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Second Federal Reserve District

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MONEY MARKET IN MAY

The Second War Loan drive was brought to a close on May 1, and when the final tabulations were completed it appeared that a grand total of $18,500,000,000 of Government securities were sold during the campaign.* Funds continued to flow into the Treasury from the drive through the first ten days of May—it was on the 10th that banks made settlements for the $2,138,000,000 of 2 per cent bonds allotted to them—and the Treasury's working balance was built up to a level in excess of $14,000,000,000. The corresponding maximum at the end of the first War Loan drive was slightly short of $10,000,000,000.

The funds placed at the disposal of the Government as a result of the campaign were of such magnitude as to cover projected cash requirements of the Treasury for a considerably longer period than had been anticipated, and it now appears that the next major War Loan drive will not be scheduled before September. While the Treasury will have to provide for a number of issues maturing or called for payment in June, July, and August, as well as to meet the heavy rate of expenditures involved in the prosecution of the war, these requirements can be met through the combination of current tax revenues (which may, under new personal income tax legislation, be both enlarged and more evenly distributed), continuing receipts from sales of Savings bonds, Tax notes, and Treasury bills, drafts upon the large War Loan account balances, and a restricted amount of interim market financing.

Treasury deposits with the Federal Reserve Banks, which amounted to $722,000,000 on May 5 were gradually drawn down during the remainder of May, reaching $345,000,000 on May 26. Inasmuch as only limited calls were made for repayment of funds accumulated with commercial banks in War Loan deposit accounts during the first half of the month, balances in these accounts continued to rise through the 15th, reflecting book credit payments for Savings bonds and Tax notes sold after the termination of the drive, and reached a maximum of $12,790,000,000 on that date. In comparison with the $483,000,000 total of the first half of May, calls during the second half of the month totaled $2,033,000,000. Nevertheless, War Loan account deposits at the end of May were still in the neighborhood of $11,000,000,000.

On May 10 it was announced that the Treasury Department had decided to change the method of making calls from War Loan depositaries, in order to lessen the work and inconvenience caused by frequent, small-percentage calls and remittances in banks where the working staffs are small. Depositaries were divided into two groups, based upon the size of their War Loan balances. For "Group A" depositaries, those having War Loan balances of $300,000 or less at the close of business May 11, a special schedule was established running through the end of August, involving seven repayments of approximately equal size spaced at two and three week intervals. Calls on depositaries having War Loan balances of more than $300,000 at the close of business May 11, classed in "Group B", will be issued in the same manner that calls have been made heretofore.

Member bank reserve requirements, which declined more than $1,300,000,000 over the period of the drive, as a result of heavy nonbank purchases of Government securities and the accompanying conversion of customers' deposits into War Loan account deposits, reversed their direction after the close of the campaign, and between May 5 and May 26 increased $560,000,000. The rising tendency of reserve requirements may be expected to continue, as pointed out in last month's issue of this *Review,* up to the time of the next War Loan drive, as War Loan account deposits, which are exempted from legal reserve requirements, are drawn down and, through Government expenditures, converted into deposits of business firms and individuals against which reserves must be carried.

The effect of increasing reserve requirements, together with losses of reserve funds through a further expansion in currency circulation, in reducing member bank excess reserves, was only partly offset during May by net disbursements from Treasury deposits with the Federal Reserve Banks. Nevertheless, member banks continued in general to enlarge their holdings of Government securities, by purchases from dealers or from other investors, by bidding for the weekly issues of Treasury bills, and, as their individual reserve positions permitted, by reacquiring bills previously sold to the Reserve Bank under

* The results of the Second War Loan drive are presented in detail in a separate section of this *Review,* pp. 42-3.

repurchase option. It was evident that the tendency for banks to keep their available reserve funds actively employed, which had been apparent for a number of months in the larger metropolitan institutions, was becoming more widespread.

The active demand for Government securities during May was apparent in the firm price quotations that prevailed and in the premiums commanded by the new issues sold during the drive, in the reductions that occurred in dealers' portfolios (reflected in a drop from $1,031,000,000 on April 28 to $560,000,000 on May 26 in New York banks' loans to brokers and dealers for the purpose of purchasing or carrying Government securities), and in changes in Federal Reserve Banks' holdings of Government securities. In comparison with their peak of $6,705,000,000 on April 14, and with $6,347,000,000 on April 28, Federal Reserve holdings of Government securities dropped as low as $6,038,000,000 on May 19. Despite a rise to $6,181,000,000 on May 26, as banks requiring additional reserve funds sold Treasury bills to Federal Reserve Banks under option accounts, a net reduction of $166,000,000 was shown in total holdings for the four weeks ended May 26. Over this period Government bonds held by the Reserve Banks, which had run as high as $2,793,000,000 on January 6 of this year, were reduced $274,000,000 further to $1,769,000,000. There were net increases of $41,000,000 in bills and $102,000,000 in certificates of indebtedness, while note holdings decreased $36,000,000.

Reflecting the net contraction in Federal Reserve Banks' holdings of Government securities, as well as the other factors tending to cut into the surplus funds of banks, excess reserves of all member banks declined from $2,220,000,000 on April 28 to $1,500,000,000 on May 26. As the central reserve city banks of New York and Chicago continued to keep their funds actively employed and held only limited amounts of excess reserves throughout the month, the contraction in the excess reserves of all member banks was predominantly a reflection of reduced excess reserves at reserve city and "country" banks. New York City member banks continued to follow the practice of adjusting their reserve positions mainly through adjustments in their holdings of Treasury bills. Reversing the tendency apparent during the period of the Second War Loan drive, there was an inward movement of business funds from other sections of the country to New York City during May, and inasmuch as this flow more than counterbalanced losses of reserves through Treasury transactions and net currency payments, as well as a rise in reserve requirements, New York banks were enabled to show a net increase in their Treasury bill holdings, as well as in other types of Government securities, during the month.

