

# MONTHLY REVIEW

## of Credit and Business Conditions

### Second Federal Reserve District

Vol. 25

MAY 1, 1943

No. 5

#### MONEY MARKET IN APRIL

While figures for the final days of the campaign are not yet available, the Second War Loan drive, launched April 12 with a minimum objective of \$13,000,000,000, has substantially exceeded that total. Thus, the second drive clearly outstripped the first, held last December, when the goal was \$9,000,000,000 and the realization \$12,900,000,000. Indeed, it may be that the April drive will yield an amount not very far short of the \$17,000,000,000 total raised during all of the first four Liberty Loan campaigns of the first World War. The results of the new drive reflected the high level of national income, the large volume of idle funds, and the joint efforts of the War Savings Staff and Victory Fund Committee organizations, and their coordination under the recently appointed War Finance Committee. Commercial banks heavily oversubscribed the limited amounts of securities offered to them; insurance companies, savings banks, and other "institutional" investors purchased large blocks, especially of the 2½ per cent and 2 per cent bonds; other corporations were large buyers of certificates of indebtedness and Tax Savings notes; and individuals, making an extra effort to help in financing the war, purchased Government bonds of all types in the largest volume thus far attained.

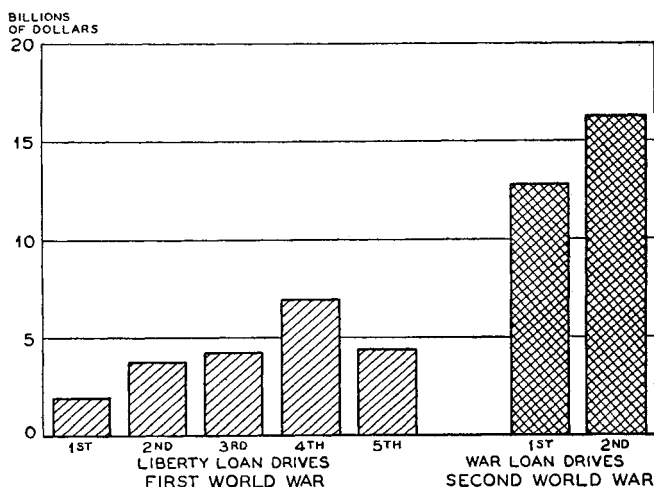
The amount of funds raised directly from banks, approximately \$5,000,000,000, was largely predetermined, since their purchases were limited to \$2,000,000,000 or thereabouts of the ⅞ per cent certificates of indebtedness, and a corresponding amount of the 2 per cent Treasury bonds of 1950-52, in addition to Treasury bills, the supply of which was increased \$800,000,000 during the month. The surpassing of the overall goal, was therefore largely the result of sales of Government

securities to nonbanking investors, although some of the securities sold to others than banks will undoubtedly be resold to banks over a period of time. In the Second Federal Reserve District, sales to nonbanking investors reached over \$4,000,000,000 by the end of April, exceeding the minimum \$3,000,000,000 objective for sales in the District to these classes of investors by a wide margin. In addition, there were substantial sales to brokers and dealers in securities some part of which can definitely be included in sales to nonbank

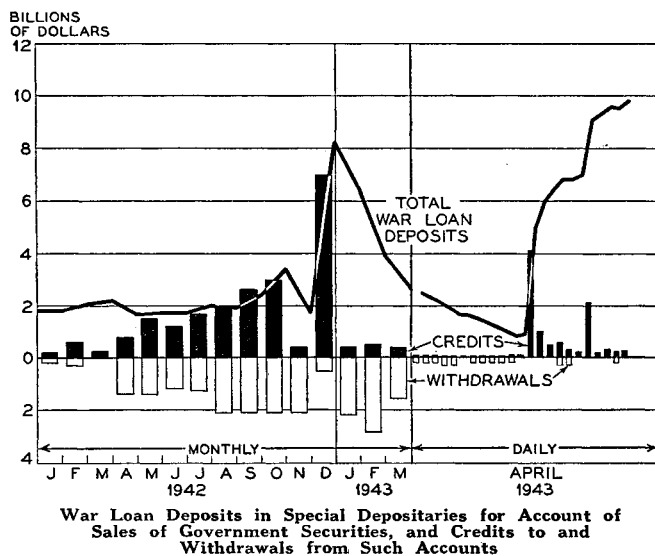
investors although a considerable amount will find its way into bank holdings. Moreover, nearly \$300,000,000 (net) of sales were allotted to other districts at the request of subscribers (chiefly corporations) who were asked by sales organizations in those districts to credit them with part of their security purchases, even though the subscriptions were actually obtained in this District and payments for the securities were made out of funds located here. The successful results in this District were accounted for not only by the energetic sales efforts of the local War Savings and Victory Fund organizations,

but also by the especially active participation of insurance companies whose head offices are located in this District, and of corporations whose principal banking accounts are carried here. Second District insurance companies, which supplemented their purchasing capacity by reducing holdings of partially tax-exempt and other already outstanding issues, bought more than \$1,300,000,000 in total of the three "market" offerings during the drive.

Despite the negligible amounts of excess reserves held by the New York City banks at the beginning of the campaign, commercial banks in this area entered heavy subscriptions for



Results of Two War Loan Drives in the Present World War, Compared with Liberty Loan Drives of the First World War (Total for Second War Loan drive partly estimated)



the two market issues available to them, and at the same time continued to enter substantial tenders each week for Treasury bills. As in December, the financing was accomplished without strain upon bank reserve positions. For this, credit was due to the War Loan deposit account mechanism, modified April 13 by approval of the Wagner-Steagall amendment to the Federal Reserve Act suspending reserve requirements against such deposits.\* Aside from Treasury bills, for which book credit payments were not permitted, payments by credits to War Loan deposit accounts on the books of banks were employed to such a preponderant extent that there were relatively few days over the course of the campaign when cash receipts by the Treasury from the sale of new issues were large enough to create a substantial increase in Treasury deposits with the Federal Reserve Banks and a consequent loss of reserve funds to the banks. In fact, the Treasury made a limited number of calls on the War Loan accounts during the drive, in order to supplement cash receipts from the sale of securities and tax revenues. Calls during the second half of the month, however,

\* By the same measure Federal Deposit Insurance Corporation assessments against the War Loan accounts were also suspended.

