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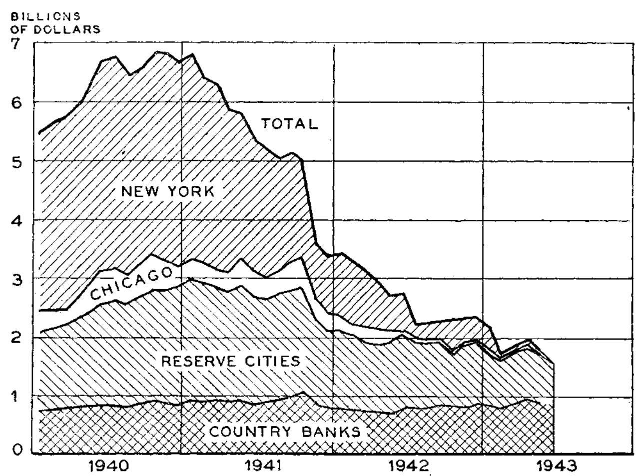
MONEY MARKET IN JUNE

Unusually heavy flows of funds through the money market marked the June 15 income tax period this year. Not only were income tax collections considerably heavier than in any previous June—for the double reason of the tax increases imposed by the Revenue Act of 1942 and the unusually large number of income tax payers who in March had chosen the quarterly instalment method of payment—but the Treasury paid off in cash $1,083,000,000 of securities which matured or were called for payment on June 15. At the same time, reflecting the rapid growth in the public debt, the amount of interest due on outstanding Government securities ($400,000,000) was larger than in any previous month.

As in March, although to a smaller extent and for a much shorter period, the Treasury borrowed direct from the Federal Reserve Banks on special certificates of indebtedness in anticipation of the income tax collections. For purposes of convenience, the form of these special certificates was changed from the one-day certificates heretofore employed, to certificates maturing at the end of the month but redeemable at any time, by which means the reissuance of large amounts of certificates from day to day was avoided. The Treasury borrowed $805,000,000 on the special certificates on June 15, to cover a part of the unusually large expenditures on that day. This borrowing was eliminated by June 21, through cash income tax collections supplemented by withdrawals of funds from War Loan account depositaries.

Income tax receipts during June may be roughly estimated at $3,800,000,000, compared with $4,700,000,000 during March and $2,100,000,000 during June of last year. The proportionate use of Tax Savings notes in the payment of taxes is estimated to have reached a new peak of 29 per cent of total collections, compared with 26 per cent during March and 23 per cent during June of 1942. In this District total collections for June are estimated at about $900,000,000, somewhat more than one fifth of the national total. As also has been true of past tax periods, Tax Savings notes were used in the payment of taxes to a greater extent here than in other sections of the country; 34 per cent of income taxes collected in this District were paid in the form of Tax notes during June.



Average Daily Excess Reserves of Member Banks (Data for New York and Chicago partly estimated for June, 1943; separate figures for reserve city and "country" bank classifications not available for June, 1943)

While the redemptions and interest payments created exceptionally heavy net Treasury disbursements on the 15th and thus temporarily swelled member bank reserve balances, most of these funds were immediately put to use by the banks, chiefly through the repurchase of bills previously sold to the Reserve Banks. The central reserve city banks of New York gained $585,000,000 reserve funds on June 15 but they repurchased $360,000,000 Treasury bills from the Reserve Bank before the close of business, with the result that their excess reserves rose (from a small deficiency on the preceding day) only to $205,000,000. On Wednesday, the 16th, these banks showed a reserve deficiency of $35,000,000. For all member banks excess reserves increased $120,000,000 to $1,630,000,000 during the statement week ended Wednesday, June 16, but resumed their declining tendency the following week, dropping to $1,300,000,000 on June 23 (the lowest level since January 5, 1938) as heavy offerings of Treasury bills by the banks to the Federal Reserve Banks fell considerably short of the losses of reserve funds through net Treasury receipts. On the last statement day of the previous month, May 26, excess reserves of all member banks amounted to $1,500,000,000.

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More Active Use of Available Bank Reserves

For a number of months the Federal Reserve authorities have encouraged an active use by member banks of their surplus reserve funds in support of war financing, not with a view to increasing the aggregate amount of financing done through the banks, but rather with a view to promoting a distribution of the securities in keeping with the money flows of the war period, and to avoiding unnecessary extensions of Federal Reserve credit. The excess reserves which the banks hold are subject in considerable measure to their own control. They exercise this control not only through their participation in major financing operations by the Treasury, but also through their capacity to convert earning assets into reserves and reserves into earning assets. These processes of conversion are readily apparent in "option account" transactions in Treasury bills. Banks may sell bills direct to the Federal Reserve Bank under repurchase option and obtain in return credits to their reserve accounts. Reciprocally, they may reacquire bills previously sold to the Federal Reserve Bank and give up surplus reserves in exchange. Banks making active use of the Treasury bill option accounts are, for the most part, institutions which are seeking to maintain, from day to day and week to week, "fully invested" positions.

In recent months most of the central reserve city banks of New York and Chicago, largely through option account transactions in Treasury bills (as well as through subscriptions to new Treasury issues and purchases and sales in the market), have been keeping their available funds actively employed, as manifested by the negligible average amounts of excess reserves which they have been carrying. Some banks in other centers and in other reserve classifications as well are employing option account transactions in Treasury bills to maintain fully invested positions.