Money Rates in New York

	May 29, 1942	April 30, 1943	May 28, 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)	1.94	1.98	1.87
Average yield on taxable Treasury bonds (not callable within 12 years)	2.33	2.31	2.29
Average rate on latest Treasury bill sale 91 day issue	0.365	0.372	0.373†
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 † 92 days

Purchases of the weekly Treasury bill offerings by the smaller purchasers were simplified, in the interest of encouraging the wider distribution of these securities, by a change, announced May 6, in the procedure for submitting and handling bids. Beginning with the issue dated May 12, tenders for bills in amounts up to $100,000 from any one bidder at a fixed price of 99.905 (equivalent to a yield of about ⅜ per cent on an annual basis), were allotted in full, with the effect of creating a means whereby bidders could be certain of receiving definite amounts of bills up to the $100,000 limit. Bills not sold under this provision are being allotted as formerly, on the basis of competitive bids. Of the $900,000,000 of bills offered May 12, 19, and 26, $81,000,000, $93,000,000, and $82,000,000, respectively, were sold under the new provision for acceptance in full of fixed-price bids.

At the same time, on account of the increasing congestion in communication facilities, a change was made in the maturity dating of Treasury bill issues so as to provide, beginning with the second weekly issue of August, three days instead of two between the dates of the opening of Treasury bill bids and the dates when payments by successful bidders are due. At that time, payments will be due on Thursdays instead of on Wednesdays, while bids will continue to be opened on Mondays. Over the period of transition Treasury bill issues will run for 92 days instead of 91, being issued and paid for on Wednesdays and maturing, thirteen weeks later, on Thursdays. The shift to Thursday payment dates will thus occur in August.

RESULTS OF THE SECOND WAR LOAN DRIVE

On May 10, the Treasury announced that the final total for the Second War Loan drive reached $18,543,000,000. This compares with $12,947,000,000 raised during the first drive, in December, and with a total of approximately $17,000,000,000 raised during the first four Liberty Loan campaigns of the first World War.

Of even more importance than the total amount raised during the drive was the distribution between banking and nonbanking investors. Indications are that this drive was more successful than the previous one in increasing the net absorption of Government securities by nonbanking investors. As indicated in the table below, allotments to this group of $12,550,000,000 in the April drive were nearly double the $6,822,000,000 realized in December. Allowance should be made, however, in both drives for a shift of previously out-

Distribution of Securities Sold in the First and Second War Loan Drives by Type of Investor
(In millions of dollars)

	United States		Second Federal Reserve District	
	April, 1943	December, 1942	April, 1943	December, 1942
Nonbanking investors*				
Individuals, partnerships, and personal trust accounts	3,290	1,593	737	387
Insurance companies	2,408	1,699	1,426	1,038
Savings banks	1,195	620	730	405
Eleemosynary institutions	117	57	76	43
State and local governments	503	200	71	29
Other corporations and associations	5,038	2,654	1,816	1,095
Total	12,550	6,822	4,856	2,997
Banking sources	5,058	5,087	1,834	1,912
Other sources				
Dealers and brokers*	544	769	439	817
U. S. Government agencies and trust funds	391	270	7	1
Total from all sources	18,543	12,947	7,136	5,727

*For the April drive allotments to dealers earmarked for distribution to nonbanking investors have been credited to the appropriate classes of nonbanking investors. For the December drive allotments to dealers of the 2½ per cent bonds (which were not eligible for purchase by commercial banks) have been credited to other corporations and associations, but no reclassification is available for the other issues.

standing securities from other investors to commercial banks before and during each drive. During November and December, commercial banks acquired in the market more than $1,500,000,000 of Government securities previously held by other investors. Even though the redistribution of already outstanding securities, from other investors to banks, was probably larger in March-April than in November-December, it is clear that the net absorption of Government securities by nonbanking investors was much greater in this campaign than during that of December.

It should not be assumed, however, that the full increase in holdings of Government securities by nonbanking investors represents absorption of funds which might be used otherwise to increase spending and contribute to inflation. A large portion of the amounts obtained in the drive represented accumulated funds which were not likely to be spent for consumers' goods and services. This is essentially the case with funds held by insurance companies, savings banks, and other corporations and associations. Although investment of these funds in Government securities is desirable, from the viewpoint of preventing inflation it is most important that the drives absorb the largest possible amounts from current incomes and temporarily idle funds which might be withdrawn at any time to be spent for goods and services. Perhaps the best measure of the success of the drives from this viewpoint is the amount purchased directly by individuals. In the Second War Loan drive a total of $3,290,000,000 was subscribed by individuals, partnerships, and personal trust accounts, compared with $1,593,000,000 in the December drive. Particularly encouraging was the fact that Series E bond sales in the most recent drive amounted to $1,473,000,000, slightly more than double the $726,000,000 sold in December. In addition, both drives brought about increased payroll deductions for the purchase of Savings bonds out of current income.

Distribution of sales in the April drive by type of issue indicates that, in addition to $1,473,000,000 of Series E bonds, purchases by individuals, partnerships, and personal trust accounts consisted largely of $425,000,000 in Series F and G bonds and about $1,000,000,000 in the two new bond issues. Insurance companies and savings banks concentrated largely on the two bond issues, while other corporations and associations subscribed most heavily for the certificates and Tax notes, although also purchasing nearly $1,300,000,000 of the two bond issues. Commercial banks were limited to allotments of $2,138,000,000 of the certificates and $2,110,000,000 of the 2 per cent bond issue, in addition to purchases of Treasury bill offerings. Bank subscriptions to each of the two new issues totaled nearly $10,000,000,000.

