MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN MARCH

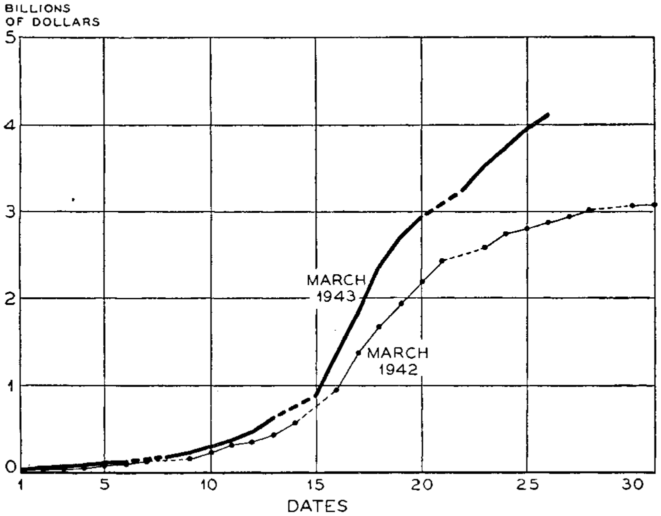
The money market in March was largely a reflection of the effects of the Revenue Act of 1942 upon Federal income tax payments. Because of its lowered personal exemptions and sharply advanced tax rates, as well as the higher level of incomes upon which the taxes were assessed, many millions more Federal income tax returns were filed this March than in any other year and income tax collections in excess of $4,500,000,000) were about $1,500,000,000 above the previous record of March, 1942. At the same time there were differences in the pattern of collections and of resultant credits to Government working balances with the Federal Reserve Banks. Relatively fewer returns were filed prior to the March 15 deadline, and many taxpayers who in other years would have met their year's tax liabilities in full, on or before March 15, adopted the quarterly instalment method of payment. In some cases, in light of the size of the tax liabilities, the choice of the quarterly instalment method of payment was no doubt dictated by considerations of avoiding borrowing or the undue dissipation of cash resources. In other cases, the quarterly instalment method may have been chosen because of the existing uncertainty as to the character of future tax legislation. At the same time, as a result of the unprecedented volume of tax returns and staff limitations at the collectors' offices, the time consumed in "processing" returns was somewhat longer than usual and hence the flow of credits to Treasury working balances with the Federal Reserve Banks was relatively slower.

About $1,200,000,000 of Tax Savings notes were presented in payment of taxes during March, and tax collections in cash were correspondingly reduced. The proportionate use of Tax Savings notes in meeting Federal income tax liabilities was less than in December, 1942 (26 per cent compared with 32 per cent), but greater than in March a year ago when only 16½ per cent of the income tax payments were met with Tax notes. Income tax collections in the Second Federal Reserve District during March exceeded $1,000,000,000, as compared with $728,000,000 in March, 1942. Both in March of this year and last year, Tax notes were employed somewhat more extensively in this District than in other sections of the country in paying income taxes; in this District the proportions of income tax payments made by the use of Tax notes were 36 per cent in March of this year, and 18 per cent in March, 1942. Sales of Tax notes during the month, for the country as a whole, apparently approximated the January and February totals of $450,000,000, and were substantially less, therefore, than the amount used in payment of taxes.

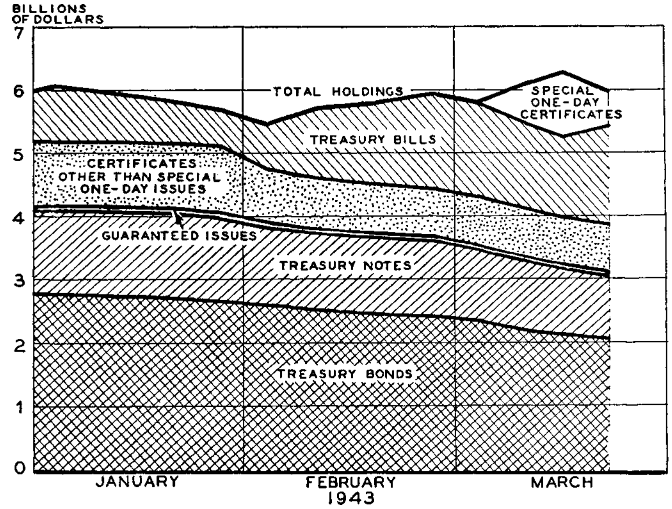
In order to avoid the pressures on the money market that would otherwise have occurred through the unprecedentedly heavy quarterly income tax collections, the Treasury at first reduced and then suspended calls on War Loan deposit accounts early in the month, meeting its requirements, temporarily, by selling direct to the Federal Reserve Banks special one-day certificates of indebtedness in amounts changing from day to day according to Treasury needs for funds. The last call prior to the period of heavy income tax collections was issued for March 8 and 9, and total withdrawals from War Loan account deposits during the first nine days of March totaled only $730,000,000. As an effect of the lightening of the calls, the Treasury had built up by March 9 borrowings from the Reserve Banks on special one-day certificates of indebtedness to the extent of $648,000,000. In the absence of further calls, the borrowing on special one-day certificates of indebtedness rose to a maximum of $1,302,000,000 on March 15. On the 15th, of course, a large volume of income tax returns had already reached collectors' offices, and many more were in the mails, but the peak volume of collections of tax checks did not occur until March 16-18. Moreover, in addition to the continuing heavy volume of expenditures for war and other purposes, approximately $200,000,000 of interest on the public debt as well as $66,000,000 of maturing Treasury notes fell due on the 15th.

