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Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN FEBRUARY

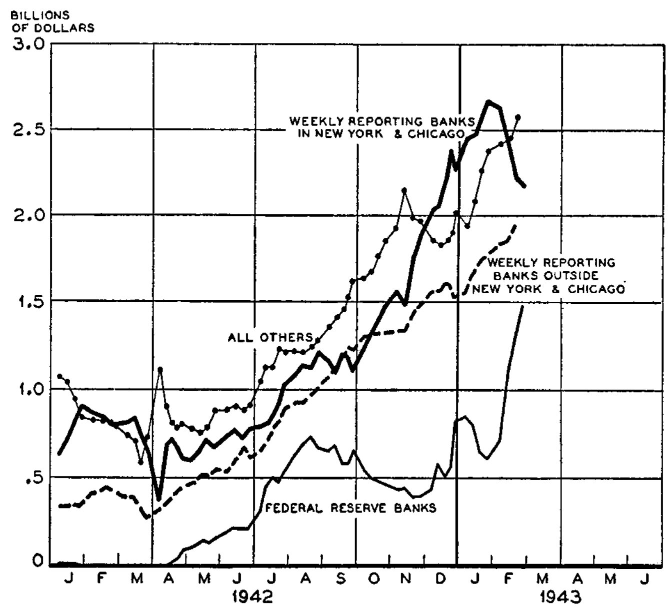
As in January, Government securities were generally in demand during February although the volume of transactions diminished. Prices of Treasury bonds and notes in most instances stayed at or above the advanced levels reached toward the end of January, except for a gradual decline in premiums on the longer term taxable bonds toward the close of the month. The market for outstanding issues of certificates of indebtedness was active throughout the month. In view of the demand for Treasury securities in the market, the Federal Reserve Banks reduced their holdings of bonds, notes, and certificates. Federal Reserve Bank holdings of certificates of indebtedness, which had increased $46,000,000 during January, were reduced by $293,000,000 between January 27 and February 24; holdings of notes were reduced by an additional $101,000,000, and holdings of bonds by $282,000,000. On the other hand, the aggregate Federal Reserve bill portfolio was enlarged to the extent of $878,000,000, in considerable part through purchases from banks in need of additional reserve funds.

Federal Reserve Bank Holdings of Government Securities
Direct and Guaranteed (In millions of dollars)

	Bills	Certificates of Indebtedness	Notes	Bonds	Total
December 30	823	1,033	1,344	2,789	5,989
January 27	611	1,079	1,321	2,718	5,729
February 24	1,489	786	1,220	2,436	5,931
Change, Dec. 30—Jan. 27	— 212	+ 46	— 23	— 71	— 260
Change, Jan. 27—Feb. 24	+ 878	— 293	— 101	— 282	+ 202

Accompanying further expansion in the outstanding supply of Treasury bills, at the rate of $200,000,000 a week, substantial additional amounts of bills were absorbed by banks, except in New York and Chicago, and by other investors. Banks in New York and Chicago, which had invested surplus funds by adding to their bill holdings during January, sold bills during February, making use of the ⅜ per cent bill buying rate of the Federal Reserve Banks, in the adjustment of their reserve positions.

Recourse to sales of bills to the Reserve Bank by the New York City banks, in the adjustment of their reserve positions, had been anticipated since the first part of the year. At the end of December, 51 per cent of the War Loan account deposits of the country were concentrated in this city. Inasmuch as not nearly half of the Government checks drawn to pay Government expenditures are deposited in New York, it was to be expected that the amount of funds drawn out of the New York market by calls on War Loan deposit accounts would be substantially greater than the amount of funds returning to these banks as a result of Government expenditures. In the absence of large excess reserves this would rather quickly create a need for sales of bills on the part of the New York institutions in order to maintain their reserve positions. As it turned out, Treasury operations taken by themselves drew roughly $300,000,000 out of the New York money market during January, but there was an unanticipated inflow of business funds to New York of approximately $400,000,000. Thus, the need to lighten bill holdings did not arise during January; instead, freely making use of the excess reserves available to them, the New York banks were able substantially to enlarge their bill holdings during the course of that month.



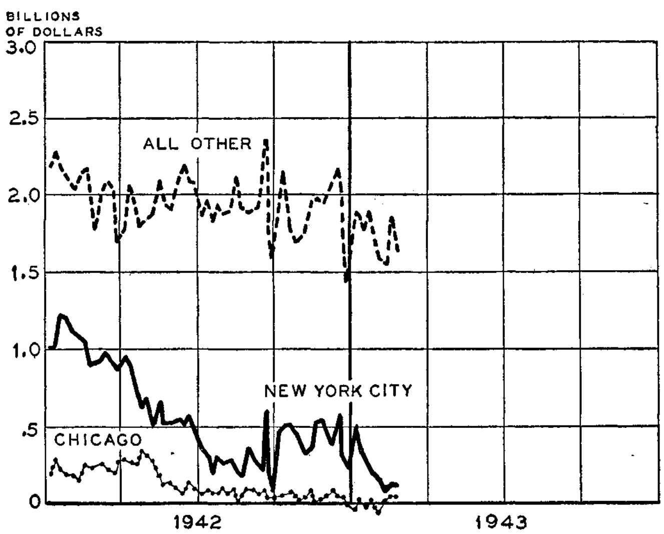
Outstanding Treasury Bills, Classified as to Ownership

During February the drain of funds through Treasury operations was greater than it had been in January, while the gain of business funds diminished. With their excess reserves at much reduced levels, a number of the individual New York banks found it necessary to sell bills to the Reserve Bank, frequently under repurchase option, in order to maintain their reserve balances at the legally required levels. By adding to their bill holdings when gaining reserve funds, and by disposing of bills when in need of additional reserve funds, most of the New York banks in recent weeks have kept their available funds quite fully employed, and yet experienced no difficulty in adjusting their reserve positions when required. Despite their sales of bills, the weekly reporting New York banks still retained $1,720,000,000 on February 24.

