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THE IMPACT OF THE WAR ON THE NEW YORK MONEY MARKET

Dating back to the early part of 1941, when the inauguration of the national defense program (in June, 1940) was translating itself into substantially accelerated war production and expenditures, the New York money market has been subject to persistent and heavy net transfers of funds to other sections of the country. At the same time the influx of gold from abroad, which had been enlarging reserve balances of the New York banks and swelling their excess reserves to record totals, came to a stop. Reflecting principally these two developments, the $3,450,000,000 excess reserves held by the central reserve New York City banks at the end of 1940 were virtually exhausted a little more than two years later. Over the past year the New York banks have been enabled to meet further outward transfers of reserve funds in considerable measure through modifications in their reserve requirements and through purchases of Government securities in New York by the Reserve Banks.

The movement of funds from the Second Federal Reserve District is apparent in the relatively greater increases in bank deposits which have occurred in the other districts, in the lessening proportion of total member bank reserve balances held by Second District banks, and in losses of reserves from the Federal Reserve Bank of New York to the other Federal Reserve Banks. As suggested by the following tables, the experience of the Second District as a whole is largely a reflection of transfers of funds from New York City banks to banks in other sections of the country; the banks of New York City occupy such a dominant position in the banking structure of the Second Federal Reserve District that their experience tends largely to determine that of the District as a whole.

As has been indicated from time to time in this *Review*, the single most important and most persistent factor in the transfers of funds from this District to other districts has been transactions of the Government. The volume of funds raised in this District by the Government in financing the war has been running far ahead of the volume of Government checks placed on deposit with member banks in this area. Private commercial and financial transactions of various types led to heavy additional tranfers of bank reserves from the New York money market to other sections of the country during 1941 and 1942, but this factor has reversed itself during the first seven months of the present year and gains of funds through commercial and financial transactions during this later period have counteracted a considerable part of the loss through Treasury transactions.

The losses of reserve funds from the New York District to other districts through Treasury transactions have been accounted for in part by the relatively large proportion of tax revenues derived from the District (around 25 per cent in the case of income taxes), in part by the unusually heavy purchases of Government securities by banks, insurance companies, and

Growth in Total Deposits of Member Banks During 1941-42

	December 31, 1940		December 31, 1942		Increase	
	In millions of dollars	Per cent of U. S. total	In millions of dollars	Per cent of U. S. total	In millions of dollars	Percentage increase
Second Federal Reserve District	21,186	37.5	26,758	34.2	5,572	26.3
Central reserve New York City	*17,744*	*31.4*	*22,078*	*28.2*	*4,334*	*24.4*
Other Second District	*3,442*	*6.1*	*4,680*	*6.0*	*1,238*	*36.0*
Other Federal Reserve Districts	35,244	62.5	51,519	65.8	16,275	46.2
United States total	56,430	100.0	78,277	100.0	21,847	38.7

Changes in Reserves of Member Banks and Federal Reserve Banks Since December 31, 1940

	December 31, 1940		June 30, 1943		Change
	In millions of dollars	Per cent of U. S. total	In millions of dollars	Per cent of U. S. total	In millions of dollars
Reserve Balances of Member Banks					
Second Federal Reserve District	7,547	53.9	4,068	33.7	−3,479
Central reserve New York City	*7,057*	*50.4*	*3,475*	*28.8*	*−3,582*
Other Second District	*490*	*3.5*	*593*	*4.9*	*+ 103*
Other Federal Reserve Districts	6,445	46.1	8,017	66.3	+1,572
United States total	13,992	100.0	12,085	100.0	−1,907
Reserves of Federal Reserve Banks					
Federal Reserve Bank of New York	9,810	49.0	5,267	25.6	−4,543
Other Federal Reserve Banks	10,226	51.0	15,315	74.4	+5,089
12 Federal Reserve Banks combined	20,036	100.0	20,582	100.0	+ 546

Factors of Gains and Losses of Reserve Funds to Member Banks in the Second Federal Reserve District
(In millions of dollars)

	1940	1941	1942	1943 (through July 21)
Treasury transactions	+ 80	— 490	—2,260	—2,990
Commercial and financial transactions	— 940	—1,740	—1,930	+2,150
Currency movements	— 320	— 510	— 680	— 400
Gold and foreign account transactions	+3,080	+ 760	+ 650	— 200
Nonmember and other deposit accounts	— 290	—	+ 150	—
Reserve Bank transactions	— 370	+ 60	+3,460	+ 600
Member bank reserve balances	+1,240	—1,920	— 610	— 840

other large institutional investors located in this District, and in part by the decentralization of war plants and the consequent shift in the distribution of Government expenditures toward other areas.

The contribution of the District to war financing has been exceptionally large in relation to the over-all load. During the December War Loan drive $5,700,000,000 or 44 per cent of the securities sold were purchased in the Second Federal Reserve District; during the April drive the corresponding figures were $7,100,000,000 and 38 per cent.* In comparison, the proportions raised in the Second Federal Reserve District during the five Liberty Loan campaigns of the World War period ranged between 27 and 31 per cent.

To be sure, there should be, and are, offsets to the outward flow of funds arising from the heavy payments to the Treasury for new Government security issues. For example:

1. Some part of the losses of funds through Treasury operations may be accounted for by New York's role as distributor for Government security issues—by purchases of new issues of Government securities by dealers and the larger banks in New York for later distribution in other sections of the country.

