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MONEY MARKET IN MAY

During the past month a large amount of Federal Reserve credit was again required by member banks to offset their losses of reserve funds, chiefly due to the continued increase in currency circulation, and to maintain their reserves at the levels required by the volume of their deposits. Total Federal Reserve credit outstanding increased by more than 1 billion dollars in the four weeks from April 26 to May 24, and on the latter date was 3 billion dollars greater than at the low point of the year on February 9, at the conclusion of the Fourth War Loan drive. The increase during the past year has been approximately 8 billion dollars.

The factors responsible for the heavy demand for Federal Reserve credit in May were the same as those that have been operative for a number of months. These factors and their relative magnitude are illustrated by the accompanying chart, which also shows the principal method by which the demands have been met—

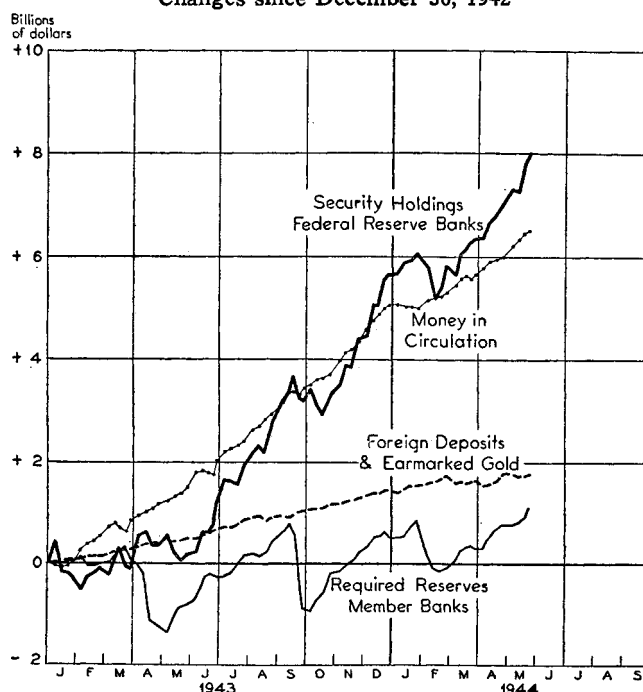
Federal Reserve Bank purchases of Government securities. As the chart indicates, the one dominant factor which is responsible for the greater part of member bank needs for additional reserve funds is the persistent public demand for currency. During the period of rapid expansion of war production, the

rise in the volume of currency outstanding paralleled fairly closely the growth in industrial production and the accompanying increase in wage payments. Despite the leveling off in industrial activity and payrolls since the latter part of last

year, the volume of currency outstanding has continued to rise at much the same rate as in 1943. This continued growth in currency outstanding, which has its parallel in practically all parts of the world, suggests a growing use of currency in avoidance of taxation and for illicit transactions in violation of wartime restrictions and regulations, as well as for accumulations of individual savings in cash despite more favorable alternatives such as investment in interest bearing Government securities or deposits in banks.

Another persistent, but much less important, factor affecting bank reserves has been the growth in foreign deposits and earmarked gold in the Federal Reserve Banks. Heavy payments for strategic materials obtained in foreign countries for the war program and payments for the maintenance of our armed forces abroad, in the absence of the offsetting exports which characterized our peacetime international trade, have resulted in a fairly steady accumulation of dollars by a number

Principal Factors Affecting Member Bank Reserves,
Changes since December 30, 1942*



* Cumulative weekly data.
Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of New York.

Back the Attack - Buy MORE Than Before

★ FIFTH WAR LOAN DRIVE OPENS JUNE 12 ★

of foreign countries during the period of our participation in the war. Considerable amounts of these dollars have been converted into gold, while smaller amounts have been invested in United States Government securities and other amounts have been deposited in foreign central bank or government accounts in the Federal Reserve Banks. Foreign purchases of gold in this country during the war period and the accumulation of dollar claims by foreigners are discussed in more detail elsewhere in this *Review*.

The third principal factor, and the one which is responsible for a major part of the fluctuations (as distinguished from growth) in the demand for Federal Reserve credit, is the irregular increase in required reserves of member banks which has accompanied the wartime growth in their deposits. As the chart indicates, member bank reserve requirements have been subject to wide swings since the early part of 1943, reflecting the shifts of deposits from private accounts to Government War Loan accounts (which are secured by collateral but require no reserve) during War Loan drives, and the subsequent use of Government deposits to meet war and other expenditures of the Government, which results in renewed growth in private deposits and in the required reserves of the banks.

During 1941 and 1942, a considerable part of the drain on member bank reserves caused by these factors was met by the use of idle funds in the banks. Excess reserves of member banks were drawn down from nearly 7 billion dollars at the beginning of 1941 to approximately 2 billion in the early part of 1943. Subsequently, excess reserves were reduced more slowly, to about 1 billion at the end of 1943, and thus far in 1944 have fluctuated between a maximum of a little over 1½ billion dollars and a minimum of approximately 600 million. During this period the remaining excess reserves frequently have not been located at the points of greatest need, and it has been necessary to meet most of the demands for reserve funds by extensions of Federal Reserve credit, chiefly through purchases of Government securities by the Reserve Banks, although there has recently been an increase in bank borrowing from the Reserve Banks.

