MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

Vol. 26 APRIL 1, 1944 No. 4

MONEY MARKET IN MARCH

The March income tax date was marked by the characteristically heavy flows of funds in the money market. Income tax payments, due on the 15th, poured into the Collectors' offices in growing volume as the deadline approached; the credits to the Treasury's general account balances on the books of the Federal Reserve Banks and the charges against member bank reserve accounts reached their peaks a few days after the 15th, because of the lag occasioned by the need for processing the returns and remittances by the Collectors. The Treasury also made heavy payments of interest on the public debt on the 15th—about $400,000,000 falling due.

The filing of estimated income tax returns against 1944 income, together with payments against tax liabilities in excess of amounts covered by withholding, was deferred from March 15 to April 15 under regulations issued by the Treasury on February 22, so that a part of the income taxes that would otherwise have been payable March 15 were shifted from March to April.[1] Nevertheless, income tax collections for the month approached $5,000,000,000, compared with the previous record total of $4,700,000,000 in March 1943. Collections in the Second Federal Reserve District, aggregating about $1,150,000,000, accounted for 23 per cent of the national total. For the country as a whole about 26 per cent of tax payments in March were met by turning in Savings notes, about the same percentage as in December or March 1943. In the Second District, where the proportion of tax payments made by turning in Savings notes has run consistently higher than in other parts of the country, the corresponding figure was 28 per cent.

Credits to the Treasury's deposits on the books of the Federal Reserve Banks from income tax collections attained substantial volume by the 10th of the month and reached a peak rate between March 16 and March 22, falling off gradually toward the end of the month as the offices of the Bureau of Internal Revenue worked their way through the millions of returns and remittances. As a result of the cash income tax payments, the Treasury was able to lighten its calls on War Loan deposit accounts during the statement week ended March 15, and to suspend calls entirely during the period March 16-25. For the last five days of the month, limited calls were issued to supplement income tax collections and other receipts. Total War Loan account withdrawals during March amounted to $3,290,000,000; about $14,300,000,000 remained on deposit in the War Loan accounts March 31, largely representing untapped proceeds from the Fourth War Loan drive.

Member Bank Reserve Positions

During the first part of March, excess reserves of all member banks fluctuated between $1,000,000,000 and $1,200,000,000, rising temporarily to $1,300,000,000 on the 15th through the effect of heavy interest payments on the public debt. During the following statement week, ended March 22, excess reserves dropped to about $900,000,000, as income tax collections built up Treasury deposits with the Federal Reserve Banks (from $77,000,000 on March 15 to $495,000,000 on the 22nd) and dipped to about $600,000,000 on the 29th, the lowest Wednesday level in more than ten years, through the effect of a further increase (to $753,000,000) in Treasury deposits with the Reserve Banks and enlarged currency circulation in reducing reserve balances.

Currency circulation continued to increase through March 15, declined $72,000,000 during the statement week ended March 22, apparently reflecting some use of currency in making income tax payments, and resumed the rise during the remainder of the month. The gold stock was drawn down $112,000,000 during March, through the effect of earmarkings for foreign accounts. The losses of member bank reserve funds which resulted from the net increase in currency circulation, gold and foreign account operations, and other factors, together with a rise of roughly $400,000,000 in reserve requirements, were compensated for to a large extent by net purchases of Treasury bills and certificates of indebtedness by the Federal Reserve Banks. During the five weeks ended March 29, total Government security holdings of the Reserve Banks were enlarged by $481,000,000.

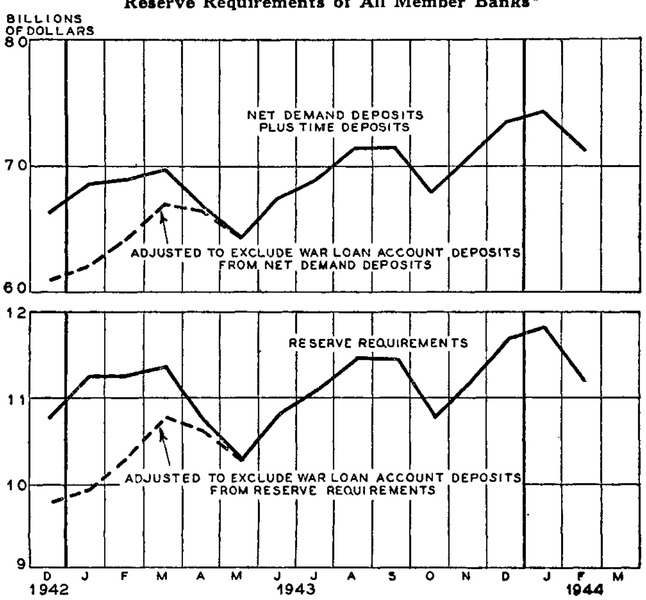
[1] Income tax payments were due March 15 against 1943 profits of corporations, and against 1943 tax liabilities of individuals not covered by the quarterly payments made last year and by taxes withheld by employers; and, at the same time, one-half of the "unforgiven" portion of tax liabilities against either 1942 or 1943 incomes—whichever were the lower—fell due.

In the same five-week period, the central reserve New York City banks lost a moderate volume of reserves through a net outflow of commercial and financial funds to other sections of the country. Treasury operations, despite heavy interest payments to the market on the 15th, also resulted in net transfers of funds out of New York. The New York banks adjusted their reserve positions largely through purchases and sales of various classes of Government securities. Total Government security holdings of the weekly reporting member banks in New York showed a net decline of 247 million dollars over the five weeks.