Distribution of Treasury Bills (In millions of dollars)

	Total outstanding	Held by Federal Reserve Banks	Held by weekly reporting member banks			Holdings other than by F. R. Banks and weekly reporting member banks
			New York City	Chicago	99 other centers	
December 30	6,627	823	1,818	441	1,527	2,018
January 27	7,423	611	2,079	586	1,768	2,379
February 17	8,029	1,287	1,736	479	1,939	2,588
Change, Dec. 30—Jan. 27	+796	—212	+261	+145	+241	+361
Change, Jan. 27—Feb. 17	+606	+676	—343	—107	+171	+209

Between January 27 and February 24 excess reserves of all member banks declined $300,000,000, or from $2,090,000,000 to $1,790,000,000. A further expansion in currency circulation, amounting to $514,000,000, was the principal factor over this period tending to draw down excess reserves. As counteracting influences, Federal Reserve Bank holdings of Government securities increased $202,000,000, net, and reserve requirements declined by $60,000,000. Treasury operations had little net effect over the four weeks on the reserve position of member banks taken as a whole. The bulk of the excess reserves of member banks was held by reserve city and "country" banks, about equally divided between the two classes.



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

War Loan Deposit Accounts

As in January, the Treasury employed calls on War Loan deposit accounts, together with receipts from the weekly sales of Treasury bills and cash receipts from the sale of Savings bonds and Tax notes, to cover Government expenditures and to maintain moderate working balances with the Federal Reserve Banks. Calls on War Loan deposit accounts during February totaled $2,936,000,000, although the reduction in balances in the War Loan account depositaries was considerably less than this figure, inasmuch as there was a constant flow of credits to these accounts through the use by qualified depositaries of the book credit method of payment for part of the purchases of Savings bonds of Series E, F, and G and Tax Savings notes by their customers. Of the total sales of Savings bonds and Tax Savings notes during the first 25 days of February, approximately 36 per cent of the payments were made by the book credit method. While this proportion is low in comparison with the proportions of book credit payments on the sales of certificates of indebtedness and Treasury bonds during the December Victory Loan Drive, and apparently evidences a lack of familiarity of some banks with the fact that qualified depositaries may employ the book credit method in paying for Savings bonds and Tax notes purchased by their customers, book credit payments for Savings bonds and Tax notes have been rising markedly in relation to the volume of sales of these securities. During the first quarter of 1942, for example, less than 10 per cent of the payments for Savings bonds and Tax notes were made by credits to War Loan account deposits.

Money Rates in New York

	Feb. 28, 1942	Jan. 30, 1943	Feb. 27, 1943
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper-4 to 6 months	⅝	⅝–¾	⅝–¾
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on taxable Treasury notes (3-5 years)	0.94	1.26	1.25
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.15	2.06	2.05
Average yield on taxable Treasury bonds (not callable within 12 years)	2.39	2.32	2.32
Average rate on latest Treasury bill sale 91 day issue	0.266	0.370	0.374
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

Continuous efforts are being exerted in this and other Federal Reserve Districts to enlarge the number of qualified War Loan account depositaries. In comparison with 436 at the end of October, 465 at the end of November, and 660 at the end of December, there are now about 800 qualified depositaries in the Second Federal Reserve District. These efforts are being made in preparation for the next large Victory Loan Drive scheduled for April. General use of the book credit method by banks at that time in making payments for Government security purchases (purchased by them or by their customers) will, as in December, make a large contribution to the stability of bank reserve positions and the money markets.

MEMBER BANK CREDIT

Although almost no change was recorded in the total volume of loans and investments of the weekly reporting member banks in 101 leading cities between January 20 and February 17, there were markedly divergent movements in New York City and in the 100 other cities.

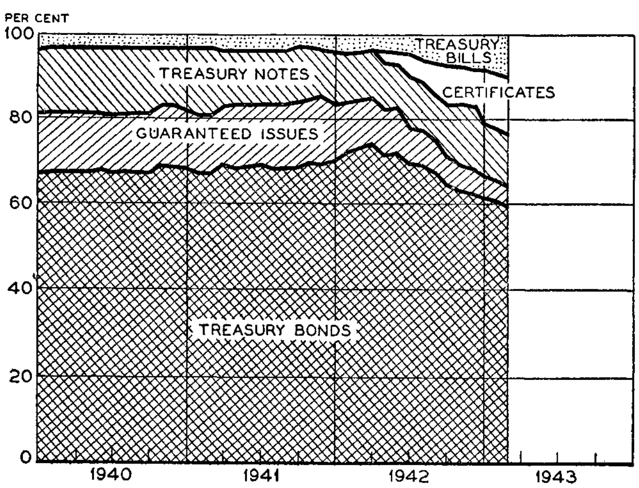
In New York total loans and investments declined $256,000,000, as reporting member banks reduced their holdings of Government securities $312,000,000. These banks sold $241,000,000 of Treasury bills, $74,000,000 of Treasury notes, and failed to replace their holdings of the maturing ⅝ per cent certificates of indebtedness with the new ⅞ per cent issue on February 1 to the extent of roughly $90,000,000. Purchases of certificates during the following week, however, resulted in a net decline of $60,000,000 for the four weeks. On the other hand, $73,000,000 of Treasury bonds were added to their Government securities portfolios, and total loans increased $74,000,000 over the period owing principally to a $66,000,000 rise in loans to brokers and dealers.