2. Moreover, insurance companies and mutual savings banks in this District, in the case of both the first and second War Loan drives, increased their capacities to purchase the new issues offered during the drives by reducing their portfolios of already outstanding issues. Thus the losses of funds to the Second District through Treasury operations were enlarged, but offsets were created to the extent that securities sold were purchased in other Federal Reserve Districts (leading to gains from commercial and financial transfers) or by the Federal Reserve System open market account (leading to gains from expansion in Federal Reserve credit).

3. There have been offsetting gains through the transfers into New York of investment funds by large institutional investors such as insurance companies.

* During the entire year 1942 purchases (less maturities) of Government securities by the Second Federal Reserve District accounted for 40 per cent of the corresponding national total; the proportion was 36 per cent for the first half of 1943. Sales of securities to Government agencies and trust funds are excluded in these compilations.

It is noteworthy, however, that such offsets have fallen short of matching the losses of funds through Treasury transactions.

Commercial and Financial Transfers

Analyses of the factors accounting for gains and losses of reserve funds by member banks in this District have been carried on at this Bank for many years. Separating out certain measurable factors, including Treasury, currency, gold, and foreign account transactions, and Federal Reserve credit extended through this Bank, there is left an important residual item of commercial and financial transactions. This item embraces a wide variety of types of transactions undertaken on private accounts, among them "financial" transactions (such as the transactions cited in the preceding paragraph) and "commercial" or business transfers of funds. Taking account of the gains of reserves which would be expected to accrue from the flow of investment funds to New York, it would appear that heavy losses of funds on other accounts must have occurred during 1941 and 1942, for commercial and financial transactions taken as a whole resulted in large losses from the reserves of Second District member banks. As a principal explanation, the probabilities point to heavy transfers of business balances to other sections of the country where existing plants were being converted to war production and new plants were being constructed and put into operation.

During the first seven months of 1943, losses of reserve funds by Second District member banks through Treasury transactions amounted to about $3,000,000,000, or more than the loss from this source during the whole of 1942 ($2,260,000,000). Commercial and financial transactions, however, showed a counterbalancing gain of $2,150,000,000 during the first seven months of this year; during both 1941 and 1942 losses of funds through commercial and financial transactions occurred simultaneously with the outflow of funds through Treasury transactions.

The abrupt reversal in commercial and financial transactions is explained in part by the heavy net purchases of Government securities in the open market by banks in the other districts which have occurred since the close of the December War Loan drive. Such purchases are estimated at approximately $2,400,000,000 for the first five months of 1943. The great bulk of these purchases represented securities supplied in the New York security market, by the Federal Reserve System Account, and by banks, dealers, and insurance companies in this District.

As a second factor in the reversal of the flow of commercial and financial funds, it seems reasonable to conclude that the net drain of business balances from the New York District to other districts prevalent during 1941 and 1942 was substantially checked during the first seven months of the present year. Accumulations of funds elsewhere in excess of working capital requirements apparently have led to inward transfers of corporation balances to New York to such an extent as substantially to offset outward transfers of other business funds.

The more general disposition of banks in other parts of the country to make full use of their available reserve funds has also operated to reduce the net flow of funds from the Second Federal Reserve District to the other districts. A continuance of this tendency over coming months may work in the same direction, inasmuch as virtually all of the $1,000,000,000 excess reserves now held by member banks throughout the country are in the possession of banks outside the Second Federal Reserve District. The most obvious channel for correcting the adverse "balance of payments" of the Second Federal Reserve District would be through Government security transactions—through a greater relative participation in new Government security purchases in other Federal Reserve Districts (the effect of which would check losses of funds through Treasury transactions), and through heavy net purchases of already outstanding Government securities from the New York District (a factor which tends to bring gains through an inflow of funds for investment).

WAR FINANCING

Net funds received by the Treasury from public borrowing in July amounted to about $4,400,000,000, including payments for the Treasury note issue offered late in June. Distribution of the July borrowing was as follows:

$2,707,000,000—1½ per cent Treasury notes
800,000,000—Savings bonds (estimated net receipts)
600,000,000—Treasury bills (net receipts)
300,000,000—Savings notes (estimated net receipts)

The 1½ per cent Treasury notes, dated July 12, 1943 and maturing September 15, 1947, were offered for cash subscription on June 28. Subscriptions were extremely heavy, totaling $19,544,000,000. Subscriptions for amounts of $100,000 or less, aggregating $1,347,000,000, were allotted in full. Subscriptions for larger amounts were allotted on a 7 per cent basis, but not less than $100,000 on any one subscription. Allotments to subscribers in the Second Federal Reserve District of $696,000,000 amounted to only 26 per cent of the total, compared with 40 per cent for a similar note issue last October, but a considerable volume of the notes allotted in other districts were almost immediately resold in New York and transferred here.

Sales of Savings bonds, estimated at somewhat more than $900,000,000 for the month, were apparently not slowed down appreciably by the inauguration in July of current collections of individual income taxes through payroll deductions. Series E sales appear to have held at about the $700,000,000 average monthly level which has prevailed since last December, excepting April and May when sales totals were enlarged by the Second War Loan drive. Redemptions of all series amounted to about $130,000,000 during July, as compared with $141,000,000 in June and slightly more than $100,000,000 in April and May. In the Second Federal Reserve District, sales of Savings bonds by agencies other than post offices totaled about $130,000,000 in July as compared with $122,000,000 in the previous month. The increase occurred in Series E sales, which amounted to about $95,000,000 in July compared with $87,000,000 in June.

