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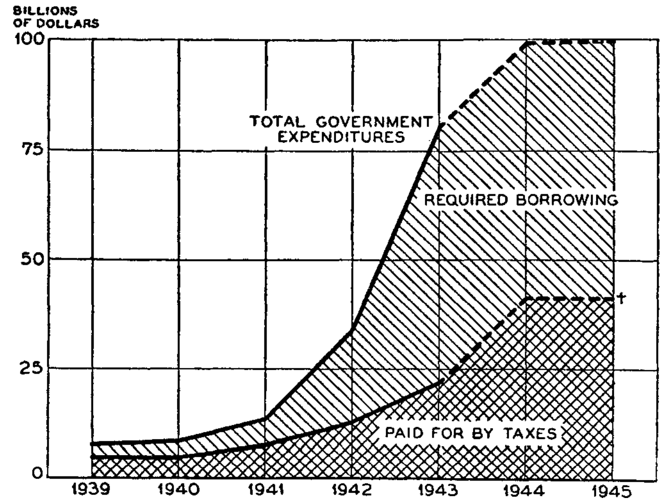
The Federal Budget and the Fourth War Loan

The Federal budget estimates for the next fiscal year (July 1, 1944-June 30, 1945) provide a measure of the war financing job to be done in coming months. War expenditures, the dynamic and dominant element in the Federal budget, had evidenced, during the second half of 1943, a tendency to flatten out, at a general level approaching $7,500,000,000 a month. That expenditure level has been projected into the estimates for the next fiscal year. It reflects the prospect of continued large-scale military operations, permitting changes of kind and composition of expenditures rather than aggregate size. In the preparation of the budget estimates no attempt was made to forecast when military operations might come to an end in Europe or in Asia. The unpredictable fortunes of war will determine when reductions in war expenditures can begin.

Federal Government Receipts, Expenditures, and Borrowing*



* Compiled from *Daily Statement of the United States Treasury* and President's Budget Message of January 13, 1944. Data are for fiscal years ending June 30; 1944 and 1945 estimated.

† Estimates for fiscal years ending June 30, 1944 and June 30, 1945 do not allow for increases in tax rates.

Meanwhile, military and financial officers of the Government must carry on under the assumption of continuing all-out war on all fronts, and the rank and file of American citizens must carry on under the same assumption, maintaining and wherever possible enlarging the measure of their financial support of the war effort. War expenditures at a peak level, and their corollary (under existing tax rates) of monthly deficits approaching $5,000,000,000 afford no ground for relaxation of efforts by individuals and other nonbank investors to buy and to hold War bonds in the largest possible amounts.

The purchase of War bonds serves a number of ends, of reciprocal advantage to citizen and country. It fulfills a major "home-front" duty of achieving and demonstrating unity in support of the Government's financial needs; it retards the competition of private spending with essential Government war spending; it eases the pressures which private spending exerts against prices and thus helps to protect the purchasing power of the dollar; it provides private resources for use in meeting the problems of postwar adjustments, for spending when civilian goods are again plentiful, and for the "rainy day" of the individual investor.

The Fourth War Loan drive, which opened January 18, presents an opportunity to fulfill a duty of citizenship and to promote private financial well-being. It demands the unstinted support of all.

★ LET'S *All* BACK THE ATTACK ★

FOURTH WAR LOAN DRIVE, JANUARY 18 — FEBRUARY 15

MONEY MARKET IN JANUARY

The money market during the past month showed little of the easing experienced in January of past years, when there was a seasonal return flow of currency to the banks and a flow of funds to the New York money market for investment. A moderate demand for various classes of Government securities did develop in the early part of the month, but tended to dry up as the opening of the Fourth War Loan drive approached. At the same time, offerings of some types of securities—notably Treasury certificates of indebtedness—tended to increase, reflecting the desire of institutional investors to dispose of temporary investments in order to increase their available funds for the purchase of new securities offered in the drive.

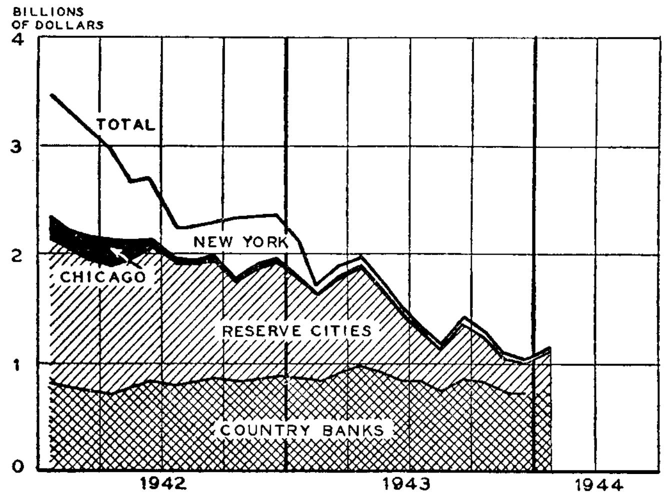
Currency circulation, which in peacetime has almost invariably declined during January, increased slightly further during January of this year. The rise, however, was smaller than that of January 1943, partly, no doubt, as a result of currency payments for War bond purchases during the early stages of the Fourth War Loan drive. Aside from the increase in currency circulation, member banks lost reserve funds to the extent of approximately $325,000,000 through post-Christmas contraction in outstanding Federal Reserve "float" and about $160,000,000 through foreign account operations (transfers of gold to foreign accounts and enlarged foreign central bank and government deposits on the books of the Federal Reserve Banks). At the same time, reserve requirements showed a rise of roughly $175,000,000, associated with expansion in the level of private funds on deposit with the member banks.

