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Of Credit and Business Conditions

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MONEY MARKET IN OCTOBER

Through the intensive sales efforts of the reconstituted War Finance Committee organization, building upon experience gained during the campaigns of December and April, the Third War Loan, which officially came to an end October 2, attained a new high mark for the major loan drives. Sales of bonds and other securities to nonbanking investors (excluding Federal agencies which acquired $630,000,000) reached $18,313,000,000 in comparison with the objective of $15,000,000,000 and a corresponding total for the Second War Loan drive of $13,085,000,000. The results of the Third drive are summarized and compared with those of the first two in a separate article in this *Review*.

The total sales credited to the Second Federal Reserve District under the Third War Loan drive, $6,334,000,000, made up 35 per cent of the aggregate sales to nonbanking investors exclusive of purchases for Government trust accounts. The corresponding totals and proportions were $5,295,000,000 and 40 per cent for the Second War Loan drive, and $3,814,000,000 and 50 per cent for the First drive. The fall, from one War Loan drive to the next, in the proportion of sales credited to the Second District is not, however, an accurate measurement of a lessened relative degree of reliance upon the Second District in Government war financing, for two reasons: net transfers to other districts of credits for subscriptions entered and paid for here have increased sharply from one drive to the next; and the net outflow of commercial and financial funds from New York City prior to and during the course of the Third drive, apparently associated in considerable part with transfers of funds to other localities for the purpose of entering subscriptions elsewhere, was far greater than the outflows occurring in connection with either the First or Second War Loan drives. Net withdrawals of commercial and financial funds from New York City between August 18, three weeks prior to the opening of the Third War Loan, and October 6, a few days after its close, amounted to approximately $1,400,000,000. Taking these factors into account—transfers of credits and transfers of funds—it is fair to say that, while a definite improvement in the geographical distribution of Government security sales has occurred, the proportion of nonbanking investors' funds actually coming out of the Second Federal Reserve District in connection with the War Loan drives has not declined in the degree indicated by the reduction in the percentage of sales credited to the District.

The proportion of Government securities taken by commercial banks in this District, on offerings made to banks, has shown no definite tendency to decline. Allotments to banks in this District of classes of Government securities other than Treasury bills generally amount to 30 to 35 per cent of the allotments to banks throughout the country.

As a result of the Third War Loan drive and the subsequent sales of securities to commercial banks, it is estimated that the Treasury will have sufficient resources to cover its expenditures, other than for redemption of maturing obligations, until the early part of 1944. The Government's requirements for cash from borrowing have shown a definite tendency to flatten out in recent months, as a result of at least a temporary cessation of the sharp month-to-month increases in war expenditures and enlarged tax receipts under the Current Tax Payment Act. Unless there is a further considerable rise in expenditures, or unless tax revenues fail to come up to present expectations, it appears that the maximum rate of need for Treasury borrowing may have been reached.

The payments for the securities sold under the Third War Loan were made in predominant part by means of credits to War Loan deposit accounts on the books of qualified depositary institutions. From $3,691,000,000 on September 8, War Loan account deposits were brought up to a record total of $19,349,000,000 on October 16.

Total credits to the War Loan accounts, including book credit payments on October 15 for the 2 per cent bonds and ⅞ per cent certificates of indebtedness offered to commercial banks outside of the drive, reached $17,250,000,000 over this period. Repayments from the War Loan accounts amounted to only about $1,600,000,000 between September 8 and October 16, inasmuch as the need for withdrawals was limited by quarterly income tax collections, cash payments for securities sold under the drive (payments continued to flow to the Treasury up to the middle of October), and cash payments on the October 15 offerings to banks. Regular calls on the War Loan deposit accounts were resumed October 18

Need for Cash from Public Borrowings
(In billions of dollars)

Period	Withdrawals from War Loan deposit accounts	Net cash payments for Government securities	Decrease in Treasury deposits with Federal Reserve Banks*	Total
1942				
1st quarter	0.7	2.9	0.6	4.2
2nd "	4.2	5.2	0	9.4
3rd "	5.5	7.5	*0.4*	12.6
4th "	4.8	10.8	*0.1*	15.5
1943				
1st quarter	6.8	6.1	0.7	13.6
2nd "	9.7	5.9	*0.4*	15.2
3rd "	8.9	4.6	*0.3*	13.2

*Figures in italics represent increases in Treasury deposits.

and at the end of the month the balance in these accounts amounted to approximately $17,300,000,000.†

Of the total of $19,349,000,000 in the War Loan deposit accounts on October 16, $8,360,000,000, or 43 per cent, was on deposit in the Second Federal Reserve District, and $7,413,000,000, or 38 per cent, was on deposit in New York City. As indicated in an accompanying table, the proportion of War Loan account deposits in New York City was somewhat smaller on October 16 than it had been at the close of the Second War Loan drive and considerably smaller than at the close of the first, but the proportion is still high enough to indicate that the New York money market will continue to be faced with substantial losses of funds to other localities through receipts by the Treasury (including War Loan account withdrawals) from the New York City banks and their customers in excess of the volume of Treasury checks placed on deposit with these banks. The lessened proportion of War Loan account deposits held in New York City is partly the effect of some improvement in the geographical distribution of Government security sales, and partly the effect of a more general use of book credit payments, and a lessened use of cash payments, in other sections of the country.

Distribution of War Loan Account Deposits at Close of War Loan Drives

	First drive January 6, 1943*		Second drive May 15, 1943*		Third drive October 16, 1943*	
	Millions of dollars	Per cent of U. S. total	Millions of dollars	Per cent of U. S. total	Millions of dollars	Per cent of U. S. total
New York City	4,417	53.8	5,321	41.6	7,413	38.3
Other Second District	384	4.7	705	5.5	947	4.9
Second Federal Reserve District	4,801	58.5	6,026	47.1	8,360	43.2
Other Districts	3,405	41.5	6,764	52.9	10,989	56.8
Total	8,206	100.0	12,790	100.0	19,349	100.0

* Dates used are those when War Loan account deposits reached their maximum following the official close of the drive.