The flow of credits to the Treasury accounts in Federal

☆ Do YOUR Part in the Second War Loan Drive ☆



Federal Income Tax Collections as Reported in the Treasury Daily Statement (Cumulated from the first day of the month)



Volume of U. S. Government Obligations Held by Federal Reserve Banks

Reserve Banks through income tax collections fell off more slowly than usual during the second half of March, reflecting the lag caused by the relatively small number of early returns and the time consumed in "processing" and clearing the remittances. Through the heavy credits to the Treasury's accounts as a result of income tax collections, together with the weekly net receipts of $200,000,000 from Treasury bills and other revenues, the borrowing on special one-day certificates of indebtedness had been reduced to $512,000,000 by Wednesday, March 24. During the final week of the month, the special borrowing was eliminated as calls on War Loan account deposits, totaling $920,000,000 over the period March 25-30, supplemented the other sources of Treasury cash receipts.

Calls on War Loan account deposits totaled $1,647,000,000 in March, compared with $2,936,000,000 in February, and $2,198,000,000 in January. Credits to these accounts during the first quarter of the year, through use of the book credit method of payment in connection with sales of Savings bonds and Tax Savings notes, aggregated $1,300,000,000. Thus, out of the $8,166,000,000 War Loan account deposits on December 31, 1942, at the close of the first War Loan Drive, there remained approximately $2,700,000,000 at the end of March.

Money Rates in New York

	Mar. 31, 1942	Feb. 27, 1943	Mar. 30, 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 tax exempt Treasury bonds (not callable within 12 years)	2.02	2.05	2.08
Average yield on taxable Treasury bonds (not callable within 12 years)	2.33	2.32	2.32
Average rate on latest Treasury bill sale 91 day issue	0.203†	0.374	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 † 83 day issue

In addition to the tax collections and repayments from War Loan account balances, Government receipts included proceeds from the sale of Savings bonds, Tax Savings notes, and Treasury bills. Net receipts from Treasury bill offerings were maintained at $200,000,000 weekly, as offerings were stepped up from $700,000,000 to $800,000,000 beginning March 17, accompanying a rise in weekly maturities from $500,000,000 to $600,000,000.

Open Market Operations and Excess Reserves

Transactions in Government securities by the Federal Reserve Banks during March were marked by (1) sales of Treasury bonds and notes, to meet the persistent demand, particularly on the part of banks, for Government securities of intermediate and longer term; (2) the rise through March 15 and subsequent rapid decline in Treasury borrowing from the Federal Reserve Banks on special one-day certificates of indebtedness; and (3) transactions in Treasury bills, with sales predominating up to the middle of the month, and purchases thereafter. Between February 24 and March 24, Federal Reserve Banks reduced their holdings of Treasury bonds by $354,000,000 and Treasury notes by $235,000,000, while Treasury bill holdings showed a net expansion of $67,000,000. There was also a moderate increase ($29,000,000) in holdings of certificates of indebtedness, other than the special one-day issues. Taking account of the $512,000,000 special one-day certificates outstanding March 24, there was a net increase of $19,000,000 in the Reserve Banks' Government security portfolios during the four weeks ended March 24.

From $1,790,000,000 on February 24, excess reserves of all member banks rose to $2,130,000,000 on March 17 and then dropped to $1,630,000,000 on March 24. There was thus a net decline of $160,000,000 in excess reserves over the four weeks taken as a whole. While the Treasury, by substantially exhausting its deposits with the Federal Reserve Banks, added approximately $250,000,000 to bank reserve funds (exclusive of the disbursement of funds borrowed from the Reserve Banks), other factors, principally increased currency circulation, limited the increase in member bank reserve balances to about $165,000,000, and meanwhile reserve requirements were enlarged to the extent of approximately $325,000,000. Currency circulation rose $250,000,000 between February 24 and March 10, but declined $140,000,000 during the two following weeks, reflecting the use of currency holdings in the payment of income taxes.

The pattern of excess reserves of all member banks during March corresponded in general with the rise and fall of the Treasury's borrowing on the special one-day certificates of indebtedness. Both the rise and subsequent decline of member bank excess reserves, however, were less pronounced than the rise and fall of the special one-day borrowing. During the period in which the special borrowing was increasing, many banks gaining reserve balances put their funds immediately to work by adding to their Government security holdings, especially through reacquiring bills previously sold to the Reserve Banks under repurchase option. Indeed, throughout the month there appeared to be a tendency for banks' acquiring substantial excess reserves to make effective use of those funds through enlarging their investment portfolios. Following March 15, the tax collections and calls on War Loan accounts, which enabled the Treasury to reduce its borrowing on the special certificates, drew reserve funds from the market, and banks (principally those whose excess reserves were exhausted or near exhaustion) sold Government securities, predominantly bills, to the Reserve Banks in partial compensation for these losses. Many banks with surplus funds, however, continued to add to their Government security portfolios.