#### Money Rates in New York

	April 30, 1942	Mar. 31, 1943	April 29, 1943
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4 to 6 months.	5/8	5/8-3/4	5/8-3/4
Bills—90 day unindorsed.....	7/8	7/8	7/8
Average yield on tax exempt Treasury bonds (not callable within 12 years).	2.05	2.07	1.99
Average yield on taxable Treasury bonds (not callable within 12 years).....	2.38	2.32	2.32
Average rate on latest Treasury bill sale 91 day issue.....	0.335	0.374	0.372
Reserve Bank discount rates:			
On advances to member banks secured by Government obligations callable or maturing in one year or less.....	—	1/2	1/2
On other advances to member banks secured by Government obligations, and on rediscounts.....	1	1	1
Reserve Bank buying rate for 90 day indorsed bills.....	1/2	1/2	1/2

\* Nominal

totaled only \$1,019,000,000, as compared with \$2,089,000,000 during the first half. Credits to War Loan accounts during April, representing payments for Government securities, approximated \$10,500,000,000, and it is estimated that the balance in these accounts, which amounted to \$2,694,000,000 at the end of March exceeded \$10,000,000,000 on April 30. Heavy additional credits to War Loan account deposits are expected on May 10 when payments are due on the allotments to banks of 2 per cent bonds.

In the Second Federal Reserve District the proportion of book credit payments on sales of the three market issues—the 2 1/2 per cent bonds, the 2 per cent bonds, and the 7/8 per cent certificates of indebtedness—ran upwards of 95 per cent; in other districts slightly less than 80 per cent. The corresponding figures for the December drive were 83 per cent and 46 per cent, respectively. The greater use of the book credit method of payment was an indication of the fact that banks were becoming increasingly conscious of its advantages to them (especially in light of the enactment of the Wagner-Steagall bill), and of its vital role in making possible Government financing operations of unprecedented size with a minimum of disturbance to bank reserve positions. Between the end of December and April 24, the number of qualified War Loan depositaries increased from 660 to 908 in the Second Federal Reserve District and from approximately 5,200 to about 8,500 in the country as a whole. Besides the qualification of many additional depositaries, the limits on maximum War Loan account deposits have been increased in numerous cases.

#### MEMBER BANK RESERVE POSITIONS

During the first two weeks of April excess reserves of all member banks in the United States rose \$630,000,000, or from \$1,520,000,000 to \$2,150,000,000. The principal factor tending to enlarge excess reserves over this period was an increase of \$785,000,000 in Government security holdings of the Federal Reserve Banks, reflecting for the most part purchases of bills under the 3/8 per cent buying rate from banks requiring additional funds in the adjustment of their reserve positions. Reserve requirements declined \$245,000,000 during the first two weeks of the month, also tending to create excess reserves, but there were opposing factors which limited the rise—principally a \$207,000,000 increase in nonmember deposits and other Federal Reserve accounts, a \$172,000,000 rise in currency circulation, a \$75,000,000 decline in the gold stock, and a \$73,000,000 increase in Treasury deposits with the Federal Reserve Banks.

The decrease in reserve requirements was largely accounted for by the suspension of reserve requirements against War Loan account deposits, effective April 13. During the following week, ended Wednesday, April 21, the new law had an even more important effect when, through heavy sales of securities to nonbanking investors, approximately \$6,000,000,000 was shifted from other classes of deposits (against which reserves are required) to War Loan account deposits (against

which reserve requirements were suspended). The resultant decline in reserve requirements of all member banks was estimated at approximately \$1,000,000,000, although, inasmuch as there was a drop at the same time of \$826,000,000 in reserve balances, the further increase in excess reserves was limited to \$180,000,000. The decline in reserve balances during the week ended April 21 was largely accounted for by a \$376,000,000 decline in Federal Reserve Banks' Government security holdings, a \$343,000,000 increase in Treasury deposits with the Federal Reserve Banks, and a further \$76,000,000 expansion in currency circulation. The reduction in Federal Reserve Bank holdings of Government securities was largely concentrated in Treasury bills, and reflected reacquisition by banks of bills previously sold to the Reserve Banks under repurchase option.

In New York City reserve positions of the central reserve city banks oscillated within rather wide limits during April; temporary deficiencies occurred on a few days while at other times reserves of these banks ran substantially more than \$100,000,000 in excess of their requirements. As in February and March, the New York City banks checked tendencies of their excess reserves to rise by adding to their Government security holdings, and met losses of reserve funds by selling Government securities. Option account transactions in Treasury bills with the Federal Reserve Bank played a predominant role in the day-to-day adjustment of reserve positions by the New York City banks.

The New York banks lost reserve funds during the early part of April through Treasury transactions, as calls on War Loan deposit accounts together with other payments to the Treasury substantially more than offset the volume of Government checks placed on deposit here. With the inauguration of the new War Loan drive April 12, there was a large outflow of funds to other parts of the country, as deposits with the New York banks were drawn upon to pay for subscriptions entered elsewhere. The suspension of reserve requirements against War Loan account deposits, effective April 13, however, not only enabled the banks to meet this outflow but also permitted them to enlarge their holdings of Government securities through repurchases of bills from the Reserve Bank and market purchases of various classes of securities.