Outside New York, the weekly reporting member banks in 100 cities added $260,000,000 to their loans and investments between January 20 and February 17. To their Government security holdings these banks added $392,000,000, $86,000,000 in Treasury bills, $45,000,000 in Treasury notes, and $152,000,000 in Treasury bonds. These banks also made net purchases of $118,000,000 of certificates of indebtedness, roughly $85,000,000 of which reflected an excess of purchases of the new issue over the maturing issue on February 1. Loans of the reporting banks outside New York declined $115,000,000 during the four weeks' period, principally as the result of a $101,000,000 contraction in commercial, industrial, and agricultural loans.

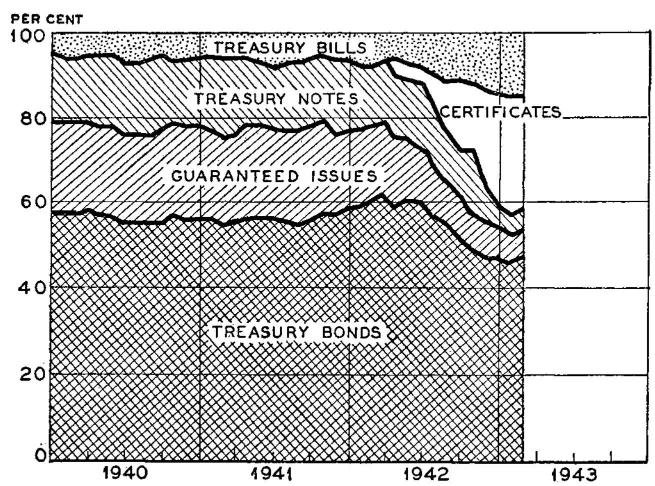
Adjusted demand deposits of the weekly reporting member banks in 101 cities rose $1,148,000,000 between January 20 and February 17. In New York such deposits rose $437,000,000, but were still $387,000,000 below the previous peak of November 25. In the 100 other centers, however, adjusted demand deposits rose $711,000,000 to a new peak, $783,000,000 above the November 25 level. Government deposits with the reporting member banks in 101 cities were drawn down $1,420,000,000 further to $3,940,000,000.

Accompanying the marked expansion in short term Government securities relative to the total public marketable debt, commercial bank Government security portfolios over the past year have shown a substantially increased proportion of short term obligations in their total holdings. These developments are illustrated in the accompanying charts.

In the case of the public debt outstanding, the Treasury has stepped up sharply over the past year its outstanding issues of short term securities. Between February 18, 1942 and February 17, 1943 the weekly offerings of Treasury bills were raised from $150,000,000 to $700,000,000, and in April, 1942 the Treasury revived the use of certificate of indebtedness financing. Together, Treasury bills, which usually run for 91 days, and certificates, which run up to one year, accounted



Percentage Distribution of Marketable Public Issues of Direct and Guaranteed Securities of the U. S. Government Outstanding at End of Each Month (February, 1943 figures are preliminary)



Percentage Distribution of Direct and Guaranteed U. S. Government Securities Held by Weekly Reporting Member Banks in 101 Leading Cities on Last Reporting Date in Each Month

for over a fifth of the total public marketable debt on February 17, 1943 compared with about 5 per cent (for bills alone) a year earlier.

At the same time, the proportionate distribution of Government security holdings of commercial banks has shifted in a similar fashion. This shift is reflected in the condition statements for the weekly reporting member banks in 101 leading cities. From February 18, 1942 to February 17, 1943 the total volume of Government securities held by these banks rose $13,000,000,000 to reach a total of $28,400,000,000. As the accompanying chart shows, over the same period the portion of total Government security holdings accounted for by Treasury bills rose from 8 per cent to 15 per cent. Certificates of indebtedness, which were first issued in April, 1942, made up 18 per cent by February 17, 1943. Together then, direct short term obligations rose from 8 per cent of all Government securities held by the reporting banks on February 18, 1942 to one third of the total a year later. On the other hand, the relative portions devoted to Treasury notes and bonds declined over the year despite large absolute increases in holdings of such securities. Treasury notes dropped fractionally from 15 per cent to 14 per cent and Treasury bonds from 59 per cent to 47 per cent. Accompanying a retirement of guaranteed obligations, both the absolute amounts of such securities in weekly reporting member bank portfolios and also the proportion of guaranteed obligations to total Government security holdings showed substantial declines.

Commercial banks characteristically have favored shorter term securities. On February 17, 1943 the reporting member banks in 101 cities alone held 52 per cent of all Treasury bills outstanding, and 45 per cent of the certificates of indebtedness. They held 45 per cent of the outstanding guaranteed issues, and 41 per cent of the Treasury notes, but only 27 per cent of the marketable Treasury bonds.

