MONTHLY REVIEW

Of Credit and Business Conditions

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MONEY MARKET IN FEBRUARY

The Fourth War Loan drive officially was brought to a close February 15. Inasmuch as sales of Savings bonds and notes reported to the Treasury up to the end of the month were credited to the drive total, final figures on aggregate sales are not available at this writing, but it has been estimated that the over-all total would exceed $16,250,000,000. Securities offered to commercial banks, under special restrictions related to amounts of savings deposits held by such banks, were not included in the goal for the drive.

The emphasis of the Fourth War Loan, quite properly, was on gaining the maximum possible distribution to individuals, rather than on the aggregate sales total. The objective goal for sales to individuals was raised from $5,000,000,000 for the September campaign to $5,500,000,000 while the over-all sales goal was lowered from $15,000,000,000 to $14,000,000,000. By deliberate policy, a good deal of the "froth" that had entered into the results of the earlier drives was eliminated from the Fourth War Loan. In the Second and Third drives large volumes of securities were acquired during the drives by nonbank investors and paid for by borrowing from banks, with the intention of subsequent resale to obtain profits from the premiums commanded by the securities after the close of the campaigns as well as from differentials between coupon rates of interest and interest charged by the banks. These securities were generally absorbed by commercial banks, direct offerings to which had been restricted as a means of checking the rapid growth of bank deposits, and in this way securities which soon went to banks were included in the drive totals for sales to nonbank investors. Speculative activities of this type, and the associated indirect participation of banks in the drive, were checked in connection with the Fourth War Loan by requests to banks and security dealers to refrain from financing subscriptions where subsequent prompt sale of the securities was intended. This policy was reinforced by the relatively small premiums which speculative purchasers had been able to obtain on securities purchased in the Third War Loan.

It may be estimated, roughly, that bank loans to nonbank investors subscribing to securities during the Fourth drive amounted to $1,250,000,000, about 40 per cent less than the volume of the Third War Loan. There is reason to believe that the bulk of the purchases of securities paid for by bank borrowing in the recent drive was made with a view to liquidating the loans out of income, and that the contraction in the amount of credit extended subscribers may be taken as a crude measure of the reduction in the "speculative" participation.

Another element which has served to inflate the drive totals has been selling by nonbank investors of Government securities previously held by them and the investment of the proceeds in the securities offered in the drives. Some such transactions have been in the nature of portfolio adjustments while others have enabled the sellers to show larger subscriptions in the drives. In any case, the result has been a transfer of securities from the hands of nonbank investors to banks and an enlargement of the War Loan drive sales totals.

No effort has been made to interfere with the normal processes of portfolio adjustments by nonbank investors in preparation for and during the course of the War Loan drives, and so long as there is an active demand on the part of banks for the securities which nonbank investors may be disposed to sell, a flow of securities from nonbank investors to banks in connection with the drives is perhaps inevitable, though the increased emphasis in the drives upon sales of securities to individuals has lessened the pressure upon institutional investors to sell securities in order to enlarge their subscriptions for the new offerings.

So far as the banks are concerned, their demand for Government securities is intensified during the periods of the War Loan drives by the sharp reductions in their reserve requirements as customers' purchases of Government securities transfer funds from classifications of deposits against which reserves are required to War Loan account deposits which are free from reserve requirements.[1] In the Fourth War Loan, as in the Second and Third, the banks made large market purchases of Government securities. However, shifts of Government securities from nonbanking investors to banks during November and December, prior to the opening of the Fourth War

[1] This influence has been operative since April 13, 1943, at the start of the Second War Loan drive, when reserve requirements against War Loan account deposits were removed.

Estimated Absorption of United States Government Securities by Nonbanking Investors*
(In billions of dollars)

Date	Total absorption (net)†	Participation in War Loan drives	Net participation in Treasury financing outside War Loan drives‡	Net market sales (−) of certificates, notes, and bonds
1942				
2nd half	+14.9	+ 7.6	+10.4	− 3.0
1943				
1st half	+13.7	+13.1	+ 4.3	− 3.7
2nd half	+14.2	+18.3	+ 1.0	− 5.1
1942				
July	+ 1.9	0	+ 2.2	− 0.2
August	+ 2.2	0	+ 2.5	− 0.3
September	+ 1.8	0	+ 2.1	− 0.2
October	+ 2.3	0	+ 2.9	− 0.7
November	+ 0.8	0	+ 1.5	− 0.7
December	+ 5.9	+ 7.6	− 0.8	− 0.8
1943				
January	+ 1.1	0	+ 1.6	− 0.5
February	+ 2.1	0	+ 2.4	− 0.3
March	+ 0.4	0	+ 0.7	− 0.3
April-May	+10.5	+13.1	− 0.2	− 2.4
June	− 0.4	0	− 0.2	− 0.3
July	+ 0.7	0	+ 1.6	− 0.9
August	+ 0.1	0	+ 0.9	− 0.9
September-October	+13.5	+18.3	− 2.1	− 2.7
November	+ 0.4	0	+ 0.8	− 0.4
December	− 0.4	0	− 0.3	− 0.2
1944				
January-February	+12*p*	+16*p*	− 1*p*	− 3*p*

* U. S. Government agencies and trust funds excluded.
† Because of rounding, the totals in some cases do not agree with the sums of the individual items.
‡ Allotments of new market issues plus purchases of "tap" issues outside War Loan drives less redemptions of securities for cash or in payment of taxes. All changes in Treasury bill holdings of nonbank investors are placed in this item.
p Preliminary.