The decline in member bank reserve requirements, which has resulted from the shift of deposits from private accounts to War Loan accounts during the Second War Loan drive, will be reversed following the drive. Then, the transfer, through Government expenditures, of deposits from War Loan accounts to deposits of individuals and business firms will cause an increase in reserve requirements. New patterns thus have been introduced into the movement of member bank reserve requirements—reserve requirements falling during periods of heavy sales of Government securities to nonbanking investors, and rising at other times as drafts are made on the War Loan accounts. Nevertheless, reserve requirements will never be

higher under the new provisions of the law than they would have been under the former provisions, and ordinarily the level of reserve requirements will be considerably lower.

#### MEMBER BANK CREDIT

During the three weeks ended April 21 the weekly reporting member banks in 101 leading cities added \$1,781,000,000 of Government securities to their investment portfolios, of which \$1,018,000,000 were Treasury bills and the rest principally certificates of indebtedness and Treasury bonds. (Bank purchases of the Second War Loan drive issues of  $\frac{7}{8}$  per cent certificates and 2 per cent bonds will not be reflected in the weekly reporting member bank figures until the reports for the weeks ended April 28 and May 12, respectively.) In the last week of March, these banks had sold \$697,000,000 of bills, largely reflecting operations of New York and Chicago banks in meeting losses of reserve funds. In Chicago, banks were called upon to meet large temporary deposit withdrawals at the end of March in anticipation of the April 1 assessment date for personal property taxes.

In New York City, the reporting member banks did not resume purchasing bills until the week ended April 21, although they continued to make net purchases of other types of Government securities throughout the four weeks' period from March 24 to April 21. Mainly as a result of purchases made during the last week, total holdings of Government securities of these banks on April 21 were \$561,000,000 above the figure for December 30, 1942, at the close of the first War Loan drive. Outside New York, the reporting member banks made substantial purchases of Treasury bills during the first three weeks of April and smaller purchases of other issues. By April 21 total Government securities of these banks had reached a point \$2,091,000,000 above the level of December 30.

Through April 21 the effect of the Second War Loan drive on the various items on the statements of the weekly reporting member banks was particularly evident in the changes that occurred in the volume of security loans and in the composition of deposits. In New York City, loans to brokers and dealers, mainly to finance the purchase of Government securities during the Second War Loan drive, rose \$597,000,000 to \$1,262,000,000 during the week ended April 21. The high point reached during the December drive was \$952,000,000, on December 23.

As banks made heavy use of the book credit method of payment in connection with sales of new Government securities to nonbanking investors during the Second War Loan drive, there was a large shift of funds from customers' deposits to Government deposits. During the week ended April 21, adjusted demand deposits of the weekly reporting member banks in 101 cities were drawn down \$2,682,000,000, while Government deposits of these banks rose \$4,355,000,000. At the same time, deposits due to domestic banks were reduced \$460,000,000.

## WAR FINANCING

During April, Treasury financing was highlighted by the Second War Loan drive to raise at least \$13,000,000,000 from the sale of Government securities, a goal that was surpassed by a substantial margin. As a result of this intensive campaign, no financing of similar scope will be required before August. The excess of expenditures over tax receipts during this period can be largely met by continued sales of Savings bonds and Tax notes in addition to drawing upon the large balance accumulated in War Loan deposit accounts through the April drive.

Subscription books on the three new issues offered during the drive—2½ per cent Treasury bonds of 1964-69, 2 per cent Treasury bonds of 1950-52, and 7/8 per cent certificates of indebtedness due April 1, 1944—were open to investors other than commercial banks for the duration of the drive from April 12 through May 1. On the basis of the latest available figures through April 27, it would appear that sales to such investors of the three new issues exceeded \$8,000,000,000. In addition, nonbanking sources purchased over the month as a whole an estimated \$1,250,000,000 of Savings bonds and an even larger amount of Tax notes. The total of Savings bonds included in the drive will be somewhat higher since Secretary Morgenthau has announced that sales processed through May 8 will be included in the final figures in order to give credit for subscriptions received near the close of April which would not be reflected otherwise because of the time required to process them.

Of the approximately \$11,000,000,000 purchased by nonbanking investors throughout the country, more than \$4,000,000,000 was credited to the Second Federal Reserve District. Purchases of the three market issues, principally by insurance companies, savings banks, and other corporations, may have exceeded \$3,500,000,000, as compared with \$3,200,000,000 in the December drive. Sales of Tax notes were about the same as the December total of \$440,000,000, while sales of Savings bonds reached a total in this District of more than \$200,000,000 (considerably more than in December), principally through substantial purchases by individuals of Series E bonds. The April drive also brought about increases in the volume of payroll deductions for the purchase of these bonds which will show up in sales figures for future months.

Commercial banks were limited to allotments of about \$2,000,000,000 on the 7/8 per cent certificates of indebtedness and a similar amount on the 2 per cent Treasury bonds of 1950-52, in addition to purchases of the weekly Treasury bill issues. Subscription books on the certificates of indebtedness were open to commercial banks for three days beginning April 12, with payment due on April 22. Subscriptions totaled \$9,782,000,000, far exceeding the \$3,496,000,000 entered for a similar issue in the December drive. Total allotments amounted to \$2,138,000,000; subscriptions of \$100,000 or less (\$401,000,000) were allotted in full and the remainder

on an 18 per cent basis. Allotments in this District of \$665,000,000 constituted 31 per cent of the total as compared with 35 per cent in December. Subscription books on the 2 per cent Treasury bonds were open to commercial banks for three days beginning April 28, with payment due on May 10. Results of this offering are not yet available. Commercial banking sources also absorbed the bulk of the \$800,000,000 "new money" raised through the four weekly Treasury bill offerings during the month. On April 21, the weekly offerings were stepped up from \$800,000,000 to \$900,000,000 when maturities increased from \$600,000,000 to \$700,000,000. Not included in the Second War Loan campaign was an offering on April 20 of 7/8 per cent one-year certificates of indebtedness dated May 1, 1943 in exchange for \$1,506,000,000 certificates of indebtedness and \$289,000,000 Commodity Credit Corporation notes maturing on May 1. A total amount of \$1,655,000,000 was actually exchanged, leaving \$140,000,000 to be redeemed.