The major part of the Reserve Bank acquisitions of Government securities since the end of 1942—7.5 billion dollars out of a total of 8.0 billion—has taken the form of purchases of Treasury bills. A large portion of the total has been acquired through direct sales of Treasury bills by member banks to the Federal Reserve Banks to obtain needed reserves, the member banks retaining an option to repurchase the bills at any time before maturity. Because of the persistent demand for currency and other factors affecting the reserves of the banks, however, considerable portions of the bills sold in that manner were not repurchased, but remained in the Federal Reserve Banks to maturity. Other sizable amounts of Treasury bills were purchased in the market from dealers and others for the System Open Market Account. From time to time other types of Government securities have been purchased by the System

Open Market Account, the type and amount depending on conditions in the Government security market, but on the whole, such purchases have constituted a relatively small part of the total extensions of Federal Reserve credit since the end of 1942. In the four weeks ended May 24, 1944, for example, purchases of Treasury bills accounted for 859 million of the total acquisitions of 991 million dollars of Government securities by the Reserve Banks.

As the result of these operations, a large part of the available supply of Treasury bills has gradually come to rest in the Federal Reserve System. At the end of April, the System held about 58 per cent of all outstanding Treasury bills in contrast to 32 per cent in June 1943. The amount of bills held outside the Federal Reserve System fell from about 8.1 billion dollars last June to approximately 5.5 billion at the end of April 1944. Holdings of Treasury bills by weekly reporting member banks, both in New York City and in other principal cities throughout the country, have fallen in recent weeks to the lowest levels since September 1942 (when the total available supply was only about 4½ billion dollars compared with more than 13 billion now). The possibility of continuing to supply needed Federal Reserve credit through purchases of Treasury bills from the banks consequently has tended to become progressively more limited in recent months.

Partly as a means of increasing the available supply, and partly as a means of providing the Treasury with additional funds to supplement the funds obtained in the War Loan drives and through current revenues, the Treasury increased its weekly offerings of bills by 200 million dollars to 1.2 billion dollars beginning with the issue of May 11. This increase in the supply of bills is somewhat in excess of the average weekly rate of demand for Federal Reserve credit over extended periods and should, if continued, permit member banks to increase moderately the amount of Treasury bills at their disposal for use in adjusting their reserve positions. During the first three weeks, however, the increased issues of Treasury bills resulted in no increase in holdings by member banks in the principal cities, as purchases of new bills by the banks were more than offset by sales of bills previously held, owing to the combined effect of heavy demands for currency by their customers, substantial increases in reserve requirements, and, in the case of individual banks, losses of funds through transfers to other institutions or localities.

There has been a noteworthy increase recently in the number of member banks which have obtained needed reserves by borrowing from their Federal Reserve Banks—a method which for a long period had fallen into disuse and which the banks had shown some reluctance to revive. A few small banks used the borrowing method intermittently throughout the years of huge accumulations of excess reserves by the banking system as a whole, but even after excess reserves had largely disappeared most banks refrained from using that method of obtaining reserve funds. A revival of borrowing has been spreading gradu-

ally, however, beginning with some of the banks in New York City, and during the past month the number of important banking institutions in this District which borrowed at the Reserve Bank, at least for brief periods, was the largest in a number of years. For the country as a whole, total member bank borrowings rose on May 24 to 227 million dollars, the largest amount in nearly eleven years. This figure compares with approximately 90 million four weeks earlier, and a minimum for the year to date of 22 million on February 9.

Demands for Federal Reserve credit may be expected to continue in substantial volume until the Fifth War Loan drive gets well under way, owing in part to the continued accumulation of deposits in private accounts and the accompanying increase in member bank reserve requirements, and to the continued demand for currency. After the issue date for Fifth War Loan securities (June 26), however, heavy payments for the securities may be expected to result in a large shift of deposits to War Loan accounts and an accompanying large reduction in member bank reserve requirements, which should permit the retirement of some Federal Reserve credit called into use before that date. So long as war activities continue on the present scale, however, a generally upward trend in the volume of Federal Reserve credit in use may be expected, with only intermittent irregularities caused by War Loan drives and, even more temporarily, by changes in the volume of Treasury deposits in the Reserve Banks. The magnitude of the increase will depend mainly upon the demand for currency and upon the amount of bank credit required to supplement public absorption of Government securities in financing the war program; the extent to which the public accumulates currency not needed for actual circulation will be an especially important factor in determining the needs of the banks for Federal Reserve credit.

MEMBER BANK CREDIT

In order to meet increases in reserve requirements, associated with the continuing shift of deposits from War Loan accounts to private deposits, and to offset the sustained outflow of currency into circulation, member banks in recent weeks have been large sellers of Government securities, principally Treasury bills. During the five-week period from April 19 through May 24, the weekly reporting member banks in New York City sold 492 million dollars of bills, reducing their holdings to 780 million, the lowest level since September 1942. In addition, these banks made small net sales of Treasury notes, certificates of indebtedness, and guaranteed issues, which were offset in part by purchases of Treasury bonds. Bill holdings of the reporting banks in 100 cities outside New York decreased 364 million dollars between April 19 and May 17, to 1,628 million, again the lowest level since September 1942. Holdings of certificates, Treasury bonds, and guaranteed issues declined moderately, while holdings of notes increased.

In both New York and the 100 other centers, the total volume of loans declined further, principally as the result of a continued contraction in commercial, industrial, and agricultural loans.

Total deposits of the member banks in 101 cities continued to decrease, since the contraction in the Government accounts outweighed the expansion in adjusted demand and time deposits, combined. The latter have, however, increased 4.2 billion dollars since the close of the last War Loan drive.