Loan, were substantially smaller than in the months immediately preceding the Third drive, as indicated in the "net market sales" column of the accompanying table.

Member Bank Reserve Positions

During the early part of February, as the heavy sales of Government securities in the War Loan drive shifted large amounts of funds from private deposits to War Loan account deposits, reserve requirements of all member banks dropped by about $1,000,000,000. At the same time reserve balances were enlarged by a reduction in Treasury balances held in the Reserve Banks. The member banks responded to the improvement in their reserve positions by making large purchases of Government securities, partly from the Federal Reserve Banks (Treasury bills) and partly from nonbanking investors (chiefly Treasury certificates). The banks also added to their Government securities by purchasing Series F and G Savings bonds and 2¼ and 2½ per cent Treasury bonds offered in the drive under a special provision permitting limited investments in these securities against savings deposits.

Despite member bank purchases of Government securities, their excess reserves rose from the $1,100,000,000 average level of January to about $1,400,000,000 during the first part of February. Later in the month, as reserve requirements again increased, and as Treasury deposits with the Federal Reserve Banks were built up, excess reserves dropped off and on February 23 had returned to around $1,100,000,000.

Total holdings of Government securities by the Federal

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
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
Feb. 2	−421	−128	+266	+ 37	−246
Feb. 9	−640	+ 38	− 11	+ 2	−611
Feb. 16	+144	+ 78	− 1	+ 4	+225
Feb. 23	+447	+ 8	− 36	+ 3	+422

Reserve Banks declined $857,000,000 to $11,169,000,000, during the two weeks ended February 9. Treasury bill holdings, taken alone, declined $1,061,000,000 during this period as the banks repurchased bills previously sold to the Reserve Banks under repurchase option and took larger amounts of the weekly bill offerings. The Reserve Banks, on the other hand, made net purchases of other classes of securities, principally certificates of indebtedness, absorbing a part of the sales of such securities by corporations and other nonbank investors. Between February 9 and 23 the Federal Reserve Banks made additional purchases of certificates, and, with the falling off in excess reserves, member bank sales of Treasury bills led to a rise of nearly $600,000,000 in the Federal Reserve bill portfolio.

For the central reserve city banks of New York, the drop in reserve requirements, which approached $400,000,000 in the aggregate, was concentrated to a large extent in the statement week ended February 2. The reserves thus released, together with nearly $300,000,000 gained through Treasury operations, were partly absorbed by a $400,000,000 net outflow of commercial and financial funds to other sections of the country, and for the rest were used largely to repurchase Treasury bills from the Reserve Banks. During the following statement week, ended February 9, the New York banks again employed their available funds to increase further their Government security portfolios. Between February 9 and February 23, however, Treasury transactions resulted in losses of reserves and the New York banks were net sellers of Treasury bills to the Reserve Bank in the day-to-day adjustments of their reserve positions.

The outflow of commercial and financial funds from New York during the week ended February 2 marked the approximate end of the shifts of balances out of the city for the presumed purpose of entering subscriptions to War Loan drive securities in other centers. The aggregate outflow, which amounted to approximately $700,000,000 between the end of December and February 2, was considerably smaller than for the period of the Third War Loan when the outflow totaled $1,400,000,000. Although the difference probably reflects in some part seasonal factors, it would appear that transfers of funds out of New York in connection with the Fourth War Loan were considerably less than those of the Third drive.

FOURTH WAR LOAN DRIVE

On February 23, the Treasury announced that the Fourth War Loan drive, with a goal of $14,000,000,000, had been oversubscribed by $1,884,000,000 with a week's tabulating yet to be completed before a final total would be reached. Although the drive closed officially on February 15, sales of Savings bonds and Savings ("tax") notes cleared through the Federal Reserve Banks during the remainder of February were to be included in final drive totals. Limited purchases which commercial banks were permitted to make against their savings deposits are not included in the drive figures. During the Third drive, when the goal was $15,000,000,000, the Treasury raised $18,313,000,000. Sales to nonbank investors during the Second and First drives were $13,085,000,000 and $7,590,000,000, respectively.

The major emphasis during the January-February drive was placed on securing as many subscriptions and as large sums as possible from individual investors. Thus, not only does the Government obtain needed funds for carrying on the war, but the danger is lessened that these funds might be used to bid up prices on the limited amount of available consumer goods. Up to February 23, tabulated sales to individuals amounted to $4,562,000,000. This was about 83 per cent of the quota which had been set at $5,500,000,000, and may be compared with final Third drive sales of $5,377,000,000. The reduction from the total of the Third drive undoubtedly is explained by a sharp drop in speculative purchases of market issues as well as the incomplete returns from the Fourth drive. Sales to individuals in the Second and First drives were $3,290,000,000 and $1,593,000,000, respectively.

By February 23, sales of Series E Savings bonds, the type especially designed for the small investor, amounted to $2,585,000,000, and it seems likely that the goal of $3,000,000,000 will be met. These results are gratifying, for even the incomplete figures show improvement over the previous War Loan when sales of this issue totaled $2,472,000,000, although a goal of $3,000,000,000 had also been set at that time. Improvement over the earlier drives is even more pronounced; only $1,473,000,000 Series E bonds were sold in the Second campaign and $726,000,000 in the First.