WAR FINANCING

During February, net funds received by the Treasury from public borrowing amounted to about $2,600,000,000, a total somewhat larger than that of the previous month because of payments received on February 1 in connection with the certificate of indebtedness refinancing. The next major Government borrowing operations will occur in April when a second intensive Victory Loan drive is scheduled. Distribution of the February borrowing was as follows:

$800,000,000—Treasury bills (net receipts)
623,000,000—⅞ per cent certificates of indebtedness (net)
800,000,000—Savings bonds (estimated net receipts)
350,000,000—Tax Savings notes (estimated net receipts)

Sales of all series of Savings bonds, which had reached a peak of $1,240,000,000 in the previous month, are estimated in excess of $850,000,000 for February with net receipts of somewhat less after providing for redemptions. In part the higher total in January resulted from the inclusion in that month of substantial purchases of Series F and G bonds up to the $100,000 limit for any one calendar year. Sales of Series E bonds in February were lower than the record $815,000,000 in January but compared favorably with other recent months in spite of approaching March income tax payments. In the Second Federal Reserve District, sales of all three series by agencies other than post offices amounted to $130,000,000 as compared with $200,000,000 in January. Series E sales totaled $79,000,000 in February as against $112,000,000 in the preceding month.

Sales of Tax Savings notes are estimated to have approximated the January total of $453,000,000 with an offset of nearly $100,000,000 through redemptions in payment of taxes. An additional $800,000,000 of "new money" was raised from the sale of Treasury bills, as each of four weekly offerings of $700,000,000 replaced maturities of $500,000,000. Also included in February receipts is the $623,000,000 net amount raised from the offering of certificates of indebtedness on January 21, payment for which was made on February 1. Allotments of the new ⅞ per cent one year certificates of indebtedness dated February 1, 1943 amounted to $2,211,000,000, but of these funds $1,588,000,000 was needed to meet the maturity of certificates on that date.

NEW SECURITY ISSUES

New offerings of corporate and municipal securities in February totaled about $60,000,000, practically the same amount as in the preceding month. Corporate issues, which had dropped to a low of $10,000,000 in January, increased to about $25,000,000, but the volume of municipal financing was reduced to $35,000,000. As in the preceding four months, however, only a small amount of the corporate total represented funds for new capital purposes. During the last five months, corporate issues for new capital have averaged only $6,000,000 monthly, as compared with $67,000,000 in the first nine months of 1942 and $89,000,000 during 1941.

The principal corporate offering was that of $14,000,000 Erie Railroad Company first consolidated mortgage 3½ per cent bonds due in 1958, awarded at a price of 96 and reoffered at 97½ to yield 3.72 per cent. Proceeds from the sale of this issue will be used to reimburse the company for purchase of a like amount of notes from the Reconstruction Finance Corporation. In addition, an issue of $6,450,000 Pennsylvania Railroad Company 2¼ per cent equipment trust certificates maturing serially from 1944 to 1958 was awarded at a net interest cost of 2.13 per cent and reoffered to yield from 0.80 to 2.35 per cent. The largest municipal awards were: $12,000,000 State of New York grade crossing bonds due serially from 1944 to 1963, but callable as a whole after ten years; and \$7,000,000 City of Seattle 2½ per cent light and power revenue bonds due 1954-1970, callable as a whole after January 1, 1948.

SECURITY MARKETS

Accompanying the most rapid turnover since December, 1941, stock prices advanced in February by about 5 per cent to the highest level since November, 1940, according to Standard and Poor's index of 90 stocks. The current level is 47 per cent above the low of last April. Railroad issues led a further advance in corporate bond prices. The Dow-Jones average of 40 corporate bond prices reached the highest level since November, 1937 and Moody's Investors Service average of Baa bond yields established a new record low.

Municipal bond prices continued to rise during February. The average yield on prime municipal bonds computed by Standard and Poor's Corporation declined from 2.26 per cent on January 27 to 2.20 per cent on February 24. This equals the level of last November, the low point since our entry into the war.*

RATIONING AND PRICE CONTROL

During the month of February, a number of important developments made the American consumer increasingly aware of the drastic wartime restrictions on the purchase of various commodities. Foremost was the establishment of a point system of rationing for the first time in this country. Previously, individual commodities had been rationed by means of specific coupons (sugar, coffee) or purchase certificates (automobiles, tires), but starting March 1 virtually all types of processed fruits and vegetables will be rationed under one system according to arbitrarily established point values for each can, jar, or package purchased. Retail sales of the commodities to be rationed were stopped between midnight February 20 and March 1, marking the transition to the new system of distribution controls.

On February 17 sales of canned fish and canned meats were suddenly halted by the Office of Price Administration, and the ban will continue until the meat rationing program can be put into effect. On February 7, the O.P.A., without prior notice, issued a shoe rationing order limiting each ration book holder to one pair of shoes in the following four months. Apparently as a result of this order and rumors of impending rationing of clothing, a large scale buying rush for clothing has developed, despite official announcements that such rationing is not contemplated for some time.

To avert sharp advances in the prices of fresh vegetables resulting from the rationing of processed foods and the consequent shift in consumer demand, the Office of Price Administration on February 22 announced emergency price ceilings over tomatoes, snap beans, carrots, cabbage, and green peas. Later in the week ceilings were also imposed on the prices of lettuce and spinach.

On February 23, in another step on the food front, the Secretary of Agriculture suspended marketing quotas on wheat for the 1942-43 and 1943-44 marketing years. Wheat in excess of the quota now stored on the farms may be marketed without penalty, and plantings of wheat in the coming year may be increased.