An additional $600,000,000 of "new money" was raised from Treasury bills, as weekly offerings of $1,000,000,000 replaced maturities of $800,000,000 on July 7 and 14 and $900,000,000 on July 21 and 28. Prior to July 21, the net offering had been maintained at $200,000,000 weekly since December 16, 1942, resulting in an expansion of $6,200,000,000 during this period in the outstanding volume of Treasury bills. Sales of Savings notes (formerly called Tax Savings notes) during July continued at a rate of about $450,000,000 monthly, while redemptions in payment of taxes somewhat exceeded $150,000,000. The attractiveness of these Savings notes as an outlet for investment of temporarily idle funds was enhanced on July 27 when the Treasury eliminated the requirement of thirty days' advance notice for their cash redemption.

On July 22, the Treasury offered a new issue of ⅞ per cent certificates of indebtedness due August 1, 1944 in exchange for $1,609,000,000 of certificates maturing August 1, 1943. An additional $900,000,000, or thereabouts, of the new issue was offered for cash subscriptions by commercial banks only. Subscriptions for the cash offering aggregated $5,484,000,000 and were allotted on an 18 per cent basis. Payment for the new certificates is due on August 2.

Third War Loan Drive

Secretary Morgenthau announced on July 22 that the goal for the Third War Loan drive starting September 9 would be $15,000,000,000, with the entire amount to be raised from subscribers other than commercial banks. The securities to be offered in the coming drive will be similar to those sold in the April drive consisting of:

Series E Savings bonds
Series F and G Savings bonds
Series C Savings notes
2½ per cent bonds of 1964-69
2 per cent bonds of 1951-53
⅞ per cent certificates of indebtedness

The three new issues will be dated September 15. None of these securities will be available for subscription by commercial banks for their own account during the period of the drive. Shortly after the drive closes, however, a 2 per cent bond and a ⅞ per cent certificate of indebtedness will be offered for subscription by commercial banks. In order to confine sales during the drive to nonbanking investors only, the Treasury will request commercial banks not to buy in the market the issues offered in the drive until the books for bank subscriptions are closed. The Treasury has also requested that all subscriptions by corporations and firms be entered and paid for through the banking institutions where the funds are located, so as to avoid unnecessary transfers of funds from one locality to another.

BANKING OF WITHHELD TAXES

The Current Tax Payment Act of 1943 allowed the Treasury wide discretionary powers in the issuance of regulations designed to facilitate the transmission of currently withheld income taxes from employers to the Treasurer's General Account balances with the Federal Reserve Banks. Treasury Department Circular No. 714 sets forth the procedures that have been adopted for the handling of such funds by employers and the banks.

Under the Treasury Department's regulations each employer is required to make quarterly returns of withheld taxes to the Collector of Internal Revenue of his district within a month after the close of each quarter. Smaller employers, those who withhold taxes to an amount not exceeding $100 a month, may make payment either to a depositary bank monthly or to the collector at the time of filing the quarterly returns. Larger employers, those who withhold more than $100 a month, are to remit all such funds to a depositary bank within ten days following the close of the calendar month in which they were deducted, except that payment for the last month of a quarter may be made to the Collector of Internal Revenue at the time of filing the quarterly return. Tax notes or other public debt obligations are not acceptable forms of payment for withheld taxes.

Banks which are insured by the Federal Deposit Insurance Corporation, and incorporated uninsured banks and trust companies designated as depositaries under the Second Liberty Bond Act as amended, are eligible for qualification as depositaries for withheld taxes through application to and agreement with the Reserve Bank of the appropriate Federal Reserve District. Once qualified, a bank will maintain a special account in which all withheld taxes remitted by employers will be deposited. When the balance in this account equals or exceeds $5,000 it must be paid to the Reserve Bank by the end of the next business day for credit to the Treasury. The balance on the last business day of the calendar month, whatever its size, must be remitted to the Federal Reserve Bank not later than the following business day. Only funds immediately available to the Reserve Bank are acceptable.

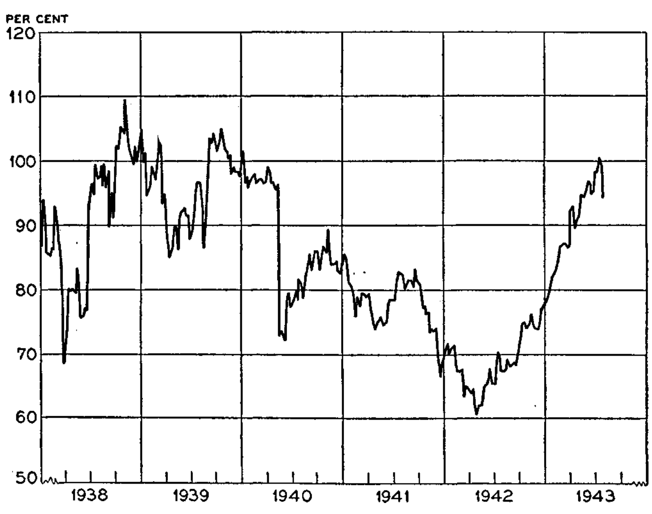
Compensation for expenses incurred by the depositary bank through these activities will be provided by making available to them 2 per cent Depositary bonds (second series). Two alternatives are offered: by one method the bank may purchase the bonds with its own funds, by the other the depositary will receive a deposit of funds by the Treasury for use in purchasing Depositary bonds. The amount of Depositary bonds purchasable by the depositary will be based initially on the business transacted during the month following that in which the bank became qualified as a depositary of withheld taxes. The amount may be changed periodically thereafter on the basis of the number of depositary receipts issued to employers and the dollar amount of remittances to the Federal Reserve Bank.