As was true also in February, fluctuations in member bank excess reserves during March reflected in the main changes in excess reserves of reserve city and "country" member banks. In both of the central reserve cities, New York and Chicago, excess reserves were maintained at more or less "nominal" levels, as banks in these cities bought Treasury securities freely to keep their funds fully employed, and made sales of Treasury bills when necessary to maintain their reserves at the required levels. Excess reserves of the central reserve New York City banks averaged about $100,000,000 both in February and March. These banks, as earlier in the year, tended to gain reserve balances through an inflow of funds from other sections of the country during the first half of March. Losses of funds through income tax checks drawn on New York City banks and calls for repayment of War Loan account deposits during this period were more than compensated for by an exceptionally heavy volume of Government checks placed on deposit here. In the latter half of the month the inward movement of funds ceased, and at the same time renewed calls on the War Loan accounts brought about losses of reserve balances through Treasury transactions. Between February 24 and March 17, the weekly reporting member banks of New York City enlarged their holding of Treasury bills to the extent of $244,000,000. During the following week these holdings declined $87,000,000, to $1,877,000,000, principally through sales to the Reserve Bank to compensate for losses of reserve funds.

WAR FINANCING

Net public borrowing of the Treasury in March amounted to only about $1,000,000,000, consisting of net sales of Treasury bills and Savings bonds, partly offset by net redemptions of Tax notes presented in payment of taxes. Expenditures were met largely from quarterly income tax receipts and to a smaller extent by drawing down Treasury balances with depositary banks and the Federal Reserve Banks. Borrowing operations will be resumed on a large scale during April, with the launching of the Second War Loan Drive.*

Sales of Savings bonds held up well in March in spite of quarterly income tax collections. On the basis of the Daily Statement of the Treasury for March 27, it is estimated that total sales of all series of Savings bonds during the month surpassed the $887,000,000 February total. In the Second Federal Reserve District, sales by agencies other than post offices amounted to about $140,000,000 compared with $130,000,000 in February. Sales of Series E bonds, which amounted to $79,000,000 in the previous month, exceeded $90,000,000.

Cashing of Savings bonds, enlarged by redemptions to obtain funds for tax payments, may be estimated at about $130,000,000 for March, compared with $76,000,000 in February and $63,000,000 in January. Apart from the income tax factor in stimulating redemptions during March, Savings bond redemptions have shown a tendency to increase month by month. The steady enlargement in the amount outstanding is the principal factor in the growth of redemptions, but it would also appear that there has been a perceptible rise in redemptions in terms of the volume outstanding. Redemptions during March of this year amounted to 0.76 per cent of the amount outstanding at the end of February, whereas in March, 1942, 0.28 per cent of the amount outstanding February 28, 1942 was turned in. The relatively heaviest rate of redemptions has been experienced in the Series E bonds, particularly those of the smaller denominations.

* The Second War Loan Drive is discussed in a separate section beginning on the following page of this *Review*.

SECOND WAR LOAN DRIVE

Secretary Morgenthau has announced a minimum goal of \$13,000,000,000 for the Second War Loan Drive which will be launched under the general direction of the United States Treasury War Finance Committee* on Monday, April 12. The full resources of the War Savings Staff and Victory Fund Committees will be joined, under the War Finance Committee, in an effort not only to exceed the sales totals of the December drive but also to gain a substantially wider public participation.

Since commercial banks will be limited to allotments of \$2,000,000,000 or thereabouts on each of two new issues, in addition to purchases of the weekly Treasury bill issues, the success of the drive will largely hinge upon the amount raised from other investors. The national goal for sales to nonbanking subscribers has been set at \$8,000,000,000, and the goal for this District at \$3,000,000,000.

In order to encourage the widest possible distribution to investors other than commercial banks, the Treasury is again offering various securities designed for every type of investor, and is providing that allotments will be made in full on subscriptions received from (or entered on behalf of) nonbanking investors. The types of securities available during the drive are indicated in the table.

It is of vital importance that the largest possible amount be raised from individuals in order to absorb current income and savings which might otherwise be used to bid up prices of scarce goods and services. Income received by individuals in the form of wages and salaries, dividends, interest, rents and royalties is expected to total at least \$135,000,000,000 during the current year. Approximately \$15,000,000,000 of this income will be absorbed by present Federal and State taxes on individuals, leaving about \$120,000,000,000 available for spending. Since the supply of consumer goods and services during 1943 is estimated at only about \$77,000,000,000 at present price levels (about \$5,000,000,000 less than last year), some \$43,000,000,000 would have to be absorbed in savings and additional taxes in order to eliminate the danger of inflationary pressure on prices. Although savings through normal channels may be counted upon to absorb a substantial portion of this purchasing power, there will exist a large volume of excess funds which could be used to bid for the limited supply of goods and services. To the extent that this excess income can be absorbed through sales of Government securities to its recipients, there is less likelihood of its being spent

* The War Finance Committee in the Second Federal Reserve District is composed as follows:
Allan Sproul, Chairman
President, Federal Reserve Bank of New York
Perry E. Hall
Executive Manager, Victory Fund Committee, Second Federal Reserve District
Thomas Hewes
State Administrator, Connecticut War Savings Staff
John E. Manning
State Administrator, New Jersey War Savings Staff
Richard C. Patterson, Jr.
Chairman, New York State War Savings Staff