## SECURITY MARKETS

Despite the offering of three new market issues in the Second War Loan drive, demand for previously outstanding Government securities continued to be strong during April. Commercial banks, allotments to which were limited in the drive, added to their holdings of bonds and short term obligations, acquired in many cases from insurance companies and others who reinvested the proceeds in the new issues offered in the drive. Average yields on long term partially tax exempt bonds declined from 2.07 per cent at the beginning of the month to a new low for the year of 1.99 per cent, and yields on long term taxable bonds also tended to decline. Demand from banks for short term issues and intermediate maturities, which had been less active during the early part of the month, was stimulated during the second half by suspension of reserve requirements on War Loan account deposits.

Stock prices, which had been rising with occasional interruptions over the preceding eleven months, on April 6 reached the highest level since May, 1940, according to Standard and Poor's 90 stock index. Following announcement of the executive order directing stabilization of prices and wages, the index dropped about 4 per cent to the month's low on April 9. Subsequently, however, an irregular recovery erased most of the loss. The number of shares traded on the New York Stock Exchange in April was maintained near last month's high level, owing particularly to accelerated activity during the first nine days of the month. Market activity diminished toward the end of the month.

Domestic corporate bond prices were again generally steady during April, accompanying a continued high rate of market activity. The decline in the average yield on Baa bonds as computed by Moody's Investors Service was extended to a new low of 3.94 per cent. On April 28, judging by Standard and Poor's yield index, prices of prime municipal bonds reached the highest level since early in December, 1941.

## NEW SECURITY ISSUES

Corporate and municipal new security offerings during April amounted to about \$105,000,000, somewhat lower than the total of the previous month owing to a drop in municipal financing. Corporate issues totaled \$86,000,000, nearly all of the proceeds of which were to be used for refunding purposes. Municipal awards aggregated only about \$19,000,000, as compared with around \$50,000,000 in each of the previous three months.

The largest corporate flotation was that of \$52,000,000 Puget Sound Power and Light Company first mortgage 4¼ per cent bonds due in 1972, offered at a price of 104¼ to yield 4.00 per cent. This offering, the proceeds of which will be used for refunding purposes, was the largest to reach the market in several months. Another large refunding issue during April was that of \$20,000,000 Wilson and Company, Inc., first mortgage 3 per cent bonds due in 1958, offered at par. No large municipal awards were made during the month.

## FOREIGN EXCHANGES

Interest in the foreign exchanges in the New York market during April centered largely in the free Argentine peso. The gradual appreciation in this exchange, which began last January, was accelerated toward the end of March and by mid-April the New York free rate had reached a level somewhat above \$0.2500. This quotation was the highest in several years and exceeded by more than 1 cent the level which was reported to have been maintained previously as a maximum. Following the recent appreciation in the free rate, the Argentine central bank on April 19 changed its buying rate for dollars derived from "nonregular" exports to 397.02 pesos per \$100, or equivalent to about \$0.2519 per peso; previously this rate had been equal to about \$0.2370. An indication of one of the factors causing the strength in the Argentine peso was provided on the following day, when an Argentine executive decree was issued empowering the Ministry of Finance to control, through the central bank, movements of funds with foreign countries. This measure was designed not to prevent the inflow of capital to Argentina for permanent investment in productive activities, but rather to prevent, for the time being, the entry of new funds seeking only temporary refuge in Argentina. There was little activity in the New York market pending clarification of this decree and the reopening of the Argentine market after the Easter holidays. With the reopening of the Buenos Aires market on April 26, the peso rate for the dollar rose rather substantially and the dollar equivalent near the end of the month was around \$0.2490. In New York, the free Argentine peso closed the month at about \$0.2500.

There was some fluctuation in the unofficial Canadian dollar late in April, when the rate rose to a new high of \$0.9050 on April 22, subsequently declined to \$0.9000, but closed the month at about \$0.9013¼. The last rate is about the same as

that prevailing at the end of March. Among the other exchanges traded in the New York market, the "free" Swiss franc showed a net increase of about 1 cent for the month, to be quoted at somewhat above \$0.2900.

## EMPLOYMENT AND PAYROLLS

Working forces in New York State factories increased 1½ per cent from February to March and factory payrolls increased 4 per cent in the same period, according to the New York State Department of Labor. War industries generally reported increased employment, and apparel, furniture, and chemical plants also increased their working forces. Seasonal factors in the apparel industry in New York City as well as hirings by local shipyards and instrument plants caused expansions in payrolls and employment in the City greater than those in the State as a whole. For the fifth consecutive month, Syracuse showed a greater increase in employment and payrolls than any other industrial area in the State; it is now classified by the War Manpower Commission as an area of labor stringency (Group II).

The civilian labor force of the nation in March is estimated by the Department of Commerce at 52,000,000 persons, a decline of 300,000 from February. The volume of unemployment in the country declined from 1,400,000 in February to 1,000,000 in March, a figure which the Department estimates to be close to the irreducible minimum. Civil nonagricultural employment was nearly 275,000 greater in March than in February; working forces in construction and mining contracted to some extent, but there was a considerable expansion in the number of civil government employees and factory workers. In the year ended March, 1943 manufacturing employment increased by 2,100,000 persons, bringing the total of wage and salary workers in manufacturing industry to 15,960,000.