The losses of reserve balances and enlarged requirements were roughly offset by a reduction in Treasury deposits with the Federal Reserve Banks (from $764,000,000 December 29 and $961,000,000 January 5 to $351,000,000 January 26) and net purchases of Government securities by the Federal Reserve Banks.

As a result, excess reserves of all member banks maintained an average level of about $1,100,000,000 during January, closely corresponding to the average level prevailing toward the end of December but somewhat above the holdings of November and December. The central reserve city banks of New York and Chicago continued to keep their funds fully employed and were practically without excess reserves. Presumably the distribution of the excess reserves in January was similar to that prevailing in the immediately preceding months—seven to eight hundred million held by "country" banks and the remainder by banks in the reserve city classification.

Reflecting the needs of individual member banks for additional reserves and the character of offerings in the Government security market, the securities purchased by the Reserve Banks were chiefly Treasury bills and certificates of indebtedness. During the four weeks ended January 26 Federal Reserve Banks' holdings of Treasury bills increased $128,000,000 and certificates of indebtedness $270,000,000. Transactions in other classes of Government securities by the Reserve Banks were limited and holdings showed little change. Member bank borrowings from the Reserve Banks contracted from $101,000,000 on December 29 to $24,000,000 on January 26.

Distribution of Excess Reserves of Member Banks*



* Monthly averages of daily figures. Data for January 1944 partly estimated.

The central reserve city banks of New York gained reserve funds to the extent of about $360,000,000 through Treasury operations during the four weeks ended January 26, as a result principally of the drawing down of Treasury deposits with the Reserve Banks and the related slackening of withdrawals from War Loan deposit accounts. This gain of funds provided an offset to enlarged required reserves and loss of reserve balances through gold and foreign account operations. There was an outflow of commercial and financial funds from New York during the month, probably associated with the accumulating of funds in other centers by nonbanking investors for payments upon subscriptions for securities to be purchased in the Fourth War Loan, but the outflow was much smaller than that occurring during the corresponding period of the Third War Loan. The Treasury Department has requested

Changes in Holdings of U. S. Government Securities by Federal Reserve Banks, Direct and Guaranteed (In millions of dollars)

Week ended	Treasury bills	Certificates of indebtedness	Treasury notes	Bonds	Total
1943					
Dec. 1	+ 2	+ 66	+ 12	+ 3	+ 83
Dec. 8	+375	+176	+ 5	+ 13	+569
Dec. 15	− 73	+101	− 34	+ 4	− 2
Dec. 22	+426	+ 87	0	+ 25	+538
Dec. 29	− 81	+134	0	+ 10	+ 63
1944					
Jan. 5	− 43	+ 70	+ 1	+ 8	+ 36
Jan. 12	+165	+ 37	0	+ 2	+204
Jan. 19	− 8	+ 64	0	+ 2	+ 58
Jan. 26	+ 14	+ 98	0	+ 1	+113

that subscriptions to securities being offered in the drive be entered and paid for through the banking institutions where the funds of the subscribers are located, in order to avoid unnecessary shifts of deposit balances from one part of the country or from one institution to another.

In an effort to avoid padding of subscriptions to the Fourth War Loan drive with speculative, bank financed purchases, the Secretary of the Treasury early in January addressed a letter to banks throughout the country stating that loans to finance speculative subscriptions are not consistent with the Treasury's policy and program. Shortly afterward the President of this bank (and the Presidents of the other Federal Reserve Banks) addressed letters to security dealers and brokers requesting them to limit the amount of their subscriptions, in the drive, to the amount of securities that they would be able to retail to customers, other than commercial banks, for investment after the drive has closed, plus the amount required for the investment of their own funds to the extent these are, and are expected to continue to be, idle. At the same time, the public has been asked to refrain from entering subscriptions if subsequent prompt sale of the securities is intended.

Discouragement of speculative subscriptions, which were a growing element in the first three War Loan drives and introduced a fictitious element into the record of sales to nonbank subscribers, naturally will have the effect of reducing the volume of securities sold in the Fourth drive below the volume that would otherwise have been reached. It is, however, in terms of the amount of securities purchased by individuals and other nonbanking investors and retained by them, that the real success of the Fourth War Loan drive will be measured.

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

Week ended	Treasury bills	Certificates of indebtedness	Treasury notes	Bonds	Guaranteed obligations	Total
			New York City			
1943						
Dec. 1	+112	− 28	− 4	− 6	− 15	+ 59
Dec. 8	−157	− 28	0	− 28	− 20	−233
Dec. 15	+ 3	− 73	− 56	− 10	+ 12	−124
Dec. 22	−121	− 77	− 19	+ 12	+ 6	−199
Dec. 29	+ 63	− 8	− 6	+ 21	+ 2	+ 72
1944						
Jan. 5	− 65	+ 16	+ 10	+ 49	− 8	+ 2
Jan. 12	−159	+ 33	− 20	− 25	− 4	−175
Jan. 19	+ 83	+ 39	− 23	+ 60	+ 40	+199
Jan. 26	−231	+ 56	− 8	+ 68	+ 11	−104
			100 Other Cities			
1943						
Dec. 1	−103	+ 10	− 5	+ 2	+ 1	− 95
Dec. 8	−207	− 79	− 26	+ 26	+ 1	−285
Dec. 15	+ 58	− 28	− 35	+ 40	− 12	+ 23
Dec. 22	−296	− 36	− 14	− 3	− 5	−354
Dec. 29	− 23	− 86	− 7	− 14	− 2	−132
1944						
Jan. 5	+ 6	− 96	− 13	+ 26	− 1	− 78
Jan. 12	+ 70	+ 74	− 5	+ 52	− 5	+186
Jan. 19	− 19	+ 43	+ 9	+ 71	+ 5	+109
Jan. 26	+166	+ 80	− 6	+105	− 8	+337

MEMBER BANK CREDIT

The contraction, since the latter part of October 1943, in loans and investments of the weekly reporting member banks in 101 leading cities was interrupted during the statement week ended January 12, 1944. In the following week, total earning assets of the banks rose sharply, as member banks made net additions to their holdings of Government securities, partly by purchasing securities offered by nonbanking investors seeking to enlarge their capacity to purchase new issues during the Fourth War Loan drive.