FOREIGN PURCHASES OF GOLD

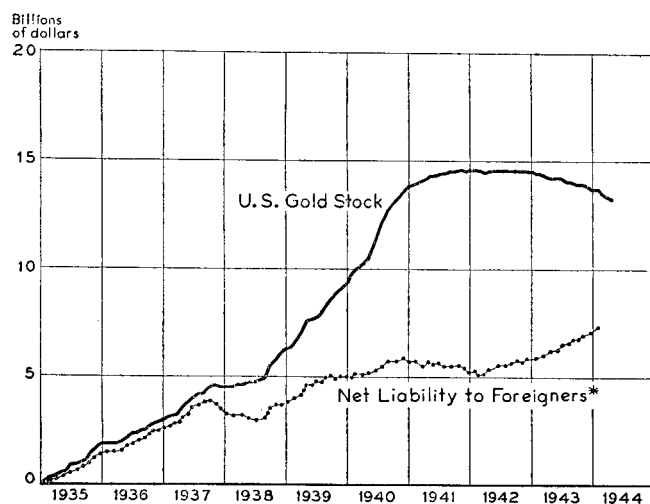
One of the most significant wartime developments arising out of this country's balance of international payments has been the increasing tendency on the part of foreign central banks and governments to purchase gold to be earmarked for their accounts in this country and, in some cases, exported subsequently. The significance of this development lies not so much in the amounts being purchased—the volume thus far has not been large relative to other items in our wartime international balance of payments—but in the fact that the foreign buying has brought about a sustained "outflow" of gold for the first time since 1933.

It will be recalled that, owing first to the prewar political crises in Europe and then to the Allies' need for American war supplies after the war began, an unprecedented inflow of foreign gold occurred in the years before and immediately after the outbreak of war. From the beginning of August 1938 through the first few months of 1941 about 9 billion dollars of foreign gold was acquired by the United States. By the early part of 1941, however, not only had the German occupation of large parts of Europe brought to a halt shipments from those European countries which previously had been large sellers of gold, but the British gold reserves had been virtually exhausted by the large scale liquidation prior to the inauguration of the lend-lease program. As a result, such gold as was shipped to the United States after the early part of 1941 was limited principally to new production.

The shift from an inward to an outward movement was not completed, however, until foreign monetary authorities began to buy gold here. The foreign buying first became apparent around the middle of 1941, and by November 1941 the purchases had reached sufficient proportions to cause a reduction in our monetary gold stock—the first sizable monthly decline since 1937. Foreign purchases of gold continued at a moderate rate through the end of 1942, when conversions of dollar exchange into gold were stepped up substantially. From the October 1941 peak the United States gold stock has declined nearly 1½ billion dollars, or about 6½ per cent. After gold acquired through domestic production is taken into account, the indicated loss of gold to foreign countries has amounted to around 1.7 billion dollars, or at an average monthly rate of about 55 million dollars.

It should be emphasized, however, that despite our loss of

Increase in U. S. Gold Stock and in Reported Net Liability to Foreigners,* Cumulative since December 1934



* Reported net liability to foreigners includes changes in foreign deposits and holdings of American marketable securities, and changes in American deposits abroad and holdings of foreign securities.
Source: *Federal Reserve Bulletin*.

gold since October 1941, this country's gold reserves at present are far larger in relation to its net liability to foreigners, arising out of foreign deposits and investments in this country, than they were when the war began. As can be seen from the accompanying chart, the United States' current holdings of gold are still 4.8 billion dollars above the level prevailing at the beginning of the war in 1939. However, this country's reported net liability to foreigners on capital account (through increases in foreign deposits in this country and changes in foreign holdings of American marketable securities and in American deposits abroad and holdings of foreign securities) is only about 2.5 billion dollars higher. Therefore, our gold reserves in relation to the net liability to foreigners on capital account are now 2.3 billion dollars more than they were before the war, when we had experienced the largest inflow of foreign gold in the history of the country. The gold stock of the United States is still over 21 billion dollars, or about three fifths of the total monetary gold stock of the world.

As to the motives for the foreign buying of gold, most of the countries which have been the chief buyers of gold have two characteristics in common. In the first place, all have been accumulating substantial amounts of dollar exchange in recent years. This has been chiefly the result of our large scale expenditures abroad for the purchase of strategic materials and other war purposes, combined with the inability of foreign countries to fulfill their demand for American civilian goods because of our restricted production of these goods and limited shipping facilities. Furthermore, most countries have had large increases in their currency circulation during the war period which require corresponding increases in their required monetary reserves, except where legal reserve requirements have been modified or suspended.

Secondly, most of the gold buying countries had experienced serious drains on their gold reserves in previous years. This can be seen from an examination of published figures on foreign gold reserves, although, since the data cover gold held at home as well as abroad, they do not necessarily reflect only the amounts acquired in the United States. Argentina, for example, had been obliged to liquidate a large part of its gold reserve between 1928 and 1934. According to the 1943 Annual Report of the Argentine central bank, that bank's total gold holdings at the end of 1943 amounted to 939 million dollars, an amount more than twice that held in August 1939. When allowance is made for the change in the dollar value of gold in 1934, however, the present holdings are still below the 1928 level. The largest percentage increase in Latin American gold reserves in recent years has occurred in Brazil's total holdings, which have risen more than 600 per cent since 1939 to around 250 million dollars. However, Brazil had lost virtually all of its gold reserves in 1930 and the recent acquisitions have merely restored the gold stock to about the equivalent of the volume held in 1929. Gold holdings of Chile and Uruguay, which have been increased substantially in recent months, also are about equal to the highs reached in the 1920's, while the gold resources of Mexico, Venezuela, and Colombia are at all-time highs, owing in part to the fact that even in the predepression years these countries did not hold sizable reserves in gold.