EMPLOYMENT AND PAYROLLS

In an attempt to meet the huge manpower demands of the war production program and the armed forces, the President by executive order on February 9 decreed a minimum work week of 48 hours for the duration of the war. The War Manpower Commission, charged with the administration of the order, immediately made it applicable in 32 labor shortage areas in the country. The Commission announced that similar action was imminent in 102 communities which face the exhaustion of their labor surplus within the next six months. In the Second District the order is now in effect in Buffalo, Bridgeport, and Somerville, New Jersey. General Hershey, Director of Selective Service, in a radio address four days later announced that more than 4,000,000 men would be inducted into the armed forces in the course of 1943, an induction schedule of about 12,000 men daily.

The civilian labor force of the country declined from December to January, to a wartime low of 52,400,000, according to the Department of Commerce. The withdrawal of 1,000,000 persons from the labor force in the month reflected primarily heavy military induction schedules and a seasonal decline in the agricultural labor force. Civil nonagricultural employment declined about 3 per cent in the month, largely as a result of seasonal contractions in trade and construction. Employment in manufacturing industries increased slightly in the month, with declines in nondurable goods balanced by increased employment in durable goods manufacture.

The New York State Department of Labor reports little change in factory employment in the State from December to January, and a 1 per cent increase in payrolls. Decreased employment was reported in food processing, leather, and chemical plants, while seasonal factors caused contractions in certain of the apparel lines. Expansion in war plants was not so marked as in previous months, and payrolls and employment in the metals and machinery group as a whole advanced only 2 per cent. Employment in New York City declined almost 1 per cent in the month while in the remainder of the State there was a slight increase. Syracuse again reported the largest month-to-month increase in both employment and payrolls. As a result of contractions in the working forces in the shoe factories, both employment and payrolls declined slightly in Binghamton.

* The Government security market during February is discussed in the *Money Market* section of this issue.

INCOME PAYMENTS IN THE SECOND FEDERAL RESERVE DISTRICT

Income payments to individuals in the United States, comprising current wage, salary, dividend, and interest payments as well as entrepreneurial income and such items as relief and pension payments, increased from approximately $71 billion in 1939 to a record high of $114 billion in 1942, according to data of the Department of Commerce. Although income payments made in the Second Federal Reserve District have also increased substantially—from $14 billion in 1939 to about $21 billion in 1942, according to provisional estimates made at this bank—the proportion of the national total of payments made to individuals in this District apparently declined from about 20 per cent in 1939 to a little more than 18 per cent in 1942.

The deterioration of the relative income position of the Second District is attributable largely to the fact that much of the normal structure of the District's economic activity is not readily adaptable to war output. As the table below indicates, in even as recent a year as 1940 employment in the service and distributive industries, both of which have been increasingly restricted under war pressures, comprised 55 per cent of total employment in the District as compared with 46 per cent in the country as a whole. Furthermore, whereas in 1940 over 20 per cent of the working force of the United States was engaged in agriculture and other extractive industries, in which income has greatly expanded since the war began, only 4 per cent of the working force in this District was so occupied. Manufacturing, however, was responsible for 30 per cent of all employment in the District in 1940 as compared to only 23 per cent in the nation. But the war program has particularly stimulated the manufacture of durable goods, and while there are in the District a number of aircraft, munitions, and other metal-working plants, as well as shipyards and arsenals, which are working on large war contracts, the important manufacturing facilities of New York City are predominantly of the light manufacturing type, devoted to processing consumers' nondurable goods. Moreover, the plants of the city are of small average size, and it has been difficult to channel to them proportionate amounts of work which they are qualified to handle. New York City, which in 1940 employed about 58 per cent of the State's labor force, tends to have a strong influence on the figures for New York State as a whole and, to a large extent, also on those of the District as a whole.

The degree to which the Second District areas have participated in the war boom has varied mainly with the concentration of manufacturing, especially of metal-working industries. In Fairfield County, where 44 per cent of the working force in 1940 was engaged in manufacturing, employment and wage payments have increased most rapidly. Since the defense program was initiated, Fairfield, and the New Jersey counties as well, have experienced an in-migration of population to augment the local labor force and to expedite the further expansion of manufacturing activity. In both sections the production of war materials is of key importance. In New York State, on the other hand, not only is manufacturing normally outranked by service industries, and almost equaled in importance by the distributive trades, but four of the State's leading industries—textiles, apparel, food processing, and printing and publishing—have in many instances been forced to curtail operations. Within the State there has been, however, a marked divergence between the trends of manufacturing employment and payrolls in New York City on the one hand and in the Upstate area on the other. It may be noted from the accompanying chart that manufacturing payrolls in Upstate New York have shown a rise roughly corresponding to that which has occurred in the country as a whole, while in New York City the rise has been much slower. (The irregularities in factory payrolls for New York City reflect seasonal factors, principally in the manufacture of apparel.) The Upstate cities in general have participated much more heavily in war contracts because of the character of their industries.

The estimates of income payments by Second District States, tabulated below, are based on Department of Commerce figures available for the United States through 1942, and by States through 1941. The projections through 1942 by States are based on current estimates of the national figure, on recent levels of war activity in the States, and on such barometers as the allocation of war contracts. The relative position of New York State, which deteriorated slightly from 1929 through the thirties, has continued its decline since the war.