Of the $12,550,000,000 subscribed by nonbanking investors throughout the country, $4,856,000,000 was credited by the Treasury to the Second Federal Reserve District. Sales to institutional investors and other corporations accounted for $4,119,000,000 of the nonbanking total raised in this District, with insurance companies and savings banks contributing a large portion. Individuals, partnerships, and personal trust accounts in this District were credited with subscriptions of $737,000,000, representing about 22 per cent of the nationwide total for this group of investors. In addition to the amount raised from nonbanking investors, brokers and dealers in this District were allotted $439,000,000 of securities not earmarked for distribution to nonbanking investors. Commercial banks in this area received direct allotments of $665,000,000 of the ⅞ per cent certificates and $580,000,000 of the 2 per cent bonds, and in addition made net purchases of Treasury bills.

On May 27, the Treasury issued the following statement in reference to plans for future war financing:

> As a result of the highly successful Second War Loan Drive which brought 18½ billion dollars into the Treasury in three weeks, Secretary of the Treasury Henry Morgenthau, Jr., announced today that the method of selling bonds through volunteer salesmen would be "streamlined and amplified."
>
> As the first step, according to Mr. Morgenthau, the existing Victory Fund Committees and War Savings Staffs in the various states will be combined into a single organization.
>
> This consolidated organization will function under the direction of state chairmen who will report directly to the Secretary of the Treasury and will be responsible for the continuing sale of War Savings Bonds through the voluntary payroll allotment and other regular purchase plans. These state organizations will also be in charge of War Loan drives and will concentrate on the sale of increasing amounts of bonds to individuals and to corporations.
>
> In order to facilitate the sale of issues of Government securities to commercial banks, mutual savings banks, insurance companies and government bond dealers, Mr. Morgenthau has authorized the Federal Reserve Banks as fiscal agents of the Treasury to handle sales to these financial institutions separately.
>
> "We arrived at this plan," the Secretary said, "after consultation with the Board of Governors of the Federal Reserve System, and with the presidents of the 12 Federal Reserve Banks. I believe that this new arrangement makes the best possible use of what we learned in the first two War Loan Drives.
>
> "One of the chief considerations in setting up this improved plan was to make it possible for every one to concentrate on the sale of bonds to individuals. We are already making great progress, having sold twice as many bonds to individuals in the Second Drive as in the first, and having exceeded the quota we set for individuals in the Second War Loan Drive by nearly a billion dollars."

NEW SECURITY ISSUES

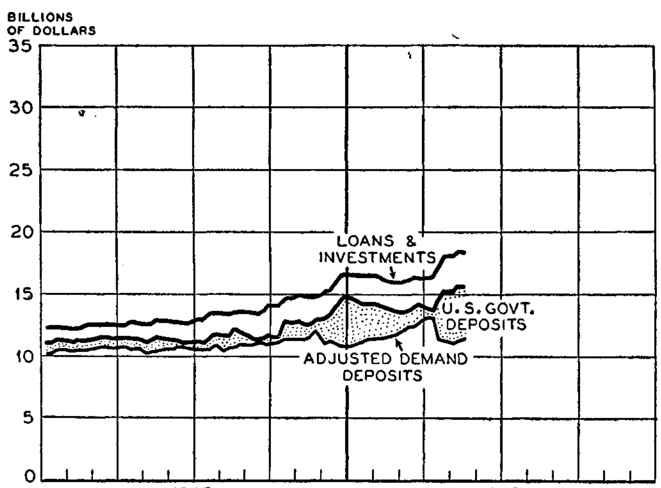
Several offerings of corporate and municipal new security issues reached the market in May following the close of the Second War Loan drive; but the total amounted to only about $86,000,000, somewhat lower than in each of the preceding two months. Corporate issues comprised the bulk of the financing with a total of about $70,000,000, of which $20,000,000 was classified as new capital. Municipal awards declined still further from the low level of the previous month to about $16,000,000.

MEMBER BANK CREDIT

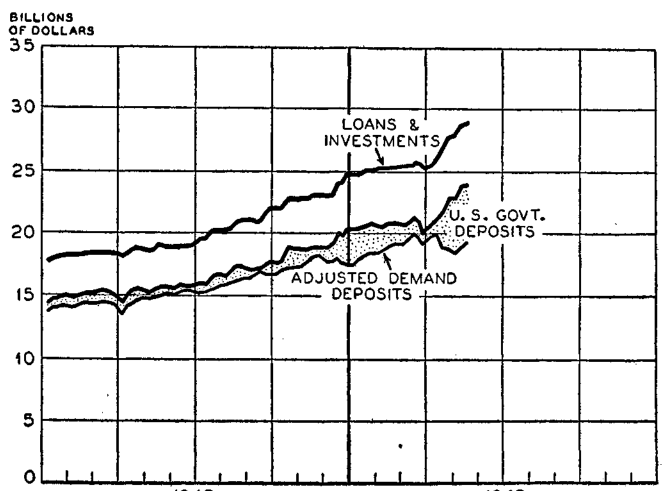
Between the middle of April and mid-May the expansion in member bank earning assets exceeded in magnitude even the increase which occurred last December. In New York City total loans and investments of the weekly reporting member banks rose $1,990,000,000 from April 14 to May 19 compared with a net rise of $1,798,000,000 during the five weeks ended December 30, 1942; in 100 cities outside New York member banks reported an increase of $3,128,000,000 between mid-April and mid-May as against a rise of $1,732,000,000 in the December period.