SECURITY MARKETS

During July, trading activity in Government securities diminished somewhat following several months of sustained demand which had pushed yields to new record lows. In the early part of the month, interest centered on the new 1½ per cent Treasury notes, which went to a premium of slightly more than half a point. Toward the middle of the month, prices of tax exempt securities declined following rumors that the Treasury might propose steps that would impair the value of tax exemption on outstanding securities. This report was denied and prices of these securities recovered rapidly. Toward the end of the month, however, there was a renewed decline reflecting selling in anticipation of the Third War Loan drive, and the average yield on long term tax exempt bonds was 1.84 per cent on July 29 as compared with 1.80 per cent at the beginning of the month. Average yields on long term taxable bonds advanced slightly during July from 2.26 per cent to 2.28 per cent. Following announcement on July 21 of the offer to exchange certificates of indebtedness maturing on August 1 for a new issue, yields on the shorter maturities of certificates declined substantially.

During the first half of July, corporation stock prices continued to advance and on July 14 Standard and Poor's index of 90 stocks was 69 per cent above the low reached at the end of April, 1942. Industrial shares declined slightly over the next ten days but railroad and utility issues extended their rise. On July 26 and 27, however, following news of Premier Mussolini's resignation, stock prices fell sharply to the lowest point since June 22. During the two days, Standard and Poor's index of railroad stocks dropped seven per cent, while industrials and public utilities showed declines of four per cent in each case. The volume of trading on the New York Stock Exchange was fairly heavy around the middle of July and also during the period of falling prices toward the end of the month.

Standard and Poor's index of municipal bond yields regis-



Movement of Stock Prices (Standard and Poor's 90 stock index; 1926=100 per cent)

tered a marked decline during the month, dropping to 1.92 per cent, the lowest level since early in December, 1941. Corporation bond yields also declined and Moody's index of Baa bond yields reached a new low of 3.79 per cent July 24. Medium grade bond prices were off only slightly as a result of the change in the political situation in Italy, but lower grade railroad issues declined somewhat more sharply.

MEMBER BANK CREDIT

Between June 16 and July 21 Government security holdings of the weekly reporting member banks in New York City showed a decline of $462,000,000, principally as a result of net sales of Treasury bills in the adjustment of reserve positions. From their peak of $2,373,000,000 on June 16, Treasury bill holdings of the New York banks dropped to $1,432,000,000 on July 7, through sales to the Reserve Bank to meet heavy losses of reserve funds. During the following two weeks, ended July 21, holdings recovered to $1,633,000,000, reducing the decline in the bill portfolios of the New York banks for the five weeks as a whole to $740,000,000.

Holdings of Government guaranteed obligations were reduced $100,000,000 over the five weeks' period, reflecting the redemption of 1⅛ per cent R.F.C. notes on July 15. On the other hand, the reporting New York City banks made substantial net purchases of other market issues, $125,000,000 certificates of indebtedness, $21,000,000 Treasury bonds, and $232,000,000 Treasury notes. The last increase represented primarily purchases of the new issue of 1½ per cent notes, due September, 1947.

In contrast to the New York City banks, the weekly reporting member banks in 100 other cities added $418,000,000 net to their holdings of Government securities between June 16 and July 21. These banks reduced their bill portfolios to the extent of $302,000,000, the redemption of R.F.C. notes resulted in a decrease of $90,000,000 in guaranteed obligations, and in addition these banks were net sellers of $83,000,000 certificates of indebtedness. The reporting banks outside New York, however, absorbed a considerable share of the new 1½ per cent Treasury notes, as reflected in a $668,000,000 expansion in their total Treasury note holdings, and these banks made further net purchases of $225,000,000 Treasury bonds during the five weeks' period.

Holdings of securities other than Government obligations by New York City banks remained at a fairly constant level, while total loans declined $176,000,000. Outside New York, other securities were reduced $101,000,000, but total loans declined only $24,000,000.

Changes in the composition of member bank deposits continued to follow the usual pattern between War Loan drives. Adjusted demand deposits were built up, while Government deposits were reduced as the Treasury withdrew funds to meet current expenditures. Outside New York adjusted demand deposits of the reporting banks in 100 cities rose $293,000,000 to a new high of $20,829,000,000 on July 21, $850,000,000 above the level of April 14 at the start of the Second War Loan drive. In New York City, adjusted demand deposits rose $306,000,000 over the five weeks, but were still $460,000,000 below the April 14 figure.