During the four weeks ended January 19, the weekly reporting member banks in New York City showed a net increase of 98 million dollars in their holdings of Government securities. These banks were net purchasers of certificates of indebtedness, Treasury bonds, and a small amount of guaranteed obligations; Treasury bill and note portfolios were reduced moderately. Outside New York the reporting banks in 100 cities increased their holdings of Government securities by 85 million dollars. Their net purchases, however, were limited to bonds and a small amount of bills; they were net sellers of other types of securities.

Over the same period, December 22, 1943 to January 19, 1944, total loans of the reporting banks declined 234 million dollars chiefly as a result of contraction in the commercial, industrial, and agricultural loan and in the "all other" loan (including consumer credit) classifications. In New York City, loans to banks were reduced 50 million dollars. Part of these declines, however, were offset by increases in loans for purchasing or carrying securities, apparently in anticipation of the Fourth War Loan drive. Most of the increase in this category in New York City represented a rise in loans to dealers, while outside New York loans to others were the principal factor.

Although adjusted demand deposits (primarily deposits of individuals and business concerns) rose 677 million dollars further between December 22 and January 19, in neither New York City nor the 100 other cities did such deposits re-attain the level of September 8, just prior to the Third War Loan drive. However, Government deposits with the reporting banks, although drawn down more than 7 billion dollars since the peak of October 20, still amounted to over 6 billion on January 19, at the opening of the Fourth War Loan drive, compared with 2.8 billion before the Third drive.

SECURITY MARKETS

During January, activity in the Government security market reflected for the most part the adjustment of investment positions by nonbanking groups, in preparation for the Fourth War Loan drive, and adjustments of investment and reserve positions by banks. Nonbanking investors sold Treasury bonds and certificates of indebtedness, as a means of increasing their capacities to purchase securities being offered in the Fourth War Loan drive, but apparently added moderately to their portfolios of Treasury notes. Securities sold by nonbank investors were absorbed by commercial banks and dealers, and to some extent by the Federal Reserve Banks. On the other hand, the Federal Reserve Banks purchased certificates from some banks experiencing losses of reserve funds. The bulk of the trading in bonds was in tax-exempt issues and in taxable issues eligible for bank holding, and yields on these securities displayed a tendency to decline as the month progressed. Certificates of indebtedness, particularly those sold in the previous drives, were in supply but there was an active demand for the certificates maturing February 1. Holders of these certificates on January 24 were offered the opportunity to exchange them for 0.90 per cent 13 months' Treasury notes. At the close of the month the new notes were quoted on a yield basis of 0.85 per cent bid, when issued.

The volume of trading in the corporate bond market during January rose to the highest level since early last spring. Except for high grade industrial and utility bonds, bond prices in general advanced during the month. Railroad bonds, particularly the medium and lower grade issues, showed the most pronounced gains. Moody's index of yields on the Baa bonds declined from 3.80 per cent at the end of December to 3.74 per cent at the end of January, a record low for the index. Moody's index of Aaa bond yields stood at 2.74 per cent toward the end of the month, showing little net change since December 31. Standard and Poor's index of municipal bond yields continued to decline, and on January 26 was at 1.88 per cent, about the same level as mid-November.

Share prices, as measured by Standard and Poor's index of 90 combined stocks, rose approximately 1 per cent during January. While prices of railroad issues increased about 6 per cent, the gain of the combined index was modified by the industrial and utility groups, which showed only small net changes.

FEDERAL BUDGET ESTIMATES FOR FISCAL YEAR 1945

On January 13 the President sent to Congress a budget for the fiscal year 1944-1945 which anticipates total expenditures (including net outlays of Government corporations other than for debt retirement) of 100 billion dollars—about ½ billion more than the revised estimates for the current fiscal year ending June 30, 1944. Net receipts (without allowance for new tax legislation) are estimated at 41 billion, slightly less than estimates for the current fiscal year; thus an indicated deficit of 59 billion is left to be met by borrowing. Somewhat more than 1 billion additional will have to be borrowed to redeem guaranteed debt obligations, so that the estimated rise in the direct public debt totals 60 billion dollars—from 198 billion on June 30, 1944 to 258 billion on June 30, 1945.

Expenditures

War expenditures, of course, continue to dominate the budget picture. On the assumption that the war will continue through June 30, 1945, such expenditures are tentatively estimated at 90 billion dollars (including net war outlays of Government corporations) in the fiscal year 1945, compared with a revised estimate of 92 billion for the current fiscal year. In order to achieve the estimate for the current year, war expenditures during January-June 1944 will have to reach an average annual rate of 97 billion dollars. (The average annual rate during July-December 1943 was about 87 billion.) From the inception of the defense program in July 1940 through December 1943, war expenditures totaled 153 billion dollars. If the budget estimates are realized, these cumulative expenditures will rise to 202 billion by the end of June 1944 and to 292 billion by June 30, 1945.