† On October 18 it was announced that the Treasury Department had decided to continue the method of making calls upon War Loan depositaries as established May 10 at the close of the Second War Loan drive. For "Group A" depositaries, those having War Loan balances of $300,000 or less at the close of business October 15, a schedule of repayments running through January 5, 1944 has been issued, calling for six repayments of approximately equal size spaced at two week intervals. Calls on depositaries having War Loan balances of more than $300,000 at the close of business October 15, classed in "Group B", would be issued in the same manner as heretofore.

While it would appear likely that banks in New York City will show further net losses of funds through Treasury operations over the next few months, an inflow of commercial and financial funds began toward the end of October, apparently associated with the sale to investors in other localities of securities purchased by dealers in the City during the War Loan drive and a replenishment by insurance companies and other corporations of their New York deposit balances, which were sharply drawn down for the purpose of purchasing Government securities during the War Loan drive.

Member Bank Reserve Positions

Excess reserves of all member banks, which had risen from $1,110,000,000 on August 25 to $2,050,000,000 September 15, and which still amounted to $1,810,000,000 on September 29, dropped back during October and on the 27th were down to $1,060,000,000. The principal factors tending to reduce member bank excess reserves during the four weeks ended October 27 were an increase of approximately $700,000,000 in reserve requirements and a $272,000,000 further rise in currency circulation. Federal Reserve Banks' holdings of Government securities showed a net increase of $123,000,000 over the four weeks' period. Holdings of certificates of indebtedness by the Reserve Banks were enlarged to the extent of $224,000,000 as the Federal Reserve Open Market Account operated to correct a condition of temporary oversupply of certificates nearing maturity. Treasury bill holdings, fluctuating irregularly from week to week as banks adjusted their reserve positions through bill purchases and sales, were reduced $115,000,000 net between September 29 and October 27.

During the first half of October the central reserve city banks of New York continued to lose reserve balances through an outward movement of commercial and financial funds, but

Changes in Holdings of Government Securities by the Weekly Reporting Member Banks
(In millions of dollars)

Week ended	Bills	Certificates	Notes	Bonds	Guaranteed	Total
	New York City					
Sept. 1	— 98	— 8	— 21	+ 31	+ 4	— 92
Sept. 8	— 15	+ 13	+ 14	— 12	+ 9	+ 9
Sept. 15	+332	+206	+ 18*	+ 98	+ 9	+663
Sept. 22	+ 43	— 21	— 9	+ 25	+ 24	+ 62
Sept. 29	— 63	— 5	+ 2	+ 43	+ 17	— 6
Oct. 6	— 37	— 5	0	+ 17	+ 3	— 22
Oct. 13	+177	— 42	+ 6	+ 22	0	+163
Oct. 20	+235	+365**	— 4	+254**	— 1	+849
	100 Other Cities					
Sept. 1	— 56	+ 10	+ 24	+ 6	— 1	— 17
Sept. 8	+ 61	+ 9	+ 25	+ 8	+ 1	+ 104
Sept. 15	+365	+247	— 7*	+103	0	+ 708
Sept. 22	+ 44	+159	+ 14	+ 85	— 1	+ 301
Sept. 29	+ 69	+125	+ 17	+ 59	— 1	+ 269
Oct. 6	—112	+ 54	+ 8	+ 76	+ 1	+ 27
Oct. 13	+197	+ 32	+ 3	+ 88	0	+ 320
Oct. 20	+ 60	+546**	0	+534**	— 5	+1135

* On September 15, $279,000,000 of 1 per cent Treasury notes matured and were paid off.

** Reflects the allotment to commercial banks of new issues of ⅞ per cent certificates of indebtedness and 2 per cent bonds on October 15.

the rate of outflow was much diminished and during the second half of the month there was a moderate inward movement. Meanwhile, the limited withdrawals from War Loan account deposits, together with other receipts, fell considerably short of the volume of Treasury checks placed on deposit with the New York banks, and the banks gained funds which enabled them to build up their holdings of Treasury bills until October 20, after which a moderate reduction occurred. Treasury bill holdings of the weekly reporting member banks of New York City rose from $1,229,000,000 on September 29 to $1,604,000,000 on October 20, but fell back a week later to $1,539,000,000.

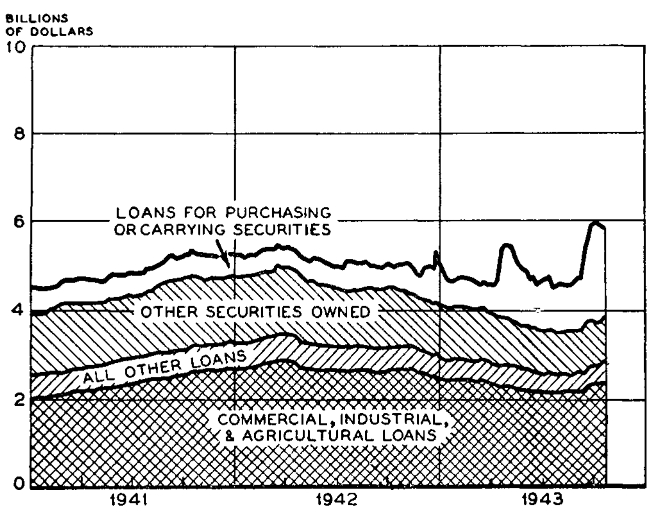
MEMBER BANK CREDIT

Total loans and investments of the weekly reporting member banks in 101 leading cities rose $3,334,000,000 between September 22 and October 20. Since September 8, just prior to the opening of the Third War Loan drive, the increase has amounted to $6,600,000,000, even more than the $5,400,000,000 expansion which had occurred between the end of 1942 and September 8 of this year. About one third of the increase after September 8 represented a rise in loans, while in the earlier period total loans showed a net decline.