PRODUCTION AND TRADE

In June the seasonally adjusted index of production and trade computed at this Bank fell one point to 124 per cent of estimated long term trend. The index of production was down two points from May as small gains in munition industries were more than counterbalanced by the decreased production of coal and steel due to the recent strikes and the further curtailment of construction activity. The daily average production of bituminous coal in June was the lowest since April, 1941 and daily average steel output declined for the third consecutive month. Electric power production continued to set record highs in June, while crude petroleum production remained fairly close to the May level, and cotton consumption decreased somewhat.

The index of distribution to consumer increased one point over May owing chiefly to increases in department store and grocery chain sales on a seasonally adjusted basis. Variety chain and mail order house sales remained fairly close to the May levels, seasonal factors considered.

According to preliminary indications, industrial activity in July showed an increase over June. The rate of steel mill operations, which had dipped several points late in June, recovered to 98 per cent of capacity during the second half of July. In the meantime bituminous coal production recovered from the June work stoppages.

	1942	1943		
	June	April	May	June
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	114	125	125p	124p
Production	123	135	134p	132p
Producers' goods—total	152	171	170p	166p
Producers' durable goods	177	203	200p	195p
Producers' nondurable goods	124	134	135p	134p
Consumers' goods—total	88	88	87p	85p
Consumers' durable goods	45	37	34p	30p
Consumers' nondurable goods	102	104	105p	103p
Durable goods—total	138	154	151p	146p
Nondurable goods—total	111	117	117p	116p
Primary distribution	130	153	160p	156p
Distribution to consumer	84	80	80p	81p
Miscellaneous services	120	166	167p	168p
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	116	124	125	125p
Wage Rates (100 = 1926 average)	137	150	151p	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	61	83	85	71
Outside New York City	85	89	80	75

p Preliminary. * Adjusted for seasonal variation.

DEPARTMENT STORE SALES BY DEPARTMENTS OVER THE WAR PERIOD

Under the impact of forces generated by the war, sweeping changes have occurred in the field of retail trade. The rapid expansion of consumer incomes and price advances have tended to swell the aggregate dollar volume of consumer purchases. Shifts of population toward centers of war industry have led to wide differences in the degree of retail trade expansion from one locality to another. At the same time, the transfer of millions of men from civilian life to the armed forces, the imposition of rationing controls, shortages of certain vital materials, and the virtual unavailability of certain classes of consumers' durable goods have resulted in radical shifts in the composition of retail trade by types of merchandise.

Estimates of the aggregate volume of retail trade have been developed by the United States Department of Commerce, making use in part of data covering department and furniture stores gathered and published by the Federal Reserve System. Differences in the degrees of expansion in retail trade from one locality to another may be observed in the Federal Reserve reports on department store trade for particular cities as well as in compilations of the Department of Commerce and other agencies. The measurement of the changes in the composition of retail trade by types of merchandise is in many respects more elusive than approximations either of the volume of retail trade, or of the regional shifts. Data gathered by the Federal Reserve Banks from department stores in their respective districts on the breakdown of sales by departmental classifications provide one important body of information concerning the make-up of retail trade by detailed merchandise classifications. For use in analyzing the broader shifts in the composition of retail trade, of course, they must be supplemented by data relative to fluctuations in sales volumes of classes of merchandise not handled in significant volume by department stores, and allowance must be made for the competitive factor of changes in the proportion of goods of particular classes handled by department stores.

In the series of curves on the opposite page are portrayed changes in sales volumes for thirty-five departmental classifications based upon data reported to this Bank by a group of the larger department stores in the Second Federal Reserve District. The sales of these stores accounted for 63 per cent of total department store sales in the Second Federal Reserve District during 1939, using the figures of the Census of Distribution of that year as a benchmark. As is apparent from the chart, there is a decided predominance of departments showing increases in sales since 1939, the year in which the war in Europe began. The degrees of increase, however, are highly variable, ranging from 12 per cent in the case of china and glassware up to 130 per cent in the case of luggage. A number of cases are apparent in which sales volumes have turned downward following periods of expansion during the earlier part of the war. These shifts in the composition of department store sales, reflecting changes in the wants and needs of consumers and in the kinds of goods available for purchase, have become more marked with the intensification of the war effort of this country.

Style trends, affected by increased numbers of women holding jobs, and other war influences, have led to shifts in the demand for women's apparel. Sales of coats and suits, and blouses, skirts, and sportswear have expanded more rapidly than sales of dresses. A drift away from the wearing of hats is apparent in the failure of millinery sales to increase to any important extent; at the same time sales of neckwear and scarfs have risen sharply. Provision of clothing by the Government for enlisted men presumably accounts for the disparity between sales of men's clothing and sales of boys' wear. The rapid expansion in sales of infants' wear is associated with the marked rise in the birth rate during the war period, while the large number of war brides probably accounts for the increase in sales of lingerie as well as for part of the increase in sales of silverware and jewelry, although a further contributing factor, as in the case of furs and also wines and liquors, is the tendency of many individuals to increase their purchases of such luxury items when incomes increase.

Women's and children's hosiery has maintained steady year-to-year gains in sales despite the virtual disappearance from store counters of silk and nylon stockings. On the other hand, sales of corsets and brassieres appear to have been limited by wartime restrictions on production. Despite rationing, dollar sales of women's and children's shoes this year have maintained a high level.

The increased sales of groceries and meats by department stores, in part due to price advances and buying in anticipation of shortages, also may reflect a gain in the number of customers buying food from department stores.