Institutions without considerable bill holdings generally have sought to maintain a "leeway" of excess reserves, even though they are able to borrow from the Federal Reserve Bank, at the ½ per cent rate on discounts secured by Government securities maturing within a year, for the purpose of meeting temporary or unexpected losses of reserve funds. Nevertheless, there has been a perceptible lessening in the reluctance of member banks to borrow; day-to-day borrowings of banks in need of additional reserve funds from banks with considerable surplus reserves—so-called "purchases of Federal funds"—have been rather common over the past year, and over the past two months about twenty member banks in this District, including one downtown New York City institution, have borrowed from the Reserve Bank at one time or another. Most member banks outside New York and Chicago still hold considerable amounts of excess reserves, although there has been a general tendency for these banks—especially those in the "reserve city" classification—to invest their available funds more fully and thus to draw down their excess reserves.

The tendency for banks to invest their funds more fully is apparent not only in the excess reserves figures and in the enlarged use of Treasury bills, but also in the persistent bank demand for Government bonds, notes, and certificates of indebtedness, both for the new issues made available from time to time for commercial bank subscriptions, and for issues already outstanding. Recent offerings of new Government security issues for bank subscription have been heavily oversubscribed, and, while anticipation of low allotment bases and consequent "padding" have played a part in swelling bank subscriptions, it is clear that the banks in the aggregate actually have wished to obtain more of the securities than were made available to them. Moreover, since the first of this year, commercial banks have also been steady net purchasers of already outstanding issues in the open market. The strength of this demand has not been fully apparent in price and yield figures, because Federal Reserve Banks' sales of these classes of securities, partially to meet the demand and to maintain orderly market conditions, have exercised a steadying influence on the price and yield quotations. Since the end of 1942, the Federal Reserve Banks have reduced their holdings of Government bonds by $1,254,000,000 and of notes by $492,000,000. There has also been a shifting of outstanding securities from other investors to commercial banks, especially before and during the Second War Loan drive, when insurance companies and mutual savings banks reduced their holdings of outstanding obligations in order to enlarge their capacity to purchase the issues offered to them during the drive.

It is estimated that commercial banks throughout the country added more than $5,000,000,000 net to their holdings of Government bonds, notes, and certificates of indebtedness during the first four months of the year. Over the same period, the banks made net purchases of Treasury bills to the extent of about $2,000,000,000. Of the addition to bank holdings of bonds, notes, and certificates, about $2,800,000,000 was accounted for by net purchases in the open market. Purchases of new issues sold during the first four months of the year (excluding the sales to banks of the 2 per cent Treasury bonds offered under the Second War Loan drive, payments for which were not due until May 12) approximated $3,200,000,000, while cash redemptions of matured issues came to $900,000,000.

Money Rates in New York

	June 30, 1942	May 29, 1943	June 29, 1943
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	⅝–¾	⅝–¾	⅝–¾
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on tax exempt Treasury bonds (not callable within 12 years)	2.00	1.87	1.81
Average yield on taxable Treasury bonds (not callable within 12 years)	2.35	2.29	2.28
Average rate on latest Treasury bill sale 91 day issue	0.362‡	0.373†	0.374†
Reserve Bank discount rates:			
On advances to member banks secured by Government obligations callable or maturing in one year or less	—	½	½
On other advances to member banks secured by Government obligations, and on rediscounts	1	1	1
Reserve Bank buying rate for 90 day indorsed bills	½	½	½

* Nominal. ‡ 85 days † 92 days.

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MEMBER BANK CREDIT

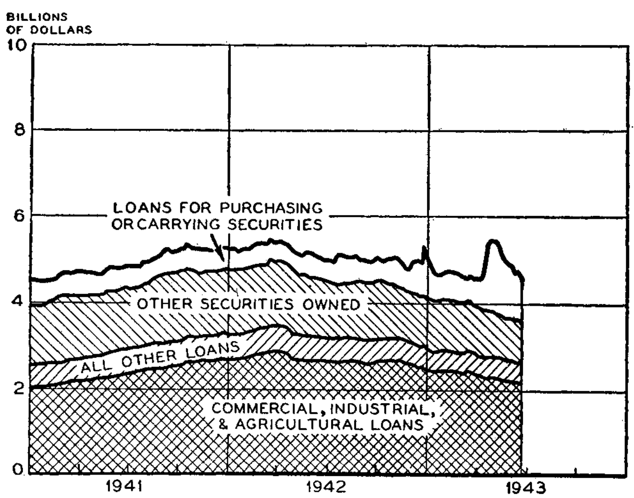
In recent weeks the composition of the deposit total of the weekly reporting member banks has undergone another marked change. As the Treasury issued calls for the repayment of War Loan account deposits, representing accumulated proceeds from the Second War Loan drive, and spent these funds, Government deposits of the reporting banks were sharply reduced, while deposits belonging to the public recovered. From May 19 to June 23 adjusted demand deposits of the New York City banks rose $655,000,000, but were still $912,000,000 short of the total on April 14 at the inception of the drive. Outside New York such deposits of the reporting member banks in 100 cities rose $1,165,000,000 to a level $388,000,000 above the April 14 point.

Government security holdings of the reporting New York City banks were reduced to the extent of approximately $300,000,000 on June 15 through redemptions of the matured Treasury notes and called Treasury bonds and, over-all, Government securities held by these banks dropped $391,000,000 between May 12 and June 23, or since the close of the Second War Loan drive. Treasury bill holdings of the New York banks, fluctuating considerably from day to day and week to week, showed a net decline of $46,000,000 to $1,999,000,000 over this period. Moreover, while the New York banks had been adding to their holdings of other classes of Government securities, particularly bonds, through purchases in the open market before and during the drive, they tended to be sellers, on balance, during the six weeks following its close.