Behavior of Required Reserves

Since April a year ago, when reserve requirements against War Loan account deposits were suspended, the amount of reserves which member banks have been required to carry against their deposits has shown an oscillating rise. The wave-like movements have been associated with the periodical War Loan drives, while the rising tendency, which is apparent from the fact that each peak and valley has been higher than the preceding one, has been related to a persistent growth in the volume of funds which depositors have found it necessary or convenient to maintain, and which they have been unable or unwilling to employ in the purchase of Government securities or in the liquidation of debt. When depositors build up their bank balances instead of investing their funds, the Government must sell securities, directly or indirectly, to the banks, in order to obtain the necessary volume of funds to meet its expenditures. Increased deposits on the books of the banks are matched by enlargement in bank Government security portfolios.

Net Demand Deposits Plus Time Deposits, and Reserve Requirements of All Member Banks*



* Monthly averages of daily figures. Adjustments, indicated by broken lines on the chart, were made for purposes of comparability. War Loan account deposits were subject to reserve requirements and included in net demand deposits through April 12, 1943 but not thereafter.

The accompanying chart portrays the behavior of deposits subject to reserve requirements, as well as the behavior of reserve requirements themselves, since December 1942, the month of the First War Loan drive. (The data are monthly averages of daily figures.) For the period December 1942-April 1943 adjustments have been made in the curves so as to show how reserve requirements, and the deposits subject to the requirements, would have fluctuated during that period if War Loan account deposits, which have been exempt from reserve requirements (and excluded from net demand deposits) since April 13, 1943, had been exempt throughout. From the end of one War Loan drive to the beginning of the next, net demand plus time deposits of all member banks have risen $5,400,000,000 to $6,900,000,000, and reserve requirements by $900,000,000 to $1,200,000,000. During a War Loan drive, the deposits requiring reserves have fallen $2,300,000,000 to $3,300,000,000, and requirements $500,000,000 to $700,000,000.

If a line is drawn through the successive low points—of December 1942, May and October 1943, and February 1944—when War Loan drives had tapped that part of bank deposits which were made available for investment in Government securities, one finds that "unavailable" deposits have been rising at a fairly constant rate averaging about $730,000,000 monthly. Between War Loan drives, deposits have risen faster than this, the difference representing accumulations of investment funds to be placed in Government securities during the next War Loan drive.

Member bank reserve requirements, naturally, have shown fluctuations corresponding to those in the deposits subject to reserve requirements. The monthly rate of increase from one post-drive low point to the next, averages $100,000,000.

Reserve requirements, over the past year, have shown a perceptibly smaller rate of increase than net demand deposits plus time deposits. This fact is explained by the geographic distribution of the expansion in net demand deposits and by the relatively faster increase in time deposits than in demand deposits.

MEMBER BANK CREDIT

Between February 16 and March 22 total loans and investments of the weekly reporting member banks in 101 cities declined nearly 1.5 billion dollars from the high levels reached in the first half of February, at the time of the Fourth War Loan drive. The expansion during the drive amounted to about 4.3 billion dollars as commercial banks made large market purchases of Government securities and extended loans to dealers and others for purchasing Government securities.

Government security holdings of the weekly reporting member banks in New York City declined 361 million dollars during the five weeks ended March 22. This contraction was only half as great as that which occurred in the five weeks following the peak associated with the Third War Loan. Sales were fairly evenly divided among the various types of securities. A major shift in the composition of Government security portfolios occurred, however, as a result of the large scale refunding operation on March 15 when the Treasury offered to the commercial banks 1½ per cent Treasury notes in exchange for their holdings of the two Treasury notes, one Treasury bond, and four guaranteed issues maturing or callable between March 15 and June 15. Primarily as a result of this exchange, note holdings of the New York banks showed an increase of 968 million dollars during the statement week ended March 15 while bonds and guaranteed obligations declined 354 million and 674 million dollars, respectively.

In 100 cities outside New York, the reduction in the Government security holdings of the reporting member banks over the five weeks' period amounted to 449 million dollars, compared with a drop of 572 million dollars during the five weeks following the peak after the Third War Loan drive. These banks were net sellers of a large volume of Treasury bills and a moderate volume of certificates of indebtedness and guaranteed obligations, but were net purchasers of Treasury notes, after adjustment for the March 15 exchange.

The volume of loans outstanding of the weekly reporting New York City banks declined between February 16 and March 22, chiefly as a result of the net repayment of 400 million dollars of loans to dealers and others for purchasing or carrying Government securities; commercial, industrial, and agricultural loans showed practically no change. In the 100 cities outside New York, both loans for purchasing securities and loans for commercial, industrial, and agricultural purposes decreased during the five weeks' period.

FOURTH WAR LOAN DRIVE

A total of $16,730,000,000 was announced by the Treasury early in March as the final figure of the Fourth War Loan drive. This result, which excludes $968,000,000 of securities sold during the drive to Government agencies and trust funds and commercial banks, was substantially in excess of the goal that had been set at $14,000,000,000. Sales to nonbank investors, excluding Federal agencies and trust accounts, amounted to $18,313,000,000 in the Third drive, $13,085,000,000 in the Second, and $7,590,000,000 in the First.

The over-all goal was lowered from $15,000,000,000 in the Third drive to $14,000,000,000 in the Fourth, and major stress was placed on reaching the individual investor. Although this group failed to attain its quota, sales were only slightly less than in the previous drive. There were declines in sales to insurance companies and mutual savings banks, dealers and brokers, and other corporations and investors. One factor in the decline was the closer spacing between the Third and Fourth drives than there had been between the Second and Third. In other words, there was a shorter interval of time in which funds could accumulate for use in purchasing Government securities in the drive. There were also considerably fewer speculative, bank financed subscriptions during the past campaign than previously, a condition that was due at least in part to the Treasury's determined efforts to discourage "free-riding."