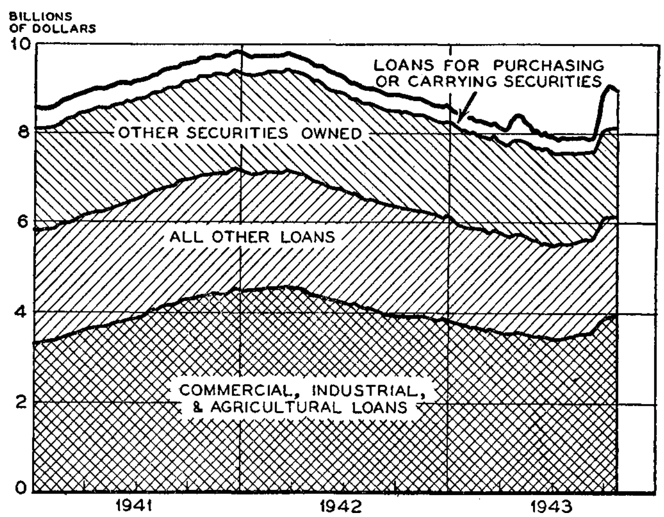
Considerably more than half of the increase in investments for the four weeks' period ended October 20 represented bank purchases on October 15 of the new offering of ⅞ per cent certificates of indebtedness and the reopened 2 per cent bonds of the Third War Loan drive. Reporting member banks in New York City took roughly $600,000,000 of these new issues, of which about $350,000,000 were certificates, while banks in the 100 other cities purchased approximately $1,080,000,000, fairly evenly divided between certificates and bonds. The reporting banks in New York and the other centers also continued to add to their Treasury bill holdings, and to make market purchases of already outstanding Government securities. The New York City banks increased their bill portfolios $312,000,000 and purchased about $80,000,000 of outstanding Treasury bonds and $19,000,000 of guaranteed obligations, but were net sellers of about $50,000,000 of outstanding certificates of indebtedness. Reporting banks in other cities augmented their Treasury bill holdings by $214,000,000, and made net market purchases of certificates and bonds amounting in each case to more than $200,000,000.

Total loans of reporting member banks rose almost $640,000,000, net, during the four weeks ended October 20. The expansion in loans was to a large extent associated with the increase during the Third War Loan drive in the volume of loans for purchasing or carrying securities, as shown on the accompanying charts. From September 8 to October 6, such loans of reporting banks in New York City rose $1,045,000,000, compared with an increase of $850,000,000 during the Second War Loan drive (April 14 to May 5). Outside New York also, the increase during the Third War Loan drive in loans to finance the purchase of securities was much larger than during the Second drive. Between September 8 and October 6 the rise amounted to $621,000,000, while between April 14 and May 5 an expansion of only $185,000,000 occurred.

At the same time, commercial, industrial, and agricultural loans, which have been increasing gradually since June, accelerated their rise. From June 30, the low of the year, to October 20 such loans for the weekly reporting banks in 100 cities outside New York rose $567,000,000, recovering nearly half the decline which had occurred between March, 1942, and June of this year; for New York banks the increase from the low level of last June and July, amounting to about $250,000,000, was equivalent to a recovery of one third of the previous decline. The recent expansion of commercial, industrial, and agricultural loans has been due to a variety of factors. Part of the increase, during the Third War Loan drive, reflected seasonal loans to finance the movement and



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



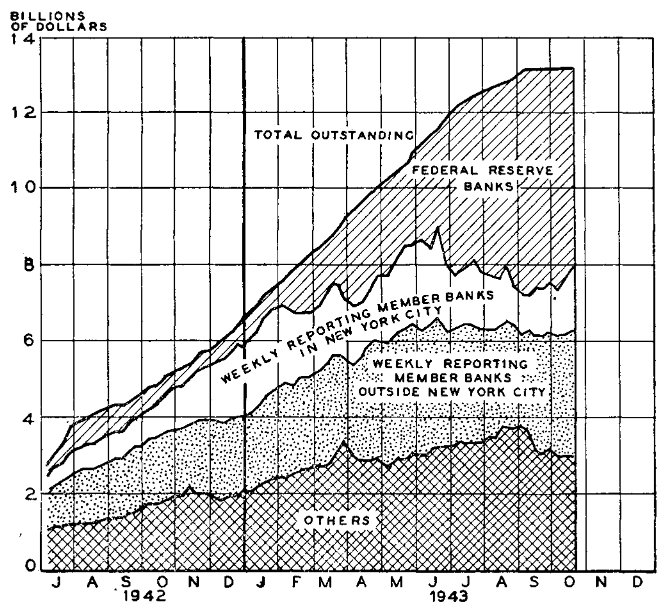
Loans and Investments Other Than U. S. Government Securities of Weekly Reporting Member Banks in 100 Leading Cities Outside New York City

storage of crops, part apparently has been due to further borrowings by war contractors, and part may have been due to unsecured loans to corporations to finance subscriptions to new Treasury securities.

Reflecting payments by customers for the new securities sold during the War Loan drive, adjusted demand deposits continued to decline through the statement week ended October 6. Although some recovery occurred after October 6, largely as a result of Government disbursements, such deposits on October 20 were about $4,900,000,000 below the pre-drive peak of September 8. Government deposits of the weekly reporting member banks continued to expand during the four weeks ended October 20 as a result of book credit payments for new issues of Government securities sold to nonbanking investors during the Third War Loan drive and to commercial banks on October 15. For the reporting banks in 101 leading cities Government deposits rose $3,306,000,000 to $13,470,000,000 during the four weeks' period.