The necessity for the effective mobilization of the nation's manpower resources led to three significant developments in the employment field this month. The President, in his "hold the line" executive order of April 8, transferred discretionary power over wage increases from the War Labor Board to the Director of Economic Stabilization, and forbade general wage increases beyond those allowed under the "Little Steel" formula unless such increases should be necessary to correct substandard living conditions. The War Manpower Commission, pursuant to a provision of the executive order which limited wage increases and job changing, set forth on April 17 regulations providing that workers would not be allowed to shift from essential to nonessential industries or from one essential industry to another at increased wage and salary rates, and in connection with this order revised its previous list of essential industries. The Commission also changed its Selective Service classifications so as to facilitate induction of married men without children and to defer as long as possible married men with children.

## CONSUMER SHORT TERM DEBT

Between September 30, 1941, when its peak was reached, and the end of February, 1943, the total volume of consumer short term debt outstanding declined more than \$4,000,000,000 to about \$5,500,000,000. In 1942 alone the liquidation amounted to about \$3,300,000,000. Although this figure is small in comparison with the figure of the Department of Commerce for total income payments in 1942—\$115,500,000,000—it does, however, represent some easing of the inflationary pressure of rising incomes on the diminishing supply of goods for civilian consumption. It comprises a more significant portion of the estimated \$27,000,000,000 in net individual savings over the same period.

The accompanying chart, based on estimates prepared by the Department of Commerce and the Board of Governors of the Federal Reserve System, indicates that individuals ran up their short term debt from about \$3,500,000,000 early in 1934 to \$9,700,000,000 by the end of September, 1941. Most of this increase was accounted for by the rapid expansion of instalment sales credit, and by the growth of instalment cash loans, particularly through commercial banks and small loan companies. With the adoption of consumer credit regulations (Regulation W of the Board of Governors of the Federal Reserve System), which went into effect on September 1, 1941, and the limitations on the production of many types of consumer durable goods such as automobiles, which began during the last months of 1941, the volume of short term consumer debt outstanding was sharply curtailed. In 1942 passenger car production was entirely halted, supplies of electrical appliances, radios, and a number of other classes of consumer durable goods were sharply curtailed, and consumer credit regulations extended and tightened.

By the end of February, 1943 the instalment sale debt total had fallen to less than one third of the September 30, 1941 volume. There was a liquidation of over 80 per cent of the

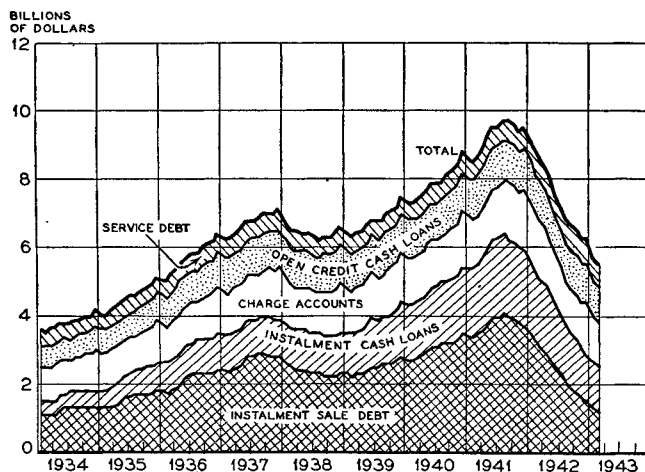
total instalment debt arising from the sale of automobiles, 70 per cent in the credit extended by household appliance stores, and about 45 per cent in the case of furniture stores. The net contraction in instalment cash loans amounted to over 40 per cent. As the first consumer credit regulations did not apply to charge accounts, such debts continued to rise following the period of active retail trade during the last half of 1941. However, beginning in May, 1942, when Regulation W was broadened to cover such accounts, the amount of outstanding charge account debt fell off rather sharply. Although it rose again during the Christmas shopping season, the total charge account debt outstanding at the end of February, 1943 was about one-fifth below the amount on the corresponding date of 1942. It is estimated that open credit cash loan debt, which includes single payment loans of commercial banks, fell off about 13 per cent during the year ended February 28, 1943. On the other hand, it is estimated that service debt, such as unpaid doctor and hospital bills, has increased slightly over the period.

### DEPARTMENT AND FURNITURE STORES IN THE SECOND DISTRICT

The accompanying tables show the changes that have occurred in the credit business of representative groups of department and furniture stores in this Federal Reserve District. For both types of stores there have been increases in the proportions of total sales made for cash. Between March, 1941 and March, 1942 there were only minor changes in the relative amounts of goods sold for cash or credit for both department and furniture stores, but between March, 1942 and March, 1943 a fairly substantial increase in the portion of total sales made for cash took place. The rate at which outstanding accounts are collected has also been accelerated, particularly in the case of department store charge accounts. Both the increased percentages of cash sales and faster collections have had the effect of bringing down the outstanding accounts receivable of retail merchants. The amount owing Second District department stores by their customers dropped 32 per cent during the year ended March 31, 1943; consumer indebtedness to Second District furniture stores declined 39 per cent over the same period.

### COMMERCIAL BANKS IN THE SECOND DISTRICT

In the Second Federal Reserve District the volume of outstanding consumer instalment loans of 38 reporting member banks declined 55 per cent during the year ended March 31, 1943. This decline was approximately of the same order as that estimated for all commercial banks in the country. As might be expected, retail automotive loans, which include direct loans as well as automotive paper purchased by banks from other sources, showed the sharpest curtailment—over 75 per cent. Loans for the purchase of other types of con-



Estimated Short Term Consumer Debt Outstanding at End of Each Month, Classified by Principal Types of Debt (Sources: U. S. Department of Commerce and Board of Governors of the Federal Reserve System)

Department and Furniture Stores in the Second Federal Reserve District

Percentage Breakdown, Cash and Credit Sales			
	Mar. 1941	Mar. 1942	Mar. 1943
<b>Department stores</b>			
Net sales—total	100	100	100
Cash sales	60	61	68
Open book credit sales	32	30	26
Instalment credit sales	8	9	6
<b>Furniture stores</b>			
Net sales—total	100	100	100
Cash sales	11	12	19
Credit sales*	89	88	81

Percentage of February 28 Accounts Collected during March		
	Mar. 1942	Mar. 1943
<b>Department stores</b>		
Open accounts	42	52
Instalment accounts	20	30
<b>Furniture stores</b>		
Total accounts*	11	14

Percentage Change in Outstanding Accounts Receivable March 31, 1942 to March 31, 1943			
	Open book credit	Instalment credit	Total accounts receivable
Department stores	-29	-36	-32
Furniture stores	*	*	-39*

\* Separate data not generally available; predominantly instalment credit.