The gold reserves of all the Latin American republics at the end of March 1944 may be estimated as in the neighborhood of 2.1 billion dollars. As can be seen from the accompanying table, this is about triple the amount held in August 1939; nevertheless, it is only about 25 per cent above the

Monetary Gold Reserves*
(In millions of dollars)

Country	Aug. 1939	June 1941	Mar. 1944†	Change	
				Aug. 1939 to Mar. 1944†	June 1941 to Mar. 1944†
United States.....	16,646	22,624	21,429 (Apr.)	+4,783	-1,195
Estimated total foreign (Excl. U.S.S.R.).....	10,800	8,200	11,900	+1,100	+3,700
Estimated total Latin America.....	710	845	2,100	+1,390	+1,255
Argentina.....	431	‡	939 (Dec. '43)	+ 508	—
Bolivia.....	4	4	13 (Feb.)	+ 9	+ 9
Brazil.....	35	62	255 (Feb.)	+ 220	+ 193
Chile.....	30	30	55 (Feb.)	+ 25	+ 25
Colombia.....	20	18	79	+ 59	+ 61
Ecuador.....	4	5	18 (Feb.)	+ 14	+ 13
El Salvador.....	7	7	11 (Feb.)	+ 4	+ 4
Guatemala.....	8	11	19 (Dec. '42)	+ 11	+ 8
Mexico.....	29	59	230	+ 201	+ 171
Peru.....	20	20	33	+ 13	+ 13
Uruguay.....	68	108	117 (Nov. '43)	+ 49	+ 9
Venezuela.....	52	40	100	+ 48	+ 60
Other countries					
Spain.....	‡	42 (Dec. '41)	85 (Sept. '43)	—	+ 43
Sweden.....	355	192	421	+ 66	+ 229
Switzerland.....	587	528	993	+ 406	+ 465
Turkey.....	30	97	171 (Jan.)	+ 141	+ 74

* The individual countries listed here in general represent those which publish figures regularly on their total gold reserves.

† Or date for which latest data are available.

‡ Published figure for total gold reserves not available.

1929 level, after adjustment for the 1934 change in dollar value.

Published figures also indicate large increases in Swiss and Swedish holdings during the last few years, following heavy losses before and immediately after the start of hostilities. Swiss holdings, at 993 million dollars, were at a record level at the end of last March, but the Swedish gold stock, at 421 million, was only moderately above the level prevailing before the war. Turkish gold reserves also have increased considerably, the holdings as of last January being 141 million dollars above the level in August 1939. On the other hand, gold stocks of our European Allies, some of whom sustained heavy losses in the early part of the war period, are presumably still below prewar levels.

It seems clear that the current acquisitions of gold represent chiefly a desire on the part of many foreign monetary authorities to utilize the wartime—and therefore perhaps temporary—accumulation of dollars to recoup gold reserves lost in the prewar and early war years. Legal prohibitions or limitations of the holding of central bank reserves in the form of dollars or other foreign currencies undoubtedly have also been a factor in gold purchases here by some countries. Political considerations may have been a factor in a few instances. In general, the world-wide demand for gold constitutes an answer to the fears or a denial of the expectations expressed a few years ago that the use of gold for monetary reserves was about to be abandoned by many countries.

From the point of view of our balance of international payments, and under existing world conditions, the present program of gold buying may be regarded as a moderate, but salutary, redistribution of the world's gold supply which had previously accumulated in this country. The movement of gold away from the United States therefore can be considered as a corrective—at least for the time being—of previous unsettling factors in our balance of international payments, and should facilitate the establishment and maintenance of stability in the exchange values of foreign currencies after the war.

MANUFACTURING INDUSTRIES IN NEW YORK CITY

More than one fourth of New York City's gainfully employed residents are employed in manufacturing establishments. Although manufacturing is not New York's dominant industry, developments in that field must be one of the important considerations in any analysis dealing with the economic future of the City. Some light on the postwar problems of the City's manufacturing industries may be afforded by an examination of changes that have occurred in the position of New York as the leading manufacturing city of the country, and by an analysis of the structure of the City's manufacturing industries in 1939.

New York in 1939 had nearly one and one-half times as many manufacturing wage earners as Chicago, its nearest competitor. (See accompanying table.) A lead of about the same magnitude is indicated, also, by the value of products and by

SECURITY MARKETS

The major portion of the trading in Government securities during May consisted of switching operations by investors who were adjusting their portfolios in anticipation of the Fifth War Loan drive. In addition, there was a moderate volume of outright predrive selling by nonbanking investors, particularly by savings banks and to a lesser extent by insurance companies, but such selling for the most part was readily absorbed by the market. On the whole, these adjustments were accomplished with only relatively small changes in the yields on Government securities.

Yields on taxable Treasury bonds showed almost no change for the month despite a moderate volume of selling by savings banks and insurance companies. Changes in yields on most issues of short and intermediate tax-exempt bonds were mixed, although in the early part of May there was a fairly strong corporate demand for the intermediate obligations. On the other hand, yields on the longer term tax-exempt bonds tended to decline, in contrast to the experience in March and April when a considerable rise occurred. In order to adjust their reserve positions, many commercial banks sold certificates of indebtedness as well as Treasury bills during May, and yields on some certificates tended to rise slightly. System Account purchases absorbed a portion of these sales.

Although the volume of trading on the New York Stock Exchange continued to be relatively light throughout May, stock prices made moderate advances. Standard and Poor's index of 90 combined stocks rose $3\frac{1}{2}$ per cent through May 29, to a level only slightly below the 1944 high of March 17.

Small increases in prices of domestic corporate bonds were for the most part confined to medium and lower grade rail and industrial issues. Moody's index of Baa bond yields declined further from 3.66 per cent to 3.60 per cent on May 29, while the index of yields on Aaa corporate bonds showed no change. As measured by Standard and Poor's index, yields on municipal bonds declined slightly from 1.88 per cent on April 26 to 1.85 per cent on May 24, following a rise in yields in April.

the value added by manufacture. From 1899 to 1939, however, the share of New York City in the country's total number of wage earners engaged in manufacturing decreased from 8.4 to 6.5 per cent (according to Census of Manufactures data). At the same time, the percentage of the population of the United

Comparison of Five Leading Manufacturing Cities
of the United States, 1939
(Dollar figures in millions)

City	Number of manufacturing wage earners	Value of products	Value added by manufacture
New York City.....	512,666	\$ 4,109	\$ 1,871
Chicago.....	347,839	2,843	1,280
Philadelphia.....	196,356	1,418	652
Detroit.....	182,373	1,583	650
Cleveland.....	112,092	882	434

Source: U. S. Bureau of the Census, Census of the United States, 1940, *Manufactures*, I, pp. 264, 496, 718, 806, 900.