Bank purchases of the Second War Loan issues of 7/8 per cent certificates of indebtedness and 2 per cent Treasury bonds made up the bulk of the increase. However, as the allotment bases on the bank subscriptions to these new issues were low and as excess reserves were built up substantially during April, banks made large purchases of Government obligations already outstanding, particularly Treasury bonds and bills, and added to their holdings of bills through purchases of the new weekly offerings. The rising tendency of excess reserves during April resulted primarily from legislation suspending reserve requirements against War Loan account deposits and the shift of customers' deposits to War Loan deposits associated with the drive. In New York City another important factor contributing to the increase in loans and investments was the expansion in loans to brokers and dealers for the purpose of purchasing or carrying Government securities.

The accompanying charts illustrate the close correlation between changes in total loans and investments of banks, currently dominated by increases in their Government security holdings, and the movement of bank deposits. During the First and Second War Loan drives there were especially large net increases in deposits as a result of bank purchases of new issues, while at other times deposits have tended to rise through purchases of Government securities by banks from other investors or through bank purchases of new offerings outside of the drives. The drives, also, had the effect in each case of shifting funds from deposits of individuals and business concerns (adjusted demand deposits) to Government deposits. After the drives, as the Treasury withdraws its funds from its War Loan account deposits and spends the proceeds, adjusted demand deposits are built up again. Through differences between the geographical distributions of Government receipts and expenditures, deposits may be rebuilt to different degrees in various localities. For example, in New York City, as the Treasury withdrew funds from its War Loan accounts after the December drive, a correspondingly large amount was not redeposited with banks in this City and the combined total of adjusted demand deposits and War Loan account deposits declined somewhat. Outside New York, however, Government payments exceeded withdrawals and the combined total of adjusted demand and War Loan deposits continued to increase with only a temporary interruption over the March income tax payment period.



Loans and Investments, Demand Deposits Adjusted, and U. S. Government Deposits of Weekly Reporting Member Banks in New York City



Loans and Investments, Demand Deposits Adjusted, and U. S. Government Deposits of Weekly Reporting Member Banks in 100 Cities Outside New York City

SECURITY MARKETS

Continued demand, particularly from commercial banks, pushed prices of Government securities in May to new high levels for the year. The upward movement in the average price of the three longest term issues of "tax exempt" bonds, which has been in progress with little interruption since the latter part of March, reached a level near the end of May approximately ½ point below the record high in November, 1941. The average yield on these issues declined from 1.98 per cent on April 30 to 1.87 per cent a month later. Yields on long term and intermediate term taxable issues also declined during the month, although more moderately, reflecting demand from commercial banks following announcement of the low allotment basis on the new 2 per cent bonds.

Yields on high grade corporate bonds, rated Aaa by Moody's Investors Service, showed little change during the month, but the average of Baa bond yields continued the decline which began last December and reached a new low of 3.89 per cent on May 26. Railroad bonds accounted for much of the persistent gain. Municipal bonds were also strong as Standard and Poor's index of prices of high grade municipal bonds reached the highest level since December, 1941.

According to Standard and Poor's combined index of 90 stocks, May saw a continuation of the persistent increases in stock prices which started in April, 1942. On May 6 this index reached 95.1, the highest level since May, 1940. A 2 point drop on the next day was followed by an irregular recovery which brought the index to a new high toward the close of the month.

The volume of transactions on the New York Stock Exchange increased quite sharply during the first half of the month. On May 4, more than 2,800,000 shares exchanged hands, the largest volume since December 29, 1941. Daily average transactions for the month were well over 1,000,000 shares. There were six days when the number of shares traded exceeded 2,000,000.

EMPLOYMENT AND PAYROLLS

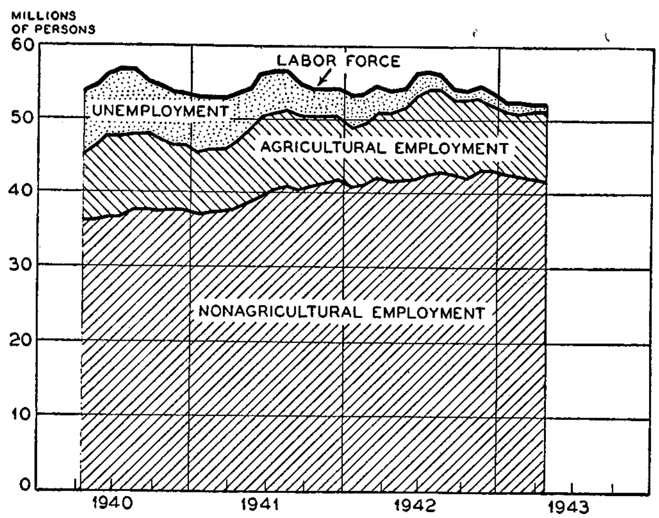
An estimated 200,000 workers were added to total employment in the United States during April as seasonal demand for agricultural labor drew additional men from the ranks of the unemployed and from the groups of younger workers just entering the labor force. The narrowing gap between the total civilian labor force and total employment indicates that replacements for men going into the armed forces must come increasingly from sources outside the normal labor force, especially from the large reserve of women. The proportion of women employed increased from 20 per cent of the total number of workers in April, 1941 to 30 per cent in April, 1943 but may go much higher if special problems of child care and shopping can be solved.