Consumer Instalment Credit Outstanding  
38 Member Banks in the Second District  
(Dollar figures in thousands)

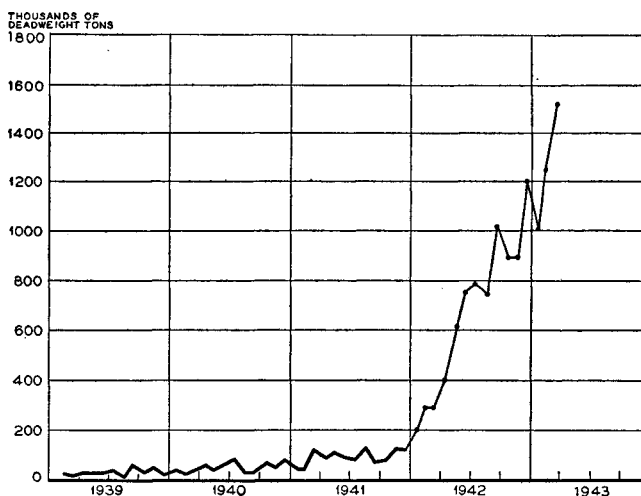
Type of loan	March 31, 1942	March 31, 1943	Percentage change
Retail automotive	\$ 30,174	\$ 7,197	-76
Other retail	65,915	26,885	-59
Repair and modernization	35,844	19,372	-46
Personal cash loan	65,813	36,332	-45
<b>Total</b>	<b>\$197,746</b>	<b>\$89,786</b>	<b>-55</b>

sumers' goods fell off about 60 per cent. Restrictions on residential building as well as on the amount of credit extension resulted in the curtailment of instalment loans for repair and modernization of real estate by over 45 per cent; about the same relative decline was shown in the case of personal instalment cash loans.

**PRODUCTION AND TRADE**

During the month of April industrial activity was maintained at a high level. Steel mill operations were scheduled at practically full rated capacity, and the daily rate of steel production probably equaled the record set in March. Donald Nelson, Chairman of the War Production Board, announced that aircraft production in April would be close to 7,000 planes. The output of crude petroleum increased somewhat during April, but electric power production and bituminous coal mining declined slightly.

During March the seasonally adjusted index of production and trade computed at this bank receded to 125 per cent of estimated long term trend from the record February figure of



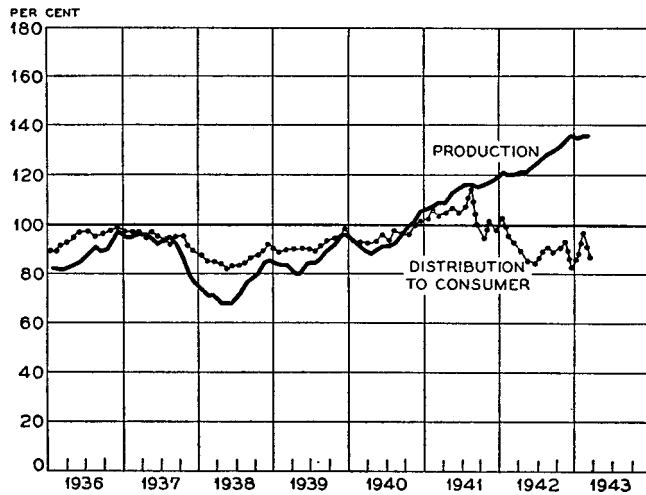
Merchant Vessels Delivered by American Shipyards (Figures for 1939-41 as published by American Bureau of Shipping; data for 1942-43 as reported by U. S. Maritime Commission)

128. The decline was attributable almost entirely to a sharp drop in retail trade from the exceptionally high level of February. However, the over-all index was one point above January, 1943 and 11 points higher than in March last year.

Production was maintained at about the February level during March, as sizable contraseasonal declines in construction, both residential and nonresidential, tended to offset gains in other lines. During March, a total of 7,670,000 tons of steel was produced, equivalent to 100 per cent of capacity and the highest monthly tonnage on record. Output of steel plate, essential to the shipbuilding program, also reached a new high in March. Steel plate is now the steel industry's largest tonnage product, approximately 20 per cent of the ingot output being used for this purpose. War plants continued to increase their output, and American merchant shipyards attained a rate of nearly five ships a day during March, when 146 vessels totaling 1,516,000 deadweight tons were delivered. The record-breaking production of recent months has resulted in a greater number of ships being delivered during the first quarter of 1943 than during the first eight months of last year.

Production of nondurable goods was, on the whole, little changed in March. Output of bituminous coal mines was the greatest in sixteen years, and electric power production, which usually declines in March, was maintained near the February rate. The daily rate of cotton consumption, however, decreased somewhat from the high level of the preceding month.

The index of distribution to consumer dropped 11 points in March following the buying wave which raised February sales to unusually high levels. The recession in department store sales was especially marked; although there is usually a sizable increase in sales in March, this year there was a reduction of about 8 per cent from February. Sales by mail order houses and variety chains also declined sharply on a seasonally adjusted basis.