GOVERNMENT SECURITIES OFFERED IN SECOND WAR LOAN DRIVE

Type of issue	Maturity	Prior redemption	Interest rate	Denomination	Subscription books open	Limitations on purchases
Treasury bonds of 1964-69	June 15, 1969	Callable on and after June 15, 1964	2½%	\$500 to \$1,000,000	April 12 through duration of drive	Commercial banks may not purchase until April 15, 1953
Treasury bonds of 1950-52	Sept. 15, 1952	Callable on and after Sept. 15, 1950	2%	\$500 to \$1,000,000	April 12 through duration of drive; commercial bank subscriptions on April 28, 29, 30	Total commercial bank allotments limited to about \$2,000,000,000 with subscriptions of \$100,000 or less allotted in full
Certificates of indebtedness	April 1, 1944	None	⅞%	\$1,000 to \$1,000,000	April 12 through duration of drive; commercial bank subscriptions on April 12, 13, 14	Same as Treasury bonds of 1950-52
Treasury bills	Usually 91 days	May be resold to Federal Reserve at ⅜%	Discount bid	\$1,000 to \$1,000,000	Each week	Allotments on basis of bid price
Series E War Savings bonds	Ten years from date of issue	At option of owner after sixty days from issue date	Yield 2.9% if held to maturity	\$25 to \$1,000	Continuously	Only \$5,000 (maturity value) in any calendar year—issued only to individuals
Series F & G United States Savings bonds	Twelve years from date of issue	At option of owner after six months from issue date on one month's notice	Series F yield 2.53% if held to maturity; Series G interest rate is 2½%	\$100 to \$10,000 (\$25 for Series F only)	Continuously	Only \$100,000 (issue price) in any calendar year of Series F and G combined—commercial banks not eligible to purchase
Series A Tax notes	Sept. 1, 1945	Redemption for taxes during and after second calendar month after month of purchase — cash redemption without advance notice	Yield 1.92% if used for tax payment — otherwise no interest paid	\$25 to \$5,000	Continuously	Only \$5,000 principal amount may be presented in payment for each class of taxes in any taxable period
Series C Tax notes	Three years from date of issue	Redemption for taxes same as Series A—cash redemption after six months from issue date on 30 days' notice	Yield 1.07% if held to maturity*	\$1,000 to \$1,000,000	Continuously	None

* No interest paid on cash redemption of Tax notes issued to a commercial bank.

This District's Share

The $8,000,000,000 goal for nonbanking subscriptions in the April War Loan Drive has been broken down into similar goals for each of the twelve Federal Reserve Districts. Three-eighths of it—$3,000,000,000—has been set as the objective for the Second Federal Reserve District. This proportion for the Second District is based upon this District's share in the total deposits of individuals, partnerships, and corporations in the country as a whole, with additional allowances for the large resources of insurance companies and mutual savings banks located within the District. For the double reason that the District goals are based primarily upon the location of deposits, and that disturbances to bank reserve positions might otherwise occur through shifts of deposit balances from one part of the country to another, it is desirable that subscribers enter their subscriptions as far as possible in the localities, and through the banks, where their funds are.

than there would be if it were in the form of currency or bank deposits. Savings thus accumulated have a beneficial effect in two ways. Not only do they hold down inflation during the war, but they may stimulate production after the war if used to buy goods and services at a time when the available supply can be expanded. For these reasons, the primary goal of Treasury financing is to raise a maximum amount direct from individuals.

Although substantial achievements have been made so far in selling Government securities to nonbanking investors, the proportion absorbed by commercial banks has not declined materially. During the first four months of the fiscal year which began July 1, 1942, commercial banks (including the Federal Reserve) absorbed about 56 per cent of the net borrowing from the public. Although the December drive was successful in that commercial banks were allotted only 40 per cent of the total amount raised during the month, the amount actually absorbed by banks was considerably greater after taking into account a shift of already outstanding Government securities from other investors to commercial banks during November and December. Over the two months of November and December, increases in holdings of Government securities by the commercial banks and the Federal Reserve Banks were equal to nearly 54 per cent of the net borrowing from the public.

If the sale of securities to nonbank investors is to be successful in attaining the objective of drawing off large amounts of current incomes of the public, considerable emphasis must be placed upon continued holding by subscribers of securities purchased. Sales or redemptions of securities, in the absence of compelling need, tend to defeat that objective.

MEMBER BANK CREDIT

There was a continued strong demand for Government securities on the part of the weekly reporting member banks during the five weeks' period February 17 to March 24. Although the only new Government offerings in this period consisted of the regular weekly Treasury bill issues, the reporting banks in 101 leading cities added $865,000,000 to their Government holdings. The highlight of the first four weeks was the large volume of Treasury bills purchased by these banks, $538,000,000. During the week ended March 24, however, $240,000,000, or nearly half of these bills, were sold as some of the member banks, particularly in New York and Chicago, disposed of bills in the adjustment of their reserve positions. The weekly reporting member banks in these two cities sold $172,000,000 in Treasury bills during that week.

For the five weeks as a whole the New York City reporting banks made net purchases of $400,000,000 Government obligations, more than replacing the $316,000,000 sold during the preceding five weeks' period. More than half the increase—$242,000,000—consisted of Treasury bonds. The other large item was net purchases of Treasury bills, $141,000,000. Certificates of indebtedness were sold in the amount of $58,000,000.

Outside New York City, the Government securities portfolios of the reporting member banks in 100 cities continued to show a steady increase. Between February 17 and March 24 these banks purchased an additional $465,000,000, Treasury bonds accounting for $260,000,000 and Treasury bills for $157,000,000.

Total loans declined both in New York City and in the 100 other cities. In New York the decrease amounted to $95,000,000; commercial, industrial, and agricultural loans fell off $58,000,000 and loans to brokers and dealers in securities $29,000,000. In the 100 cities outside New York total loans dropped $93,000,000, mainly as a result of a further decline of $44,000,000 in commercial, industrial, and agricultural loans and $32,000,000 in the "all other loans" classification.