Employment within the various civil nonagricultural industries, as estimated by the Bureau of Labor Statistics, showed diverse movements between March and April. Employment in transportation rose seasonally, and trade, stimulated by the Easter buying activity, added nearly 100,000 workers. At the same time a sharp contraseasonal decrease occurred in construction employment, and mining industries also employed fewer workers during the month. Manufacturing and civil government employment was little changed from March.

New York State factory employment declined slightly during April although payrolls and average weekly earnings continued to rise. Food processors were affected by shortages and by reduction in the volume of army contracts, while employment in the apparel industry declined because of seasonal influences. Thus additional hiring by aircraft plants, shipyards, and other war plants was more than offset. Payrolls continued to rise because of overtime, wage rate increases, and the use of incentive payments in many war industries.

The War Manpower Commission announced a new stabilization plan for New York City effective May 27. Designed to promote the orderly transfer of labor within the area, it limits job changing out of essential industries to cases where workers have been employed less than full time, are competent to handle more highly skilled jobs, or are receiving less than standard wages as defined by the War Labor Board.

Industrial disputes broke out in several industries during May. Nearly 480,000 bituminous and anthracite coal miners had walked out by May 1, but returned to work May 3 and 4 pending further negotiations. A strike affecting 24,000 workers in the Chrysler Corporation's Detroit plants ended May 24 after a four day stoppage. Operations of large Akron rubber factories were temporarily interrupted as 50,000 struck in protest against a wage award of the War Labor Board, but following an "ultimatum" from President Roosevelt workers returned on May 27.



Estimates of the Total Labor Force in the United States, Classified as to Nonagricultural and Agricultural Employment, and Unemployment (Department of Commerce data)

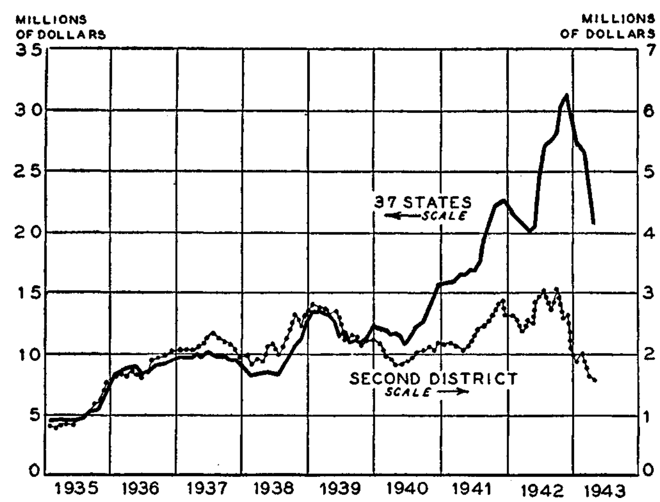
BUILDING

The spectacular rise in construction activity during 1941 and 1942 has been followed, in recent months, by an equally pronounced decline. After attaining the highest level recorded, the volume of construction contracts awarded has been falling off since last autumn, as the war expansion program neared completion and the War Production Board curtailed the amount of materials allotted to new building. The volume of construction contract awards in 37 States in the first four months of this year was 25 per cent below that of the same period last year according to the F. W. Dodge Corporation reports; the volume of industrial contract awards, the chief factor in the rise, showed a 37 per cent drop. During 1942 industrial plant facilities were greatly expanded to accommodate the war needs, and many new airports, army camps, and other military facilities were created. The War Department has announced that, having completed 90 per cent of its $10,000,000,000 building program, it now expects construction for the armed forces to taper off. Since October the War Production Board has been curtailing further construction and up to May 21 had halted work on projects evaluated at $1,350,000,000. On May 12, the War Production Board, stating that industrial facilities were now sufficiently expanded, ordered review of over $5,000,000,000 worth of construction contracts and forbade new projects unless it could be proved conclusively that existing facilities were not sufficient.

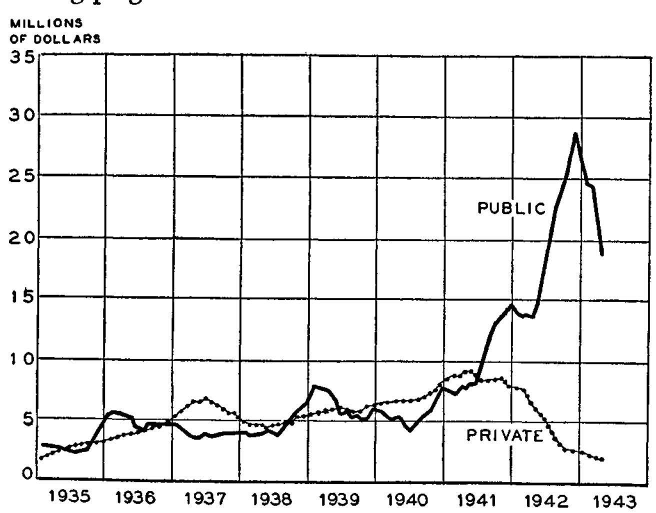
In the Second Federal Reserve District, expansion in construction in 1942 never was so marked as in other sections of the country, and the volume of construction contract awards fell in the first four months of this year to a level lower than that for any comparable period since 1935. This District possessed industrial and residential facilities adequate to accommodate a sizable increase in production, and important sections of the District have not received war contracts in large enough volume to require expansion proportionate to that in other parts of the country with less extensive facilities and larger war contracts.

The reduction in total awards noted earlier resulted from a sharp falling off of public construction, since private building had already declined to a low level. Awards for private projects made up only about 10 per cent of all contracts awarded in the 37 States in the first four months of the current year, compared with about 60 per cent in 1940. The increased proportion of public ownership of new construction has been due principally to the financing of industrial expansion by the Defense Plant Corporation and the War and Navy Departments and the erection of military cantonments, airports, etc. In New York and Northern New Jersey awards for private construction projects decreased from two thirds of the total for this area in 1940 to slightly over 15 per cent in the early months of this year.