Although banks made large purchases in the market during and immediately preceding the last drive, the net absorption of Government securities by nonbanking investors during the interval, November through February, amounted to almost 70 per cent of the increase in the public debt. During a corresponding period surrounding the Third drive (July through October) net absorption of these investors amounted to a little more than 50 per cent of the rise in the public debt. This indicates a substantial improvement in the Treasury's efforts to increase the actual participation of nonbanking investors in the drives.

As indicated in the accompanying table, total sales credited to the Second Federal Reserve District amounted to $5,451,000,000 in the Fourth drive which is equal to 33 per cent of the national total, compared with $6,334,000,000 or 35 per cent of all sales in the Third. Gross subscriptions here amounted to $6,117,000,000 in the past drive compared with $6,949,000,000 in the previous campaign. A small rise in net allocations to other districts of subscriptions entered here is indicated by the difference between gross sales and the amount credited to this District in the two drives. As in previous drives, sales to insurance companies, mutual savings banks, and other corporations accounted for a major portion of total sales in the Second District. Funds of insurance companies and mutual savings banks, in particular, are concentrated to a large extent in the Second District and purchases here by these investors accounted for almost 60 per cent of their total takings. Individuals purchased $1,030,000,000 during the Fourth drive compared with $1,021,000,000 in the Third.

Sales During Third and Fourth War Loan Drives, by Type of Investor, United States and Second Federal Reserve District*

Type of investor	United States		Second Federal Reserve District			
	Millions of dollars		Millions of dollars		Percentage of U. S.	
	Third War Loan	Fourth War Loan	Third War Loan	Fourth War Loan	Third War Loan	Fourth War Loan
Individuals, partnerships, and personal trust accounts	5,377	5,309	1,021	1,030	19.0	19.4
Insurance companies and mutual savings banks	4,128	3,403	2,495	2,013	60.4	59.2
Other corporations, associations, and investors†	7,915	7,585	2,188	2,107	27.6	27.8
Dealers and brokers	894	433	629	301	70.4	69.7
Total‡	18,313	16,730	6,334	5,451	34.6	32.6

* For data for earlier drives, see this *Review*, November 1, 1943, p. 86.
† Includes State and local governments.
‡ Because of rounding, the totals in all cases do not agree with the sum of individual items.

SURVEY OF BUSINESS AND PERSONAL DEMAND DEPOSITS

In the light of the rapid expansion of the money supply in the United States over the war period, this bank, as part of a general Federal Reserve System project, has made a series of three surveys of the distribution of demand deposits of business enterprises and individuals with member banks in the Second Federal Reserve District.[1] In the third of these surveys, just completed, based on figures for February 1944, the coverage, particularly of smaller institutions, was widened further, and a number of the banks added to the cooperating group were able to go back into their records and make up reports for periods covered by earlier surveys; thus an improved basis has been provided for gauging changes in the breakdown of business and personal deposits and for estimating relative rates of increase in various classifications over the period of our active participation in the war.

The total money supply—exclusive of currency held by the banks and Federal Treasury, and of War Loan account and interbank deposits—now aggregates more than 110 billion dollars, in comparison with 76 billion at the end of 1941 and 62 billion in August 1939, at the time of the outbreak of the war in Europe. Of the increase in the total money supply since December 1941, about half is accounted for by demand deposits of individuals, partnerships, and corporations held with member banks of the Federal Reserve System. The results of the surveys of the ownership of these deposits have indicated that two thirds to three fourths of the wartime expansion in demand deposits of individuals, partnerships, and corporations has been accounted for by business balances and one fourth to one third by personal accounts.

[1] Results of the first and second of these surveys were discussed in the July 1943 and the October 1943 issues, respectively, of this *Review*.

Table I
Distribution, by Type of Owner, of Demand Deposits of Individuals, Partnerships, and Corporations in 129 Banks in the Second Federal Reserve District, February 1944

Type of owner	Dollar amount (In millions)	Per cent of total classified	Per cent of total deposits
Nonfinancial business			
Manufacturing and mining	4,853.1	54.2	38.2
Public utilities, transportation, and communications	1,093.5	12.2	8.6
Retail and wholesale trade and dealers in commodities	642.4	7.2	5.0
All other nonfinancial business, including construction and services	325.6	3.6	2.6
Total	6,914.6	77.2	54.4
Financial business	1,264.0	14.1	10.0
Nonprofit organizations	142.8	1.6	1.1
Personal (including farmers)	640.0	7.1	5.0
Total classified deposits	8,961.4	100.0	70.5
Total unclassified deposits	3,744.7		29.5
Total demand deposits of individuals, partnerships, and corporations	12,706.1		100.0

In order to obtain significant indications of the breakdown of business and personal deposits, and at the same time not impose an undue volume of work on the member banks, the banks were asked to classify, by various types of depositors, only their larger accounts. While the banks participating in the February survey thus classified three per cent of the number of their demand deposit accounts, they nevertheless provided a detailed breakdown for 71 per cent of the total dollar volume of their business and personal demand deposits, and for 52 per cent of the total demand deposits of

Table II
Percentage Distribution, by Type of Owner, of Classified Demand Deposits of Individuals, Partnerships, and Corporations, According to Size of Accounts in Different Size Banks, Second Federal Reserve District, February 1944