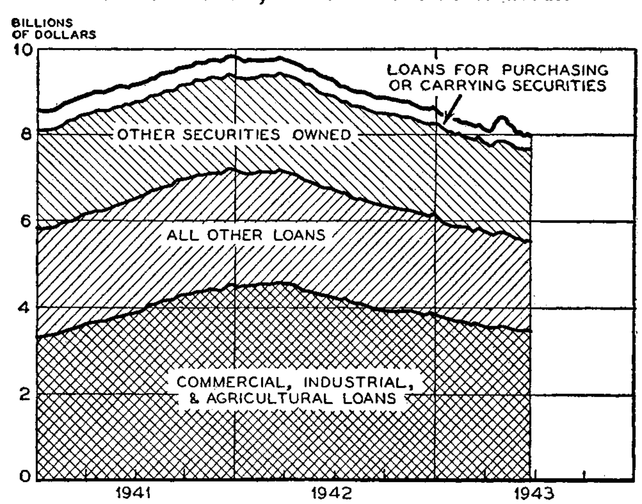
In the 100 other cities, by way of contrast, Government security holdings of the weekly reporting member banks showed a net rise of $223,000,000 between May 12 and June 23. Treasury bill holdings of these banks decreased $105,000,000 net, but this reduction, together with the effect of the redemptions on June 15, was more than offset by net market purchases of other classes of Government securities.

In recent weeks loans and investments other than Government securities have continued the decline which has been in evidence since March, 1942. Partly as a result of this prolonged contraction—although even more as a result of the large increase in bank holdings of Government securities—the proportionate composition of member bank earning assets has undergone a considerable change. Statements of the weekly reporting member banks for March 18, 1942 indicated that at that time loans and other securities made up 44 per cent of the total loans and investments of the New York City reporting banks and 53 per cent in the case of the banks in 100 other cities. Since that date, while holdings of Government securities of the New York City banks have increased by about 80 per cent and those of the other reporting banks have considerably more than doubled, the volume of loans and other securities has fallen off steadily, and on June 23, 1943 such assets accounted for no more than 26 per cent of the total loans and investments of the New York City banks and 28 per cent for the banks in 100 other cities.

As the accompanying charts indicate, commercial, industrial, and agricultural loans showed a substantial increase up to March, 1942, during the period of heavy production of consumers' goods and earlier stages of the expansion in war production. Since that date such loans have declined rather steadily, as current and advance payments on war contracts, the availability of production facilities under Government ownership, the accumulation of large tax reserves, inventory liquidation, and other factors have limited business needs for bank loans and permitted the gradual retirement of outstanding debt to banks. The decline in other types of loans, excepting loans for purchasing and carrying securities, has been in large part associated with the curtailment of personal loans. Holdings of securities, other than Government obligations, have also been considerably reduced, especially those of the New York City banks. On the other hand, loans for purchasing and carrying securities, largely concentrated in New York City, have shown a marked expansion at the time of the War Loan drives, and contraction afterwards.



Loans and Investments Other Than U. S. Government Securities of Weekly Reporting Member Banks in New York City



Loans and Investments Other Than U. S. Government Securities of Weekly Reporting Member Banks in 100 Leading Cities Outside New York City

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SURVEY OF THE DISTRIBUTION OF DEMAND DEPOSITS

During 1942 the volume of demand deposits of individuals, partnerships, and corporations in banks throughout the country expanded $10,000,000,000 or by 27 per cent, and a considerable further increase has occurred this year. The present volume of such deposits is twice as great as in 1939 and about two and one-half times as great as in 1929.

The expansion in bank deposits has been widespread but has not occurred evenly throughout the banking system. The rate of increase has been least in New York City, the money market center of the country, and greatest in centers of war industry and in agricultural regions. Particularly marked increases have been evident in the San Francisco, Dallas, Kansas City, Minneapolis, and Atlanta Federal Reserve Districts, although in many communities in this District very substantial expansion in bank deposits has been experienced.

Information on the geographical distribution of the growth in bank deposits is available in compilations of call report data, but little has been known of the character of the increase —the increase in deposits by types of depositor and the distribution of deposits by size.

The Federal Reserve Banks in collaboration with the Board of Governors recently sought to explore the possibilities of obtaining data from member banks on the distribution by type of owner and size of account of demand deposits of individuals, partnerships, and corporations. The Research Department of this bank accordingly made a survey of a limited number of the larger member banks, especially member banks outside New York City where the most marked p :centage increases in deposits have occurred, and found that there was a considerable interest on the part of most banks in information of this kind. In discussions with the banks it was found that very few of them made regular studies of the distribution by type of owner of all of their accounts, but that in a number of cases records are maintained making possible the analysis in a fairly detailed way of the distribution of the larger deposit accounts by class of depositor. Usually more than half of the total demand deposits of a bank are concentrated in a relatively small number of accounts, and it is therefore possible to obtain data on the distribution of a large volume of deposits by analyzing only a small fraction of the total number of accounts.

It should be pointed out that the limitation of the analysis to relatively large accounts tends to overemphasize business accounts (which are of larger average size than personal accounts) and may somewhat overstate increases in the deposits held by certain classes of depositors. Nevertheless, interpreted in the light of these qualifications, as well as in light of the qualification that the figures are based upon a "sampling" of banks rather than a complete coverage, it is believed that the analysis of the distribution of larger deposits supplements in an important way other available information in respect to the expansion in bank deposits. Plans are being formulated for periodic re-surveys of a similar character.