In view of the offsetting effect of Government expenditures, income tax payments did not materially depress the level of adjusted demand deposits. In fact, in New York City adjusted demand deposits rose steadily over the five weeks' period under review, the aggregate increase amounting to $964,000,000. Outside New York there was a decline of $394,000,000 during the week ended March 24, but a net increase of $544,000,000 for the five weeks as a whole. The Government drew down its deposits with the reporting member banks in the 101 cities an additional $1,123,000,000.

SECURITY MARKETS

The forthcoming April financing was a dominating influence in the Government security market during March, as investors readjusted their portfolios in the light of individual requirements. There was a considerable volume of offerings of partially tax exempt bonds by insurance companies, in preparation for purchases of the new issues during April, but these securities were quickly absorbed by banks and other investors. At the same time, a buying interest was evident in the fully taxable bonds over the greater part of the month, and in the longer maturities of outstanding Treasury notes and certificates of indebtedness. Generally speaking, the principal outright demand came from commercial banks, while operations of other investors, aside from sales of partially tax-exempt bonds, were largely confined to "switches". The Federal Reserve Banks sold substantial amounts of Treasury bonds and notes over the month, with the effect of restraining rising tendencies in the prices of outstanding obligations.

Prices of municipal bonds during March held generally steady around the high level reached late in February. Accompanying a considerable increase in market activity, prices of domestic corporation bonds tended to advance. Near the close of the month the yield on Baa bonds as computed by Moody's Investors Service was at a record low of 3.98 per cent.

Stock prices continued to move up in March, prolonging the general rise which commenced late last April. In this eleven months' period, the level of stock prices rose 55 per cent, according to Standard and Poor's index of 90 stocks. At the end of March the index was about 5 per cent higher than a month earlier, and at the highest point since May, 1940. Trading on the New York Stock Exchange was the most active it has been since December, 1941. Over a million shares changed hands during practically every full day, and turnover exceeded two million shares on five occasions.

FOREIGN EXCHANGES

Although foreign exchange trading in the New York market continued on an extremely limited scale during March, there was somewhat more fluctuation in rates than had occurred in recent months. After declining to $0.8968¾ early in the month, the Canadian dollar subsequently advanced in the unofficial market here, to be quoted as high as $0.9043¾ on March 30. This rate, which was slightly above the 1942 peak and indicated a net gain of nearly 2 cents for the elapsed portion of 1943, was only about ½ cent below the official rate at which the Canadian Foreign Exchange Control Board currently sells Canadian dollars. This official rate virtually constitutes a maximum level above which the Canadian dollar is not likely to sell in the unofficial market. Among the other Western Hemisphere currency rates, the free rate for the Argentine peso continued during March to show the strength that had first developed in the middle of January. By March 31 the quotation had reached $0.2414, as compared with $0.2372 at the end of February and $0.2357 on December 31, 1942.

The "free" Swiss franc fluctuated irregularly in the usually thin market here, showing little net change for the month as a whole. Toward the end of March the quotation, at $0.2800, remained about 9¼ cents below the December peak but nevertheless about 3½ cents above the February 1 low.

NEW SECURITY ISSUES

New offerings of corporate and municipal securities in March amounted to about $128,000,000, the largest monthly total since June, 1942. Corporate issues, which had been at exceedingly low levels in the previous two months, increased to $79,000,000 in March, including $49,000,000 for new capital purposes. As in the previous two months, municipal awards aggregated about $50,000,000.

The principal corporate offering was that of $20,500,000 Public Service Company of New Hampshire first mortgage 3¼ per cent bonds due in 1973, offered to the public at a price of 108 to yield 2.85 per cent. Of the total amount raised from this issue, $19,686,000 will be used to retire outstanding bonds. Other large corporate offerings included $14,000,000 Continental Can Company 3 per cent debentures due in 1965, sold privately to a group of life insurance companies, and $10,000,000 Erie Railroad Company 3⅛ per cent collateral trust notes due from 1944 to 1953, awarded at a net interest cost of 3.10 per cent and reoffered to yield from 1.00 to 3.15 per cent. In the municipal total there were $23,545,000 of local housing authority serial bonds and $9,000,000 City of Seattle, Washington 3½ per cent municipal transportation refunding bonds maturing from 1944 to 1961.

In spite of increased financing activity in March, the volume of corporate security issues during the first quarter of 1943 averaged only $34,000,000 monthly. Issues for new capital purposes, averaging $21,000,000 monthly, were above the unusually low level of $6,000,000 in the preceding quarter, but were still well below monthly averages of recent years.

PRODUCTION AND TRADE

Judging from preliminary data, industrial activity in March appears to have increased further from the high level of February. Weekly estimates of steel production indicate that March output was close to the record tonnage turned out by the steel mills in the peak month last October. The daily output of bituminous coal, which in February had reached the highest point in a number of years, showed a further gain during the first part of March, and crude petroleum production and electric power output appear to have run slightly ahead of the rates of the previous month.

In February the seasonally adjusted index of production and trade computed at this bank rose to a record level of 128 per cent of estimated long term trend, three points above the figure for January and fourteen points above that for February, 1942. Retail trade and primary distribution showed marked gains in February and productive activity held close to the record level of last December. The February rise in retail trade was to a large extent due to exceptionally active buying, particularly of clothing, in anticipation of rumored future rationing.