The decline in sales during the Fourth drive centered largely about the 2½ per cent and 2¼ per cent bonds, both of limited marketability. Reduced selling of previously held Government securities, on the part of life insurance companies, savings banks, and other institutional investors, to supplement funds available for the purchase of drive offerings, was an important factor in this decline. By the latter part of February, Savings ("tax") notes had not reached the Third drive figures, but it seems that, with the additional tabulating days remaining, the difference (which amounts to $330,000,000) will be scaled down considerably. Sales of certificates of indebtedness ran well ahead of the Third drive totals.

By February 15, the day when subscription books to the new market issues closed, both New York City and New York State had exceeded their over-all goals. Preliminary figures through February 25 showed sales of $4,589,000,000 for the State against a quota of $4,198,000,000, and $3,967,000,000 for the City against a goal of $3,683,000,000. Both these figures will be raised as the additional sales of Savings bonds and Savings notes are included. By February 25, tabulations of sales to individuals in the State showed a total of about 85 per cent of the established quota, and in New York City a total of about 82 per cent. Series E bonds, however, in both New York City and State, as in the nation, were already substantially in excess of sales during the entire Third campaign. New York State showed Series E bond sales of $310,000,000 and New York City sales of $187,000,000.

Financing Outside the Drive

The opportunity was offered to holders of certificates of indebtedness of Series A-1944, maturing on February 1, 1944, to exchange them for 0.90 per cent Treasury notes of March 1, 1945. Of the $2,211,161,000 certificates outstanding, $2,126,447,000 were offered in exchange for the new thirteen month notes; $1,029,319,000 were exchanged in the Second District.

MEMBER BANK CREDIT

Although commercial banks were excluded from direct participation in the Fourth War Loan drive, the principal changes in member bank credit during the past two months to a large extent were closely associated with the drive. These changes included a marked increase in bank holdings of Government securities, an expansion in loans for purchasing or carrying securities, a rise in total deposits, and a shift in deposits from private to public accounts.

The weekly reporting banks in 101 cities purchased about 3 billion dollars of Government securities during January and through the week of February 16. Part of this increase represented the repurchase of Treasury bills from the Reserve Banks, part the purchase of F and G Savings bonds and of 2¼ per cent and 2½ per cent Treasury bonds which was limited to a portion of their savings deposits; the bulk of the increase, however, represented market purchases of already outstanding issues from nonbank investors. During last September and October, the months of the Third War Loan drive, the weekly reporting member banks purchased somewhat more than 4 billion dollars of Government securities, but in that instance nearly half the increase was accounted for by purchases of two issues offered to commercial banks after the close of the drive, namely ⅞ per cent certificates of indebtedness and 2 per cent bonds.

Of the 3 billion dollar increase, since the first of the year, in Government security portfolios of the weekly reporting

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					
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
Feb. 2........	+344	−136*	+307*	+100	+ 8	+623
Feb. 9........	+239	+ 75	+ 14	+ 51	− 19	+360
Feb. 16........	−126	+ 78	+ 10	+ 29	− 9	− 18
Feb. 23........	−158	− 9	− 10	− 22	− 7	−206
	100 Other Cities					
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	− 8	+105	− 8	+337
Feb. 2........	+227	−168*	+557*	+135	− 29	+722
Feb. 9........	+324	+ 52	+123	+104	+ 9	+612
Feb. 16........	+ 28	+140	+ 13	+ 62	+ 12	+255
Feb. 23........	−278	+ 46	0	+ 55	− 1	−178

* Affected by the exchange of an issue of Treasury certificates of indebtedness which matured February 1 for 0.90 per cent Treasury notes.

member banks, 2.1 billion was accounted for by purchases of the reporting banks in 100 cities outside New York City. These banks' holdings of Treasury bills increased about 800 million dollars, and their net purchases of bonds amounted to about 560 million. Holdings of notes increased 680 million, while holdings of certificates of indebtedness rose 125 million. The increase in notes was largely accounted for by the exchange on February 1 of a maturing issue of ⅞ per cent certificates for a new issue of 0.90 per cent notes. Holdings of guaranteed securities declined slightly, largely because of the retirement of a Federal Public Housing Authority note issue on February 1. The net increase in Treasury bill portfolios of the New York City banks amounted to 85 million dollars; in holdings of bonds and notes, to roughly 300 million dollars each; and in certificates of indebtedness, to 160 million.

The expansion in loans for purchasing or carrying securities associated with the Fourth War Loan drive was considerably smaller than in the Third drive. In New York City loans to brokers and dealers rose 325 million dollars during the six weeks ended February 16, compared with an increase of 689 million during the six weeks ended October 6, while the increase in loans to others for purchasing or carrying securities amounted to 430 million compared with 465 million in the earlier period. For banks outside New York City, the expansion in loans to brokers and dealers during the six weeks ended February 16 amounted to 123 million dollars compared with 343 million in the August 25-October 6 period, and loans to others rose only 188 million as against 295 million.

The expansion in loans and investments was accompanied by a sharp rise in total deposits of the weekly reporting banks during January and February. As usual during War Loan drives, there was a marked shift in deposits from accounts of individuals and corporations to War Loan accounts of the Treasury, associated with book credit payments for new issues of Government securities. The shift did not become apparent in the statements of the reporting banks until after the middle of January, but from January 19 through February 16 adjusted demand deposits declined 3.4 billion dollars, while Government deposits rose by 6.9 billion.