In his budget message, the President included the following table showing the rate of war expenditures in different periods and the percentage distribution of the total between (1) munitions, (2) pay, subsistence, agricultural lend-lease, and other civilian war activities, and (3) war construction. War construction has been of declining importance in the total since 1942, although the average annual rate of expenditure (10.9 billion) in the November 1942-December 1943 period was slightly higher than in December 1941-October 1942. Munitions expenditures, on the other hand, have continued to increase both absolutely and relative to the total, and are expected to reach a peak in the first half of 1944 with an average annual rate estimated at 62 billion dollars. Pay, subsistence, and other war expenditures also have increased in absolute amount and in proportion to the total.

Expenditures other than those specifically classified for war purposes are estimated at 9.8 billion dollars for the fiscal year 1945, an increase of 2.5 billion over the estimate for the current fiscal year. Interest on the public debt, estimated at 3.75 billion dollars in the 1945 budget, accounts for 1.1 billion of the increase over the preceding year. Refunds of taxes in the amount of 1.8 billion are the other important factor, being 1.4 billion higher than the estimate for the current fiscal year.

War Expenditures
(Including net outlays of Government corporations)

Period	Average annual rate (In billions of dollars)	Estimated per cent of total		
		Munitions, including ships	Pay, subsistence*	War construction
Preparedness: July 1940-November 1941	9.8	50	30	20
Defensive war: December 1941-October 1942	45.7	56	22	22
Aggressive deployment: November 1942-December 1943	83.5	59	28	13
Offensive war: January 1944-June 1944†	97.0	64	30	6
July 1944-June 1945 (fiscal year 1945)	90.0	63	33	4

*Including also agricultural lend-lease and other civilian war activities.
†On basis of 92 billion dollars for fiscal year 1944.

Summary of the Federal Budget, 1943-45
(In millions of dollars)

Classification	Fiscal years ending June 30		
	1943 Actual	1944 Est.	1945 Est.
Receipts			
Direct taxes on individuals	6,952	19,423	18,113
Direct taxes on corporations	9,916	14,137	15,404
Employment taxes	1,508	1,882	3,182
Excise taxes and customs	4,101	4,694	4,690
Miscellaneous receipts	907	2,443	2,037
Total receipts	23,385	42,578	43,425
Less transfer to old age trust fund	1,103	1,392	2,656
Net receipts	22,282	41,186	40,769
Expenditures			
Regular budget			
War	72,109	88,500	88,200
Interest on public debt	1,808	2,650	3,750
Veterans' pensions and benefits	600	865	1,252
Refunds	79	411	1,799
Other	3,583	3,525	2,953
Total	78,179	95,951	97,954
Government corporations (net expenditures)			
War	2,976	3,500	1,800
Other (excluding debt retirement)	−1,476	− 175	15
Total	1,500	3,325	1,815
Total expenditures	79,679	99,276	99,769
Excess of expenditures	57,397	58,090	59,000
Trust account net expenditures	− 333	− 2	− 47
Retirement of Government corporation debt	694	2,770	1,346
Increase in Treasury balance	6,515	46	101
Net increase in public debt	64,274	60,904	60,400
Net borrowing from the public	60,564	54,227	52,694

Receipts from Taxation and Borrowing

Net receipts from taxation and miscellaneous sources are estimated, on the basis of existing legislation, at 41 billion dollars for fiscal 1945. This figure is slightly below the revised estimate for the current fiscal year, primarily because the transition to the pay-as-you-go system resulted in a temporary bulge in receipts during July-December 1943.

The estimated excess of expenditures over receipts in fiscal 1945 is about the same as the revised estimate of 58.1 billion dollars for fiscal 1944 and an actual total of 57.4 billion in fiscal 1943. In addition to financing the deficit, the Treasury will have to borrow an estimated 1.3 billion dollars in fiscal 1945 for the retirement of Government corporation debt, in contrast to an estimated 2.8 billion in fiscal 1944 and an actual 0.7 billion in fiscal 1943. No significant change is assumed over the two fiscal years 1944 and 1945 in the 9.5 billion Treasury general fund balance held on June 30, 1943. In fiscal 1943, the Treasury borrowed additional funds to build up its balances by 6.5 billion dollars.

From the viewpoint of the magnitude of Treasury financing operations and the absorption of Government securities by banks and nonbanking investors, a more significant measure than the increase in the public debt is the amount of net borrowing from the public. The latter figure is obtained by deducting from the increase in public debt the retirement of Government corporation debt, borrowing from Federal trust funds and agencies, and noncash accruals of liabilities for future payments on public debt account (such as accrued interest on Savings bonds and issuance of postwar excess profits tax refund bonds). In the budget derivation of net public borrowing, adjustment is also made to include refundable corporation excess profits tax payments as public borrowing rather than as tax receipts. After these adjustments, net public borrowing is estimated at 52.7 billion dollars for fiscal 1945, compared with 54.2 billion in fiscal 1944.

The amount of this borrowing which will have to be obtained through the banking system will depend, of course, on the net absorption of Government securities by individuals, corporations, and institutional investors. During the calendar year 1943, net takings by nonbanking investors (excluding Federal agencies and trust funds) amounted to about 28 billion dollars. This total consisted of 9.0 billion dollars of Series E War Savings bonds, 3.3 billion of Series F and G bonds, 2.2 billion of Tax and Savings notes, about 5.3 billion taken by insurance companies and savings banks, and about 8.2 billion of market issues taken by individuals, corporations, etc. Unless this net absorption by nonbanking investors is increased substantially, the banking system will still be called upon to furnish between 20 and 25 billion annually if the deficit is of the magnitude indicated by the budget estimates.