Type of owner	Accounts of $3,000 to $10,000		Accounts over $10,000		Accounts of $10,000 to $100,000		Accounts over $100,000		
	Size of bank measured by range of deposits in millions of dollars								
	Under 1 (1)	1–10 (2)	Under 1 (3)	1–10 (4)	10–50 (5)	50–250 (6)	10–50 (7)	50–250 (8)	Over 250 (9)
Manufacturing and mining	4.9	7.2	34.9	43.5	25.9	36.3	61.2	54.0	55.2
(a) Metal mining and metal manufactures, including machinery and transportation equipment					11.6	11.5	43.8	37.0	33.4
(b) All other manufacturing and mining					14.3	24.8	17.4	17.0	21.8
Public utilities, transportation, and communications	4.9	2.4	9.3	6.7	4.4	3.3	19.3	14.5	12.3
Retail and wholesale trade and dealers in commodities	29.2	25.8	23.2	18.4	25.5	16.9	8.5	7.9	6.5
All other nonfinancial business, including construction and services	7.3	8.7	9.3	6.0	9.2	6.7	1.9	2.8	3.5
Total nonfinancial	46.3	44.1	76.7	74.6	65.0	63.2	90.9	79.2	77.5
Insurance companies					4.1	3.7	1.8	4.6	6.4
Trust funds of banks					0.7	0.1	2.1	4.4	2.9
All other, including investment, loan, and real estate business, etc.					8.0	10.5	1.5	6.0	5.0
Total financial	2.5	4.5	2.3	6.9	12.8	14.3	5.4	15.0	14.3
Nonprofit organizations	4.9	4.3	4.7	3.0	4.6	3.6	1.5	2.1	1.5
Personal	46.3	47.1	16.3	15.5	17.6	18.9	2.2	3.7	6.7
(a) Farmers	19.5	7.7	4.7	2.3					
(b) Other personal accounts	26.8	39.4	11.6	13.2					
Total classified deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

individuals, partnerships, and corporations of all member banks in the Second Federal Reserve District.

Breakdown of Classified Deposits for February

It must be borne in mind that limiting the classification to the larger accounts overemphasizes the importance of the balances of large business organizations, and minimizes the importance of personal and small trade balances. Undoubtedly, a substantial part of the unclassified deposits fall into the last two categories.

Of the total classified deposits in the 129 banks cooperating in the February survey, about 77 per cent comprised those of nonfinancial business, 14 per cent was made up by financial business, 7 per cent by personal accounts, and less than 2 per cent by nonprofit organizations (Table I). Deposits of all classes of nonfinancial business made up larger proportions of total classified deposits than in July 1943. On the other hand, associated with the fact that February came at the close of a War Loan drive, the proportion for financial business was smaller than in July, 14 per cent compared with 17 per cent.

The marked variations, from one deposit range to another, in the percentage distribution of the classified deposits, as of February, are apparent in Table II. For example, manufacturing and mining accounts comprised 54 to 61 per cent (for various groups of banks) of the classified deposits above 100 thousand dollars, but only 5 to 7 per cent of the classified deposits in the 3 thousand dollar to 10 thousand dollar range. On the other hand, trade, and to an even greater extent personal accounts, made up larger proportions of the classified deposits in the lower deposit ranges than in the higher ones. In the 3 to 10 thousand dollar deposit range, personal accounts comprised 46 to 47 per cent of classified deposits, and trade accounts 26 to 29 per cent; for accounts over 100 thousand dollars, the percentages ranged from 2 to 7 per cent for personal accounts and from 7 to 9 per cent for trade accounts.

In the interpretation of these figures, it should be borne in mind that, as the table indicates, the breakdowns covering the lower ranges of deposits are based upon data supplied by the smaller institutions, while those for deposits over 100 thousand dollars are based upon information provided by the larger banks. Deposits within the range of 3 to 10 thousand dollars for the larger banks may differ significantly from the distribution of the deposits within this range for the smaller banks. Nevertheless, it is very probable that for the larger banks the distribution of deposits within the 3 to 10 thousand dollar range is closer to that of deposits within this range for the smaller banks than it is to the distribution of their own deposits of more than 100 thousand dollars.

Changes Since December 1941

Table III, based upon a group of banks which have reported their deposit breakdowns for December 1941, July 1943, and February 1944, provides an indication of both the absolute and relative changes for the various deposit classifications. The figures are presented separately for the large New York City banks (for which deposit accounts over 100 thousand dollars were classified), and for other member banks in the District (outside New York City, all accounts over 3 thousand

Table III
Classified Demand Deposits of Individuals, Partnerships, and Corporations in 25 Banks Outside New York City* and in 6 Banks in New York City, Distributed by Type of Owner, December 1941, July 1943, and February 1944, and as Percentage of Deposits in December 1941