SECURITY MARKETS

During February, the Government security market continued to reflect the influences of the Fourth War Loan drive. With the fall in their reserve requirements, associated with the drive, the banks made large additions to their Government security portfolios. While the banks purchased all types of securities which they are eligible to hold, transactions in certificates of indebtedness and partially tax-exempt bonds were relatively the heaviest. The securities acquired by the banks were supplied mainly by corporations (in the case of certificates) and insurance companies and savings banks (in the case of bonds), which generally employed the proceeds to enlarge their subscriptions to drive offerings. The Federal Reserve Banks, through their participations in operations conducted under the direction of the Federal Open Market Committee, absorbed a part of the certificates of indebtedness that were offered in the market. In the latter part of the month demands for partially tax-exempt bonds increased considerably and their prices strengthened.

Over the course of the month, yields on partially tax-exempt bonds showed declines ranging for the most part from 0.06 to 0.10 per cent. Among the taxable bonds, yields were little changed on issues callable or maturing after twelve years, but yields on most of the earlier maturing issues in this category receded 0.02 to 0.05 per cent. On Treasury notes, especially those in the tax-exempt classification, yields also declined.

Railroad stock prices rose about 3 per cent during February, continuing the upward movement which began in December, although as the month closed they were still below their July 1943 high level. Public utility share prices also registered net gains, as the result of advances that occurred late in the month. Industrial stock prices, after declining about 3 per cent in the early part of February, rose during the remainder of the month; the recovery, however, was not quite sufficient to cancel the earlier loss. The volume of trading on the New York Stock Exchange remained at about the January level.

Trading in corporate bonds continued active. Prices of medium and lower grade issues rose slightly while the higher grade issues showed little net change. Railroad and industrial issues in the Baa classification again registered gains, but similar grade utilities declined slightly. Among the higher grade issues, utilities rose while the railroad and industrial issues declined. At the end of February, Moody's index of Aaa bond yields was 2.74 per cent, unchanged for the month; the Baa bond yields declined slightly from 3.74 per cent to 3.72 per cent. Standard's index of municipal bond yields declined from 1.88 per cent on January 26 to 1.85 per cent on February 9, and remained at that level for the remainder of the month.

INDUSTRIAL ACTIVITY IN THE WAR PERIOD

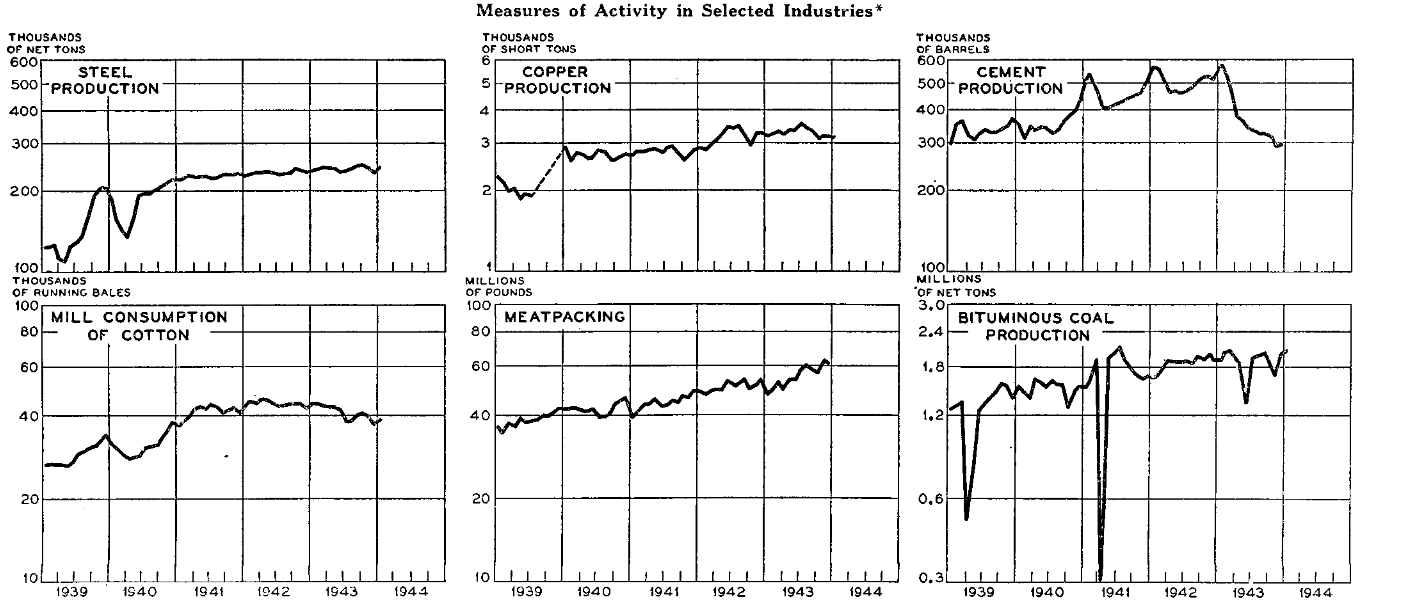
The gearing of the nation's economy to total war began with the initiation of the Emergency Defense Program in the middle of 1940, was hastened by the inauguration of lend-lease in March 1941, and was intensified immediately after the United States entered the war in December 1941. Industrial output increased sharply through 1942, and further gains were registered in 1943 although the rate of increase last year was markedly lower than in the years immediately preceding. The slower rate of increase in 1943 reflected several factors: the conversion program was completed; the program providing for additional industrial facilities and equipment essential for the war effort drew to a close; and the manpower supply was being drawn down rapidly. That gains in war production will be limited during the current year, and that shifts in output from one war product to another will be made, are indicated by the 1944 goals announced late last year by the War Production Board. Production of merchant ships and of army ordnance and signal equipment is expected to be only moderately above that of last year, but substantial increases are indicated for aircraft, trucks, and artillery. On the other hand, sharp reductions from 1943 levels are anticipated for the construction industry, the building of tanks, and the output of small arms.