Indexes of Production and Distribution to Consumer (Federal Reserve Bank of New York indexes, expressed as percentages of long term trends, and adjusted for seasonal variation)

As may be seen from the accompanying chart, production has shown a persistent rise since the spring of 1940, while the physical volume of retail trade, as measured by the index of distribution to consumer, has fluctuated rather widely. During the first two years of the war, trade shared in the boom caused by increasing production and incomes and reached its peak with the buying wave of August, 1941. Since that date an irregular decline has been apparent. The curtailment in sales has been most especially marked in the consumers' durable goods field, but as manufacturers' and merchants' stocks are depleted and rationing programs are extended, the decline in sales tends to become more general.

	1942	1943		
	March	Jan.	Feb.	March
<i>Indexes of Production and Trade*</i> (100=estimated long term trend)				
Index of Production and Trade .....	114	124	128 <sub>p</sub>	125 <sub>p</sub>
Production .....	120	135	136 <sub>p</sub>	136 <sub>p</sub>
Producers' goods—total .....	145	172	174 <sub>p</sub>	173 <sub>p</sub>
Producers' durable goods .....	162	206	207 <sub>p</sub>	206 <sub>p</sub>
Producers' nondurable goods .....	125	133	136 <sub>p</sub>	135 <sub>p</sub>
Consumers' goods—total .....	90	87	88 <sub>p</sub>	88 <sub>p</sub>
Consumers' durable goods .....	49	40	41 <sub>p</sub>	39 <sub>p</sub>
Consumers' nondurable goods .....	104	103	104 <sub>p</sub>	104 <sub>p</sub>
Durable goods—total .....	129	157	158 <sub>p</sub>	157 <sub>p</sub>
Nondurable goods—total .....	113	115	117 <sub>p</sub>	117 <sub>p</sub>
Primary distribution .....	128	139	147 <sub>p</sub>	147 <sub>p</sub>
Distribution to consumer .....	93	88	97 <sub>p</sub>	86 <sub>p</sub>
Miscellaneous services .....	114	147	150 <sub>p</sub>	149 <sub>p</sub>
<i>Cost of Living</i> , Bureau of Labor Statistics (100=1935-39 average) .....	114	121	121	
<i>Wage Rates</i> (100=1926 average) .....	133	147	148 <sub>p</sub>	
<i>Velocity of Demand Deposits*</i> (100=1935-39 average)				
New York City .....	60	67	69	62
Outside New York City .....	90	78	75	78

<sub>p</sub> Preliminary. \* Adjusted for seasonal variation.

## DEPARTMENT STORE TRADE

During the four weeks ended April 24, sales of reporting department stores in this District were about 9 per cent greater than in the corresponding period last year. In 1942, however, Easter fell on April 5, and much of the pre-Easter buying was concentrated in March, whereas this year Easter was three weeks later. On a seasonally adjusted basis, sales in April were apparently somewhat below the level of March.

In March department store sales in this District were only 1 per cent greater than in March, 1942, when, as indicated above, sales were enlarged by the earlier date of Easter. During March, the daily rate of sales declined 7 per cent from the high level of February; in most years there is an increase between these two months.

Stocks on hand of department stores in this District at the end of March were 20 per cent lower at retail valuations than in March of last year, and the seasonally adjusted index of stocks reached the lowest level since August, 1941. Returns from a limited number of department stores in this District show that at the end of March outstanding orders for merchandise purchased by the stores but not yet delivered to them were 5 per cent below March, 1942, but 12 per cent higher than at the end of February, 1943.

Department Stores	Percentage changes from a year earlier		
	Net Sales		Stocks on hand, March 31, 1943
	March, 1943	Jan. through March, 1943	
New York City .....	+ 4	+ 4	-23
Northern New Jersey .....	-11	- 8	-25
Newark .....	- 9	- 6	-25
Westchester and Fairfield Counties .....	- 9	- 7	-12
Bridgeport .....	-10	- 8	-12
Lower Hudson River Valley .....	- 3	- 3	-11
Poughkeepsie .....	+ 1	0	—
Upper Hudson River Valley .....	-16	-12	- 5
Albany .....	-23	-21	—
Schenectady .....	- 5	0	- 8
Central New York State .....	+ 3	+ 7	-21
Mohawk River Valley .....	+ 1	+ 9	- 5
Syracuse .....	+ 4	+ 6	-25
Utica* .....	+ 1	—	—
Northern New York State .....	- 5	- 4	—
Southern New York State .....	- 3	+ 7	- 8
Binghamton .....	- 6	+ 8	—
Elmira .....	-11	- 2	—
Western New York State .....	+ 7	+ 8	-11
Buffalo .....	+ 3	+ 9	- 5
Niagara Falls .....	+18	+28	- 2
Rochester .....	+12	+ 6	-22
All department stores .....	+ 1	+ 2	-20
Apparel stores .....	+14	+16	- 9

\*Separate figure for Utica available for the first time.

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

	1942	1943		
	March	Jan.	Feb.	March
Sales (average daily), unadjusted .....	106 <sub>r</sub>	97	112	104
Sales (average daily), seasonally adjusted .....	120	123	138	127
Stocks, unadjusted .....	137	108	105	107
Stocks, seasonally adjusted .....	136 <sub>r</sub>	118	110 <sub>r</sub>	106

<sub>r</sub> Revised.



# FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, MAY 1, 1943

## General Business and Financial Conditions in the United States

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

**I**NDUSTRIAL activity increased slightly in March and prices of commodities advanced further. Retail trade in March and the first half of April was in large volume, although reduced from the February peak.

### INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production advanced from 202 per cent of the 1935-39 average in February to 203 in March. The rise in total output continued to reflect chiefly increased production in the machinery and transportation equipment industries producing armaments. At merchant shipyards 146 ships were delivered in March. Completions totaled 1,516,000 deadweight tons, an annual rate of more than 18,000,000 tons.