DISTRIBUTION OF TREASURY BILLS

Treasury bill holdings of the weekly reporting member banks of New York City reached their maximum, of $2,373,000,000, on June 16 of this year as indicated in an accompanying chart, and holdings by all other banks and investors (exclusive of Federal Reserve Banks) were also at a maximum, $6,626,000,000, on June 16. Between June 16 and September 8, just prior to the opening of the Third War Loan drive, bill holdings of the weekly reporting member banks showed a net contraction of $2,234,000,000 to $3,570,000,000 as banks, most particularly in New York City, met increased needs for reserves through net sales of Treasury bills to the Federal Reserve Banks. Total Treasury bill holdings of the Federal Reserve Banks increased from $2,460,000,000



Outstanding Treasury Bills, Classified as to Ownership

to $5,852,000,000, or $3,392,000,000 over the June 16-September 8 period. At the same time, banks outside the weekly reporting member bank group and other investors added $433,000,000 net to their holdings, largely reflecting temporary investments in Treasury bills in anticipation of the Third War Loan drive.

Associated with the reduction in bank reserve requirements which occurred during the drive, the weekly reporting member banks enlarged their holdings of Treasury bills by about $1,300,000,000 between September 8 and October 20. These bills were acquired, directly or indirectly, from Federal Reserve Bank holdings to the extent of $663,000,000 and from banks outside the weekly reporting group and other investors to the extent of $638,000,000. The total volume of Treasury bills outstanding has remained unchanged at $13,000,000,000 since September 8.

SECURITY MARKETS

Trading in Government securities diminished in October with the close of the Third War Loan drive and with the reduction in selling by investors to obtain additional funds for investment in new issues offered in the drive. Prices and yields remained firm during the first week of the month, but prices declined slightly in the following week when announcement of allotments to commercial banks was made and trading in the new issues offered during the drive began. All three of the new issues were immediately quoted at fractional premiums on the first day of trading. After the middle of the month, prices of Government securities fluctuated only slightly and showed little net change through the month end. At the close of the month, yields on long term tax-exempt and intermediate taxable bonds were a little higher than at the beginning while other bonds were virtually unchanged. Yields on certificates of indebtedness tended to decline, especially the yields on the shorter maturities which had become out of line with the general structure of short term rates on Government securities during September.

As in the two preceding months, stock trading on the New York Stock Exchange during October was slow and prices moved irregularly. After October 1, stock prices declined for several days, but the major portion of this loss was recovered during the remainder of the month. At the end of October, Standard and Poor's index of 90 combined stocks was about 1 per cent lower than a month earlier.

Activity in the corporate bond market increased during October and bond prices in general advanced, with medium and lower grade railroad bond prices registering the greatest gains. Moody's index of yields on Aaa corporate bonds declined from 2.71 to 2.69 per cent, and the index of yields on Baa bonds from 3.83 to 3.81 per cent. Standard's index of municipal bond yields declined from 1.92 per cent on September 29 to 1.86 per cent on October 20, a record low for the index, and remained at that level on October 27.

RESULTS OF THE THIRD WAR LOAN DRIVE

On October 18, the Treasury announced in a final report that sales in the Third War Loan drive totaled $18,313,000,000 (excluding $630,000,000 to Federal agencies and trust accounts, which were not included in the $15,000,000,000 quota). The amount realized was substantially in excess of sales to nonbanking investors, other than Federal agencies, in either the Second or the First War Loan drive, when receipts from such investors were $13,085,000,000 and $7,591,000,000, respectively.

Individuals and nonfinancial corporations accounted for most of the increase over the previous drive. Particular emphasis had been placed on selling the greatest possible amount to individuals in order to absorb funds which might otherwise be spent for goods and services, and, as the accompanying table indicates, the increase in sales to individuals was proportionately greater than the increases in sales to most other classes of investors and investing institutions. A goal of $5,000,000,000 had been set for sales to individuals*, including $3,000,000,000 of Series E bonds. The over-all goal was exceeded as individuals subscribed a total of $5,377,000,000 as compared with $3,290,000,000 and $1,593,000,000 in the Second and First drives; but sales of Series E bonds fell short of the established goal, although the total amount sold ($2,472,000,000) was considerably greater than in either of the two preceding drives ($1,473,000,000 and $726,000,000). Subscriptions by individuals to the marketable issues of bonds and certificates were higher than the quota established for such securities, with the greatest increase over the previous drive occurring in the 2 per cent bonds. Sales of these bonds to individuals amounted to $1,220,000,000 as against $472,000,000 in the April drive.

Insurance companies and mutual savings banks purchased a total of $4,127,000,000 of securities as compared with $3,603,000,000 in April. For these groups only slight increases in subscriptions were to be expected since their supply of available new investment funds is limited by the comparatively steady growth of premium incomes and savings deposits. These accumulated funds have been supplemented in each of the drives by sales of outstanding securities to commercial banks and others. In the Third drive, as in the Second, the heaviest purchases of the insurance companies were the 2½ per cent bonds. The mutual savings banks, particularly those in this District, concentrated more on the 2 per cent bonds as against an approximately equal distribution between the 2 and 2½ per cent bonds in April.

Allotments to dealers and brokers in the Third drive amounted to $894,000,000. Comparable figures for the April drive are not available, since at that time dealer purchases of securities earmarked for distribution to nonbanking investors were allocated to the appropriate group of investors instead of being included under dealers and brokers. Subscriptions of corporations and other investors (including State and local governments) reached $7,915,000,000 in the recent drive as compared with $5,648,000,000 in April and $2,793,000,000 in December. The bulk of these purchases, as previously, went into certificates and Series C Savings notes, in the amounts of $3,177,000,000 and $2,288,000,000, respectively; in addition, purchases amounting to $1,483,000,000 were made of the 2 per cent bonds.

In order to obtain a complete picture of the results of the drive, allowance should be made for shifts in ownership of outstanding securities from nonbanking investors to the commercial banks shortly before and during each drive. In the November-December period, commercial banks and the Federal Reserve Banks acquired in the market about $1,500,000,000 of Government securities previously held by other investors; and in March-April such purchases amounted to somewhat under $2,000,000,000. During the Third drive commercial banks and the Federal Reserve Banks apparently absorbed roughly $3,500,000,000 of securities sold by nonbanking investors. Even allowing for this factor, however, it is clear that the absorption of Government securities by nonbanking investors was considerably greater in this drive than in either of the previous ones.