Cutbacks of certain products in the war production program occur at the same time that output of other products is being expanded, so that, on the whole, plant facilities are not released for nonwar purposes. Canceled contracts are replaced by the War Production Board with new war work where possible. The cutbacks indicated in 1944 war output reflect such varying factors as revised needs based on battle experience, which account for the scheduled reduction of combat tanks and small arms munitions; changes in strategic requirements, which bring about a shift from merchant shipbuilding to landing craft; and the slackening of army expansion, with the accompanying drop in requirements for army capital equipment such as ordnance and signal equipment.

The shortage of manpower, which has been a major deterring influence in several important lines of production, is expected to continue as a limiting factor. Estimates of the War Manpower Commission indicate that additions to the armed forces have not been completely offset by new entrants into the labor market; the civilian labor force in July 1943 is estimated to have been smaller than a year earlier by some 1.3 million persons, and a further decrease of 1.1 million persons is expected by July 1944. About 30 per cent of this smaller labor force will probably be employed in the major war industries by the middle of next year; these industries and the food industries are the only ones that are expected to gain workers. The sharp decline that is anticipated in construction activity will result in the employment of a smaller number of persons in that field; and employment in the trade and service industries also is expected to decrease further.

The bulk of the production gains in the past few years occurred in the durable goods industries, whose share in the total industrial production index of the Board of Governors of the Federal Reserve System rose from 38 per cent in 1939 to 57 per cent in 1943. The most striking advances were

Measures of Activity in Selected Industries*



* Daily averages, by months, adjusted for seasonal variation by the Federal Reserve Bank of New York. Plotted on ratio scale to show proportionate changes.

in the transportation equipment group, which is dominated by aircraft and shipbuilding, and in the machinery industries. In the steel industry, a rate of operations close to capacity was attained in 1941, and since then the volume of output has continued fairly steady. (See accompanying chart.) Attainment of production goals has resulted recently in a somewhat less stringent steel situation. Some orders have been canceled, and recommendations have been issued for the discontinuance of a number of steel plant expansion projects.

Output of nonferrous metals and products, as a whole, increased substantially after mid-1940. Copper production, shown on the chart, fluctuated rather narrowly in 1940 and 1941, at a level considerably above that in 1939; in 1942 it advanced, following the introduction of premium price payments; and in 1943 it remained at about the level of the preceding year. The supply of copper has become somewhat easier at the present time, although the smaller demand for copper for small arms ammunition has tended to be counterbalanced by increased use of copper and brass in other military products.

The completion of war construction programs is reflected in the very sharp decline that occurred in cement output last year. No upturn is expected as long as the restrictions on private building persist.

Among the nondurable manufactures, the chief advances have occurred in the chemicals and in the rubber products industries, where war activity has predominated. Output of manufactured food products also has increased. Among the foods industries, the increase in meatpacking that occurred after 1939 reflected substantial requirements of the armed forces and the lend-lease program, and larger civilian consumer demand because of increased incomes.

Reduced operations last year in the cotton textile industry, which are indicated by lowered mill consumption of cotton, may be contrasted with the sharp gains that occurred in 1940-42. The lower rate last year was due in large part to the shortage of skilled workers; and continuation of manpower difficulties may well retard activity in 1944.

Gains in bituminous coal production were restricted during 1943. Consumption has been running substantially in excess of output, and stocks have been drawn down to fill requirements.

The sharp contraction that has occurred in the output of civilian products is indicated by the shift in the civilian proportion of total industrial output, from 78 per cent in 1941 to 34 per cent in 1943, a shift that was even more marked in the production of durable goods for civilian consumption. As a result of the expansion in total industrial production, however, the relatively low figure for civilian output in 1943 was equivalent to fully 80 per cent of average production for civilian use during 1935-39. Approval has recently been granted to manufacture specified quantities of electric ranges for home use, flat irons, ice refrigerators, bath tubs, prewar model baby carriages, and radio tubes. The War Production Board has included in its 1944 goals (contingent, however, upon the availability of facilities, manpower, and materials) production of heating and plumbing equipment, washing machines, alarm clocks, electric fans, gas ranges, electric refrigerators, and vacuum cleaners. The situation in regard to supplies of raw materials, so disturbing an influence in the production picture earlier in the war program, became markedly improved by the end of 1943. But despite the improvement in raw materials supply, no general resumption of civilian production can be anticipated at the present time. The manpower situation is still critical; parts and materials, such as electric motors, may remain scarce; and although the total supply of metals is easier, as in the steel and aluminum industries, fabricating facilities are still tight.

The most drastic curtailment in the war output program has occurred in the construction industry. The volume of building in 1943 declined sharply from that in the peak year 1942, and schedules for 1944 call for a further drop, to 33 per cent of the peak year rate. The decline has largely reflected completion both of the Government financed industrial facilities program and of military and naval construction. Machinery and equipment provided for new industrial facilities have contracted, with machine tool deliveries in December 1943 about 54 per cent below the peak volume attained in December 1942. Decisions to retain present restrictions on new private construction will insure a further decline in total building.