Type of owner	25 Banks outside New York City*						6 Banks in New York City					
	Dollar amounts in millions			As percentage of deposits in December 1941			Dollar amounts in millions			As percentage of deposits in December 1941		
	Dec. 1941	July 1943	Feb. 1944	Dec. 1941	July 1943	Feb. 1944	Dec. 1941	July 1943	Feb. 1944	Dec. 1941	July 1943	Feb. 1944
Manufacturing and mining	117.1	244.0	248.4	100	208	212	1,706.0	2,470.9	2,337.0	100	145	137
Public utilities, transportation, and communications	39.0	60.4	63.2	100	155	162	594.6	598.8	570.8	100	101	96
Retail and wholesale trade and dealers in commodities	27.7	56.4	53.0	100	204	191	204.1	239.5	221.1	100	117	108
All other nonfinancial business, including construction and services	11.4	19.3	19.6	100	169	172	106.4	111.9	120.0	100	105	113
Total nonfinancial	195.2	380.1	384.2	100	195	197	2,611.1	3,421.1	3,248.9	100	131	124
Insurance companies							302.9	251.4	218.7	100	83	72
Trust funds of banks							205.9	185.2	158.7	100	90	77
All other, including investment, loan, and real estate business, etc.							255.9	245.1	212.9	100	96	83
Total financial	66.1	66.1	66.2	100	100	100	764.7	681.7	590.3	100	89	77
Nonprofit organizations	6.7	8.9	10.7	100	133	160	51.0	57.7	59.0	100	113	116
Personal (including farmers)	28.3	33.1	35.3	100	117	125	354.2	219.2	222.5	100	62	63
Total classified deposits	296.3	488.2	496.4	100	165	168	3,781.0	4,379.7	4,120.7	100	116	109
Total unclassified deposits	116.5	127.6	156.3	100	110	134	1,498.3	1,754.6	1,643.6	100	117	110
Total demand deposits of individuals, partnerships, and corporations	412.8	615.8	652.7	100	149	158	5,279.3	6,134.3	5,764.3	100	116	109

* Accounts $10,000 and over in 14 banks, accounts $3,000 and over in 11 banks.

dollars being classified by the smaller banks and all accounts over 10 thousand dollars by the larger).

For the banks outside New York City, classified manufacturing and mining accounts more than doubled between December 1941 and February 1944. Trade accounts, which had shown about the same percentage increase as manufacturing and mining between December 1941 and July 1943, dropped back slightly between July and February. Deposits held by nonprofit organizations in February 1944 were almost two-thirds greater than in December 1941. In contrast, classified financial accounts showed little change. Classified personal accounts, which had risen 17 per cent between December 1941 and July 1943, showed a further growth of 7 per cent between July 1943 and February 1944. Unclassified deposits, which undoubtedly include a considerable proportion of personal accounts, rose 34 per cent from December 1941 to February 1944.

The proportion of total demand deposits of individuals, partnerships, and corporations which were classified by these banks rose from 72 per cent in December 1941 to 79 per cent in July 1943 and then fell back to 76 per cent in February 1944. The variations in this percentage, and the variations in the comparative rates of increase of classified deposits on the one hand and unclassified deposits on the other, indicate that a number of accounts which had been below the classification limits in December 1941 had, through their growth, entered into the classification for July, thus to some extent exaggerating the increases in classified deposits for the December 1941-July 1943 period. Between July 1943 and February 1944 there appears to have been a shift in the opposite direction, possibly indicating the effect of investments in Government securities during the Fourth War Loan drive in pulling certain accounts below the classification limits.

For the group of large New York City banks (right-hand block of Table III), the increases that took place in the two-year interval were much smaller than for banks outside New York City, and in a number of classifications decreases occurred. Deposits with the New York City banks appear to have been influenced more strongly than those of other institutions by Government war financing and also, so far as large accounts of individuals are concerned, by the heavy taxes on large incomes. The large blocks of investment funds, customarily held with New York City banking institutions, appear to have been more effectively tapped than the smaller accumulations of funds held with medium-sized and smaller banks throughout the country. There are definite evidences of this in the considerable contraction of personal accounts above 100 thousand dollars in contrast to a sharp rise in personal accounts in the 3 to 10 thousand dollar range, and in the drawing down of deposits held in New York City by large institutional investors.

MEMBER BANK EARNINGS IN 1943

A considerable increase in the average return on capital funds of all member banks in the Second Federal Reserve District occurred in 1943. Net profits, after taxes on net income, averaged 7.2 per cent of capital funds, compared with 4.4 per cent in 1942 and 8.9 per cent in 1936, which was the maximum for any year since the late 1920's. Although profits were largely used, as in the previous year, to strengthen the capital structure of the banks (more than a 5 per cent increase in 1943), the average ratio of capital funds to total deposits declined from nearly 14 per cent in 1942 to less than 11 per cent in 1943, because of the rapid growth in deposits. The ratio of capital funds to total assets other than cash assets and Government securities, however, increased from less than 29 per cent in 1942 to 34 per cent in 1943.

The principal cause of the increase in net profits of the banks was an excess of profits and recoveries on securities sold during the year over charge-offs on other assets. It was not due so largely, as might have been supposed, to greater income resulting from the banks' substantially increased holdings of Government securities; for the average bank, the ratio of net current earnings (before charge-offs, recoveries, and taxes on net income) to total earnings was only moderately larger than in 1942. Investments in Government securities, it is true, increased substantially; for the year they averaged 47 per cent of total assets compared with about 31 per cent in 1942. The average yield on bank investments declined, however, owing to a shortening of the average maturity of Government security holdings and to a reduction in holdings of higher yielding securities. Meanwhile loans, which for most banks yield a considerably higher rate of income than invest-

Selected Average Operating Ratios of All Member Banks
Second Federal Reserve District

	1942	1943
Number of Banks...	786	796
Percentage of Total Capital Accounts		
Net current earnings	6.7	7.3
Profits before income taxes	5.1	7.9
Net profits after income taxes	4.4	7.2
Cash dividends declared	1.8	2.0
Percentage of Total Earnings		
Interest and dividends on securities	36.1	45.0
Earnings on loans	48.5	39.5
Service charges on deposit accounts	7.0	7.0
All other earnings	8.4	8.5
Total earnings	100.0	100.0
Salaries and wages	31.5	31.5
Interest on time and savings deposits	15.1	14.8
All other expenses	28.4	27.2
Total expenses	75.0	73.5
Net current earnings	25.0	26.5
Net charge-offs (net recoveries +)	5.7	+2.9
Taxes on net income	2.4	2.5
Net profits after income taxes	16.9	26.9
Percentage of Total Assets		
U. S. Government securities	30.8	47.0
Other securities	13.2	9.6
Loans	28.7	19.4
Cash assets	24.6	22.0

ments, declined from nearly 29 per cent of total assets in 1942 to less than 19½ per cent in 1943.