Each of the three States, all or part of which are within the Second Federal Reserve District, exceeded their over-all quotas for the Third drive. Net sales credited to New York State amounted to $5,580,000,000, according to the final report released by the Treasury, as compared with an original quota of $4,709,000,000. New Jersey sales amounted to $710,000,000 in comparison with a quota of $585,000,000; and Connecticut sales, to $511,000,000 compared with a quota of $453,000,000. Sales to individuals of $851,000,000 in New York State were slightly in excess of the quota for such sales. New Jersey and Connecticut were slightly under their quotas in this respect, with sales of $167,000,000 and $78,000,000, respectively. Series E bond sales in the three States were substantially higher than during the previous drive; but as in the majority of the other States they fell short of the Treasury goal which for most States called for at least doubling the sales of the April drive. Series E sales of $246,000,000 in New York and $76,000,000 in New Jersey were 50 per cent higher than in April, while Connecticut sales of $42,000,000 were double the previous total.

The accompanying table shows a comparison for the Second Federal Reserve District of sales by type of investor in each of the three drives. Total sales to nonbanking investors, credited to this District, amounted to $6,343,000,000 in the Third War Loan drive as compared with $5,302,000,000 in the Second and $3,815,000,000 in the First. In each of the three drives, purchases by insurance companies, savings banks, and other corporations have bulked particularly large in the District totals. Third drive purchases by insurance companies

* Partnerships and personal trust accounts are included with individuals.

Comparison of Sales to Nonbanking Investors in the First, Second, and Third War Loan Drives (In millions of dollars)

Type of investor	United States			Second Federal Reserve District		
	Dec., 1942	April, 1943	Sept., 1943	Dec., 1942	April, 1943	Sept., 1943
Individuals, partnerships, and personal trust accounts....	1,593	3,290	5,377	387	737	1,021
Insurance companies.........	1,699	2,408	2,620	1,038	1,426	1,600
Mutual savings banks........	620	1,195	1,508	405	730	895
Dealers and brokers*........	886	544	894	817	439	629
State and local governments..	200	503	795	29	71	116
Corporations and other investors.................	2,593	5,145	7,120	1,138	1,892	2,072
Total nonbanking (excluding Federal agencies)........	7,591	13,085	18,313	3,814	5,295	6,334
Federal agencies............	270	391	630	1	7	9
Total....................	7,860	13,476	18,943	3,815	5,302	6,343

* For the April drive, dealers' allotments earmarked for distribution to nonbanking investors were credited to the appropriate nonbanking investor classes. In the other two drives, no such redistribution was made.

Note: Figures are rounded and do not necessarily add to totals.

and savings banks were nearly $350,000,000 greater than in April, and other corporations increased their purchases by about the same amount if allowance is made for the fact that dealer purchases of 2½ per cent bonds were allocated to other corporations in the Treasury report in the April drive but not in the September drive. Individuals increased their participation by about $300,000,000, largely in Series E bonds and 2 per cent bonds.

Financing Subsequent to the Drive

On October 6, after the close of the Third War Loan drive, commercial banks were offered about $1,500,000,000 each of ⅞ per cent certificates of indebtedness due October 1, 1944, and 2 per cent Treasury bonds of 1951-53. Both issues were oversubscribed by a wide margin, with subscriptions totaling $5,386,000,000 for the certificates and $5,531,000,000 for the bonds. Subscriptions of $50,000 or less, amounting to $190,000,000 on the certificates and $252,000,000 on the bonds, were allotted in full. Larger subscriptions were allotted on a 26 and 25 per cent basis for certificates and bonds, respectively. The Second District portions amounted to 35 per cent of the $1,579,000,000 allotted on the certificates (compared with 31 per cent of the offering to banks in the April drive), and to 32 per cent of the $1,626,000,000 allotted on the bonds (compared with 27 per cent in April).

Two exchange offerings also were made on October 6. Holders of $1,400,000,000 of 3¼ per cent bonds of 1943-45, called for redemption October 15, were given the option of exchanging for either 2 per cent bonds of 1951-53 or 2½ per cent bonds of 1964-69, except that the latter option was not available to commercial banks. A total of $1,128,000,000 was exchanged for the 2 per cent bonds and an additional $58,000,000 for the 2½ per cent bonds. The other exchange offering provided holders of $2,035,000,000 certificates maturing November 1 with the option of exchanging for the new certificates maturing October 1, 1944. Adjustment of interest was made for the overlap of coupons on the two issues. The total exchanged amounted to $1,936,000,000.

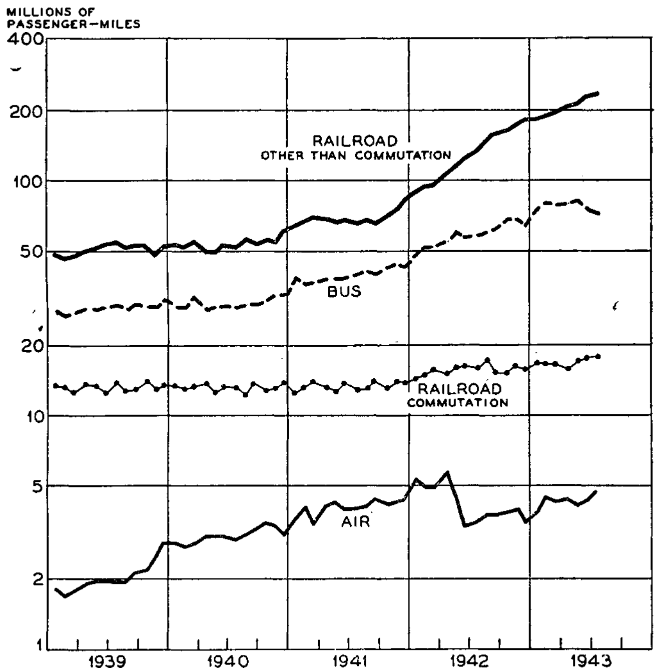
TRANSPORTATION

Since the outbreak of war in 1939, and particularly since the entry of the United States in 1941, the commercial transportation system of this country has carried an increasingly heavy volume of traffic. From the summer of 1939 to the middle of this year, total commodity and passenger traffic (measured by the Department of Commerce's adjusted index) more than doubled, with 60 per cent of the rise occurring after December, 1941. Distribution of the enlarged output of industrial products, shipment of supplies to the armed forces, troop movements, and curtailment of private transportation facilities have contributed to the increased business of commercial carriers.