Indexes of Business

Index	1943 Jan.	1943 Nov.	1943 Dec.	1944 Jan.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	227	247	241	242p
Munitions output, Nov. 1941 = 100 (*War Production Board*)	453	661	662p	649p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	176	200	197	199p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	214	216	225p	232p
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	159	176	171p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	165	171	169	166p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	156	161	160	158p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	291	336	329p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	265	304	297	300p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	197	222	225p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	147	157	158p	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	121	124	124	124p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	67	70	65	74
Outside New York City	78	76	74	81

*Adjusted for seasonal variation. p Preliminary

CONSUMER CREDIT

The total volume of consumer short term credit at the end of 1943 amounted to about 5.1 billion dollars, roughly one billion dollars less than that at the end of 1942 and about 4.6 billion less than the peak figure of 9.7 billion reached at the end of September 1941. According to estimates of the Board of Governors of the Federal Reserve System, the net contraction during 1943 lowered the volume of consumer short term indebtedness to a level a little below that prevailing at the end of 1935.

The factors which produced the contraction during 1943 were, for the most part, those whose effects had been in evidence since the fall of 1941. Of these probably the most important were a diminishing supply of durable goods available for civilian consumption, a rapidly rising volume of purchasing power in the hands of the public, tending to encourage cash payments for purchases, and regulations of the Board of Governors of the Federal Reserve System (Regulation W) limiting the amount of credit that may be extended to consumers.

The data in the accompanying table indicate that the decline in the volume of consumer credit in 1943 was smaller than in 1942 (about 1 billion dollars in contrast to 3.3 billion), and was due primarily to smaller net declines in both classes of instalment credit — loans to finance retail sales and cash loans. As such debt approached minimum levels in certain fields, the size of the monthly declines, of course, decreased. For example, the volume of outstanding instalment debt arising from the sale of automobiles was reduced from 2,200 million dollars at the end of September 1941 to less than 300 million dollars at the close of March 1943, an average of 100 million dollars a month. During the remaining portion of 1943, the monthly declines averaged about 12 million dollars. Instalment debt resulting from sales of furniture, household appliance, and department stores and of mail order houses also continued to decline during 1943, but in no case was the decline so large as in the previous year. The contraction in instalment cash loans resulted, to a large extent, from a sharp decline in loans for the repair and modernization of residential property, as such construction was held to a minimum by restrictions on the use of building materials for nonessential purposes. Although repayments of cash loans made by banks and other lending institutions continued to run ahead of the volume of new loans, the net declines in the amount of loans outstanding were generally less than half as great as in the previous year.

Estimated Change in the Volume of Consumer Short Term Credit*
(In millions of dollars)

Type of credit	1942	1943
Instalment credit		
Sale	−2,253	− 680
Cash loan	− 746	− 368
Charge accounts	− 251	− 15
Single-payment loans	− 132	− 13
Service credit	+ 38	+ 43
Total	−3,344	−1,033

* Data of the Board of Governors of the Federal Reserve System.

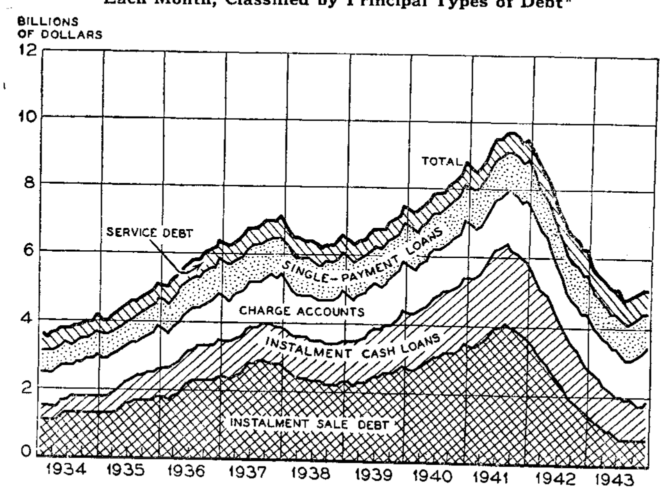
A second factor accounting for the smaller contraction during 1943 in total consumer credit outstanding was the greater than usual increase in charge account debt during the last four months of the year, which was closely associated with the brisk pre-Christmas shopping season. Declines in instalment loans were more than offset by the expansion of charge account sales, and the total volume of consumer credit outstanding rose somewhat during the four months' period, the first increase of any size since September 1941.

Finally, the volume of single payment loans outstanding (principally loans from banks) also showed an increase during the last months of the year, after declining in the first three quarters, and it is estimated that the volume of service debt (i.e., amounts due to doctors, hospitals, and service institutions) rose continuously throughout the year.

Department and Furniture Stores in the Second Federal Reserve District

Data collected from a group of leading department stores in the Second Federal Reserve District reveal that even though the absolute volume of charge account sales declined by only relatively small amounts during 1942 and 1943, charged purchases accounted for a progressively smaller percentage of the total sales of these stores. In May 1942 Regulation W was broadened to include charge account sales, and the new regulations stipulated that if purchases were not paid for by the tenth day of the second calendar month following the date of purchase, the account would be in default. As a result, the rate at which charge accounts were paid off rose sharply, and the amount of charge account debt outstanding on December

Estimated Short Term Consumer Debt Outstanding at End of Each Month, Classified by Principal Types of Debt*



* Data for 1934–August 1942 are those of the Department of Commerce; for September 1942–December 1943, those of the Board of Governors of the Federal Reserve System.