Table I— Growth in Demand Deposits of Individuals, Partnerships, and Corporations by Type of Owner
(Dollar figures in thousands)

	New York City banks				Banks outside New York City			
	Dollar amount		Per cent increase	Percentage distribution of total increase in deposits	Dollar amount		Per cent increase	Percentage distribution of total increase in deposits
	December 1941	March 1943			December 1941	March 1943		
Financial business								
Insurance companies	293,070	446,469	52.3	15.5	24,367	54,524	123.8	15.3
Investment trusts and investment companies	69,254	61,447	—11.3	— 0.8	1,805	1,209	—33.0	— 0.3
Security brokers and dealers	57,097	47,946	—16.0	— 0.9	2,354	2,159	— 8.3	— 0.1
Trust funds of banks	31,435	32,321	2.8	0.1	9,519	10,827	13.7	0.7
All other	70,771	69,062	— 2.4	— 0.2	6,065	5,594	— 7.8	— 0.2
Total	521,627	657,245	26.0	13.7	44,110	74,313	68.5	15.4
Nonfinancial business								
Manufacturing, mining, and construction	1,105,048	1,687,731	52.7	59.0	116,395	208,035	78.7	46.6
Public utilities, transportation, and communications	429,103	451,927	5.3	2.3	34,639	56,321	62.6	11.0
Retail and wholesale trade and dealers in commodities	179,130	230,541	28.7	5.2	27,927	43,302	55.1	7.8
All other	136,731	169,970	24.3	3.4	10,276	14,318	39.3	2.1
Total	1,850,012	2,540,169	37.3	69.9	189,237	321,976	70.1	67.5
Nonprofit associations, clubs, churches, etc.	69,457	42,664	—38.6	— 2.7	7,202	10,044	39.5	1.4
Personal	212,091	200,235	— 5.6	— 1.2	23,376	25,519	9.2	1.1
Total classified deposits*	2,653,187	3,440,313	29.7	79.7	263,925	431,852	63.6	85.4
Total unclassified deposits	1,574,638	1,774,769	12.7	20.3	121,834	150,580	23.6	14.6
Total demand deposits of individuals, partnerships, and corporations	4,227,825	5,215,082	23.3	100.0	385,759	582,432	51.0	100.0

* In New York City banks, all accounts over $250,000 in one bank, those over $100,000 in the second bank, and all accounts in the third bank; in banks outside New York City, all accounts over $10,000 except for one bank where accounts over $25,000 were classified.

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Second District Banks Outside New York City

Table I shows comparisons for the distribution of classified deposits between December, 1941 and March, 1943. As indicated in the right-hand section of the table, total deposits of individuals, partnerships, and corporations with the cooperating group of banks outside New York City increased about $196,000,000, or 51 per cent over this period. (The group of banks covered accounted for over a quarter of the demand deposits of individuals, partnerships, and corporations of all banks in the District outside New York City.) Of the deposits classified, those of concerns in the fields of manufacturing, mining, and construction accounted for 47 per cent of the total growth in deposits. This represented an increase of 79 per cent for this class over December, 1941.

The public utilities group accounted for 11 per cent of the total expansion; wholesale and retail trade and dealers in commodities for about 8 per cent; insurance companies for 15 per cent. Altogether, the increase in deposits of business concerns accounted for 83 per cent of the total increase.

The pronounced increase in the manufacturing and construction group probably represents to a considerable extent enlarged working capital requirements associated with war activities. In trade, inventory liquidation undoubtedly was a dominant factor. The indicated increases in public utility balances and some of the increases in other groups doubtless reflect accumulation of depreciation reserves which cannot at this time be used for replacements. Insurance company deposits reflected the accumulation of funds for investment during the Second War Loan campaign.

Table II shows all accounts classified by size, for the same two dates, for a group of banks outside New York City. The number of accounts with these banks increased more than 15,000; the dollar amount increased $162,150,000, or 50 per cent. Fifty-seven per cent of this increase was registered in the few accounts over $500,000, and these large accounts increased 98 per cent over the earlier date, partly as a result of a considerable increase in the number of depositors whose balances reached that size between the two dates.

Table II—Growth in Demand Deposits of Individuals, Partnerships, and Corporations by Size of Accounts*
Banks in the Second District Outside New York City
(Dollar figures in thousands)

Size of account	December, 1941		March, 1943	
	Number of accounts	Dollar amount	Number of accounts	Dollar amount
Less than $1,000	102,190	23,630	112,948	29,677
$1,000—$5,000	15,015	32,637	18,240	39,501
$5,000—$25,000	4,775	48,099	5,854	60,226
$25,000—$100,000	1,227	57,296	1,606	75,177
$100,000—$500,000	330	64,949	458	91,327
Over $500,000	54	94,643	100	187,495
Total	123,591	321,254	139,206	483,403

* Data from some banks included in this table are not included in Table I; hence the total deposits in the two instances are not the same.

New York City Banks

Reports from four large New York City banks concerning the character of the increase in their deposits between December, 1941 and March, 1943 confirmed the indications given by reports received from banks outside New York City. The relative magnitude of the increase in deposits in the City, however, was considerably less than in the remainder of the District. These four banks, which held slightly more than half of the total demand deposits of individuals, partnerships, and corporations in all New York City banks at the end of 1941, showed an increase during the fifteen months ended March, 1943 of approximately $1,300,000,000 or about 23 per cent in such deposits—a percentage increase less than half as large as was shown by the reporting banks in other cities of the District.