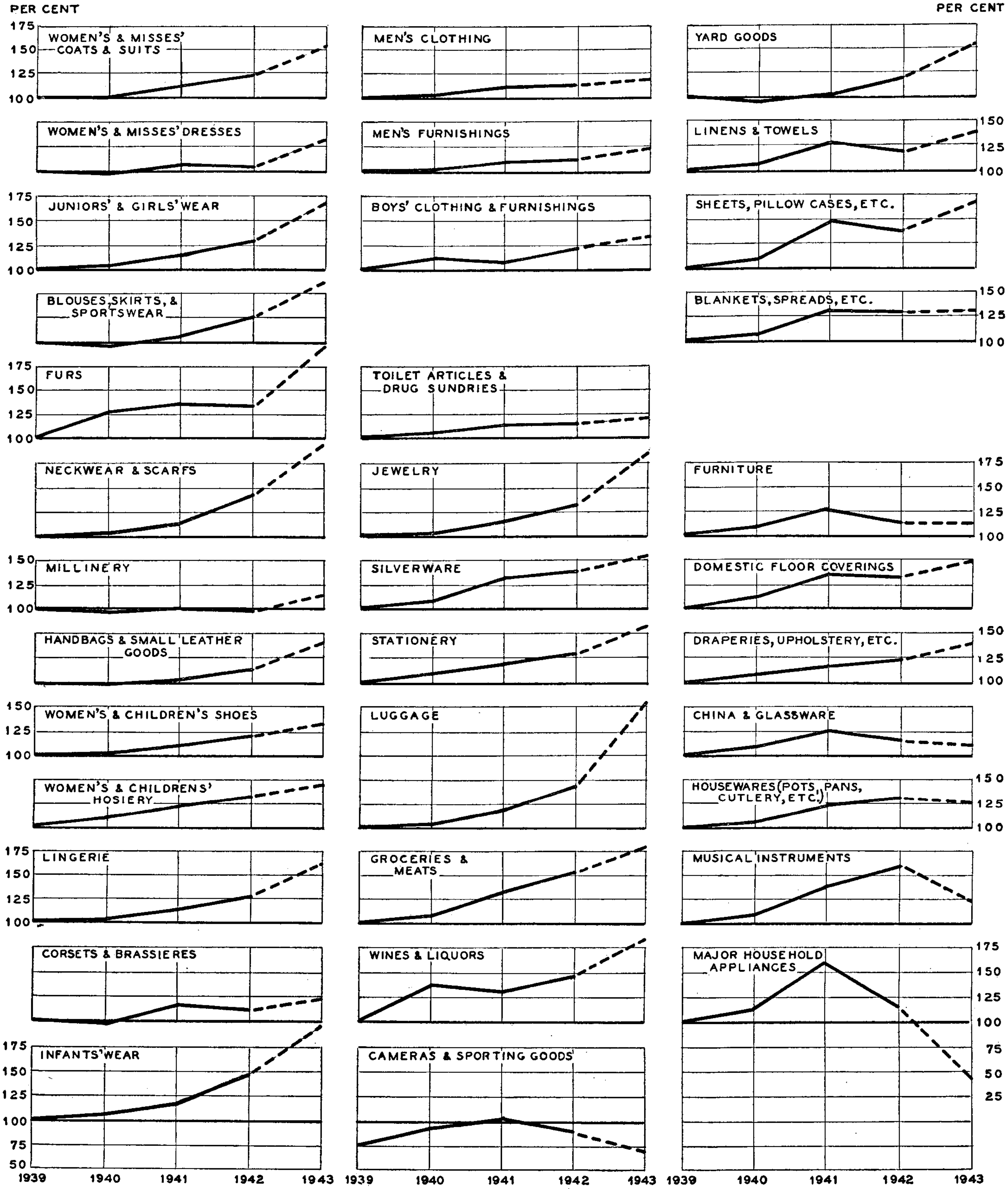
Greatly increased rail travel, by civilians as a consequence of gasoline rationing, and by members of the armed forces, is reflected in the accelerated sales of luggage. Travel by rail usually requires more luggage than travel by private automobile.

Sales of yard goods did not show a substantial increase until 1942, when price increases in ready-to-wear apparel stimulated home dressmaking. Sales of linens and towels, sheets and pillow cases, and blankets and spreads showed large gains in 1941, followed by decreases in 1942; so far this year sales of linens and towels, and sheets and pillow cases show increases over 1942, but sales of blankets and spreads have failed to recover, probably as a result of a continued shortage of woolen blankets for the civilian market.

The boom in consumers' durable goods during the summer of 1941 is seen in the expanded sales of furniture, domestic floor coverings and major household appliances. The subsequent decline in sales, which is most marked in the case

(Concluded on page 64)

SECOND DISTRICT DEPARTMENT STORE SALES BY TYPES OF MERCHANDISE



1939 = 100. DEPARTMENT STORE FISCAL YEARS GENERALLY END JANUARY 31; THUS THE FIGURES FOR 1939, FOR EXAMPLE, ARE FOR THE TWELVE MONTHS FEBRUARY, 1939 THROUGH JANUARY, 1940. FIGURES FOR 1943 BASED UPON EXPERIENCE OF FEBRUARY–JUNE, 1943.

of major household appliances but has not affected sales of domestic floor coverings, is primarily due to curtailed production of merchandise using vital metals. Sales of draperies and upholstery, which have continued to increase, may have been stimulated by demands for fabrics for the reconditioning of furniture that normally would have been replaced. The decline in sales of housewares and musical instruments also shows the effects of shortages of metals and the conversion of plant facilities.