Cash and Credit Sales, Department and Furniture Stores, Second Federal Reserve District

Classification	Percentage distribution*			Percentage change from preceding year*	
	1941	1942	1943	1942	1943
Department stores					
Net sales—total	100	100	100	+ 9	+ 6
Cash	60	66	70	+19	+12
Charge account	31	27	24	− 3	− 5
Instalment	9	7	6	−16	− 5
Furniture stores					
Net sales—total	100	100	100	−10	− 1
Cash	12	16	17	+23	+ 8
Credit†	88	84	83	−14	− 3

* Data are for calendar years.
† Predominantly instalment credit; separate data not generally available.

31, 1942 was one-quarter lower than on December 31, 1941. During 1943 the rate of collections on charge accounts remained close to the level of the second half of 1942, and as there was no appreciable decline in the total value of charged sales, the amount of such debt outstanding at the end of 1943 was roughly equal to that at the end of the previous year. On a percentage basis, the contraction in instalment sales during the two-year period was somewhat greater than that for charge accounts. However, the importance of this decline was relatively minor, as such sales accounted for only a fraction of total sales of these stores.

In 1942 the volume of credit sales at a group of leading furniture stores in this District declined sharply, while cash sales, which usually account for a relatively small proportion of the total, showed a marked increase. As there was also an increase in the rate of collections, the amount due these stores for credit purchases was reduced about one third between the end of 1941 and the end of 1942. In 1943 receivables at furniture stores were again reduced, in contrast to receivables at department stores which showed almost no change. The contraction of furniture store receivables in 1943 was due entirely to a further increase in the rate at which amounts due were repaid; the absolute value of credit sales in 1943 was about the same as in 1942.

Collection Ratio and Percentage Change in Accounts Receivable, Department and Furniture Stores, Second Federal Reserve District

Classification	Collection ratio*			Accounts receivable, percentage change from preceding year	
	Dec. 1941	Dec. 1942	Dec. 1943	Dec. 31, 1942	Dec. 31, 1943
Department stores					
Charge accounts	41	53	52	−25	− 4
Instalment accounts	19	26	26	−31	− 4
Furniture stores					
Total accounts†	13	19	22	−33	−25

*Collections during month as per cent of accounts receivable at beginning of month.
†Predominantly instalment accounts; separate data not generally available.

DEPARTMENT STORE TRADE

For each of the first two months of this year, the seasonally adjusted index of sales of department stores in the Second Federal Reserve District compared favorably with that for each of the two peak months of 1943, February and November. The adjusted index advanced in both January and February, and in the latter month it was only 3 per cent below that in November last year—when early holiday shopping was exceptionally heavy—and 5 per cent under the all time peak of February 1943—when a buying wave occurred, particularly in clothing, because of fears of future rationing. Department store stocks, after allowance for seasonal changes, increased moderately during January. As the month closed, stocks were well above the low of last April, but still considerably less than at mid-1942, when the all time high was recorded.

Reports of sales in the six largest cities of this District indicate that in Newark and Bridgeport the decline which began in 1943 has continued at an accelerated rate. Syracuse sales, on the other hand, in the first two months this year were substantially above a year ago, while those in New York, Buffalo, and Rochester showed very little change. Data for stocks indicate that Newark and Bridgeport were the only ones of the six cities in which stocks declined (approximately 15 per cent) between January 1943 and January 1944. Stores in Syracuse reported a stock increase of 11 per cent, while in the three other large cities stocks remained approximately the same as at the close of January a year earlier.

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

Locality	Net sales		Stocks on hand Jan. 31, 1944
	Jan. 1944	Jan. through Dec. 1943	
Department stores, Second District	+ 2	+ 6	− 1
New York City	+ 3	+ 7	0
Northern New Jersey	− 4	− 2	−11
Newark	− 6	− 2	−12
Westchester and Fairfield Counties	−12	− 3	−10
Bridgeport	−16	− 6	−17
Lower Hudson River Valley	+20	+ 7	+ 1
Poughkeepsie	+19	+ 9	—
Upper Hudson River Valley	− 1	− 1	+ 2
Albany	+ 6	− 4	—
Schenectady	− 8	+ 2	+10
Central New York State	+ 9	+11	+ 5
Mohawk River Valley	− 2	+11	− 5
Utica	+ 1	+13	—
Syracuse	+15	+11	+11
Northern New York State	+ 4	+ 3	—
Southern New York State	+ 4	+10	+ 8
Binghamton	+ 3	+14	—
Elmira	+ 5	− 2	—
Western New York State	+ 3	+ 9	+ 3
Buffalo	+ 5	+11	+ 5
Niagara Falls	− 6	+23	0
Rochester	+ 2	+ 6	+ 2
Apparel stores (chiefly New York City)	+ 6	+20	+15

Indexes of Department Store Sales and Stocks Second Federal Reserve District

Item	1943			1944
	Jan.	Nov.	Dec.	Jan.
1935-39 average = 100				
Sales (average daily), unadjusted	109	181	226	112
Sales (average daily), seasonally adjusted	138r	148	123	141
1923-25 average = 100				
Stocks, unadjusted	109r	132	112	109
Stocks, seasonally adjusted	119r	115	115	119

r Revised

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity was maintained in January following a decline from November to December. Commodity prices were steady and retail sales continued in large volume in January and the first three weeks of February.