States living in New York City increased from 4.5 to 5.7 per cent.

Until the end of World War I the decline was only in relation to changes in the United States as a whole; the actual number of manufacturing wage earners employed in New York City increased continuously. After 1919, however, the number of workers in manufacturing declined irregularly. Even in prosperity years, it never reached the level of 1919. In 1939 wage earners and salaried employees (including factory employees not directly engaged in manufacturing) numbered about 690,000 persons. Substantial increases during recent war years have raised the number to more than one million persons, a figure higher than in 1919.

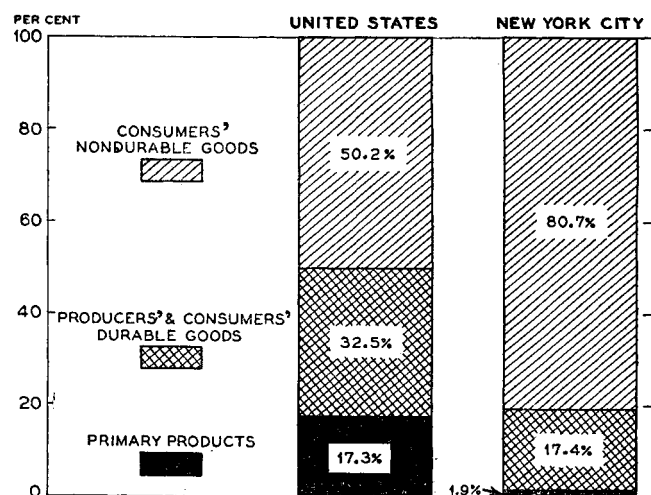
The factors mentioned most frequently as those responsible for the relative decline until 1939 are the shifting of the center of population to the West, a tendency to locate industrial establishments on the fringe of rather than in the midst of large cities, the decline of foreign trade and of the supply of cheap immigrant labor, and a higher level of wages and cost of living than exists in many other communities. Undoubtedly, each of these adverse factors affects to a varying degree the competitive position of the different industries of the City. But some of these factors, and other disadvantages, can be found in many other manufacturing centers. While the disadvantages are outweighed in other industrial centers by proximity of raw materials, cheap electric power, and good railroad connections, very different compensating advantages are offered by New York City: proximity to wholesale markets, extensive financial facilities, diversified labor force. Industries that find conditions in New York City particularly favorable are those which manufacture nonstandardized products, very sensitive to changes in style. In such industries, success depends on promotional effort, rapid distribution, and ingenuity in material and design of products, rather than on low unit costs.

STRUCTURE OF NEW YORK CITY'S MANUFACTURING INDUSTRY

New York City's manufacturing industries are primarily those producing consumers' nondurable goods, as indicated by the accompanying chart. The real strength and nation-wide importance of the City's industries lie in this field, which in 1939 employed four out of five of New York's manufacturing wage earners. At that time, more than one tenth of the entire country's workers in consumers' nondurable goods manufactures were employed in New York City.

Less than 1 per cent of the country's wage earners in primary manufacturing, such as refining of metals and petroleum, worked in New York. In the field of producers' and consumers' durable goods industries (including metal products, machinery, and furniture), the City's position was somewhat stronger; about 3.5 per cent of the nation's workers in these industries were employed in the City's factories. One of the strong elements in the City's economic structure is the diversification of New York City's durable goods industries; this is particularly true in comparison with other important manufacturing centers that depend primarily on one single large durable goods industry. In past decades, employment in New

Distribution of Wage Earners in Manufacturing Industries, 1939*



* Based on data from U. S. Bureau of the Census, Census of the United States, 1940, *Manufactures*.

York City fluctuated less than in the country as a whole because durable goods industries, where cyclical swings are particularly pronounced, are relatively unimportant in the City.

OUTLOOK

New York City has been affected by the war to a lesser degree than most other industrial areas. In the early months, it was little affected by the first wave of war orders, which were channeled to regions with large war plants. When full employment of resources was approached, and large corporations increasingly met the bottlenecks of dwindling labor supply and limited plant facilities by subcontracting, the small establishments of New York City began to benefit more largely by the war production boom.

During the transition period, New York City's manufacturing industries will be in a better position than those of many war boom areas because their reconversion problems are relatively small, because they did not experience an inflow of war workers, and because their present high level of employment is due to fuller utilization of existing facilities, rather than to the addition of new plants. Once this reconversion is completed New York City's manufacturers will face the same problems as the rest of the country. During the last few decades, total employment in the nation's manufacturing industries tended to level off in spite of the rapid increase in the volume of output. The increase in productivity which caused these divergent trends in output and employment reflects technological and managerial progress, which will certainly continue or even be accentuated after the war.

The outlook for manufacturing industries in New York City must be viewed against the background of a general shift in urban employment opportunities from manufacturing to secondary activities, such as distribution and various service industries. If the relative share of manufacturing in the economic life of the metropolis is to be maintained, the demand for its products must increase constantly or new industries must be attracted.

The predominance in the City of consumers' nondurable goods industries is a valuable asset for the postwar period. If this country succeeds in maintaining, after the war, high levels of employment and consumption, demand for nondurable goods cannot fail to expand, and New York City is well equipped to supply the country with a wide variety of such products. In the earlier part of the postwar period, foreign demand for consumers' goods might be an additional factor, though the accent will probably be on cheapness of such products rather than on style and quality. As a whole, the manufacturing industries of New York City depend more directly on the volume of expenditures of consumers than do the manufacturing industries in large centers where producers' goods are the most important products.