Commodity transportation at mid-1943 was about 100 per cent above that four years earlier. By far the largest increases have been shown by the railroads and the airlines, although shipments of commodities by motor trucks, and oil and gas pipe-line traffic, also have risen substantially. Water-borne traffic has dropped sharply, reflecting primarily the curtailment of coastwise shipping. The volume of freight carried by the railroads in 1942 is estimated to have constituted 68 per cent of total ton-miles of freight moved, compared with 62 per cent in 1939.

The growth of passenger traffic has been even more striking than the expansion in freight volume. After increasing rather gradually from 1939 through the first half of 1941, the volume of passenger transportation on commercial carriers has risen sharply in the past two years and is currently two and one-half times its 1939 volume. The chief factor in this development has been the shift of passenger traffic from private automobiles, which in 1939 are estimated to have carried 85 per cent of all passenger traffic; but military travel, and increases in civilian travel, arising from a variety of factors, also have contributed substantially to the larger volume.

The accompanying chart shows clearly that the burden of the added passenger travel, like the enlarged freight volume, has fallen heavily upon the railroads. Railroad travel other than commutation averaged about 50 to 55 million passenger miles per day in 1939 and 1940. By the spring of 1942 the daily average (after seasonal adjustment) had reached 100 million passenger miles, and at the middle of this year it was approaching 240 million miles—four and a half times the level of 1939 and about twice that of 1920, the preceding peak year. Commutation travel on the railroads has risen by a considerably smaller amount than the "long haul" traffic handled by the commercial transportation system. The greater need for daily transportation has been met not only by the railroads but also by local transit lines. In 1942 the rise in local bus and railway transportation was extremely sharp. Although some restrictions were placed on lines in certain cities during the first half of the current year because of the need of conserving essential materials, local transit transportation did not



Daily Average Number of Passengers Carried One Mile by Railroad, Air, and Intercity Bus Lines, Adjusted for Seasonal Variation (Railroad and airline series are those of the Federal Reserve Bank of New York; bus lines data have been estimated from Department of Commerce seasonally adjusted index of intercity motor bus transportation. Plotted on ratio scale to show proportionate changes.)

fall below that in late 1942, and in recent months further increases have occurred.

During the past three years passenger travel on intercity bus lines has risen fairly steadily, despite some curtailment of facilities due to the shortages of gasoline and rubber since 1941. The rise in airline travel was halted suddenly in May, 1942 when the Government inaugurated a priority system covering airline traffic, reduced the number of flights, and diverted planes to other uses. While a sharp contraction in airline passenger travel then occurred, some recovery has taken place in the past year but the upward movement has been very irregular.

PRODUCTION, TRADE, AND EMPLOYMENT

September was a month of markedly diverse movements among important manufacturing, mining, and distribution fields. While some industries producing materials of war showed even further gains above the high levels attained earlier this year, other industries evidenced declines.

The seasonally adjusted volume of electric power generated appears to have risen approximately 1 per cent. Other important advances were shown by the steel, petroleum, and cotton textile industries. In the steel industry, several new furnaces were placed in operation, and daily average output reached a new high rate of 249,600 net tons. Crude petroleum production, which in August had been the largest on record, is estimated to have advanced even further in September. An increased rate of activity at cotton textile mills resulted in a fairly sharp rise, above the relatively low levels of July and August, for daily average consumption of cotton. Among those industries in which declines occurred, after allowance for seasonal factors, were chemicals and anthracite mining. The decrease in chemical production reflected labor shortages. In anthracite mining, September is a month in which a moderate rise usually occurs, but this year, output failed to show the customary seasonal advance. The number of airplanes produced in September totaled 7,598 as compared with 7,612 in August, and the number of merchant ships delivered was 160 as compared with 164 in August.

The September record for merchandise distribution, like that for industrial production, presents a mixed picture. Ton-miles of railway freight are estimated to have fallen below the August level. Sales of department stores failed to show the usual seasonal advance, and the adjusted index dropped sharply. Adjusted sales of grocery chains, variety chains, and mail order houses, on the other hand, increased.

The civilian labor force declined from 54,900,000 persons in August to 53,300,000 persons in September, according to reports of the Bureau of the Census; and total civilian employment is estimated to have decreased from 53,900,000 workers to 52,500,000. The declines, which were seasonal and resulted in part from the return of students to schools and colleges, were considerably smaller than in the corresponding period last year. Many students have undoubtedly been retained in industry either on a full-time basis or as part-time employees under the special work-school program inaugurated this year in various sections of the country. The estimated number of unemployed in September (800,000 persons) was the lowest on record.