The index of output of producers' durable goods moved up three points between January and February, evidencing a fur-

	1942		1943	
	Feb.	Dec.	Jan.	Feb.
*Indexes of Production and Trade** (100=estimated long term trend)				
Index of Production and Trade	114	123	125*p*	128*p*
Production	120	136	135*p*	136*p*
Producers' goods—total	143	171	172*p*	174*p*
Producers' durable goods	158	207	206*p*	209*p*
Producers' nondurable goods	126	131	133*p*	135*p*
Consumers' goods—total	92	91	87*p*	87*p*
Consumers' durable goods	56	39	40*p*	41*p*
Consumers' nondurable goods	105	108	103*p*	103*p*
Durable goods—total	128	157	157*p*	160*p*
Nondurable goods—total	113	117	115*p*	116*p*
Primary distribution	118	142	144*p*	150*p*
Distribution to consumer	96	82	88*p*	96*p*
Miscellaneous services	115	147	147*p*	148*p*
Cost of Living, Bureau of Labor Statistics (100=1935-39 average)	113	120	121	121*p*
Wage Rates (100=1926 average)	132	146	147*p*	
*Velocity of Demand Deposits** (100=1935-39 average)				
New York City	62	69	67	69
Outside New York City	90	82	78	75

p Preliminary. * Adjusted for seasonal variation.

ther rise in the manufacture of war goods and an increase in the daily rate of steel production. With the exception of October, 1942, the average daily rate of steel production in February was higher than in any month on record and shipments of steel plate reached a new high daily rate. During February merchant shipyards delivered the record number of 130 ships, totaling over 1,200,000 deadweight tons, and the Navy Department reported the delivery of 150 warships of 200,000 tons displacement. The Under Secretary of War announced that 5,500 airplanes were produced in February.

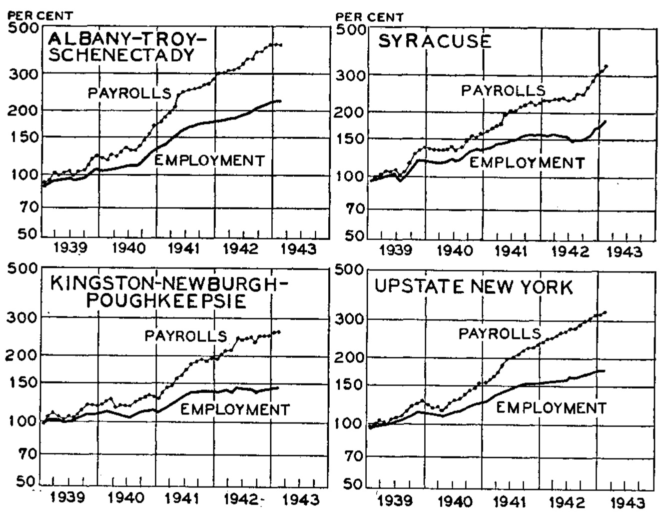
The producers' nondurable goods index advanced two points in February. Reflecting in part the adoption of a six-day week by most of the industry, the daily rate of bituminous coal output rose to the highest level in nearly sixteen years, and the daily consumption of cotton was higher in February than in the preceding month. Output of consumers' goods during February was maintained at approximately the January level.

EMPLOYMENT AND PAYROLLS

Factory employment in New York State increased 1½ per cent and factory payrolls advanced almost 4 per cent from January to February, according to the New York State Department of Labor. Rising activity at war plants and seasonal expansion in the clothing industries were the major factors in these increases. Average weekly earnings were $42.97 in February as compared with $36.30 one year previous. In New York City the February seasonal movement in apparel output, together with an expansion at local war plants, resulted in increases in employment and payrolls about equivalent to the changes in the State as a whole. The levels of manufacturing employment and payrolls in the City remain, however, considerably below Upstate New York, shown in one section of the accompanying chart.* Successful conversion of the metal-working industries of Syracuse to war uses, and construction of new plants in the area, have reversed the temporary recession in employment which occurred in that city last year and in the past four months both employment and payroll gains in Syracuse have been more rapid than in any other industrial area in the State. In the "capital" district the curves of manufacturing employment and payrolls flattened off in January and February of this year, following the rapid gains of the preceding two and one-half years. Factory employment in the Kingston-Newburgh-Poughkeepsie area, which increased considerably during 1941, has not changed substantially since then, although payrolls have shown a further irregular rise; Kingston, a textile and apparel center, was recently reclassified by the War Manpower Commission as a labor surplus area.

The nation's estimated civilian labor force declined between January and February and reached a new wartime low of 52,300,000. Military inductions constituted the principal reason for the withdrawal of 400,000 men from the civilian labor force in the month, and only 300,000 women entered the labor market as replacements. In the year February, 1942 to February, 1943, the labor force declined by over 1,000,000 persons, and the proportion of women among all employed workers rose from 25 per cent at the earlier date to 30 per cent. The Bureau of the Census has forecast a continuing contraction of the labor force as a result of military inductions unless considerably larger numbers of persons, particularly housewives and youths, enter the labor market.

* In this *Review* for February 1, 1943 (page 14), a similar chart was reproduced covering factory employment and payrolls in New York City, Buffalo, Rochester, and Binghamton-Endicott-Johnson City.