CONSTRUCTION

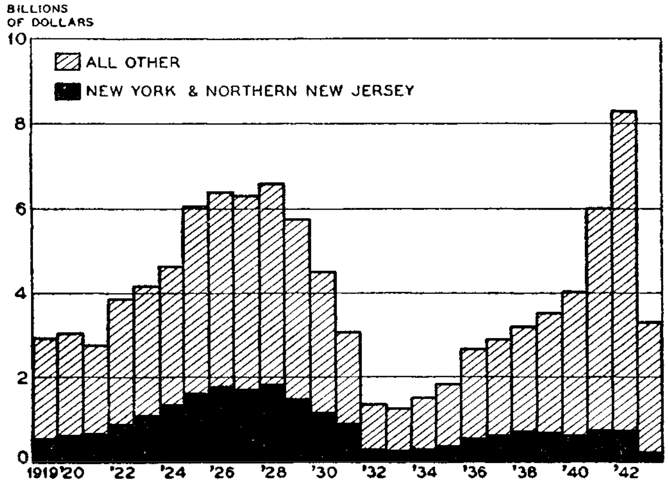
The volume of construction in the United States, after an unprecedented increase in 1942, declined sharply in 1943, as the peak in construction for war purposes was passed and as restrictions were continued in force on nonessential civilian building. The value of construction contracts awarded in 37 Eastern States, according to reports of the F. W. Dodge Corporation, was 60 per cent below the record figure attained in 1942 and about the same as the average for 1938-39.

The decline last year reflected largely a sharp decrease in the volume of contracts awarded for public construction, which had risen substantially in 1942; although awards for private construction also were less than a year earlier, the decline in dollar value was relatively unimportant, in view of the low level of such awards in 1942. The ratio of private to total awards, however, rose a little—from 13 per cent in 1942 to 18 per cent last year.

Among the various classes of building, the greatest 1943 decrease was shown in awards for nonresidential construction. The bulk of this decline occurred in contracts for manufacturing plants, which dropped 66 per cent below the high level of 1942 when facilities for war purposes were expanded sharply. Both residential awards and contracts for public works and utilities also were well below those of the earlier year.

Contract awards in New York and Northern New Jersey, which had shown only small annual changes for several years, dropped sharply in 1943 to a level lower than in 1932-33, as

Value of Construction Contract Awards in 37 Eastern States and in New York and Northern New Jersey*



* Data of the F. W. Dodge Corporation.

indicated by the accompanying chart. This marked decline reflected decreases both in Upstate New York and in Metropolitan New York and Northern New Jersey. For 1942, however, a substantial rise had been reported for Upstate New York, where plant facilities to meet the requirements of war industries were increased; contracts for Metropolitan New York and Northern New Jersey in that year dropped considerably. The share of the entire region in total contracts for the 37 Eastern States declined to about 7 per cent in 1943, compared with 9 per cent for 1942 and about 20 per cent for the decade of the thirties.

PRODUCTION AND TRADE

By the second week of January 1944, the rate of operations at steel mills had recovered from the recession of late December to approximately 99.6 per cent of estimated capacity. This rate was sustained, more or less, during the remainder of the month. Daily average production of bituminous coal in the first half of January was about 2.6 per cent greater than in December. Output of electric power and of crude petroleum, however, remained substantially unchanged, and a slight decline took place in the average number of freight cars loaded during the first half of the month. On the whole, the few indexes that are now available for January indicate a continuation of the narrow fluctuations in general industrial activity which have been characteristic of the past several months.

Production and Trade in December

Total industrial output, after allowance for seasonal changes, was somewhat smaller in December than in November. Steel production declined moderately reflecting partial observance of the Christmas holiday and a brief strike that occurred toward the end of the month. Daily average production of pig iron showed a slight decline for the third consecutive month, and output of nonferrous metals such as copper and zinc (for which

	1942	1943		
	Dec.	Oct.	Nov.	Dec.
*Indexes of Production and Trade** (100 = estimated long term trend)				
Index of Production and Trade	123	125	127*p*	124*p*
Production	136	133	135*p*	133*p*
Producers' goods—total	171	167	166*p*	164*p*
Producers' durable goods	207	195	196*p*	194*p*
Producers' nondurable goods	131	134	132*p*	130*p*
Consumers' goods—total	91	87	91*p*	91*p*
Consumers' durable goods	39	25	25*p*	26*p*
Consumers' nondurable goods	108	107	113*p*	112*p*
Durable goods—total	157	145	146*p*	145*p*
Nondurable goods—total	117	118	121*p*	119*p*
Primary distribution	142	158	149*p*	152*p*
Distribution to consumer	82	85	90*p*	79*p*
Miscellaneous services	147	171	174*p*	174*p*
Cost of Living, Bureau of Labor Statistics (100 = 1935-39 average)	120	124	124	124*p*
Wage Rates (100 = 1926 average)	146	157	157*p*	
*Velocity of Demand Deposits** (100 = 1935-39 average)				
New York City	69	74	70	65
Outside New York City	82	81	76	74

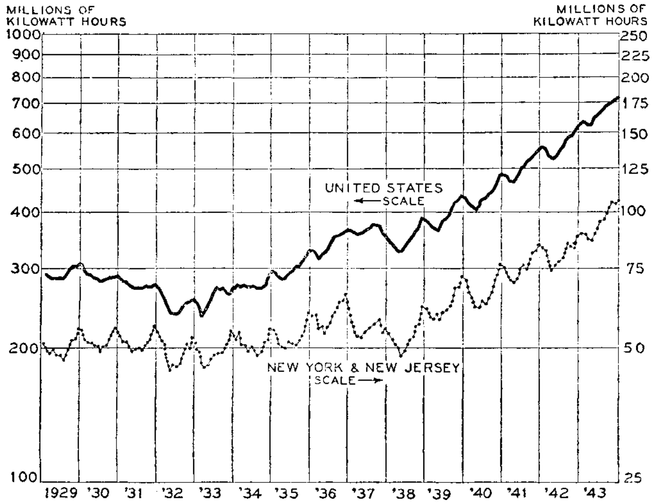
*Adjusted for seasonal variation. *p* Preliminary.

data have recently been made public) remained substantially unchanged, seasonal factors considered. Output of electric power, seasonally adjusted, declined for the first time since March 1942, and preliminary estimates for crude petroleum production indicate a slight recession from the November peak. Several of the nondurable goods industries showed contractions during December. Reduced activity at cotton textile mills resulted in a 7 per cent decline in daily average cotton consumption; and operations in the chemical industry decreased, reflecting cutbacks in Government orders for small arms ammunition. An industry that showed a sizable gain in December was coal mining, which had recovered from the effects of the November strike and was operating under a new wage agreement. The daily average output of bituminous coal increased 19 per cent and that of anthracite approximately 11 per cent.