	1942	1943		
	Sept.	July	Aug.	Sept.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	120	126	126p	125p
Production	129	132	133p	133p
Producers' goods—total	163	165	166p	166p
Producers' durable goods	195	194	195p	195p
Producers' nondurable goods	126	132	133p	134p
Consumers' goods—total	87	88	88p	87p
Consumers' durable goods	36	27	26p	25p
Consumers' nondurable goods	103	108	109p	108p
Durable goods—total	148	145	145p	145p
Nondurable goods—total	113	118	119p	119p
Primary distribution	134	163	161p	158p
Distribution to consumer	89	85	84p	82p
Miscellaneous services	134	175	176p	174p
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	118	124	123	124p
Wage Rates (100 = 1926 average)	143	153	154p	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	69	68	68	88
Outside New York City	85	76	77	94

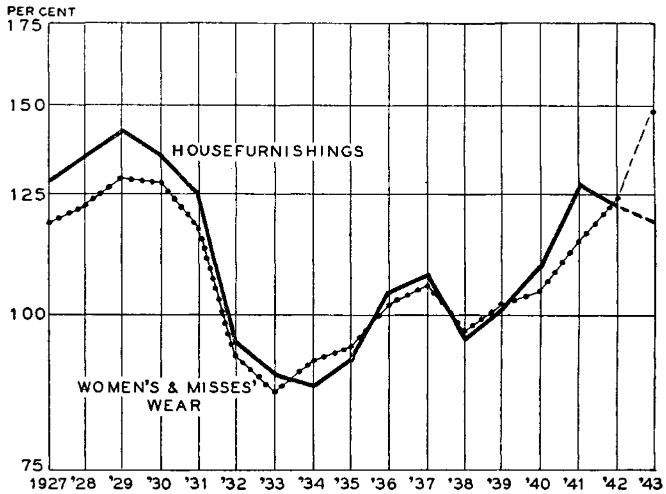
p Preliminary. * Adjusted for seasonal variation.

DEPARTMENT STORE TRADE

Sales of reporting department stores in this District increased between September and October by more than the usual seasonal amount and the adjusted index rose to approximately the August level. During the first three weeks of October, department store sales were 10 per cent greater than in the corresponding 1942 period; and apparel store sales in New York City advanced 30 per cent.

Thus far this year, sales of department stores in this District have been running 7 per cent above those in the first ten months of 1942, and 35 per cent above those in 1939, the year in which the war began in Europe. Increases since 1939 have varied widely for the five major cities in the District: Buffalo, 70 per cent; Syracuse, 60 per cent; Rochester, 41 per cent; New York, 31 per cent; and Newark, 25 per cent. Among the various Federal Reserve Districts, sales this year in the San Francisco, Dallas, and Atlanta Districts have been approximately twice those in 1939, sales in the Richmond and Kansas City Districts have risen about 80 per cent, and those in St. Louis more than 70 per cent. The increase for the New York District is the smallest of any of the 12 Districts.

Changes in sales over the war period have reflected not only price advances but also consumer demand and the types of merchandise available for purchase. During 1940 and 1941 the increase in total sales in this District was accounted for primarily by the sharp gain in housefurnishings, whereas the 1942 and 1943 increases have been due to the high level of sales of women's and misses' wear. As indicated on the accompanying chart, housefurnishings sold in department stores in 1941 were 26 per cent above the 1939 level, while in 1943 (based on data for the first eight months, February-September, of the store year) they dropped 7 per cent below the 1941 figure and were only 17 per cent above sales in 1939. Sales of women's and misses' wear, after increasing 11 per cent from 1939 to 1941, have risen further in the past two years; sales for 1943 are estimated as 45 per cent above 1939 and 30 per cent above 1941. In past years housefurnishings and women's and misses' wear together have accounted for approximately 60 per cent of all department store sales in the District. During 1927-41 women's and misses' wear represented about 35 per cent of total sales, and housefurnishings, 25 per cent. In 1943, however, the proportion of women's and misses' wear has risen to 40 per cent, whereas the proportion for housefurnishings has fallen to 20 per cent.



Indexes of Sales of Women's and Misses' Wear and of Housefurnishings in Department Stores in Second Federal Reserve District (1935-39=100. Figures cover twelve months ending January, except those for 1943 which are based on the eight months, February-September. Plotted on ratio scale to show proportionate changes.)

Although stocks of reporting department stores in this District have risen month by month since last April, they were still, at the close of September, 20 per cent below those of a year earlier. Stocks of apparel stores, on the other hand, were 6 per cent higher than on September 30, 1942. As compared with September 30, 1939 department store stocks showed a net increase of 58 per cent, and apparel store stocks 67 per cent, at retail values. At the September, 1943 rate of sales, stocks for both department and apparel stores represented approximately 3½ months' supply.

Outstanding orders on September 30 for merchandise purchased by department stores in this District but not yet delivered to them, although slightly lower than at the close of August, were still about 2½ times as large as on September 30, 1942. Outstanding orders plus stocks on hand increased 13 per cent during the twelve months' period.

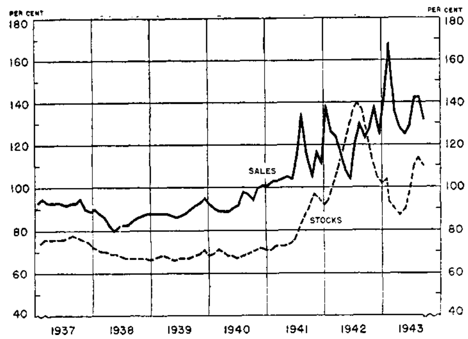
Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales: Sept., 1943	Net sales: Jan. through Sept., 1943	Stocks on hand Sept. 30, 1943
Department stores, Second District	+ 5	+ 6	—20
New York City	+ 6	+ 7	—23
Northern New Jersey	0	— 2	—24
Newark	— 1	— 1	—26
Westchester and Fairfield Counties	— 2	— 2	—14
Bridgeport	— 9	— 5	—19
Lower Hudson River Valley	+14	+ 5	— 1
Poughkeepsie	+18	+ 7	—
Upper Hudson River Valley	+ 1	— 1	0
Albany	+ 5	— 5	—
Schenectady	— 1	+ 5	+ 4
Central New York State	+ 7	+11	— 6
Mohawk River Valley	+ 7	+13	—14
Utica	+11	+12	—
Syracuse	+ 7	+10	— 1
Northern New York State	— 2	+ 4	—
Southern New York State	+ 9	+11	+ 6
Binghamton	+18	+16	—
Elmira	— 4	— 2	—
Western New York State	+ 8	+11	— 9
Buffalo	+12	+13	— 5
Niagara Falls	+16	+30	— 4
Rochester	+ 2	+ 7	—16
Apparel stores (chiefly New York City)	+21	+21	+ 6