But the distribution of the increase by type of owner, while differing somewhat in detail, showed striking similarity in its general characteristics to the increase in reporting banks in other cities of the District, as Table I indicates.** Classified deposits represented about two thirds of the total dollar volume in the reporting New York City banks, and a slightly larger proportion in other reporting banks. In both cases nearly 70 per cent of the total increase in demand deposits of individuals, partnerships, and corporations was in the accounts of "nonfinancial" businesses. The proportion of the total increase in deposits attributable to enlarged deposit balances of manufacturing, mining, and construction concerns was somewhat greater in New York City than outside, while in other cities of the District deposits of public utilities and retail and wholesale businesses accounted for somewhat larger percentages of the increase in all deposits than in New York City. Insurance company deposits in each case accounted for about 15 per cent of the total increase. Large personal deposits and accounts of nonprofit associations, clubs, churches, etc., each accounted for only 1 per cent of the total increase in reporting banks outside New York City, and showed an actual reduction in the City.†

An interesting feature of the situation in New York City is that most of the increase in deposits of individuals, partnerships, and corporations during the 15 month period occurred during the first quarter of 1943. That appears to have been true not only of the banks from which these reports were received, but of New York City banks generally. Published data for 16 weekly reporting New York City member banks showed an increase of only 7 per cent in their "adjusted" demand deposits during all of 1942, but an increase of about 20 per cent during the first quarter of 1943.

**Detailed classifications of deposits for December, 1941 and March, 1943, were received from only three of the New York City banks; it is the figures for these three banks that are shown in the table in comparison with figures for 14 other banks in the District which also reported comparative figures for the two months. Changes in the deposits of the fourth New York City bank appear to have shown much the same tendencies, however.

† The lower limit of classified deposits in the New York City banks was considerably higher than in banks outside New York City, as the footnote below Table I indicates.

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WAR FINANCING

Treasury borrowing from the public during June was confined to net weekly offerings of Treasury bills, and continued sales of Savings bonds and Tax notes. Receipts of about $2,300,000,000 from these sources were largely offset, however, by redemption of $629,000,000 matured 1⅛ per cent Treasury notes, $454,000,000 called 3⅜ per cent bonds, and about $1,100,000,000 Tax notes turned in for payment of taxes, so that virtually no net increase occurred in the public debt during the month. Treasury expenditures for war and other purposes were largely financed by income tax receipts and calls upon War Loan deposit accounts.

Sales of Savings bonds are estimated at $850,000,000 during June, far short of the $1,480,000,000 and $1,340,000,000 totals reached in April and May as a result of the Second War Loan drive, but approximately 35 per cent greater than in June of last year. Redemptions approximated the $130,000,000 turned in during March and compared with slightly more than $100,000,000 monthly in April and May. Tax note sales continued at about the $450,000,000 level obtaining in other months this year (excepting the period of the Second War Loan drive). Net receipts from Treasury bill sales were maintained at $200,000,000 weekly, since the weekly offering was stepped up to $1,000,000,000 on June 16 when maturities increased to $800,000,000.

During the fiscal year ended June 30, the Treasury borrowed from the public (including the banks) a net amount of slightly more than $60,000,000,000 to cover the deficit and to build up its working account balances. With the addition of $3,000,000,000 of issues to Government agencies and trust funds, the total debt (direct and guaranteed) increased from $77,000,000,000 on June 30, 1942 to about $140,000,000,000 on June 30, 1943. A large portion of this expansion in debt represented short term obligations; the outstanding volume of Treasury bills and certificates was increased by nearly $23,000,000,000. Only a moderate amount of Treasury notes was issued during the year, the increase amounting to about $2,500,000,000. The outstanding volume of Treasury bonds was increased by $19,500,000,000. Of the nonmarketable securities, the outstanding amount of Savings bonds increased by slightly more than $11,000,000,000 and Tax notes by about $4,500,000,000. Of the total of $60,000,000,000 borrowed from the public, about half was accounted for by increased holdings of commercial banks and the Federal Reserve Banks.

Secretary Morgenthau has set September 9 as the date for the start of the next major War Loan drive. In order to provide additional funds to carry through until then, the Treasury offered on June 28 approximately $2,500,000,000 of 1½ per cent Treasury notes due September 15, 1947. Subscriptions of $100,000 or less will be allotted in full, while larger subscriptions will be allotted on an equal percentage basis. Payment for the notes must be made by the issue date of July 12.

SECURITY MARKETS

Announcement early in the month of the forthcoming $2,500,000,000 offering on June 28 affected somewhat the demand for Government securities in the market during June. Prices of taxable intermediate term bonds declined moderately following the announcement that the new issue would have a maturity of not more than ten years. Subsequently, however, a strong market developed for intermediate maturities on the supposition that the offering would take the form of a note issue. Meanwhile, continued demand for intermediate and long term partially tax exempt bonds extended further the decline in yield on these issues, and the average yield on long term partially tax exempt issues reached a new low of 1.81 per cent near the end of the month. Certificates of indebtedness, particularly the longer maturities, were also in demand during June, representing in part a switching from other maturities.

Domestic corporate bond prices remained firm in June owing principally to strength in the industrial group. Another new record low of 3.85 per cent was established on June 29 by the average yield on bonds rated Baa by Moody's Investors Service. Yields on the medium and lower grade railroad issues showed no net change for the month, however, in contrast to the declining tendency which had prevailed since last December. Municipal bond yields as measured by Standard and Poor's index of 15 issues declined further from 2.10 per cent on May 26 to 2.05 per cent on June 23.