Suspension of Production and Trade Indexes of the Federal Reserve Bank of New York

With the figures for December, published in the foregoing table, the monthly indexes of production and trade of this bank are being suspended. The indexes stand in need of considerable revision, in the light of the radical shifts that have occurred in the economy during the war period, and it is not possible to undertake the work of revision under existing conditions. Suspension was chosen as an alternative to continuation on a basis that we did not consider satisfactory. We regret the inconvenience caused users of the indexes by this necessary wartime curtailment.

Daily Average Production of Electric Power in the United States and in New York and New Jersey, without Adjustment for Seasonal Variation*



* Based on data from Federal Power Commission, *Production of Electric Energy in the United States*. Plotted on ratio scale to show proportionate changes.

The expansion in retail trade between November and December was less sharp than in most other years. Since gift buying in November was exceptionally active, sales figures for that month were unusually high. Seasonally adjusted indexes showed declines between November and December of 18 per cent for sales of department stores and mail order houses, and 14 per cent for sales of variety chain store systems.

The accompanying chart shows the course of electric power production for the years 1929 to date. Since the beginning of the war, production in the country as a whole has increased rapidly and steadily, primarily because of the greater utilization of electrical power by industry. The chemical industry, the largest user of electric energy in 1943, increased its consumption by an estimated 170 per cent between 1939 and 1943; the nonferrous metals industry by 225 per cent; and the transportation equipment industry by 250 per cent.

Regional differences in the growth of electric power output have been quite marked in the past few years. Areas such as the Tennessee and Columbia River Valleys have attracted industries because of the unused resources of new power immediately available at the start of the war. The most rapid expansion in electric power output, therefore, took place in the East South Central region and in the Pacific States. In New York and New Jersey the rate of growth between 1939 and 1942 lagged behind that of the rest of the country, but estimates for 1943 indicate that output in this area is again keeping pace with that in the country as a whole.

EMPLOYMENT AND PAYROLLS

Employment in the various nonagricultural industries of the country, as estimated by the Bureau of Labor Statistics, showed diverse movements between November and December; the net result was a small increase in the total number employed. In trade an addition of 250,000 persons, due largely to seasonal factors, was reported. Factory employment, on the other hand, declined, reflecting both cutbacks in war production and the general tightness of the labor market. During the past several months, employment in manufacturing industries in general has tended to level off; in fact the only line reported as showing a substantial increase in the number of workers between December 1942 and December 1943 was the munitions industry. The Bureau of Agricultural Economics reports that the number of workers on farms on January 1, 1944 was slightly greater than a year earlier but smaller than on the same date of any other year in the 18-year period for which records are available.

Estimates of the War Manpower Commission indicate that both the civilian labor force and total employment in July 1944 will be a little smaller than in July 1943. Although the munitions industry is expected to gain workers, employment in most other industries is expected to decline. Additional requirements of the Army and Navy over the twelve months are estimated at about 2,000,000 men, not including replacements.

Factory employment in New York State declined in December, according to the State Department of Labor—the first November-December decline in four years. Decreases occurred not only in industries producing consumers' goods, such as food and clothing, but also in war industries, such as munitions, machinery, and steel plants. In the food and apparel industries, seasonal factors were at least partially responsible for the decline; and strikes at steel mills caused a lowering of employment. In addition, the Labor Department reports that illness among workers was considered by many employers as a major factor in reducing the numbers at work. All industrial areas of the State reported decreases with the exception of the Binghamton-Endicott-Johnson City area, where war industries added a few additional workers. This area also was the only one in which payrolls remained approximately the same as in November; for all other regions declines ranging from 2.0 to 5.2 per cent occurred. The decline in factory payrolls for the State as a whole was the first December decrease in six years.

DEPARTMENT STORE TRADE

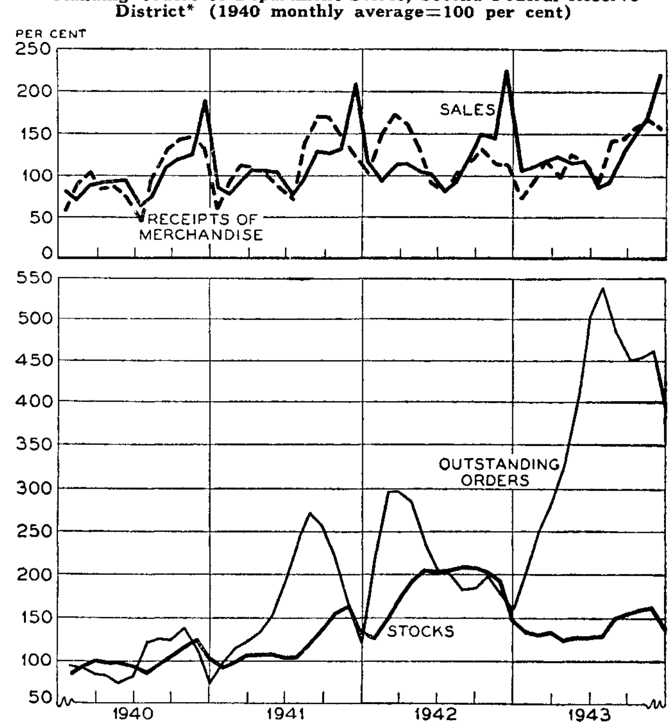
Department store sales in the Second Federal Reserve District during January are estimated to have been about 3 per cent greater than in the corresponding month of 1943. The seasonally adjusted index of sales was approximately 15 per cent above the index for December (which was affected by an unusual amount of early Christmas shopping), only 3 per cent below the high figure of November, and 6 per cent below the all-time peak reached in February last year.