Steel mills operated at peak levels. Production of lumber, however, increased less than usual in March, continuing the gradual downward trend of production which began a year ago.

Output of fuels reached a new peak in March. Bituminous coal production rose further. Crude petroleum output likewise exceeded the February level as new pipeline facilities for transport of petroleum products to the East Coast were completed.

Output of important nondurable manufactures was maintained in March. In most branches of the wool textile industry production increased to new high levels in February and March following a Federal order allowing an increase in wool consumption for the manufacture of civilian fabrics.

The value of construction contracts awarded in March, according to figures of the F. W. Dodge Corporation, continued at a level considerably lower than that for the year 1942, reflecting chiefly the fact that the construction phase of the war program has been largely completed. Awards for residential building declined for the third consecutive month, while contracts for public works were higher than in February.

### DISTRIBUTION

Retail sales, which generally increase from February to March, showed little change this year, following the buying wave that swept the country in February. At department stores, where increases in February had been particularly marked, sales declined in March and the Board's seasonally adjusted index dropped from 167 to 135 per cent of the 1923-25 average. Despite this decline, the index continued above the high level that prevailed in the latter part of last year. In the first half of April department store sales increased by about the usual seasonal amount, making allowance for the late date of Easter this year.

Total carloadings of revenue freight in March remained at the February level and other transportation activity was also maintained in large volume.

### COMMODITY PRICES

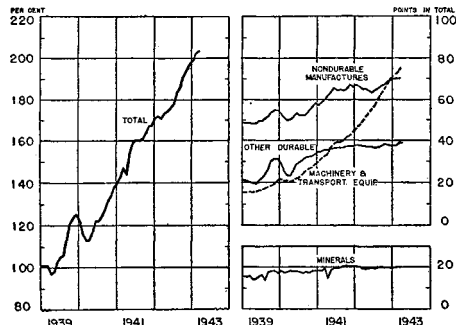
Wholesale commodity prices averaged higher in March and the early part of April reflecting advances in prices of farm products, foods, and a number of industrial commodities. Prices in retail markets also increased further from February to March, with relatively sharp advances in food prices.

On April 8 an Executive Order was issued directing that ceiling prices be placed on all commodities affecting the cost of living, that further increases in ceilings be prevented except to the minimum extent required by law, and that excessively high prices be reduced. Following this and announcements of particular Federal actions to safeguard the stabilization of prices, including an order reducing railroad freight rates, wholesale prices of some commodities declined and on April 16 were lower than at the beginning of the month.

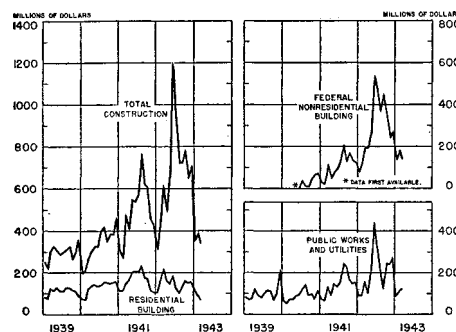
### BANK CREDIT

Excess reserves at all member banks, which decreased during the latter half of March from 2.2 billion dollars to 1.5 billion, subsequently rose to 2.6 billion on April 19. In the first week of April, the increase resulted largely from substantial Reserve Bank purchases of Government securities; subsequently excess reserves were made available by a decline of a billion dollars in required reserves, which resulted primarily from large payments to war loan accounts for Government securities sold to bank customers. This caused a shift from customers' deposits, subject to required reserves, to Government deposits which have recently been exempted from such requirements.

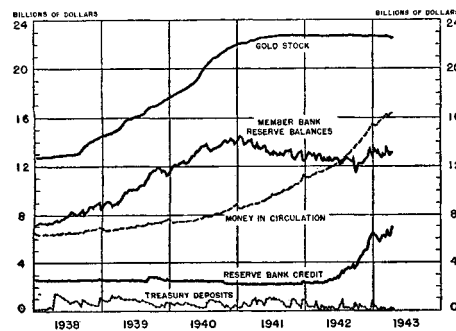
Government security holdings at reporting banks in 101 leading cities increased substantially during the first two weeks of April following declines in the latter part of March, which had resulted mainly from bill sales by banks in New York and Chicago. Holdings of certificates, notes, and bonds increased over the 4-week period ended April 14. Commercial loans at all reporting banks declined by about 210 million over the 4-week period. At New York City banks loans to brokers and dealers increased steadily over the period, especially in the week of the 14th at the beginning of the War Loan Drive. Deposits, other than those of the United States Government, increased further in March and the early part of April, but were drawn down sharply around the middle of April to make payments for purchases of new Government securities.



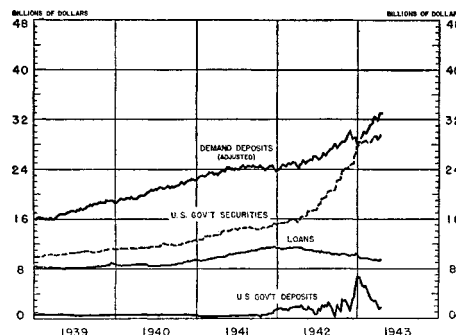
**Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Subgroups shown are expressed in terms of points in the total index)**



**Construction Contracts Awarded in 37 States. Total Construction Includes State and Local Government and Private Nonresidential Building not Shown Separately (F. W. Dodge Corporation data)**



**Member Bank Reserves and Related Items (Latest figures are for April 14)**



**Member Banks in Leading Cities. Demand Deposits (Adjusted) Exclude U. S. Government and Interbank Deposits and Collection Items. Government Securities Include Direct and Guaranteed Issues (Latest figures are for April 14)**