The rise in stock prices which started in April of last year was extended in June, accompanying a decline in the rate of market activity. On June 5, Standard and Poor's price index of 90 stocks reached 97.5 per cent of the 1926 average, the highest level since April, 1940. Following a decline of 3 per cent between June 5 and 14, the combined index recovered to 97.8 by the latter part of the month.

EMPLOYMENT AND PAYROLLS

The May estimates of the Bureau of the Census showed an increase over April of 900,000 in the total civilian labor force, and little change in unemployment. The increase in the labor force and in employment was accounted for mainly by the entrance of students and housewives into agricultural work. The number of farm workers increased by 1,200,000 while the number of nonagricultural employees showed a decline and, for the first time since the inception of the defense program, was below the same month of the previous year. The reduction in nonagricultural employment was due principally to the drafting of men for military service and transfers to farm jobs. The Bureau of Labor Statistics in its May estimates of nonagricultural employment reported a

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decrease of 43,000 employees in manufacturing and of 103,000 in trade, as well as continued declines in construction and mining. Slight increases were recorded in the numbers of persons engaged in the transportation and public utility fields, and in civilian Government services.

Responding to seasonal factors, curtailment in production of some classes of nondurable goods, and to some extent, to "cutbacks" of war production, New York State factory employment declined 0.7 per cent and payrolls 1.3 per cent between April and May. Employment, nevertheless, exceeded the level of May, 1942 by 11 per cent and payrolls by 30 per cent. New York City experienced the sharpest drops in both employment and payrolls during the month, as expansion of personnel in war plants and shipyards was much more than counterbalanced by seasonal contraction in the clothing industry. In the Upstate area the Binghamton-Endicott-Johnson City district reported curtailment in both employment and payrolls in the shoe industry and in the Albany-Schenectady-Troy area declines were reported by clothing factories as well as war plants. In other areas of the State, however, increased activity in war plants continued to be reflected in higher levels of employment and payrolls.

PRODUCTION AND TRADE

This bank's index of production and trade declined one point further during May to 124 per cent of estimated long term trend. The group index of production was down two points as the continued sharp curtailment of construction work and the reduced output of steel and coal resulting from recent work stoppages more than offset increased production in other industries. On the other hand, shipyards broke all records by delivering 175 ships totaling 1,782,000 deadweight tons.

Retail trade showed mixed tendencies during May. Mail order houses reported a sharp cut in sales, traceable to inventory shortages and inability to offer substitutes on orders placed by mail, and department store sales declined more than usual at this season of the year. Sales of variety chains and grocery chains, on the other hand, showed some increase from reduced April levels.

During the month of June, further strikes in the coal mines brought about losses of output in coal and, to some extent, also in steel. The rising tendency of crude petroleum production was checked during June, but electric power output continued to rise. The Office of Defense Transportation on June 9 extended its system of permits in order to speed shipments on the Great Lakes, which have been hampered by weather conditions, and to divert carriers to ore transportation. Scarcity of livestock in the market and conflicts over price regulations threatened to shut down many small packing establishments. A virtual stoppage of corn shipments as farmers diverted corn to stock feeding, also curtailed operations in corn processing plants.

	1942	1943		
	May	March	April	May
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	113	126	125*p*	124*p*
Production	121	136	135*p*	133*p*
Producers' goods—total	148	173	171*p*	169*p*
Producers' durable goods	168	205	202*p*	198*p*
Producers' nondurable goods	125	136	134*p*	134*p*
Consumers' goods—total	87	88	87*p*	87*p*
Consumers' durable goods	45	40	37*p*	33*p*
Consumers' nondurable goods	101	105	104*p*	105*p*
Durable goods—total	132	157	154*p*	150*p*
Nondurable goods—total	111	117	117*p*	117*p*
Primary distribution	128	151	154*p*	156*p*
Distribution to consumer	85	85	81*p*	80*p*
Miscellaneous services	124	163	169*p*	170*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	116	123	124	125
Wage Rates (100 = 1926 average)	136	149	150*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	66	62	83	85
Outside New York City	88	78	89	80

p Preliminary. * Adjusted for seasonal variation.
Indexes for January and February have been revised. The revised figures are vailable upon request.

PRICE CONTROL AND RATIONING

The problem of controlling food prices and at the same time of insuring an adequate food supply has become an issue of national importance. Retail price ceilings established at the end of May, especially the new uniform dollar-and-cents ceilings, provoked severe criticism from members of the food industry on the grounds that the classification of retailers for pricing purposes according to gross annual volume was producing serious inequities and would force many retailers out of business. To meet this situation the Office of Price Administration held a two day conference on June 15-16 with members of the industry, and subsequently revised its classifications to provide relief for retailer-owned cooperatives, for large volume stores which buy through wholesalers, and for large volume stores which offer extra services.

A roll-back of a few important food prices with the aid of subsidy payments was begun early in the month. On June 10, the retail price of butter was reduced 5 to 6 cents per pound with provisions for subsidies of 5 cents per pound to be paid to processors by the Defense Supplies Corporation. Reductions averaging 3 cents per pound for all types of meats except cured and processed pork became effective on June 21, and payment of subsidies for the same amount to packers was scheduled for July. The subsidy program met with considerable opposition. A bill passed by the House on June 25 would prohibit subsidy payments under the roll-back plan, and a bill passed by the Senate on June 26 would eliminate all but

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a few specific subsidies on canning crops and farm products.