In 1943 department store sales in this District reached the highest total of any year on record. Although receipts of merchandise were in fairly substantial volume, they were less than sales, and stocks at the end of December were somewhat lower than they had been a year earlier. The downward movement in stocks began in the second half of 1942 and continued with practically no interruption through April 1943 (see accompanying chart). As stocks reached a low level during the early months of the year, when sales were exceptionally heavy for that season, outstanding orders increased rapidly. New orders were placed in such large volume throughout the first half of the year that unfilled orders in July were 3½ times as great as in December. Subsequently, merchandise receipts rose fairly sharply, and for most months in the second half of the year they exceeded sales. Stocks increased in this six months' period so that by the year end they were 12 per cent above the level of April; when compared with the peak figure of August 1942, however, they showed a decline of 34 per cent. Although outstanding orders, as the year closed, were considerably smaller than they had been in the summer months, they were 2½ times those at the end of 1942. Trade sources indicate that department stores last year were placing orders from four months to one year ahead of expected deliveries.

Among the various broad departmental groupings, the greatest increase in stocks between the end of 1942 and the end of 1943 occurred in women's and misses' wear. Sales for this group of merchandise rose substantially in 1943, but receipts were in even greater volume than sales, and stocks at the year end exceeded those at the close of 1942 by 16 per cent. Stocks of men's wear, on the other hand, dropped sharply, although sales for the year were about the same as those for 1942. Both sales and stocks of homefurnishings decreased. These three groups together comprise close to three fourths of total department store stocks. At the close of 1943, stocks of women's and misses' wear amounted to about 32 per cent of all stocks, men's wear to 11 per cent, and homefurnishings to 27 per cent; the respective percentages for 1942 were 25, 12, and 33.

During the four years since the outbreak of war, department store stocks and unfilled orders have fluctuated widely. Increases in outstanding orders were particularly marked at the middle of 1941 and in the early months of 1942, as well as in the first part of 1943—periods in which sales of certain classes of merchandise were exceptionally large for those seasons of the year (reflecting either real or anticipated shortages of goods), and receipts failed to keep pace with sales. Likewise, sales in the months that followed these periods of heavy buying were accompanied by receipts in excess of sales, increases in stocks, and declines in unfilled orders.

Indexes of Sales, Receipts of Merchandise, Stocks on Hand, and Outstanding Orders of Department Stores, Second Federal Reserve District* (1940 monthly average=100 per cent)



* Compiled by Federal Reserve Bank of New York from returns from a limited number of stores. For sales and receipts, data pertain to entire month; for stocks and orders, to end of month. The receipts series is derived from sales and changes in stocks, and represents approximately the new merchandise received during each month. The figures presented are not corrected for seasonal changes.

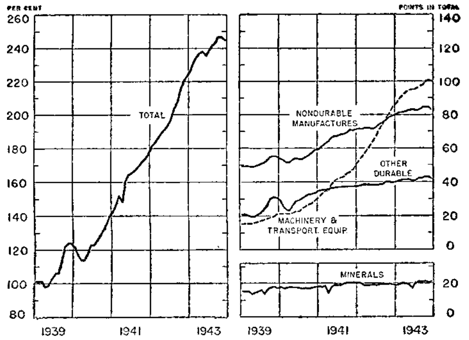
Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand Dec. 31, 1943
	Dec. 1943	Jan through Dec. 1943	
Department stores, Second District...	−1	+6	−7
New York City	0	+7	−6
Northern New Jersey	−8	−2	−15
Newark	−9	−2	−16
Westchester and Fairfield Counties	−7	−3	0
Bridgeport	−10	−6	−7
Lower Hudson River Valley	+3	+7	−2
Poughkeepsie	+7	+9	—
Upper Hudson River Valley	−4	−1	−4
Albany	−2	−4	—
Schenectady	−4	+2	+2
Central New York State	+3	+11	+1
Mohawk River Valley	+3	+11	−15
Utica	+7	+13	—
Syracuse	+3	+11	+10
Northern New York State	+1	+3	—
Southern New York State	+2	+9	−2
Binghamton	+4	+14	—
Elmira	−5	−2	—
Western New York State	+4	+9	−3
Buffalo	+7	+11	−2
Niagara Falls	+5	+24	+3
Rochester	0	+6	−5
Apparel stores (chiefly New York City)	+13	+20	+14

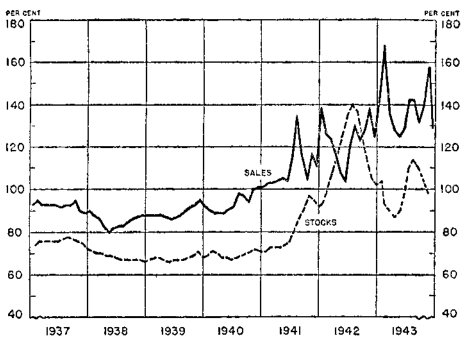
Indexes of Department Store Sales and Stocks Second Federal Reserve District