The annual compilation of operating ratios of all member banks in the Second Federal Reserve District for 1943 was recently published in circular form by this bank. The accompanying table gives a number of the more important ratios. A copy of the circular, No. 2772, dated March 6, 1944, giving all the ratios compiled, may be obtained upon request.

SECURITY MARKETS

During March the market for Government securities was influenced by a slackening in commercial bank demand and by a major refunding operation by the Treasury. In contrast to the situation in January and February when commercial banks purchased large volumes of Government securities in the market, during March banks tended to be net sellers of Government securities in order to offset rising reserve requirements and an excess of Treasury receipts, including income tax collections, over disbursements.

The Treasury's refunding operation on March 15 (the exchange of seven issues callable or maturing from March through June for a new issue of 1½ per cent notes and 2¼ per cent and 2½ per cent bonds) resulted in generally firmer prices in the market despite the fact that there was a substantial supply of "rights" and later of the new 1½ per cent notes due September 1948. Many holders sold these issues in order to purchase other outstanding issues, particularly short term partially tax-exempt bonds, while others sold their holdings in order to raise funds with which to meet their income tax liabilities. However, there was a considerable demand for the new notes on the part of commercial banks, and on March 30 these securities were selling at a premium of 7/32. On March 22 subscription books were opened for ⅞ per cent certificates of indebtedness due April 1, 1945 in exchange for certificates maturing on April 1. On March 30 the new certificates were selling to yield 0.84 per cent, when issued.

For the month as a whole yields on short term partially tax-exempt and intermediate and long term taxable bonds declined. On the other hand, yields on long term tax-exempt bonds were unchanged to 0.05 per cent higher and yields on shorter term taxable bonds rose moderately. The increase in the yield on long term tax-exempt bonds (exempt from normal but not from excess profits taxes and surtaxes) was largely associated with fears that the normal tax rate on corporation incomes might be lowered and the surtax rates raised in line with the House Ways and Means Committee's plan to reduce the normal tax on individual incomes and increase the surtaxes.

Activity on the New York Stock Exchange rose during March; daily volumes exceeded 1,000,000 shares on about half the trading days of the month. Stock prices rose through the first half of March and by March 17, as measured by Standard and Poor's index of 90 combined shares, were about 4 per cent above the February close. During this period, railroad stock prices rose to their best levels since October 1937, while industrials and utilities also registered gains. A decline followed in the second half of the month, however, which canceled a large part of the earlier advance. By the end of the month, Standard's composite index showed a net rise of only about 2 per cent since February 29.

Prices of medium and lower grade corporate bonds rose slightly during March and Moody's index of the Baa bond yields declined for the fourth successive month. By the latter part of March, this index stood at 3.71 per cent compared with 3.72 at the end of February. Higher grade bond prices showed little net change for the month; yields on these issues remained at the February 29 level of 2.74 per cent. Standard's index of municipal bond yields declined from 1.85 per cent on February 23 to 1.83 per cent on March 29.

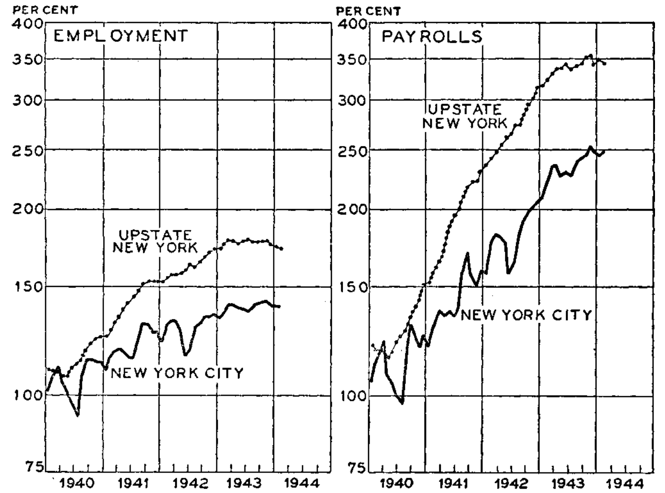
EMPLOYMENT AND PAYROLLS

Total nonagricultural employment in the country as a whole declined in February for the second consecutive month, according to reports of the Department of Labor. Contractions occurred in all but one industry classification (the finance, service, and miscellaneous group), but the major decline was in manufacturing. Most of the decrease in manufacturing reflected reductions at plants producing transportation equipment, automobiles, and chemicals. Agricultural employment in February showed about the usual seasonal gain; the total number of workers on farms on March 1, however, was the smallest number on record for that date, as reported by the Department of Agriculture.

In New York State, factory employment declined a little in each of the three months after November. By February the index had fallen to 157.1 per cent of the 1935-39 average, a figure 3 per cent below the November peak. In February declines were reported for all areas except the Elmira and the Binghamton-Endicott-Johnson City areas, where slight increases occurred. The index of factory payrolls for the State was practically the same in February as in January. Declines were reported for most Upstate areas. These were offset by an increase in New York City—an increase that reflected primarily a seasonal rise in activity in the apparel industry.