Table I
Percentage Distribution of Employment by Major Industrial Categories (1940)

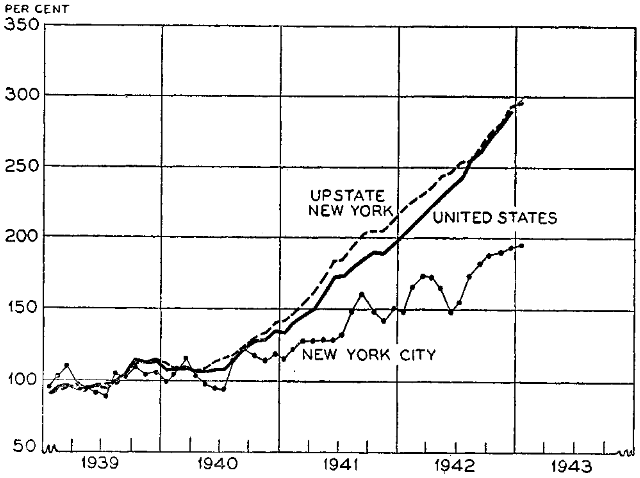
Employment categories	United States	Second District	New York State	New Jersey counties	Fairfield County, Connecticut
Extractive industries: agriculture, forestry, mining	20.8	4.0	4.5	2.5	2.4
Construction	4.6	4.9	4.9	4.8	5.6
Manufacturing	23.4	29.6	27.3	36.9	44.0
Distribution	22.7	26.1	26.9	23.9	19.1
Trade	16.7	19.1	19.8	16.9	15.3
Service	23.1	29.0	29.8	26.2	24.5

Source: U. S. Bureau of the Census.

Table II
Income Payments in U. S. and in States Wholly or Partially in the Second District (In billions of dollars)

	United States	New York	New Jersey	Connecticut
1929	82.5	14.7	3.2	1.5
1937	72.3	11.7	2.8	1.4
1939	70.8	11.4	2.8	1.3
1940	76.5	12.1	3.1	1.5
1941	92.1	13.9	3.7	1.8
1942	113.8	16.5*e*	4.8*e*	2.4*e*

e Preliminary estimates by this bank. Source: U. S. Department of Commerce



Factory Payrolls in the United States, New York City, and Upstate New York, without Adjustment for Seasonal Variation (Figures for United States as reported by Bureau of Labor Statistics; data for New York City and Upstate New York based on New York State Department of Labor data; 1939 average=100 per cent)

In 1929, it received 17.8 per cent of all income payments, in 1939, 16.1 per cent, and in 1942, 14.5 per cent. A slight relative improvement for New York State may occur in 1943 because of fuller utilization of the State's manpower and machinery in the war production effort. Considerable war contract allocations to Connecticut and New Jersey in the beginning of the defense program improved the relative positions of these States. Whereas in 1939 they received 5.8 per cent of all income payments, in 1942 their portion is estimated to have risen to 6.3 per cent. Many of the principal industrial centers of these areas have, however, almost exhausted their labor reserves, and it is expected that these States will in 1943 not more than maintain their relative positions of last year.

The tentative estimates of income payments in the Second District, presented in Table III, are based on Table II and the usual relationship of employment in the Second District portions of New Jersey and Connecticut to total employment in these States in past years. Thus it is assumed that 80 per cent of the payments in New Jersey and 25 per cent of the payments in Connecticut are made to residents of the Second District. As there is no real evidence of any notable change in these ratios, they have been assumed constant from 1939 to date. In view of the overwhelming importance of the New York State figures on the District totals, it is believed that the estimates represent fairly close approximations of income payments within the District, subject to about the same margin of error as the original Department of Commerce estimates by States on which the subsequent computations are based.

TABLE III
Estimated Income Payments in the Second Federal Reserve District, 1939-42

	Second District totals	
	Billions of dollars	Percentage of national income payments
1939	13.9	19.7
1940	15.0	19.7
1941	17.4	19.0
1942	20.9	18.4

For 1943 it is believed that the percentage of the national income received in this District will recover to about the 1941 level. Income payments in the nation as a whole in 1943 are estimated at about $130 billion; payments in the District may amount to nearly $25 billion.

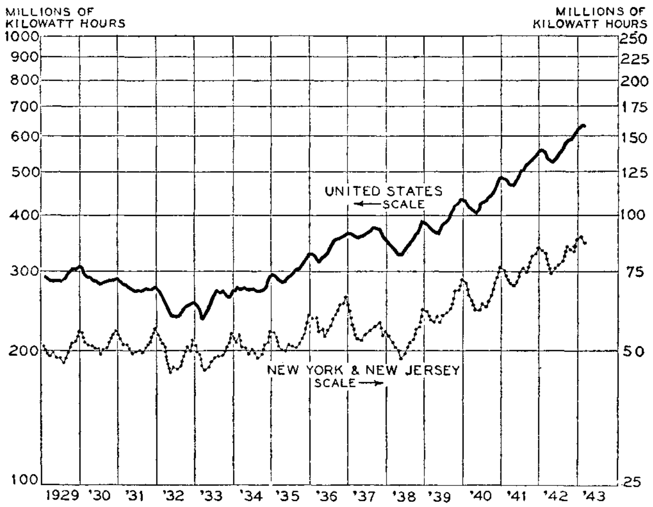
PRODUCTION AND TRADE

Industrial activity increased further in February according to preliminary indications. Steel mill operations were scheduled at nearly full rated capacity during the month, somewhat higher than the January level. Bituminous coal and crude petroleum production during the first part of the month increased slightly over January, while electric power output appears to have continued near the record January level. Admiral Vickery announced that 138 merchant ships would be delivered in February, compared with 106 ships in January and the previous record of 121 in December; he also predicted that a rate of five ships per day would be achieved by May of this year.