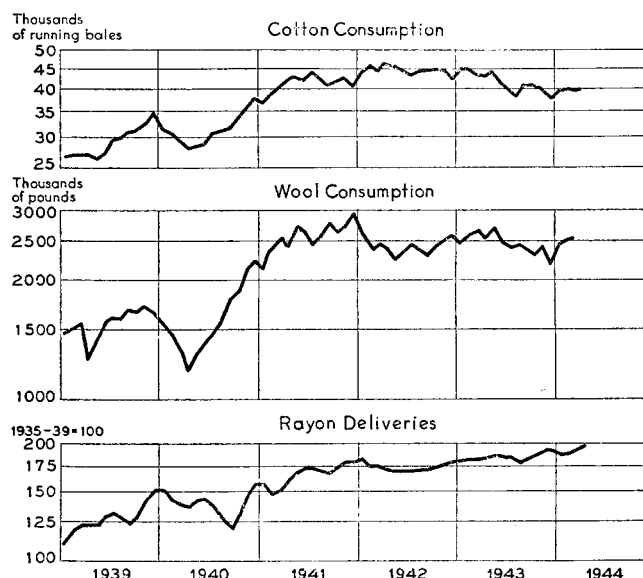
BUSINESS ACTIVITY IN APRIL

Fluctuations in total industrial activity have been small in recent months, and suggest that output as a whole has passed its wartime peak; significant increases in the next few months are likely to be confined to those industries vital to the war production program and to civilian needs. During April additional cutbacks were made in the production of small arms ammunition and explosives, in accordance with the program announced last December, and output of aluminum was further curtailed. Emphasis has shifted to output of landing craft, which showed an increase of 35 per cent in April, to the heavy shell program, and to the production of farm machinery, which in April exceeded the highest rate of output attained in any peacetime year. Reflecting the high level of output in these industries, steel production in April reached a rate of more than 252,300 tons daily.

Manpower shortages have limited operations in such important industries as copper, lumber, and cotton textiles. Daily average copper production declined 9 per cent on a seasonally adjusted basis during April, and lumber output decreased slightly for the fourth consecutive month. In the cotton textile industry consumption of cotton by the mills has fallen off sharply since last summer, as indicated by the accompanying chart; for the first four months of 1944 it averaged 11 per cent less than a year ago. Since late 1942 the number of workers in cotton textiles has been declining, as large numbers have been drafted for the armed forces and many more have left the industry for higher paid jobs in shipbuilding and aircraft plants. The rate of labor separations was still high in March 1944—8.19 per hundred workers compared with 7.27 for all manufacturing—although it had declined from the peak of 9.59 per hundred reached in March 1943. In an effort to halt the decline in cotton textile output, the War Manpower Commission has ordered the industry on a 48-hour week effective May 14, 1944; producers of cotton yarn have been directed to maintain the highest rate of production reached in any quarter of 1943; and revisions in price ceilings of cotton goods are under consideration.

Output in other branches of textile manufacturing has not

Measures of Activity in Textile Manufacturing*



* Data for cotton and wool are daily averages, by months, adjusted for seasonal variation by the Federal Reserve Bank of New York. Adjusted index for rayon deliveries is that of the Board of Governors of the Federal Reserve System. Plotted on ratio scale to show proportionate changes.

been so seriously affected as that in cotton textiles. Mill consumption of wool, in the first quarter of this year, averaged 3 per cent less than a year ago, reflecting primarily the sharp decline in military demand for wool fabrics since mid-1943 which has enabled many mills to convert to light weight civilian fabrics. Rayon deliveries for the first four months of 1944 were 5 per cent higher than a year ago, chiefly because of the expanding need for rayon cord in synthetic rubber tires.

Indexes of Business

Index	1943	1944		
	Apr.	Feb.	Mar.	Apr.
Industrial production*, 1935-39 = 100 (Board of Governors, Federal Reserve System)	237	245	242	240p
Munitions output, Nov. 1941 = 100 (War Production Board)	547	636r	667r	652p
Electric power output*, 1935-39 = 100 (Federal Reserve Bank of New York)	183	201	201	202p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	229	237	233p	
Sales of all retail stores*, 1935-39 = 100 (Department of Commerce)	159	177	178p	
Factory employment United States, 1939 = 100 (Bureau of Labor Statistics)	168	166	164	161p
New York State, 1935-39 = 100 (New York State Dept. of Labor)	160	157	155	152p
Factory payrolls United States, 1939 = 100 (Bureau of Labor Statistics)	310	328	325p	
New York State, 1935-39 = 100 (New York State Dept. of Labor)	289	300	299	286p
Income payments*, 1935-39 = 100 (Department of Commerce)	208r	231r	230p	
Wage rates, 1926 = 100 (Federal Reserve Bank of New York)	151r	160r	160p	
Cost of living, 1935-39 = 100 (Bureau of Labor Statistics)	124	124	124	125p
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City	84r	88	79	73
Outside New York City	89	87	82	76

*Adjusted for seasonal variation. p Preliminary. r Revised.