Item	1942	1943		
	Dec.	Oct.	Nov.	Dec.
1935-39 average = 100				
Sales (average daily), unadjusted	229r	156	181	227
Sales (average daily), seasonally adjusted*	124r	136	148	123
1923-25 average = 100				
Stocks, unadjusted	119r	131	132	112
Stocks, seasonally adjusted	121r	119	115	115

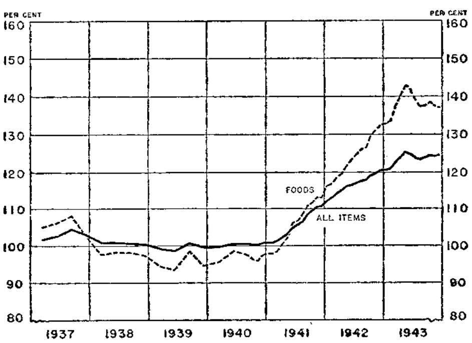
Indexes from 1919 to date available upon request.
r Revised.



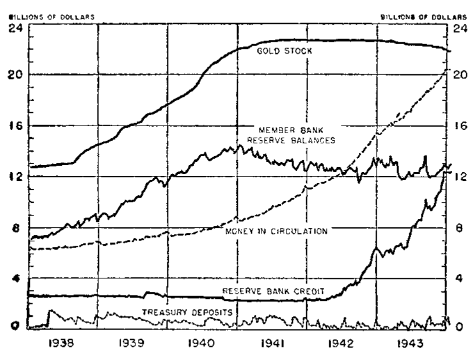
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent. (Groups shown are expressed in terms of points in the total index.)



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



Indexes of the Cost of Living as Compiled by Bureau of Labor Statistics. (1935-39 average=100 per cent.)



Member Bank Reserves and Related Items. (Latest figures are for January 19.)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity declined slightly in December from the record levels reached in preceding months. Prices of commodities at retail showed little change and distribution was maintained in large volume.

Industrial Production

The Board's seasonally adjusted index of industrial production, which had been at 247 per cent of the 1935-39 average in October and November, declined to 245 in December, reflecting largely decreases in output of steel and chemicals.

Steel production dropped 6 per cent in December to the same rate as in December 1942. Output for the year, however, totaled 88.9 million tons, which was 2.8 million tons larger than the year before. Activity in the transportation equipment and machinery industries was maintained in December at a high level. The number of aircraft accepted during the month was slightly larger than in November and was at approximately the average monthly rate scheduled for 1944. The average weight of planes to be produced, however, will continue to increase. Deliveries of merchant vessels in December were the largest on record, bringing the total for the year to 19,238,626 deadweight tons, as compared with 8,089,732 tons in 1942. Lumber production in the last two months of 1943 was above the level of a year ago in contrast to the first 10 months of 1943 when output averaged 10 per cent below the same period in 1942.

Activity in the chemical industry declined 5 per cent in December, reflecting a large reduction in output of small arms ammunition in accordance with plans of the armed forces. Cotton consumption declined further in December to a level 13 per cent below December 1942. Newsprint consumption declined seasonally. Further restrictions on its use, as well as on the use of printing paper in books and magazines, were made effective January 1, 1944, owing to inadequate supplies of pulpwood. Output in the petroleum refining and rubber products industries increased further.

Crude petroleum production showed little change in December and output of coal was restored to a high level. Bituminous coal production for the year exceeded 1942 output by 1.6 per cent. Iron ore production continued to decline seasonally in December and output for the year was approximately 4 per cent below 1942.

The value of construction contracts awarded in December, according to reports of the F. W. Dodge Corporation, was greater than in recent months, reflecting mainly increased Federal awards for manufacturing and other nonresidential buildings.

Distribution

December department store sales were slightly larger than a year ago and combined with November sales were 11 per cent larger than in the corresponding months last year. For the year 1943 total value of sales reached a new peak—about 12 per cent larger than 1942 and 55 per cent larger than 1939. Sales during the first two weeks of January were about the same as last year.

Railway freight traffic in December and the first part of January was unusually heavy for this season. For 1943 total freight carloadings were about the same as in 1942. Shipments of grain and livestock averaged about 20 per cent above 1942, while loadings of ore, forest products, and less-than-carload-lot freight averaged 8 per cent lower.

Commodity Prices

Wholesale prices of agricultural and industrial commodities showed little change from the middle of December to the middle of January and the general index of the Bureau of Labor Statistics remained at 103 per cent of the 1926 average.

Retail food prices declined slightly from mid-November to mid-December, while other groups of cost-of-living items increased and the total index advanced 0.2 to 124.4 per cent of the 1935-39 average.

Bank Credit

During the latter part of December and the first two weeks of January excess reserves at all member banks were maintained at an average level close to 1.1 billion dollars. Purchases of Government securities by the Federal Reserve Banks offset the effect on reserves of increases in nonmember deposits at the Reserve Banks and the increase in currency in circulation. The System portfolio of Government securities increased by 900 million dollars in the five weeks ended January 19. After allowance for expected seasonal movements, currency in circulation increased less in December than in November but there was little post-Christmas return flow.

Loans and investments of reporting member banks in 101 leading cities, which had been decreasing steadily since late October, declined by an additional 620 million dollars during the five weeks ended January 19. A large part of the decline reflected sales of Government securities, principally Treasury bills, to the Federal Reserve Banks. Holdings of United States Government securities were reduced by 370 million dollars. Total loans declined by 230 million dollars, representing reductions in loans to banks, in commercial and industrial loans, and in "other" loans, mainly instalment credit. Adjusted demand deposits, which had increased sharply from the middle of October to the middle of December, declined somewhat over the year end, but increased again in the first half of January. United States Government deposits at banks continued to decline.