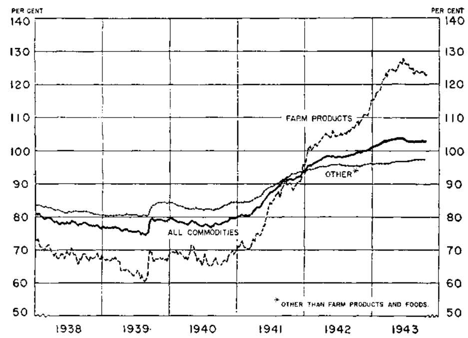
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

Item	1942 Sept.	1943 July	1943 Aug.	1943 Sept.
Sales (average daily), unadjusted	120	91	95	127
Sales (average daily), seasonally adjusted	112	128	126	118
Stocks, unadjusted	164r	106	123	128
Stocks, seasonally adjusted	159r	117	127	123

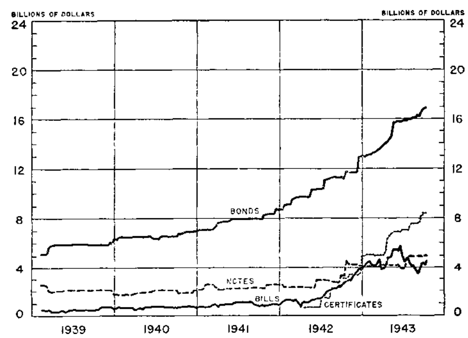
r Revised.



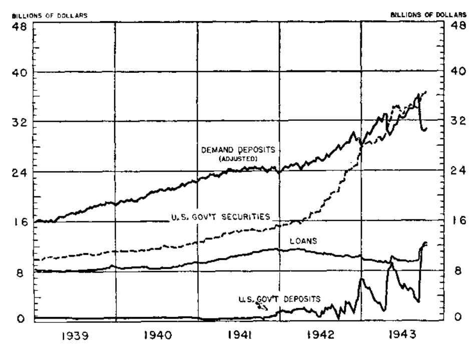
Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for October 16)



U. S. Government Security Holdings of Weekly Reporting Member Banks in 101 Leading Cities, Excluding Guaranteed Issues (Latest figures are for October 13)



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 October 13)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity showed little change in September and in the first half of October. Distribution of commodities continued in large volume and prices remained steady.

Industrial Production

Physical volume of industrial production as measured by the Board's seasonally adjusted index, as recently revised, was 243 per cent of the 1935-39 average in September, compared with 242 in August and 239 in July.

There were increases in output in the iron and steel and transportation equipment industries while activity in other durable goods industries showed little change or declined slightly. Open hearth and Bessemer steel production exceeded its previous peak level, reached in March of this year, and output of pig iron likewise established a new record. In the machinery industry as a whole activity was maintained at the level of recent months although there was some further curtailment of output of machine tools and machine tool accessories.

Total output of nondurable manufactures continued at the August level. Cotton consumption, which had been declining since May, rose 6 per cent from August to September, but was 9 per cent below the high level of a year ago. Shoe production was maintained at the level of recent months and was slightly larger than a year ago. The output of manufactured food products rose seasonally.

Petroleum refining continued to rise in September and was at a rate about double the 1935-39 average. The Board's index of this industry is substantially higher than the old index because greater weight is given to aviation gasoline and other special war products. Output in the chemical industry as a whole declined in August, as some further expansion in industrial chemicals was more than offset in the total by reductions elsewhere, reflecting readjustment of the war program. Newsprint consumption rose less than is usual at this season, in the face of increasing supply difficulties, and a further 5 per cent cut in permitted consumption of newsprint was ordered, beginning October 1.

Crude petroleum production continued to rise in September, reflecting further improvement of transportation facilities for petroleum products. Output of crude petroleum in August and September exceeded the earlier peak levels reached in December, 1941 and January, 1942. Coal production continued at a high level.

In September the value of construction contracts awarded in 37 Eastern States was at about the same low level as in July, according to reports of the F. W. Dodge Corporation, and was considerably smaller than in August when there was a temporary increase because one exceptionally large contract was placed in that month.

Distribution

Department store sales increased less than seasonally in September, following an unusually large volume of sales in July and August, and the Board's seasonally adjusted index declined from 142 to 132. During the first half of October sales showed a gain over September although usually there is some decline at this season.

Railroad freight traffic in September and the first part of October was maintained at the high level of previous months. Coal shipments exceeded the record movement of last July and loadings of grain and livestock were 10 per cent higher than a year ago.

Commodity Prices

Prices of grains advanced from the middle of September to the middle of October. Livestock prices were slightly lower, reflecting partly the establishment of Federal maximum prices for live hogs and sharply increased marketings of cattle. Wholesale prices of most other commodities continued to show little change.

Agriculture

Crop prospects showed little change during September, according to official reports. There was a further small improvement in prospects for the corn and potato crops, while the previous forecast for cotton production was lowered slightly. Aggregate crop production is expected to be 7 per cent below the peak volume of last season but higher than in any other previous year.

Bank Credit

During the five weeks ended October 13, Government security holdings at reporting banks in 101 leadings cities increased by about 2.5 billion dollars reflecting substantial open market purchases during the Drive, and also, some purchases of bills on subscription from the Treasury. Loans showed a net increase of 2.2 billion dollars over the same period. Over two thirds of the total amount represented loans to brokers, dealers, and customers for purchasing or carrying securities; in the last week of the period there were some declines, however, as repayments were made on the liquidation of the securities. Commercial loans, which have been increasing steadily since June, rose further by 540 million over the five weeks.

Holdings of Government securities by the Federal Reserve System showed little change from the end of September to the third statement date of October, but there were some shifts among the kinds of securities held. Treasury bills held under option declined by 200 million dollars between September 30 and October 20, while holdings of certificates of indebtedness and of Treasury bills outside of the option accounts increased by about 200 million. Total holdings of United States Government securities by the Reserve System on October 20 were 8.9 billion dollars.