The cost of living continued to rise between April 15 and May 15, according to the index of the Bureau of Labor Statistics. The increase was approximately 0.8 per cent, however, as contrasted with an increase of 1.1 per cent from mid-March to mid-April, and food prices showed an increase of 1.7 per cent which was somewhat smaller than the increases of previous months.

FURNITURE STORE TRADE

Furniture store sales in this District during May were 3 per cent above the corresponding period last year. This is the first year-to-year increase that has occurred since the compilation of these data was begun in May, 1942. Sales in that month, however, were low following the retail buying wave during the first quarter of the year. Sales in May of this year were down 18 per cent in comparison with May, 1941.

Stocks on hand at the close of May were 23 per cent below those held one year earlier. They represented 5.2 months' supply at the current rate of sales against 6.9 months' supply on May 31, 1942.

Accounts receivable have declined 39 per cent during the past year. Collections during May against accounts outstanding April 30 amounted to 15.5 per cent; the corresponding percentage last year was 11.3 per cent.

Furniture stores	Percentage changes May, 1942 to May, 1943			
	Total sales	Accounts receivable*	Collections	Stocks* on hand
New York City	+12	—38	— 4	—23
Northern New Jersey	—17	—44	—18	—27
Newark	—36	—45	—19	—29
Other localities	— 9	—44	—18	—26
Westchester-Fairfield	—10	—33	—11	— 2
Hudson River Valley	—18	—44	—28	—13
Central New York State	+ 5	—38	— 4	—29
Syracuse	+16	—32	+ 8	—
Other localities	— 4	—44	—14	—28
Western New York State	— 3	—38	—11	—22
Buffalo	—15	—37	—18	—27
Rochester	+ 2	—41	— 8	—13
Other localities	+15	—37	0	—
Total outside New York City	— 8	—40	—13	—23
Total Second District	+ 3	—39	— 8	—23

* End of month.

Furniture stores	May, 1943 compared with May, 1942					
	Total District		New York City		Outside New York City	
	May, 1942	May, 1943	May, 1942	May, 1943	May, 1942	May, 1943
Credit sales as per cent of total sales	85.2	83.1	86.1	83.4	84.2	82.7
Stocks on hand, end of month, as ratio to month's sales	6.9	5.2	7.8	5.6	5.5	4.7
Collections, exclusive of down payments, as per cent of receivables, first of month	11.3	15.5	10.6	14.5	12.6	17.6

DEPARTMENT STORE TRADE

During the four weeks ended June 26, sales of reporting department stores in this District were about 15 per cent greater than in the corresponding period last year, while apparel stores for the three weeks ended June 19 exceeded year ago sales by about 35 per cent. Sales of department stores in June apparently increased from the May level by the usual seasonal amount.

In May department store sales in this District were 11 per cent greater than in May, 1942. On a seasonally adjusted basis, sales increased less than 1 per cent from April to May of this year. Sales of apparel stores in May were 30 per cent above sales a year before.

Department stores in this District had at the end of May stocks on hand, which, valued at retail prices, were 34 per cent lower than in May of last year. On a seasonally adjusted basis, however, stocks increased about 3 per cent from April to May of this year, the first month-to-month increase in this index since July, 1942. Returns from a limited number of department stores in this District show that at the end of May outstanding orders for merchandise purchased by the stores but not yet delivered to them were 76 per cent above May, 1942, and 25 per cent above those at the end of April, 1943.

Department stores	Percentage change from a year earlier		
	Net sales		Stocks on hand May 31, 1943
	May, 1943	Jan. through May, 1943	
New York City	+13	+ 7	—37
Northern New Jersey	+ 6	— 3	—39
Newark	+ 7	— 1	—39
Westchester and Fairfield Counties	— 2	— 3	—24
Bridgeport	— 4	— 5	—27
Lower Hudson River Valley	+ 4	0	—17
Poughkeepsie	+ 5	+ 1	—
Upper Hudson River Valley	+ 3	— 5	— 8
Albany	+ 2	—12	—
Schenectady	+ 6	+ 5	—13
Central New York State	+14	+ 9	—28
Mohawk River Valley	+16	+11	—15
Utica	+16	+11	—
Syracuse	+14	+ 9	—33
Northern New York State	0	— 2	—
Southern New York State	+15	+ 8	—13
Binghamton	+19	+11	—
Elmira	+ 6	— 2	—
Western New York State	+14	+10	—24
Buffalo	+17	+11	—20
Niagara Falls	+20	+34	— 6
Rochester	+10	+ 7	—32
All department stores	+11	+ 5	—34
Apparel stores	+30	+19	—17

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

	1942	1943		
	May	March	April	May
Sales (average daily), unadjusted	99	104	117	109
Sales (average daily), seasonally adjusted	106r	127	115	116
Stocks, unadjusted	160	107	100	104
Stocks, seasonally adjusted	159r	106	99	102

r Revised.