Industrial Production

In January the Board's seasonally adjusted index of industrial production stood at 242 per cent of the 1935-39 average as compared with the peak level of 247 in October and November 1943.

Steel production increased 4 per cent in January and continued to rise in the first three weeks of February, reflecting large military requirements for landing craft and other invasion equipment as well as increasing use of steel for farm machinery and railroad equipment. Aluminum production was curtailed in January from the peak rate in the last quarter of 1943.

Activity in the transportation equipment group was 5 per cent lower in January than at the peak in November. The largest decline occurred in commercial shipyards, many of which were changing from the production of Liberty ships to Victory and other types of ships. In the automobile industry production of 3,000 trucks was reported during the month under the greatly enlarged civilian truck program for 1944 which calls for the production of 92,000 mediumweight and 31,500 heavy trucks during the year.

Output of textiles, shoes, and manufactured foods rose slightly in January, following small declines in December. Chemicals production continued to decline, reflecting a further curtailment of small arms ammunition output. Output of petroleum and rubber products showed little change.

Production of coal increased and crude petroleum output continued at a high level in January and the early part of February. Sunday work was instituted in anthracite mines during February as a measure to increase production, and output for the week ended February 12 was 13 per cent higher than the preceding week.

The value of construction contracts awarded in January, according to reports of the F. W. Dodge Corporation, declined to the lowest level for the month since 1935.

Distribution

Value of department store sales in January and the first three weeks of February was maintained at a high level for this season of the year. Sales in January exceeded the large volume of a year ago by about 6 per cent but in February sales were somewhat smaller than last year when a buying wave developed following the announcement of shoe rationing.

Freight carloadings declined less than usual in January and the first half of February, owing chiefly to the heavy volume of coal shipments. Movement of grain continued at the high level of last fall and livestock and lumber shipments were in large volume.

Commodity Prices

Wholesale prices of most commodities continued to show little change in January and the early part of February. Maximum prices for coke, wood pulp, furniture, and certain other products were increased moderately.

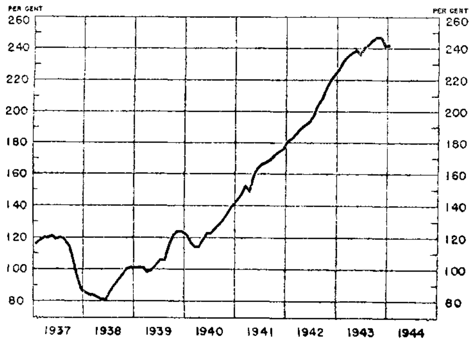
The cost of living index of the Bureau of Labor Statistics declined from 124.4 per cent of the 1935-39 average in December to 124.1 in January.

Bank Credit

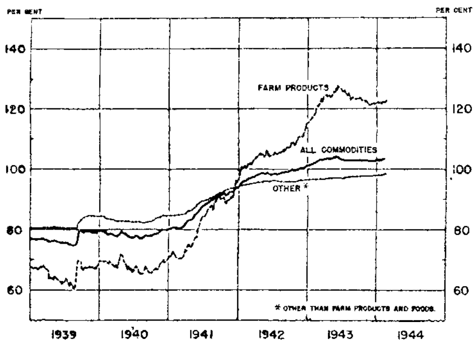
Purchases of securities in the Fourth War Loan Drive by corporations and individuals resulted in a release of required reserves of member banks because funds were drawn from private deposit accounts, which require reserves, to the Government war loan accounts, which are exempt from reserve requirements. As a consequence, member banks repurchased bills from the Reserve Banks, and the latter's holdings of Government securities declined by 520 million dollars.

At reporting member banks in 101 leading cities, adjusted demand deposits decreased by 3.4 billion dollars in the four weeks ended February 16, while U. S. Government deposits increased by 6.9 billion, reflecting purchases of Government securities by bank customers during the war loan drive. Government security holdings at reporting member banks increased 2.8 billion dollars over the four weeks.

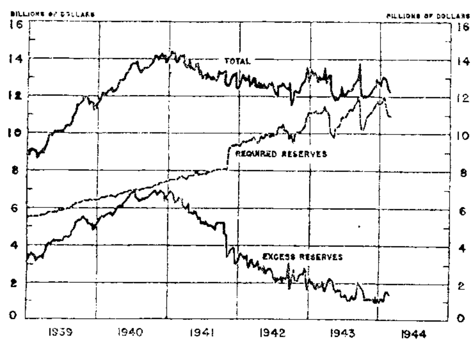
Loans to brokers and dealers increased by 320 million during the drive which was substantially less than in either of the two previous campaigns. Loans to others for purchasing or carrying Government securities rose by about 610 million, two-thirds of which was at New York City banks. Commercial loans, which had increased substantially during the Third War Loan Drive, showed little increase during the current period.



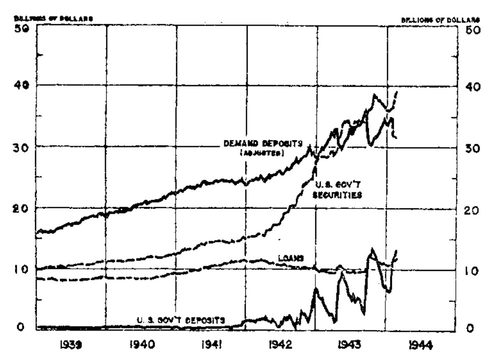
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended February 19)



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves (Latest figures are for February 16)



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 February 16)