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

RATIONING AND RATION COUPON BANKING

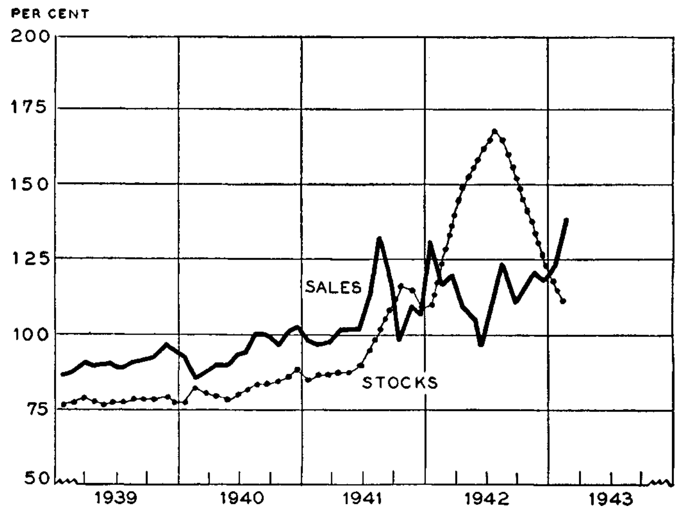
Following the establishment on March 1 of a point system of rationing for virtually all types of processed fruits and vegetables, a similar system went into effect on March 29 for the rationing of meats, canned fish, most types of cheese, butter, and other edible fats and oils. The point values set by the Office of Price Administration allow each person approximately two pounds of meat, butter, and cheese per week, depending upon the cuts of meat purchased. Although consumers will not have to surrender points for food consumed in hotels and restaurants, such establishments will be rationed directly with their supplies of meat, cheese, and butter considerably reduced.

On March 26, the President announced the creation of a Food Production and Distribution Administration in the Department of Agriculture, to be headed by Chester C. Davis, President of the Federal Reserve Bank of St. Louis. Mr. Davis, who will be responsible directly to the President, will have broad powers over the production and distribution of food and the recruitment of farm labor and is expected to control food prices in cooperation with the Office of Price Administration. The President also announced plans for the deferment of over 3,000,000 farm workers and the recruitment of a "Land Army" of students, women, and other workers.

The system of ration banking is being extended as a result of the enlargement of the rationing program. Since January 27, banks have been handling and clearing coupons for sugar, coffee, and gasoline. Now they are being called upon to handle the huge volume of coupons arising out of the rationing of meats and processed foods; beginning April 12 ration coupon accounts will also be opened by shoe dealers. During March it was announced that certain agencies, such as the Army and Navy, exempt from rationing restrictions, would be required to open special ration coupon accounts with unlimited overdraft privileges. The agencies will draw special ration checks against these accounts to reimburse distributors for the coupon value of commodities they purchase, thus enabling both civilian and military supplies to be brought under the same system of distributive control.

DEPARTMENT STORE TRADE

On the basis of weekly reports received at this bank, department store sales in this District during March apparently were maintained close to the level of March, 1942 but lower than in February, 1943. Normally there is a seasonal increase between February and March, but this year sales during February of department stores (as well as apparel stores) were at an exceptionally high level as the result of a buying wave, particularly in clothing, induced by rumors of impending rationing. Buying of this character subsided in March. Sales in February were 17 per cent higher than in the corresponding month last year, and exceeded even the record levels attained in August, 1941, seasonal factors considered.



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

Expressed in retail values, stocks of merchandise on hand in the reporting department stores in this District at the end of February were 10 per cent below February, 1942. Returns from a limited number of department stores in this District show that at the end of February outstanding orders for merchandise purchased by the stores, but not yet delivered to them, were 16 per cent below February, 1942, but 18 per cent higher than at the end of January, 1943.

Department Stores	Percentage changes from a year earlier		
	Net Sales		Stock on hand, February 28, 1943
	February, 1943	Jan. and Feb., 1943	
New York City	+20	+ 3	−10
Northern New Jersey	+ 3	− 7	−17
Newark	+ 7	− 3	−17
Westchester and Fairfield Counties	+ 8	− 5	+ 1
Bridgeport	+10	− 7	+ 7
Lower Hudson River Valley	+ 9	− 3	− 4
Poughkeepsie	+13	− 1	—
Upper Hudson River Valley	+ 1	− 9	− 1
Albany	−12	−19	—
Schenectady*	+17	+ 3	− 6
Central New York State	+23	+ 9	−11
Mohawk River Valley	+24	+16	− 3
Syracuse	+22	+ 7	−13
Northern New York State	+ 5	− 4	—
Southern New York State	+27	+14	+ 2
Binghamton	+31	+17	—
Elmira	+17	+ 5	—
Western New York State	+24	+ 9	− 8
Buffalo	+30	+13	− 4
Niagara Falls	+47	+36	− 6
Rochester	+16	+ 2	−14
All department stores	+17	+ 2	−10
Apparel stores	+48	+17	− 2

*Separate figures for Schenectady available for the first time.

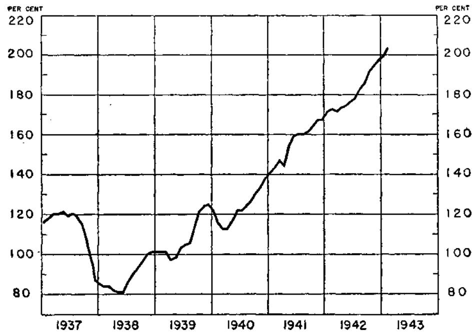
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1942		1943	
	Feb.	Dec.	Jan.	Feb.
Sales (average daily), unadjusted	94	215	97	112
Sales (average daily), seasonally adjusted	116	119	123	138
Stocks, unadjusted	119	118	108	105
Stocks, seasonally adjusted	124r	121	118	111

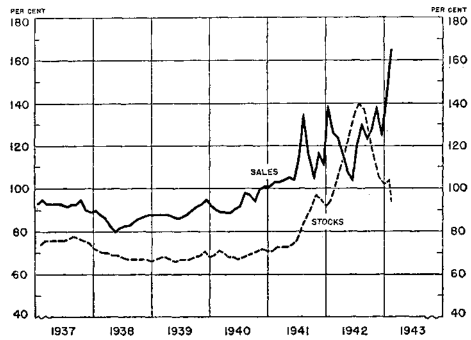
r Revised.