The changes that have occurred during recent years in factory employment and payrolls in both New York City and Upstate New York are shown in the accompanying chart. In each area, a large proportion of the increase in employment in the past four years resulted from substantially greater activity in the metals and machinery industries. Other industries that showed increases, although not so great as the advance in the metals group, include stone, clay, and glass products, rubber, chemicals, and foods. Employment in the apparel industry and in printing and publishing changed very little, while that in textiles declined. The

Indexes of Factory Employment and Payrolls in New York City and in Upstate New York* (1935-39 average=100 per cent)



* Data of New York State Department of Labor. Plotted on ratio scale to show proportionate changes.

decreases that have occurred in total employment since last November have resulted chiefly from a reduction in the number of workers in the metals and machinery industries and in the stone, clay, and glass products group, as well as from the usual seasonal decline in the foods industries.

The rapid advance of the index for factory payrolls after mid-1940 was due more to increases in average weekly earnings than to the greater volume of employment. As indicated in the accompanying chart, the percentage increase in payrolls for the Upstate areas has considerably exceeded that for New York City.

Indexes of Business

Index	1943 Feb.	1943 Dec.	1944 Jan.	1944 Feb.
Industrial production*, 1935-39 = 100... (*Board of Governors, Federal Reserve System*)	232	241	242	243*p*
Munitions output, Nov. 1941 = 100...... (*War Production Board*)	476	662	647	641*p*
Electric power output*, 1935-39 = 100... (*Federal Reserve Bank of New York*)	179	197	200	201*p*
Ton-miles of railway freight*, 1935-39=100 (*Federal Reserve Bank of New York*)	226	228	236*p*	
Sales of all retail stores*, 1935-39 = 100.. (*Department of Commerce*)	170	171	179*p*	
Factory employment				
United States, 1939 = 100............ (*Bureau of Labor Statistics*)	166	169	167	166*p*
New York State, 1935-39 = 100....... (*New York State Dept. of Labor*)	158	160	158	157*p*
Factory payrolls				
United States, 1939 = 100............ (*Bureau of Labor Statistics*)	298	328	327*p*	
New York State, 1935-39 = 100....... (*New York State Dept. of Labor*)	275	297	300	300*p*
Income payments*, 1935-39 = 100....... (*Department of Commerce*)	201	225	228*p*	
Wage rates, 1926 = 100................ (*Federal Reserve Bank of New York*)	148	159	159*p*	
Cost of living, 1935-39 = 100........... (*Bureau of Labor Statistics*)	121	124	124	124*p*
Velocity of demand deposits*, 1935-39=100 (*Federal Reserve Bank of New York*)				
New York City......................	69	65	74	88
Outside New York City..............	75	74	81	87

*Adjusted for seasonal variation. *p* Preliminary.

DEPARTMENT STORE TRADE

Department store sales in the Second Federal Reserve District during March were approximately 15 per cent above those in March 1943, reflecting in large part stimulation of retail trade due to the impending rise in the excise taxes on certain commodities and the earlier date of Easter this year. Sales of cosmetics, furs, jewelry, and liquors were exceptionally large. After allowance for seasonal factors, the index of department store sales increased about 5 per cent between February and March, and was only a little below the all-time high of February 1943.

An unusually large volume of merchandise was received by the department stores during February. Despite the high level of sales, stocks on hand at the close of the month again increased, after adjustment for seasonal variation. In the first two months of this year most of the loss that had occurred in the last four months of 1943 was regained.

Outstanding orders for merchandise purchased by the department stores but not yet delivered to them declined a little during February, and at the end of the month they were about 25 per cent below the peak reached last summer. The current volume, however, is two-thirds larger than on February 28, 1943.

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

Locality	Net Sales Feb. 1944	Net Sales Jan. and Feb. 1944	Stocks on hand Feb. 29, 1944
Department stores, Second District...	−3	0	+11
New York City..................	−1	+1	+12
Northern New Jersey............	−9	−7	+5
Newark.......................	−12	−9	+5
Westchester and Fairfield Counties..	−6	−9	+4
Bridgeport....................	−11	−14	−6
Lower Hudson River Valley........	+10	+15	+5
Poughkeepsie..................	+8	+13	—
Upper Hudson River Valley........	−4	−3	+4
Albany.......................	+5	+5	—
Schenectady..................	−11	−9	+8
Central New York State...........	0	+4	+13
Mohawk River Valley...........	−6	−4	0
Utica.......................	−5	−2	—
Syracuse.....................	+2	+8	+21
Northern New York State.........	+5	+4	—
Southern New York State.........	−14	−4	+22
Binghamton..................	−15	−7	—
Elmira.......................	−8	−2	—
Western New York State..........	−5	−1	+16
Buffalo......................	−6	−1	+18
Niagara Falls..................	−14	−7	+10
Rochester....................	−1	0	+15
Apparel stores (chiefly New York City)	−11	−3	+32

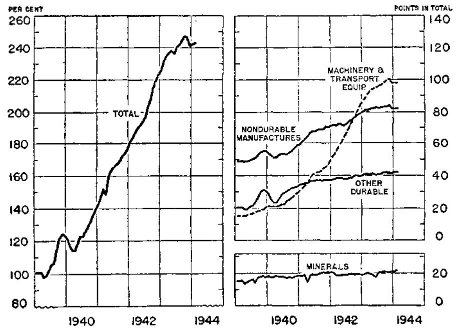
Indexes of Department Store Sales and Stocks Second Federal Reserve District

Item	1943 Feb.	1943 Dec.	1944 Jan.	1944 Feb.
1935-39 average = 100				
Sales (average daily), unadjusted.........	123	226	112	114
Sales (average daily), seasonally adjusted.	152	123	141	141
1923-25 average = 100				
Stocks, unadjusted.....................	106*r*	112	109	119
Stocks, seasonally adjusted.............	111	115	119	125