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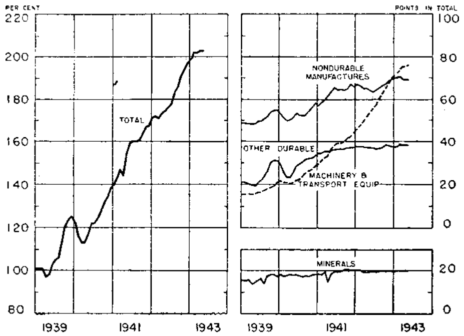
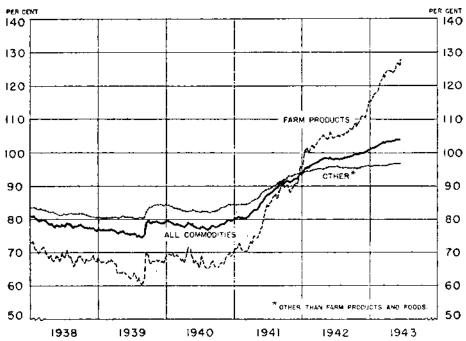
FEDERAL RESERVE BANK OF NEW YORK

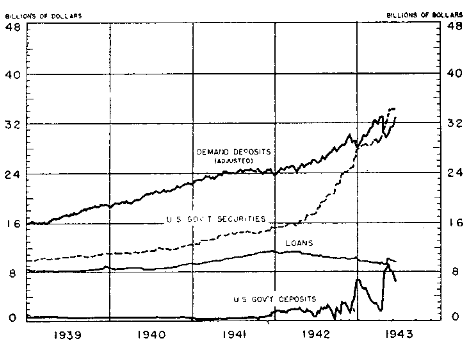
MONTHLY REVIEW, JULY 1, 1943



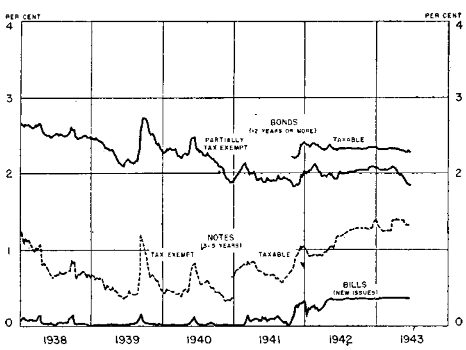
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Subgroups shown are expressed in terms of points in the total index)



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (Latest figures are for June 12; 1926 average=100 per cent)



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 June 16)



Yields on U. S. Government Securities (Latest figures are for June 19)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity and retail trade were maintained in large volume during May and the early part of June. Retail prices, particularly foods, increased further in May.

Production

Total volume of industrial production, as measured by the Board's seasonally adjusted index, remained in May at the level reached in April. Activity in munitions industries continued to rise, while production of some industrial materials and foods declined slightly. Aircraft factories established a new record in producing 7,000 planes in May.

In most nondurable goods industries there were small increases or little change in activity. Meat production, however, reached a record high level for May reflecting a sharp advance in hog slaughtering. Seasonally adjusted output of other manufactured foods continued to decline. Newsprint consumption showed little change, and publishers' stocks declined further to a 50-day supply on May 31. Consumption for the first five months of 1943 was only 5 per cent below the same period in 1941, whereas a reduction of 10 per cent had been planned.

The temporary stoppage of work in the coal mines at the beginning of May brought production of bituminous coal and anthracite down somewhat for the month. Iron ore shipments on the Great Lakes continued to lag in May behind the corresponding month of 1942.

The value of contracts awarded for construction continued to decline in May, according to reports of the F. W. Dodge Corporation. Total awards were about 65 per cent smaller than in May a year ago.

Distribution

During May the value of sales at department stores decreased more than seasonally, and the Board's adjusted index declined 5 per cent. Sales, however, were about 15 per cent above a year ago, and during the first five months of this year showed an increase of 13 per cent over last year. In general, the greatest percentage increases in sales have occurred in the Western and Southern sections of the country where increases in income payments have been sharper than elsewhere.

Freight-car loadings advanced seasonally in May but declined sharply in the first week in June, as coal shipments dropped 75 per cent from their previous level, and then recovered in the second week of June as coal production was resumed.

Commodity Prices

Prices of farm products, particularly fruits and vegetables, advanced during May and the early part of June, while wholesale prices of most other commodities showed little change.

Retail food prices showed further advances from the middle of April to the middle of May. On June 10 maximum prices for butter were reduced by 10 per cent and on the 21st of the month retail prices of meats were similarly reduced, with Federal subsidy payments being made to processors.

Agriculture

Prospects for major crops, according to the Department of Agriculture, declined during May while output of livestock products continued in large volume, as compared with earlier years. Indications are that acreage of crops may not be much below last year but that yields per acre will be reduced from the unusually high level of last season.

Bank Credit

Excess reserves at all member banks declined from 2 billion dollars in early May to 1.5 billion in the latter part of the month and remained at that general level through the first half of June. As the Treasury expended funds out of war loan accounts which require no reserves, the volume of deposits subject to reserve requirements increased and the level of required reserves rose by 600 million dollars in the four weeks ended June 16, while continued growth of money in circulation resulted in a drain on bank reserves of 400 million dollars. These reserve needs were met in part by Treasury expenditures from balances at the Reserve Banks and in part by Federal Reserve purchases of Treasury bills. Reserve Banks continued to reduce their holdings of Treasury bonds and notes in response to a market demand for these issues.

During the four weeks ended June 16, Treasury bill holdings at member banks in 101 leading cities fluctuated widely, reflecting primarily sales and repurchases on option account by New York City banks in adjusting their reserve positions. Holdings of bonds and notes declined somewhat while certificate holdings increased. Loans to brokers and dealers in securities declined sharply during the period, as repayments were made on funds advanced for purchasing or carrying Government securities during the April War Loan Drive. Commercial loans continued to decline.

Government security prices advanced during May following the close of the Second War Loan Drive, but in the early part of June there were small declines.

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