FEDERAL RESERVE BANK OF NEW YORK

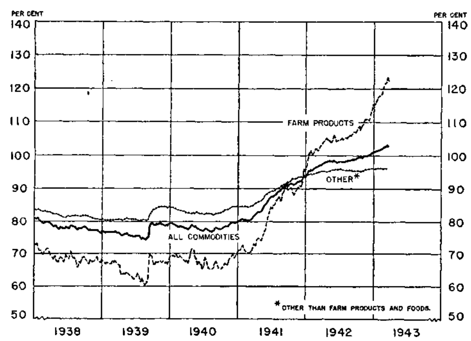
MONTHLY REVIEW, APRIL 1, 1943



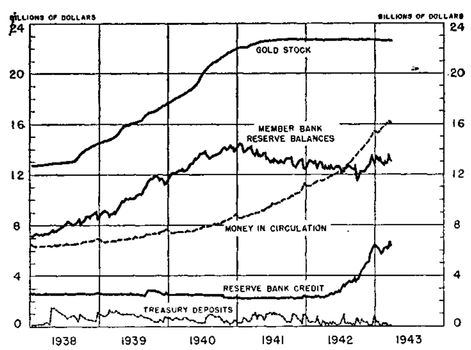
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Indexes of Wholesale Prices Compiled by United States Bureau of Labor Statistics (Latest figures are for March 20; 1926 average=100 per cent)



Member Bank Reserves and Principal Related Items (Latest figures are for March 24)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity continued to advance in February and the early part of March. Retail sales of merchandise, particularly clothing, were exceptionally large in February but declined somewhat in March. Wholesale prices, particularly of farm products, advanced further.

Production

Total industrial output continued to increase in February and the Board's adjusted index rose to 203 per cent of the 1935-1939 average as compared with 199 in January. Larger output at coal mines, steel mills, and armament plants was chiefly responsible for the rise in the index. February deliveries of finished munitions, including a record of 130 merchant ships, considerably exceeded the previous month.

Activity at steel mills reached the peak set last October. Operations averaged 98 per cent of the mills' capacity, which has been increased since that time to a figure above 90 million tons of ingots annually.

Lumber production, which declined in January owing largely to unfavorable weather, increased in February somewhat more than is usual at this season.

Output of textile products remained at the high level of other recent months. Cotton consumption was slightly lower than the corresponding month of the previous year, while rayon and wool consumption were somewhat higher than last year. Shoe production, unchanged from January, was close to the level set by the War Production Board order which limits output of shoes for civilians in the six months beginning March 1 to the number produced in the last half of 1942. Meatpacking declined less than seasonally after a reduction in January, while output of most other foods was lower.

Coal output rose sharply in February with the general adoption of the six-day work week in the mines. Operations in the anthracite mines increased to the high level of last summer while output of bituminous coal was the highest in many years.

The value of construction contracts awarded in February was about the same as in January according to reports of the F. W. Dodge Corporation. Total Federal awards for war construction remained at a level about one-third as large as during last summer. Federal awards for housing continued to decline in February.

Distribution

Department store sales increased considerably in February and the Board's seasonally adjusted index rose to a new high level of 167 per cent of the 1923-25 average. Previous peaks had been 143 in January and 138 in January and November 1942. The increase in February reflected a new buying wave that began early in the month and centered chiefly in clothing items. In the first half of March the buying wave subsided somewhat and sales declined from the high level reached during February.

Freight car loadings showed more than a seasonal rise in February and the first two weeks of March and the Board's adjusted index averaged 4 per cent higher than in January. Large off-seasonal movements of grain continued to be the most unusual feature of car loadings.

Commodity Prices

Prices of a number of commodities advanced further in February and in the early part of March. Farm products have continued to show the largest increases and prices received by farmers in the middle of March are estimated to be about 30 per cent higher than a year ago. Fruit and vegetable prices are considerably higher now than during the same season last year. Prices of bread grains and grains used for livestock feeding have advanced sharply in recent months and livestock prices have also risen further.

In retail markets the largest advances have continued to be in food prices. In the latter part of February maximum levels were established for leading fresh vegetables following sharp price increases resulting in part from the restrictions on retail sales of canned and dried vegetables and fruits.

Bank Credit

Excess reserves of member banks remained generally above 2 billion dollars during the first two weeks of March, compared with an average of about 1.8 billion during the latter part of February. During the four weeks ending March 17 total Reserve Bank holdings of Government securities showed an increase of 470 million dollars. Purchases of special Treasury one-day certificates moderated the effect of large scale shifts of funds over the tax payment period. These purchases began early in March and on March 17 the certificate outstanding was 980 million dollars. Holdings of other United States Government securities declined by 510 millions.

Reflecting the payment of taxes in cash, money in circulation rose less rapidly early in March and declined slightly around the middle of the month.

The gain in reserve funds occurred mainly at banks outside the central reserve cities; at New York City and Chicago banks reserves remained close to requirements.

In the four week period ending March 17 member banks in 101 leading cities increased their holdings of Government securities by 920 million dollars. Prices of Government securities continued steady.

Demand deposits at banks in leading cities increased sharply over the four week period. There were also increases in interbank deposits, indicating accumulation of funds by country banks.