Residential building was curtailed in October, 1941 by an order restricting the use of strategic materials in construction, and has been contracting since then. During the first four months of 1943 awards for private residential building in the 37 States amounted to less than one third of the volume awarded in the same period of 1942, while awards for public projects in the residential classification, including barracks at military encampments and housing for workers in war industries, were only slightly below the year earlier level. With smaller amounts of building materials being allotted to construction and nonessential building virtually stopped, residential building activity is being increasingly concentrated upon the conversion and repair of already existing structures. In his request for an additional $400,000,000 appropriation for war housing on May 13, the President stated that three fifths of the housing needs of war workers were being met by conversion, repair, and the more effective use of existing structures; one fifth of the remainder was being met by privately financed construction and the rest by the Government's war housing program.



Average Daily Value of Construction Contract Awards in 37 States and in Second Federal Reserve District (6 month moving averages of F. W. Dodge Corporation data, adjusted for seasonal variation)



Average Daily Value of Construction Contract Awards for Public and Private Ownership in 37 States (6 month moving averages of F. W. Dodge Corporation data, adjusted for seasonal variation)

COST OF LIVING OVER THE WAR PERIOD

For a year and a half after the outbreak of the war, the cost of living in this country showed very little change. Price movements were diverse and generally of small amplitude. According to published indexes, a slight decline in the cost of housefurnishings offset small increases in food and fuel prices. Early in 1941, however, the character of price movements changed to a steady and general rise which communicated itself to nearly all types of consumer goods and has persisted until the present date. Between January, 1941 and May, 1942 the cost of living index of the Bureau of Labor Statistics rose 15 per cent, an average increase of nearly 1 per cent a month, resulting primarily from the rapid advance in the prices of food, clothing, and housefurnishings. Since May, 1942, when most prices were placed under general ceilings, the over-all increase has been at an average monthly rate of 0.6 per cent. This is a somewhat smaller monthly change than prevailed in the earlier period, but in March, 1943, the index still showed no tendency to level off.

Retail food prices have been the major factor in this continued rise. They have advanced steadily since early in 1941. Last month the problem of further increases in the cost of living and especially in food prices occupied the attention of several Government agencies. The Bureau of Labor Statistics further revised its index of living costs to reflect the changed consumer buying patterns resulting from rationing and the disappearance or substitution of certain commodities. Several additional foods were included in the index, and adjustments made in the weighting to provide a more accurate yardstick for the application of price and wage controls. Meanwhile, the Office of Price Administration, in order to facilitate the enforcement of price maximums, converted its system of markups to uniform dollar-and-cents ceilings on well known food brands, applicable to all stores of a given class in each community. These community ceilings, known alike to buyers and sellers, can be checked by consumer price panels organized in each locality. A plan to roll back prices of a few important foods such as meats, butter, and coffee has been announced for June 1. The O.P.A. would accomplish this roll-back with the aid of subsidies paid to processors who find themselves unable to operate under lower prices.

PRODUCTION AND TRADE

According to preliminary indications, manufacturing activity in May was maintained close to the April level. Steel mills operated at a slightly lower rate than in April, while output of crude petroleum and electric power ran somewhat higher. Bituminous coal mining was affected by work stoppages in the first part of the month, but subsequently recovered to the high level prevailing in previous weeks. Munitions production continued at a high rate, and Rear Admiral Vickery of the Maritime Commission predicted that May would be an even bigger month in merchant shipbuilding than April, when a record total of 157 vessels was delivered.

For the month of April, the seasonally adjusted index of production and trade computed at this bank showed a further decline of two points to 124 per cent of estimated long term trend. As in the previous month, the index was influenced by slackening in the volume of retail trade. Department stores and variety chains reported increases in sales over March, but the advances were much smaller than those that have occurred in most other years when Easter has fallen late in April. Mail order house sales rose by about the usual seasonal amount, while sales by grocery chain stores dropped off under the impact of further rationing controls.

There was a two point recession in the production index during April, attributable to further rapid contraction in both residential and nonresidential building, as the war construction program neared completion. In many lines of industry —steel, cotton goods, and petroleum producing—there was little change in rates of activity between March and April, while mining of anthracite and bituminous coal was reduced by work stoppages, and meatpacking and flour production declined. On the other hand, output of planes, ships, and other war material continued to mount in April. In addition to the record delivery of 1,606,600 tons of merchant shipping, new records were also set for the delivery of naval aircraft and the completion of combat vessels. Airplane production was at a new high of somewhat less than 7,000 planes, exceeding the March total of 6,200. However, Donald Nelson, Chairman of the W.P.B., has warned that we are nearing top capacity, and the rapid rate of increase made in munitions production during the past year cannot be sustained for many months longer.

	1942	1943		
	April	Feb.	March	April
*Indexes of Production and Trade** (100=estimated long term trend)				
Index of Production and Trade	114	128	126p	124p
Production	121	136	136p	134p
Producers' goods—total	146	174	173p	171p
Producers' durable goods	163	207	205p	203p
Producers' nondurable goods	126	136	136p	135p
Consumers' goods—total	89	88	88p	86p
Consumers' durable goods	47	41	39p	36p
Consumers' nondurable goods	103	104	104p	103p
Durable goods—total	129	158	156p	154p
Nondurable goods—total	112	117	117p	116p
Primary distribution	131	145	149p	151p
Distribution to consumer	89	96	85p	80p
Miscellaneous services	118	157	160p	163p
Cost of Living, Bureau of Labor Statistics (100=1935-39 average)	115	121	123	
Wage rates (100=1926 average)	134	148	149p	
*Velocity of Demand Deposits** (100=1935-39 average)				
New York City	57	69	62	83
Outside New York City	85	75	78	89

p Preliminary. * Adjusted for seasonal variation.