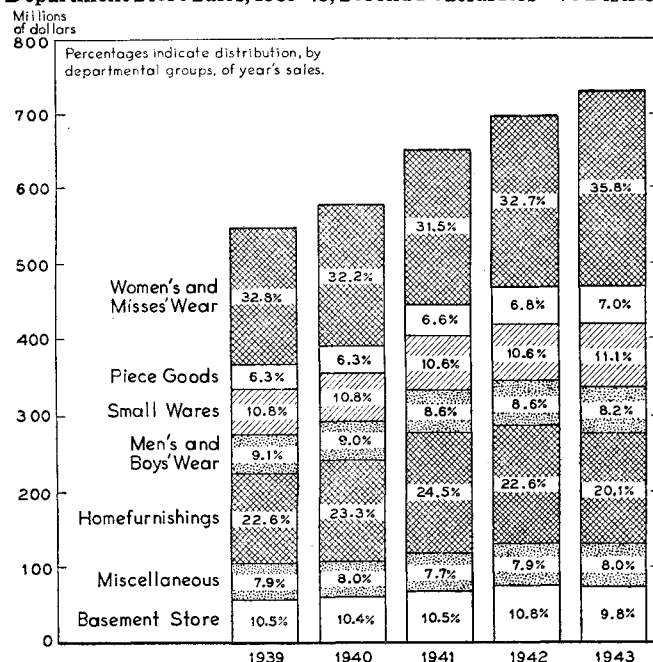
Preliminary data for the first three weeks of May indicate that electric power production declined more than is usual at this season of the year, and crude petroleum production was about 2 per cent above the high level of April. Carloadings of railway freight were nearly 5 per cent greater than in the previous month, and estimates of sales of department stores (seasonally adjusted) indicate an increase of 4 per cent.

DEPARTMENT STORE TRADE

Heavy demand for department store merchandise in May was reflected in a sharp rise of the seasonally adjusted index of sales for this District, to a level estimated as only 5 per cent below the all-time high reached last March. Compared with May 1943, total department store sales last month showed a gain of about 20 per cent. Trade sources indicate that substantial gains were shown in sales of piece goods, dresses, sportswear, infants' wear, and homefurnishings. Declines were concentrated in the departments affected by the higher excise taxes, thus continuing the sharp downward movement evident in April when sales of these departments were about 20 per cent below those in April last year; purchases during March, in anticipation of the increased taxes, had been 80 per cent greater than in March 1943.

Stocks on hand in the department stores declined 7 per cent during April; by the close of the month the seasonally adjusted index had dropped back to the level of June 1943 but was 12 per cent above the low of April 1943. Outstanding orders of the department stores, increasing slightly during April, were 17 per cent above those a year earlier.

Department Store Sales, 1939-43, Second Federal Reserve District*



* Estimated by Federal Reserve Bank of New York.

Estimates of annual sales by departmental groups for all stores in the Second District have recently been completed by this bank. Between 1939 and 1943 total sales rose from 546 to 729 million dollars, an increase of 34 per cent. As indicated on the accompanying chart, almost half of the increase took place in the women's and misses' wear group, their sales increasing from 179 to 261 million dollars, or 46 per cent. The smallest percentage gain among the departmental groups occurred in homefurnishings. Sales for this group, after increasing sharply in 1940 and 1941, declined in the following two years; for the four-year period the gain amounted to only 20 per cent. Increases in the other groups were piece goods, 50 per cent; small wares, 37 per cent; men's and boys' wear, 21 per cent; and basement store, 25 per cent.¹ The chart shows the relative dollar volume of sales in the principal groups of departments for each of the past five years and also the percentage distribution of total sales among these departmental groups.

¹ A discussion of department store sales by individual departments over the war period was presented in the August 1, 1943 issue of this *Review*. A table comparing estimated sales of 35 lines of merchandise in 1943 with sales in 1939 will be supplied on request.

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

Locality	Net Sales		Stocks on hand Apr. 30, 1944
	April 1944	Jan. through April 1944	
Department stores, Second District	+ 1	+ 5	+12
New York City	+ 3	+ 7	+14
Northern New Jersey	+ 8	+ 1	+ 8
Newark	-11	- 4	+ 6
Westchester and Fairfield Counties	- 4	- 4	- 2
Bridgeport	- 8	- 8	- 6
Lower Hudson River Valley	+14	+17	+15
Long Island	+11	+15	+15
Upper Hudson River Valley	- 8	0	+ 2
Albany	- 2	+ 6	+ 4
Schenectady	-14	- 6	+ 4
Central New York State	+ 7	+ 9	+19
Nichawak River Valley	+ 1	+ 1	+11
Utica	+ 5	+ 4	+11
Syracuse	+10	+13	+24
Northern New York State	+ 6	+ 8	+11
Southern New York State	+ 9	+ 5	+14
Plattsburgh	+ 9	+ 5	+14
Elmira	+ 9	+ 6	+11
Western New York State	+ 1	+ 4	+11
Buffalo	- 4	+ 4	+11
Niagara Falls	- 4	+ 1	+12
Rochester	+ 4	+ 4	+13
Apparel stores (chiefly New York City)	0	+ 5	+24

Indexes of Department Store Sales and Stocks
Second Federal Reserve District

Item	1943	1944		
	Apr.	Feb.	Mar.	Apr.
1935-39 average = 100				
Sales (average daily), unadjusted	129	114	138	136
Sales (average daily), seasonally adjusted	127	137r	157	139
1923-25 average = 100				
Stocks, unadjusted	100	119	121	112
Stocks, seasonally adjusted	99	124r	120	111

r Revised.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, JUNE 1, 1944

General Business and Financial Conditions in the United States

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

INDUSTRIAL production and employment at factories and mines declined somewhat further in April, reflecting principally reduction in output of metal industries. The number of industrial wage-earners was about 6 per cent or 800,000 less than in November 1943.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of output in manufacturing and mining industries was at 240 per cent of the 1935-39 average in April, as compared with 242 in March and 245 in February.

Small declines in output of metals and metal products continued to account for most of the decrease in industrial production. Electric steel production decreased further in April to a level 5 per cent below the same month last year. Production of most nonferrous metals declined, reflecting partly planned curtailments and partly the effects of labor shortages in mines and smelters. A further curtailment of aluminum production was announced in May. Activity at plants producing munitions in the machinery and transportation equipment industries declined somewhat in April. Production under the farm machinery program continued to increase and was reported at a rate above the highest volume recorded in any peacetime year.