During January the seasonally adjusted index of production and trade computed at this bank rose one point to 125 per cent of estimated long term trend, equal to the record high reached in November and ten points above the level of January, 1942. The rise in the index between December and

	1942			1943
	Jan.	Nov.	Dec.	Jan.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade†	115	125	124*p*	125*p*
Production	121	134	136*p*	135*p*
Producers' goods—total	140	171	171*p*	172*p*
Producers' durable goods	151	206	207*p*	206*p*
Producers' nondurable goods	127	131	131*p*	134*p*
Consumers' goods—total	97	88	91*p*	87*p*
Consumers' durable goods	68	38	39*p*	40*p*
Consumers' nondurable goods	107	105	108*p*	102*p*
Durable goods—total	127	157	157*p*	157*p*
Nondurable goods—total	115	116	117*p*	115*p*
Primary distribution	113	141	142*p*	144*p*
Distribution to consumer	103	93	83*p*	90*p*
Miscellaneous services†	111	153	153*p*	151*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	112	120	120	121*p*
Wage Rates (100 = 1926 average)	132	145	146*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	63	62	69	67
Outside New York City	89	82	82	78

p Preliminary. * Adjusted for seasonal variation.
† Indexes for October have been revised as follows: Production and trade, 123; Miscellaneous services, 143.



Daily Average Production of Electric Power in the United States and in New York and New Jersey, without Adjustment for Seasonal Variation (Plotted on ratio scales to show proportionate changes—January and February, 1943 estimated)

January reflected primarily the unusual activity in retail trade, as evidenced by a seven point advance in the group index measuring distribution to the consumer. Declines from the December peaks in the value of sales by department stores and variety chain systems were much less marked than normally, and sales by mail order houses were also off less than seasonally.

Productive activity in January held close to the record level reached in the preceding month. The manufacture of war goods expanded further and steel production was somewhat higher than in December. Nevertheless, the component index of the output of producers' durable goods declined slightly, owing primarily to the effect of a further sharp contraction in nonresidential construction. The producers' nondurable goods index, on the other hand, advanced three points between December and January, reflecting in part an increase in the daily rate of cotton consumption. But the consumers' nondurable goods group showed a drop of six points, chiefly as the result of a decline in meatpacking and the failure of tobacco manufacturing to show the usual seasonal increase.

Electric power production in January approximated the record level reached in December, although some decline usually occurs between these months. As can be seen in the accompanying chart, the output of electric power in New York and New Jersey has a much more pronounced seasonal pattern than production for the entire country. It is apparent also that the growth in electric power output in recent years has not been so rapid in this area as in the country as a whole.

DEPARTMENT STORE TRADE

During the three weeks ended February 20, sales of the reporting department stores in this District were at an exceptionally high level as the result of a heavy buying wave, particularly in clothing, in anticipation of future rationing. Sales during this period were about 17 per cent higher than in the corresponding period last year, and appear to have exceeded even the record level attained in August, 1941, seasonal factors considered.

In January department store sales in this District were 9 per cent lower than in January, 1942, when sales were unusually active after the hurried buying wave that followed this country's entry into the war. The daily rate of sales in the first month of 1943, however, declined less than is usual between December and January; this bank's seasonally adjusted index of department store sales rose four points to 123 per cent of the 1923-25 average.

Stocks on hand of the reporting department stores in this District at the end of January were 9 per cent higher at retail valuations than last year. They were only slightly lower than at the end of December after seasonal adjustment, the smallest month-to-month decline since last August. Returns from a limited number of department stores in this District indicate that at the end of January outstanding orders for merchandise purchased by the stores, but not yet delivered to them, were 6 per cent below January, 1942, but were 34 per cent higher than at the end of December, 1942.

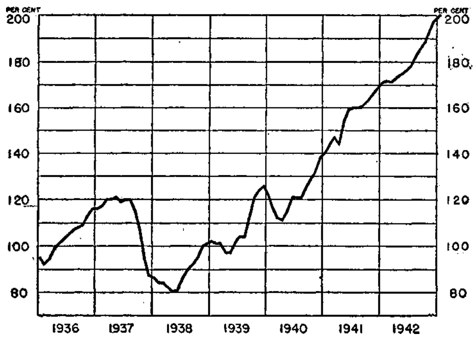
Department Stores	Percentage changes from a year earlier	
	Net Sales January, 1943	Stock on hand January 31, 1943
New York City	— 9	+11
Northern New Jersey	—15	0
Newark	—13	— 1
Westchester and Fairfield Counties	—14	+17
Bridgeport	—17	+20
Lower Hudson River Valley	—13	+ 3
Poughkeepsie	—11	—
Upper Hudson River Valley	—20	+15
Albany	—26	—
Central New York State	— 2	+ 3
Mohawk River Valley	+ 8	+15
Syracuse	— 5	— 1
Northern New York State	—11	—
Southern New York State	+ 2	+18
Binghamton	+ 5	—
Elmira	— 7	—
Western New York State	— 4	+ 5
Buffalo	— 2	+ 8
Niagara Falls	+29	0
Rochester	— 8	+ 2
All department stores	— 9	+ 9
Apparel stores	— 6	+12

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

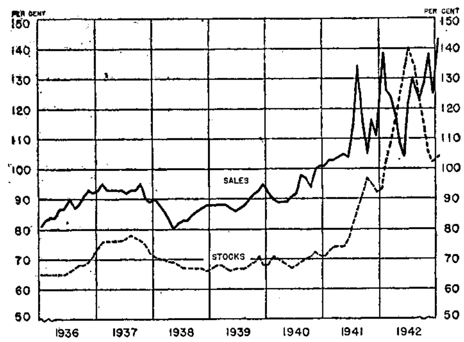
	1942			1943
	Jan.	Nov.	Dec.	Jan.
Sales (average daily), unadjusted	102r	144	215	97
Sales (average daily), seasonally adjusted	130r	121	119	123
Stocks, unadjusted	100	151	118	108
Stocks, seasonally adjusted	110	134	121	118

r Revised.