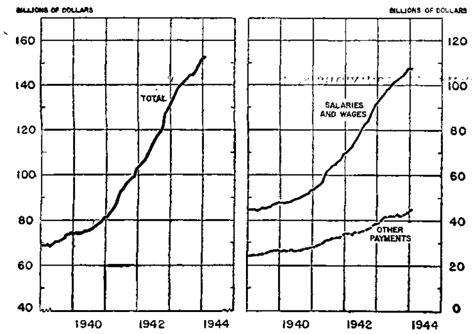
r Revised

FEDERAL RESERVE BANK OF NEW YORK

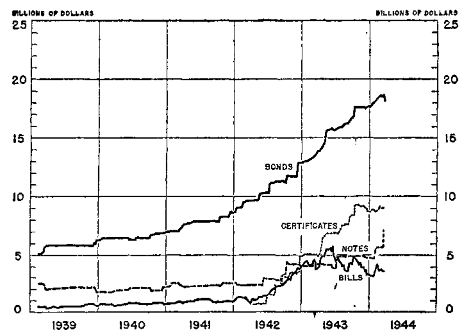
MONTHLY REVIEW, APRIL 1, 1944



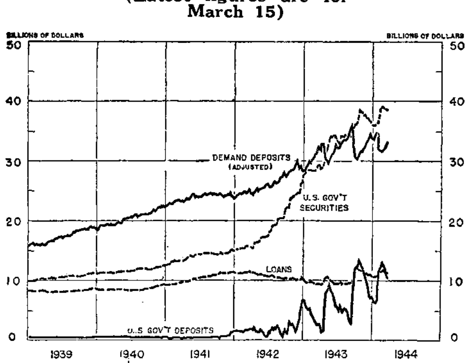
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



Income Payments to Individuals, Based on Department of Commerce Estimates. Wages and Salaries Include Military Pay. Monthly Figures Raised to Annual Rates



Government Security Holdings of Banks in Leading Cities. Guaranteed Securities Excluded. Data not Available Prior to February 8, 1939; Certificates First Reported on April 15, 1942 (Latest figures are for March 15)



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 March 15)

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity was maintained at a high level in February and the early part of March. Commodity prices and retail sales showed little change.

Industrial Production

Output at factories and mines was at about the same rate in February as in January and the Board's seasonally adjusted index advanced 1 point to 243 per cent of the 1935-39 average.

Steel production continued to advance in February and in the first three weeks of March. Output of nonferrous metals showed little change as curtailment of aluminum production offset increases in output of other metals. Magnesium production was ordered curtailed, beginning in March, by approximately 3,000,000 pounds per month or 7 per cent of January output. Activity in the machinery, transportation equipment, and other durable goods industries showed little change from January to February.

Output of textile products was maintained at the January level and production of most manufactured food products declined less than is usual at this season. Butter and cheese production continued to increase seasonally in February. The volume of hogs slaughtered under Federal inspection declined 6 per cent from the exceptionally high January level; a much larger decline is usual in this month. Chemical production continued to decline as output of small arms ammunition and explosives was further curtailed.

Fuel production rose slightly in February to a level 10 per cent above the same month last year. Output of bituminous coal and crude petroleum was maintained at a high level, and anthracite coal production increased 19 per cent as a result of a seven-day work week in effect for the month of February.

Distribution

Total retail sales in February continued about as large as in January and exceeded somewhat the volume of a year ago. At department stores sales in February were about 10 per cent smaller than last year when there was a buying wave in clothing. During the first three weeks of March department store sales exceeded the volume of a year ago, reflecting in part the earlier date of Easter this year.

Freight carloadings, after allowance for seasonal changes, were maintained during February and the first two weeks in March in the unusually large volume reached in December and January.

Commodity Prices

Prices of cotton and livestock increased somewhat from the middle of February to the middle of March while most other wholesale commodity prices showed little change.

Retail food prices declined 1 per cent from mid-January to mid-February owing chiefly to seasonal decreases in prices of eggs and citrus fruit. Retail prices of most other goods and services advanced slightly.

Bank Credit

During the latter part of February and the first half of March the average level of excess reserves at all member banks fluctuated around one billion dollars. Member bank reserve requirements increased by about 400 million dollars as the result of private deposit expansion which, in turn, was the result of Treasury disbursements from War Loan accounts which require no reserves. Money in circulation increased 400 millions and the gold stock declined by 130 millions. Funds to meet these demands were supplied by additions to Reserve Bank security holdings and a temporary decline in Treasury deposits at the Reserve Banks. In the four weeks ended March 15, Government security holdings of the Federal Reserve Banks rose by 720 million dollars, reflecting mainly substantial increases in bill holdings under repurchase option; note and certificate holdings also increased.

At reporting member banks in 101 leading cities Government security holdings declined by 540 million dollars during the four weeks ended March 15. Holdings of notes rose by 1.5 billion dollars while bonds and guaranteed obligations declined as the result of an exchange of maturing and redeemable issues for a new 1½ per cent note issue. Holdings of bills also declined, reflecting principally sales to the Reserve Banks. Loans to brokers, dealers, and others for purchasing or carrying Government securities, which had increased moderately during the Fourth War Loan Drive, fell by 340 million dollars in the following four weeks. Commercial loans also declined somewhat.

Adjusted demand deposits rose by 1.9 billion dollars during the four weeks ended March 15, representing a gain of more than half of the funds withdrawn from such accounts during the drive. Government deposits at these banks fell by 2.6 billion dollars in the month following the drive.