according to the F. W. Dodge Corporation, was somewhat higher than in November. Contracts for apartment-type buildings for housing war workers continued to rise and public works increased sharply, while awards for manufacturing buildings declined further.

The value of construction was 3.2 billion dollars in the fourth quarter of 1942, according to preliminary estimates of the Department of Commerce. This was about 25 per cent lower than the peak of 4.3 billion reached in the previous quarter, but slightly higher than that of the fourth quarter of 1941. Installations for direct military use and industrial facilities accounted for almost three quarters of the total, and residential building contributed somewhat less than half of the remainder. For the year as a whole, construction is valued at 13.6 billion dollars—of which almost four-fifths was publicly financed—an increase of one-fifth over 1941. The increase took place entirely in military and industrial projects, which rose 4.4 billion dollars. All other types of construction declined.

Distribution

Distribution of commodities to consumers was maintained at a high level in December and the first half of January, after allowance for the sharp fluctuations that are customary at this time of year. The 1942 Christmas buying season exceeded that of any previous year, value of sales at department stores, for example, being about 15 per cent larger in November and December than in the corresponding period of 1941. The increase over the year period reflected in part price advances but there was also an increase in the volume of goods sold.

Freight car loadings declined about the usual seasonal amount in December, and the Board's adjusted index remained at 134 per cent of the 1935-39 average. Grain, livestock, and miscellaneous loadings rose somewhat on a seasonally adjusted basis, while coal and other products declined slightly.

Commodity Prices

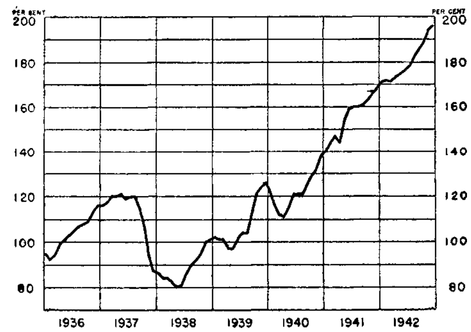
Prices of agricultural commodities advanced sharply from the early part of December to the middle of January. Maximum prices designed to restrict further increases were issued for some of these commodities, including corn and mixed feeds. For certain other products, however, like potatoes and truck crops, Federal price supports were increased. Wholesale prices of most other commodities continued to show little change.

From mid-November to mid-December retail food prices advanced 1.6 points to about 133 per cent of the 1935-39 average. Further increases in these prices are indicated in January as a result of advances permitted recently in maximum levels for such items as flour, milk, and poultry.

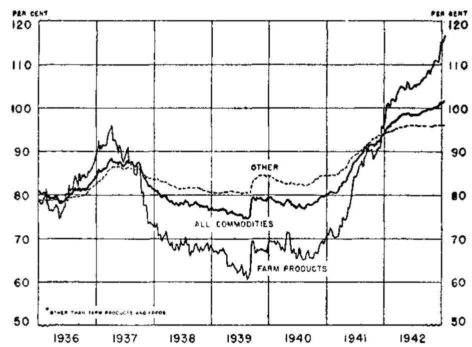
Bank Credit

Excess reserves of member banks declined sharply in the last week of December, and during the first half of January they averaged about 2.2 billion dollars, as compared with 2.5 billion for most of December. Large payments to the Treasury for new securities, some increase in currency, and other end-of-year requirements were responsible for drains on reserves during the last week of December. There were, however, substantial sales of Treasury bills to Federal Reserve Banks under options to repurchase. In the early part of January, reduction in Treasury balances at the Reserve Banks and a return flow of currency supplied banks with additional reserves, and some of the bills sold to the Reserve Banks were repurchased. During this period Reserve Bank holdings of Government securities, which had increased to 6.2 billion dollars by December 31, declined to below 6 billion.

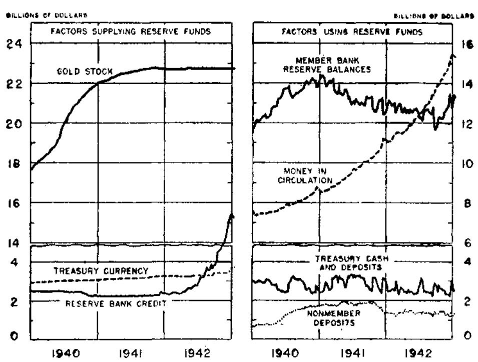
Reflecting largely purchases of the ⅞ per cent certificates of indebtedness delivered in the week of December 30, holdings of direct and guaranteed Government obligations at reporting member banks in 101 cities increased by 1.8 billion dollars to 28 billion over the four weeks ended January 13. New York City banks took 640 million of the 1.5 billion dollars of certificates sold to reporting banks. Commercial loans in New York City declined by 90 million dollars; outside New York there was little change. Loans to brokers and dealers rose sharply in December during the Victory Fund campaign, but declined correspondingly in the following weeks. Other loans continued to decline.



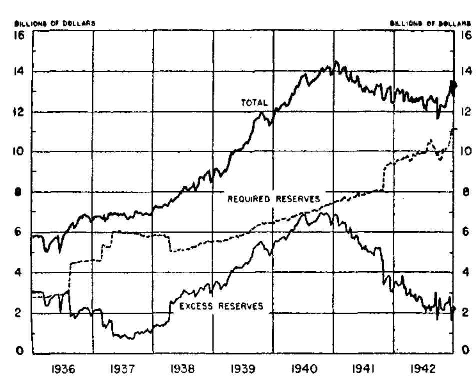
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Member Bank Reserves and Related Items (Latest figures are for January 13)



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves (Latest figures are for January 13)