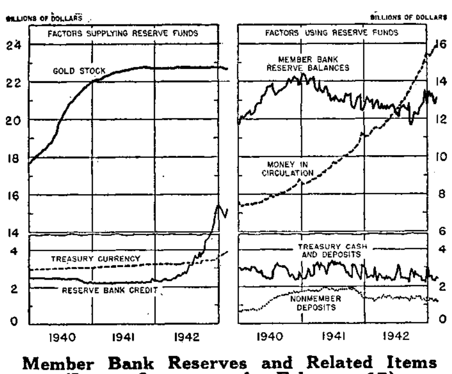
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, MARCH 1, 1943



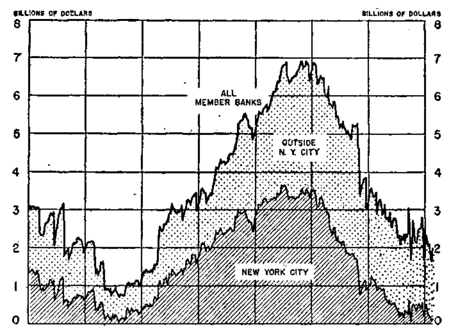
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Member Bank Reserves and Related Items (Latest figures are for February 17)



Wednesday Figures of Estimated Excess Reserves of All Member Banks (Latest figures are for February 17)

General Business and Financial Conditions in the United States

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

Industrial activity rose further in January and the first half of February. Retail sales continued in large volume in January and were at an exceptionally high level early in February.

Production

Volume of industrial production showed another marked gain in January reaching a level of 200 per cent of the 1935-1939 average, according to the Board's adjusted index, compared with 197 in December. The increase reflected largely a growth in activity in the munitions industries, including production of chemicals for war purposes.

Activity at shipyards and in aircraft and machinery plants continued to expand sharply. Deliveries of completed merchant ships in January were somewhat less than in December but were still at the high level of over 1 million deadweight tons. Total iron and steel production rose to the level of last November, but was still slightly below the October peak, and electric steel output, important for munitions manufacturing, reached a record level 5½ times as large as in the 1935-1939 period. Operations at steel mills were near capacity during the first three weeks of February.

Nondurable manufactures, as a group, continued to show little change. Production of meats under Federal inspection, except beef, declined sharply from the high level in December. Output of most other foods was maintained; production for military and Lend-Lease needs, particularly of highly processed foods, rose further and there was a corresponding decline in output of these products for civilians. Newsprint consumption declined in January as a result partly of a Federal order restricting newsprint use.

Mineral production declined slightly in January, reflecting a small reduction in output of crude petroleum. Output at coal and metal mines showed little change. Anthracite production in the first half of January was reduced by an industrial dispute, but for the month of January as a whole, output was only 3 per cent lower than in December.

Value of construction contracts awarded, according to figures of the F. W. Dodge Corporation, was much smaller in January than in other recent months, but was still slightly higher than a year ago. Reductions occurred in all types of public awards, which now account for most of the total. A decline has been indicated for some time as a result of actions of the War Production Board designed to limit construction activity to projects that are essential. On October 23, 1942, it had established a committee to review proposals for new construction; through February 12, work on projects estimated to cost 1.3 billion dollars was stopped either by the War Production Board or by the Government agencies initiating them.

Distribution

Distribution of commodities to consumers was in large volume in January and the first half of February. Retail sales of merchandise declined less than seasonally in January and rose sharply in the first half of February when a buying wave developed, particularly in clothing. At department stores, sales increased considerably in the first week of February and then reached an exceptionally high level during the second week, stimulated partly by the announcement of shoe rationing.

Freight car loadings declined somewhat less than seasonally in January and the adjusted index increased 1 per cent. Miscellaneous loadings accounted for most of the rise. Substantial increases in loadings of most types of commodities occurred in the first two weeks of February.

Commodity Prices

The average level of wholesale commodity prices continued to advance in January and the early part of February. Prices of most farm products showed further increases. Maximum wholesale and retail prices were raised for a number of miscellaneous commodities including coal, while reductions were effected in maximum prices for some items like rayon tops and waste.

Retail prices of foods continued to rise from mid-December to mid-January with increases largely in meats, dairy products, and processed fruits and vegetables.

Bank Credit

Excess reserves of member banks declined from an average level of about 2.2 billion dollars in the last half of January to 1.6 billion early in February, but increased somewhat around the middle of the month. Increases in currency in circulation continued to be the major factor responsible for the decline, although substantial fluctuations occurred in Treasury balances and Reserve Bank credit. Most of the decline in excess funds was at banks in New York City and Chicago, where reserves have recently been close to legal minimum requirements. Over the five-week period ended February 17, the currency drain amounted to 520 million dollars, bringing total currency in circulation to 15.8 billion on February 17.

Holdings of Government obligations at reporting banks in leading cities outside New York and Chicago increased by 640 million dollars over the five-week period ended February 17. At banks in New York and Chicago, holdings of Government securities declined by 360 million, principally through sales to the Reserve Banks for the purpose of restoring reserves. Government deposits at banks were reduced in the period, while other deposits increased.

United States Government Security Prices

Following a rise in the first half of January, prices of United States Government securities have been steady.