FURNITURE STORE TRADE

Sales of furniture stores in this District during April were 5 per cent below the corresponding period last year, on the basis of data submitted to this bank by approximately 60 cooperating stores. Year-to-year percentage declines have been experienced every month since May, 1942, when the compilations of furniture store figures began. The decline of 5 per cent for April, however, was the smallest year-to-year drop in dollar sales recorded over this period; in the comparison of August, 1942 with August, 1941 (when a general wave of retail buying had appeared), the decline amounted to 31 per cent.

Furniture is sold predominantly on credit, although, through the effect of consumer credit regulations, cash sales have been accounting for an increasing proportion of total sales during the past year, and at the same time the average period over which credit has been extended has been shortened. In April 85 per cent of sales were made on credit, compared with 88 per cent in April, 1942. Collections during April against accounts outstanding March 31 amounted to 14½ per cent this year; the corresponding percentage last year was 11. Accounts receivable of the cooperating furniture stores in this District declined 39 per cent during the year ended April 30.

Stocks on hand at the close of April represented 5.7 months' supply at the current rate of sales against 6.4 months' supply one year earlier. The dollar value of stocks on hand declined 14 per cent during this period.

Furniture stores	Percentage changes April, 1942 to April, 1943			
	Total sales	Accounts receivable*	Collections	Stocks* on hand
New York City	0	−38	− 4	−15
Northern New Jersey	−23	−45	−25	−15
Newark	−26	−47	—	−22
Other localities	−22	−44	−25	−13
Westchester-Fairfield	− 9	−33	−19	+ 6
Hudson River Valley	−14	−45	−23	+ 2
Central New York State	− 9	−38	− 7	−19
Syracuse	+ [illegible]	−32	+ 2	—
Other localities	−19	−44	−14	−16
Western New York State	− 8	−39	−13	−16
Buffalo	−16	−37	−19	−20
Rochester	− 3	−42	− 8	− 8
Other localities	+ 2	−40	− 2	—
Total outside New York City	−13	−40	−15	−13
Total Second District	− 5	−39	− 8	−14

*End of month.

Furniture stores	April, 1943 compared with April, 1942		
	Total District	New York City	Outside New York City
Credit sales as per cent of total sales			
April, 1943	84.6	84.2	85.2
April, 1942	87.5	87.5	87.5
Stocks on hand, end of month, as ratio to month's sales			
April, 1943	5.7	5.8	5.6
April, 1942	6.4	6.9	5.5
Collections, exclusive of down payments, as per cent of receivables, first of month			
April, 1943	14.5	14.0	15.9
April, 1942	11.0	10.5	12.1

DEPARTMENT STORE TRADE

During the three weeks ended May 22, sales of reporting department stores in this District were about 11 per cent greater than in the corresponding period last year, while apparel stores exceeded year ago sales by about 34 per cent. Sales of department stores in May apparently declined from the April level by less than the seasonal amount.

In April department store sales in this District were 8 per cent greater than in April, 1942, an increase that appears to have been largely accounted for by the lateness of the date of Easter this year (April 25, compared with April 5 last year). On a seasonally adjusted basis, sales declined about 9 per cent from March to April of this year.

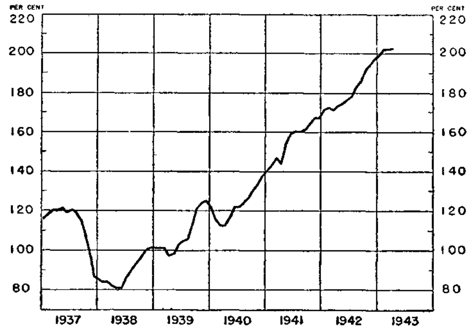
Stocks on hand of department stores in this District at the end of April were 32 per cent lower at retail valuations than in April of last year, and the seasonally adjusted index of stocks reached the lowest level since July, 1941. Returns from a limited number of department stores in this District show that at the end of April outstanding orders for merchandise purchased by the stores but not yet delivered to them were 15 per cent above April, 1942, and 14 per cent above those at the end of March, 1943.

Department stores	Percentage changes from a year earlier		
	Net sales		Stocks on hand April 30, 1943
	April, 1943	Jan. through April, 1943	
New York City	+10	+ 5	−36
Northern New Jersey	+ 2	− 5	−37
Newark	+ 5	− 3	−38
Westchester and Fairfield Counties	+ 3	− 4	−25
Bridgeport	+ 2	− 5	−26
Lower Hudson River Valley	+ 2	− 2	−15
Poughkeepsie	+ 1	0	—
Upper Hudson River Valley	+ 1	− 7	− 7
Albany	−10	−16	—
Schenectady	+18	+ 5	−13
Central New York State	+12	+ 8	−27
Mohawk River Valley	+15	+11	−17
Utica	+17	—	—
Syracuse	+10	+ 7	−31
Northern New York State	+ 1	− 3	—
Southern New York State	+ 6	+ 7	−12
Binghamton	+10	+ 9	—
Elmira	−10	− 4	—
Western New York State	+10	+ 9	−18
Buffalo	+11	+10	−12
Niagara Falls	+37	+34	− 6
Rochester	+ 7	+ 6	−27
All department stores	+ 8	+ 4	−32
Apparel stores	+20	+17	−18