EMPLOYMENT AND PAYROLLS

Approximately 54,600,000 civilian workers will be needed by July, 1944 according to present estimates of the War Manpower Commission. Total civilian employment in June, 1943 as reported by the Bureau of the Census was 53,400,000 workers compared with 53,300,000 in June, 1942 and 50,200,000 in June, 1941.

There was a seasonal increase of 1,300,000 in employment between May and June resulting primarily from a shift of students into summer jobs. Most of the additional workers were employed on farms and total agricultural employment continued slightly above the levels of 1942. Nonagricultural employment, as estimated by the Bureau of the Census, showed a small increase of 200,000 workers during June. Further withdrawals of men into the armed forces were offset by additional hiring of women, who now constitute 35 per cent of all nonagricultural workers. The Bureau of Labor Statistics indicated that, within the nonagricultural field, manufacturing, and the transportation and public utilities group made the largest gains in employment, while employment in construction continued to decline.

Unemployment was reported to have increased in June because of the number of students looking for summer jobs, but the estimated total of 1,200,000 unemployed remained small in comparison with the 2,800,000 estimated in June, 1942 and 6,000,000 in June, 1941.

The New York State Labor Department's index of factory employment in June was only 0.1 per cent higher than in May but 14.4 per cent above June, 1942. The index of payrolls showed an increase of 1.0 per cent over May and 36 per cent over June, 1942. In New York City employment dropped 0.3 per cent between May and June as a result of a seasonal decline in apparel manufacturing. Upstate there was a rise of 0.4 per cent. Although Syracuse again reported the largest increase, 1.4 per cent, war plants expanded their working forces at a slower pace than they had early in the year. In the Utica area a gain of 1.2 per cent in employment resulted from expansion in the metals and machinery group. The Binghamton-Endicott-Johnson City area showed a shift of employment from the shoe industry to war plants with employment in June 0.7 per cent above the May level. For the second consecutive month employment declined slightly in the Albany-Schenectady-Troy district.

DEPARTMENT STORE TRADE

During the four weeks ended July 24, sales of reporting department stores in this District were about 10 per cent greater than in the corresponding period last year, while apparel stores for the same period exceeded year ago sales by about 27 per cent. Sales of department stores in July apparently decreased from the June level by less than the usual seasonal amount.

In June, department store sales in this District were 18 per cent greater than in June, 1942. On a seasonally adjusted basis, the daily rate of sales in June was about the same as in May of this year. Sales of apparel stores in June were 33 per cent above sales a year before.

At the end of June, department store stocks (valued at retail prices) were 33 per cent lower than in June of last year. It appears, however, that the rapid shrinkage in department store stocks, which proceeded through the autumn of 1942 and the first four months of 1943, has been halted, temporarily at least. On a seasonally adjusted basis, stocks on hand in this District increased by about 7 per cent during June. Returns from a limited number of department stores in this District indicate that at the end of June outstanding orders for merchandise purchased by the stores but not yet delivered to them were 23 per cent above those at the end of May, 1943, and 151 per cent above June, 1942.

Department stores	Percentage change from a year earlier		
	Net sales		Stocks on hand June 30, 1943
	June, 1943	Jan. through June, 1943	
New York City	+19	+ 8	—36
Northern New Jersey	+11	— 1	—39
Newark	+13	+ 1	—41
Westchester and Fairfield Counties	+ 6	— 2	—24
Bridgeport	+ 4	— 3	—28
Lower Hudson River Valley	+12	+ 2	—12
Poughkeepsie	+15	+ 4	—
Upper Hudson River Valley	+11	— 2	— 7
Albany	+ 8	— 9	—
Schenectady	+16	+ 7	— 5
Central New York State	+19	+11	—26
Mohawk River Valley	+26	+14	—23
Utica	+25	+13	—
Syracuse	+15	+10	—27
Northern New York State	+10	+ 3	—
Southern New York State	+20	+10	—11
Binghamton	+29	+13	—
Elmira	— 3	— 2	—
Western New York State	+21	+12	—22
Buffalo	+20	+13	—15
Niagara Falls	+34	+35	— 6
Rochester	+21	+ 9	—34
All department stores	+18	+ 7	—33
Apparel stores	+33	+21	—15

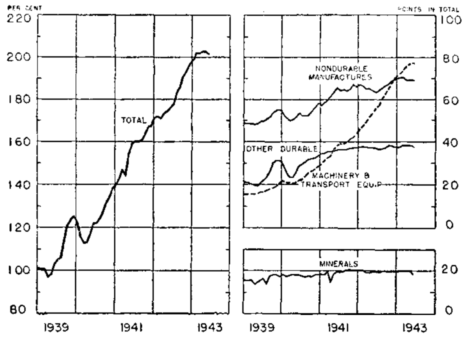
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1942	1943		
	June	April	May	June
Sales (average daily), unadjusted	92	116r	108r	110
Sales (average daily), seasonally adjusted	97	114r	115r	115
Stocks, unadjusted	161r	101r	104	104
Stocks, seasonally adjusted	166r	99	102	109

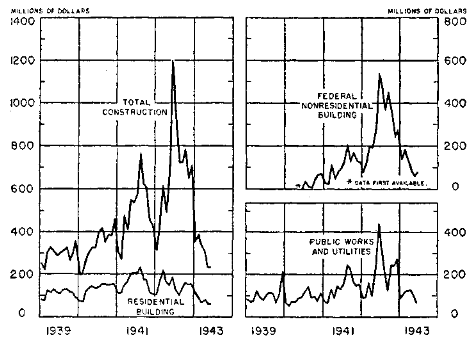
r Revised.