Output of nondurable manufactured goods showed little change in April. Activity at cotton mills was maintained at the level of recent months, approximately 15 per cent below the peak level of April 1942. As a measure to increase production, a 48-hour work week was ordered in the cotton textile industry, effective May 14.

The number of animals slaughtered continued at an exceptionally high level in April, and effective May 3 most meat products were removed from rationing. Output of dairy products continued to rise seasonally and supplies available for civilians increased.

Mineral production was maintained in large volume in April. Production of both bituminous and anthracite coal for the year through May 6 was approximately 5 per cent more than in the same period in 1943.

Crude petroleum production in April continued at a level about 12 per cent above a year ago. Mine production of iron ore showed a large seasonal rise, reflecting the opening on April 10 of the season for lake shipments.

DISTRIBUTION

Department store sales declined in April and, after allowance for usual seasonal changes, were about 10 per cent below the high level which prevailed in the first quarter of this year. In the first half of May sales were maintained and were considerably larger than in the corresponding period of 1943.

Carloadings of railroad freight in April and the first half of May were maintained in large volume. Grain shipments continued to decline from the exceptionally high levels of January and February. Ore loadings increased sharply in April and were 60 per cent greater than a year ago.

COMMODITY PRICES

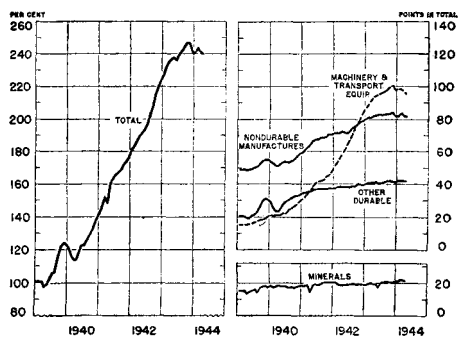
Wholesale prices of most commodities showed little change from the middle of April to the third week of May. Prices of farm products and foods were slightly lower, while maximum prices of some industrial commodities were raised.

The cost of living index advanced one-half per cent from mid-March to mid-April, reflecting higher retail prices for foods and furniture and increased excise taxes effective April 1.

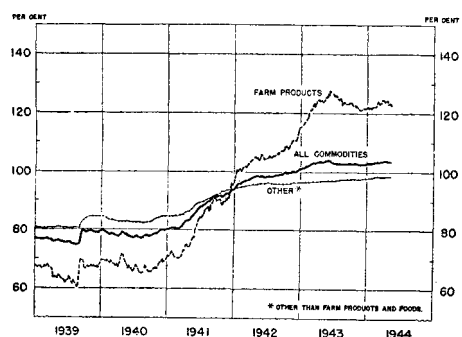
BANK CREDIT

From the end of the Fourth War Loan Drive in the second week of February through the middle of May, demand deposits of individuals and businesses at weekly reporting banks increased by about 3 billion dollars. Time deposits also increased appreciably. During the same period war loan accounts at reporting banks declined by more than 6½ billion dollars. Holdings of U. S. Government securities by these banks declined by about 2 billion dollars and loans contracted by more than 1½ billion dollars. A large part of the loan decline was the liquidation of credits extended during the war loan drive. Loans to brokers and dealers are now less than they were before the Fourth War Loan Drive and loans to others for purchasing and carrying U. S. Government securities are down to about pre-drive levels. During the same period commercial loans also declined rapidly.

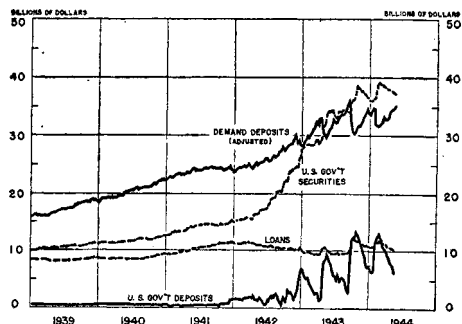
Sales of U. S. Government securities by commercial banks were paralleled by equivalent purchases by the Federal Reserve System. System holdings are now about 2½ billion dollars larger than they were at the end of the Fourth War Loan Drive. These purchases were made to supply member banks with reserve funds needed to meet a continued increase in currency and the growth in required reserves which resulted from shifts of deposits from Treasury war loan accounts to other accounts. Some of these needs have been met by a decline in excess reserves. Sharp declines in excess reserves at the end of March and April were associated with unexpectedly large tax receipts and the building up of Treasury balances at Reserve Banks. Currency in circulation, which increased somewhat less rapidly during the first quarter of 1944 than in the same period last year, renewed its rapid outflow late in April and during early May. In the four weeks ended May 17 the currency outflow was over 500 million dollars.



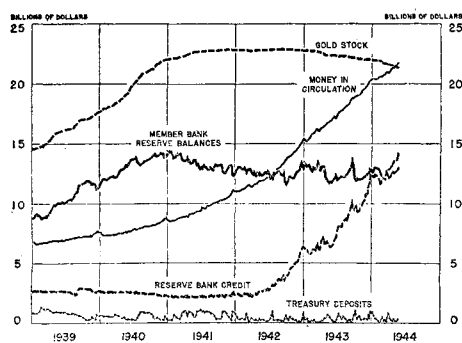
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent. (Groups shown are expressed in terms of points in the total index)



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended May 13)



Member Banks in Leading Cities. Demand Deposits (Adjusted) Exclude U. S. Government and Interbank Deposits and Collection Items. Government Securities Include Direct and Guaranteed Issues (Latest figures are for May 17)



Member Bank Reserves and Related Items (Latest figures are for May 17)