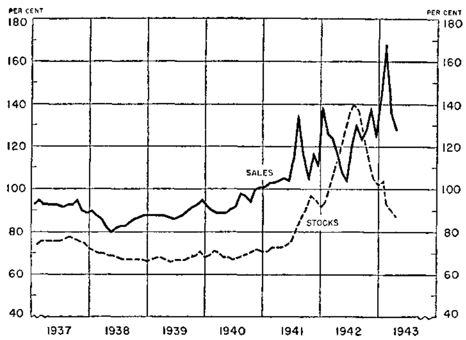
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1942	1943		
	April	Feb.	March	April
Sales (average daily), unadjusted	106	112	104	117
Sales (average daily), seasonally adjusted	110	138	127	115
Stocks, unadjusted	152	105	107	100
Stocks, seasonally adjusted	150r	111r	106	99

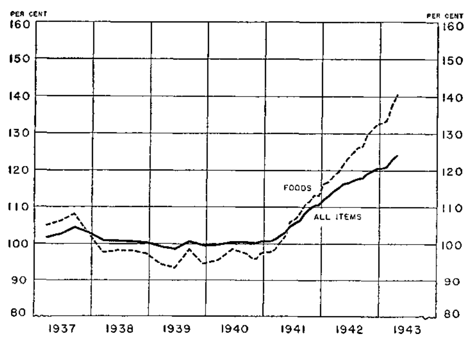
r—Revised.



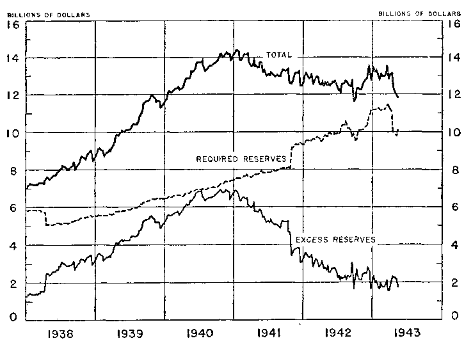
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Indexes of the Cost of Living as Compiled by Bureau of Labor Statistics (April figures are estimates of the Board of Governors; 1935-39 average=100 per cent)



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves (Latest figures are for May 12)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity in April and the early part of May increased somewhat further, and retail trade was maintained in large volume.

Industrial Production

The Board's index of total industrial output rose slightly in April, reflecting further increases in activity in war industries, while output in most other lines showed little change.

Production of armaments in the machinery and transportation equipment industries rose to new high levels. Activity at steel mills increased somewhat further. Lumber production showed the usual seasonal rise in April and was at a level about 10 per cent less than a year ago, when problems of maintaining an adequate labor supply in the industry began to develop. In the cement industry, where production usually advances sharply during the spring months, production has shown little change this year, reflecting chiefly the restricted volume of current construction activity.

Total output of manufactured foods in April continued below the seasonally adjusted peak level reached at the end of last year. Meatpacking and flour production showed decreases in April, while output of dairy products and other manufactured food products was maintained. Volume of output in chemical plants continued to gain. Production of other nondurable manufactures showed little change.

There was a decline in bituminous coal production in the last week of April, following the breaking off of negotiations for a new wage contract, but output increased in the early part of May. Production of coal in March had been at an exceptionally high level. Stocks on May 1 were considerably higher than a year ago and for bituminous coal were estimated to be equivalent to 55 days' supply for industrial purposes. In May the Government took over the bituminous coal mines.

Value of construction contracts awarded declined in April, reflecting reductions in contracts for Federal work, according to the F. W. Dodge Corporation. Total residential awards in March and April were at the lowest levels for these months in a number of years.

Distribution

Sales at department and variety stores increased in April, but the rise was less than usually occurs when Easter falls late in the month. Mail-order sales, principally to persons in small towns and rural areas, showed about the usual seasonal rise. Value of sales in April continued at a level substantially higher than a year ago but, with prices higher, the physical volume of goods sold was probably about the same as in the corresponding period last year.

Carloadings of revenue freight were maintained in large volume in April and the first week of May. Ore shipments showed a seasonal rise beginning in the last half of April, a month later than in 1942 when the movement was unusually early.

Commodity Prices

Wholesale prices of most commodities showed little change from the middle of April to the middle of May. Retail food prices continued to advance sharply in the latter part of March and the early part of April and the indexes showed increases of 6 per cent as compared with January. Retail prices of most other items in the cost of living showed smaller increases in that period. Plans for more effective enforcement of price ceilings have been announced.

Bank Credit

During May, as the Treasury made disbursements out of war loan accounts, which had been built up during the recent drive, there was a growth of bank deposits subject to reserve requirements and a decrease in member bank excess reserves. Continued withdrawals of currency also reduced bank reserves. Nevertheless, the reserves of member banks were sufficient to enable them to make substantial repurchases of bills which had been sold to the Reserve Banks under option. In addition, the Federal Reserve System sold some bonds in response to a market demand.

Government security holdings at reporting member banks in 101 leading cities increased by 4.3 billion dollars in the four weeks ended May 12. These increases reflected purchases of new issues during the War Loan drive, as well as substantial market purchases.

In New York City, loans to brokers and dealers for purchasing or carrying securities increased by 860 million dollars during the three weeks of the War Loan drive, and subsequently declined in the first three weeks of May; these changes reflected almost entirely activity in loans for purchasing or carrying Government securities, which on May 19 amounted to 580 million dollars of the total 1,020 million dollars outstanding; other loans to brokers and dealers by New York City banks rose by 90 million dollars from the end of March to May 19.