FEDERAL RESERVE BANK OF NEW YORK

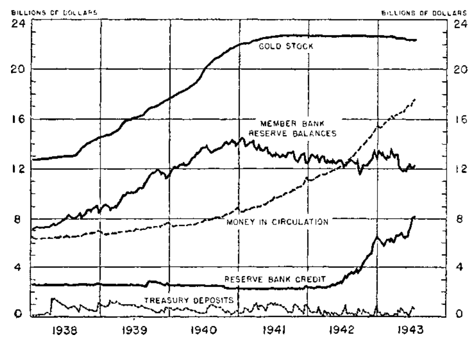
MONTHLY REVIEW, AUGUST 1, 1943



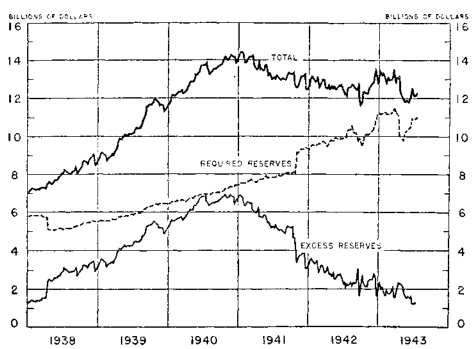
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Subgroups shown are expressed in terms of points in the total index)



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



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



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves (Latest figures are for July 14)

General Business and Financial Conditions in the United States

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

MANUFACTURING activity was maintained at a high level in June while mineral production declined reflecting mainly reduced output of coal. In the early part of July coal production was resumed in large volume. The value of retail trade continued large.

Industrial Production

The Board's seasonally adjusted index of total industrial production declined slightly in June from the high level of other recent months. Activity continued to increase at plants producing war products in the chemical, rubber, and transportation equipment industries. These increases were more than offset by a sharp drop in coal production and a temporary reduction in output of coke, pig iron, and steel.

Finished aircraft production, in terms of airframe weight, was 3 per cent higher in June than in May. Delivery of supplies for the Army ground forces rose 1 per cent over May. Tonnage of cargo vessels delivered from merchant shipyards was not up to the record May level; it was, however, higher than in any other month.

In industries manufacturing nondurable goods output as a whole showed little change from May to June. Activity at cotton mills declined—consumption of 917,000 bales of cotton was 50,000 less than in June, 1942.

Output at coal mines in June was 30 per cent below May owing to the work stoppages, but early in July both anthracite and bituminous coal production recovered to above the levels prevailing a year ago. Crude petroleum production was maintained in June and moved upward in July partly in anticipation of the completion of the pipeline from Texas to the East Coast. Lake shipments of iron ore in June were 6 per cent below the same month last year owing to unfavorable weather conditions.

The volume of construction contracts awarded in June was about the same as in May. The value of awards in June was at the lowest level for this month since 1936, according to the F. W. Dodge Corporation.

Distribution

Value of consumer nondurable goods sold at retail was in near-record volume in June and the early part of July, while sales of durable goods, many of which are becoming increasingly scarce, were generally below previous peak levels.

Car loadings of revenue freight declined in June, reflecting the drop in coal shipments. Loadings of grain showed the usual increase at this season and the movement of most other commodities was maintained in large volume.

Commodity Prices

Wholesale prices of most commodities showed little change in the early part of July, following a decline during June of 1 per cent in the general index. This decline reflected chiefly reductions ordered in maximum prices of butter and meat and seasonal decreases in prices of fresh fruits and vegetables.

Agriculture

Aggregate crop production this year is expected to be 10 per cent smaller than last year but 5 per cent above the average of the preceding 5 years, according to the July 1 official report. Of the major crops, production prospects for grains are the lowest compared with last season, while there are indications of considerably larger harvests for dry beans and peas, flaxseed, and potatoes. Output of livestock products has continued in larger volume than a year ago.

Bank Credit

During June and the first three weeks of July there was an increase of about 1.4 billion dollars in Reserve Bank holdings of United States Government securities. Continued currency outflow, and increase in required reserves due to the growth of deposits, were reflected in the increased demand for Reserve Bank credit. The expansion in Reserve Bank credit was in the form of Treasury bills sold by member banks to the Federal Reserve Banks under options to repurchase. Holdings of bills showed wide fluctuations during the period as member banks adjusted their reserve positions through sales and repurchases. A large part of the Treasury bills came from New York City banks where excess reserves continued to be low. Total loans and investments of New York City banks have declined recently. Other reporting member banks have shown a continued growth in deposits and U. S. Government securities.

The quarterly report of customer rates at commercial banks for the middle of June showed a further rise in rates charged on loans by large banks throughout the country.