

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

Vol. 26

JULY 1, 1944

No. 7

MONEY MARKET IN JUNE

The Fifth War Loan was the dominant influence in the money market during June. As usual, there were large withdrawals of funds from New York after the beginning of the drive on June 12, and the New York City banks found it necessary, for a time, to draw rather heavily upon the Federal Reserve Bank for funds with which to maintain their reserves at the required levels. Selling of outstanding Government securities appeared to be smaller before the opening of the drive and during its early stages than in the corresponding period of any of the four preceding War Loans. The comparison was reversed, however, by large increases in bank holdings of Government securities and in loans to security dealers on June 26 which suggested that sales were arranged in unusually heavy volume for clearance on the issue date for the marketable War Loan securities. The market for outstanding Government securities in general was firm during the whole period, although temporary unbalance between supply and demand developed occasionally in particular types of securities.

The invasion of France had little effect on the Government security market, but gave some impetus to the sale of new securities during the initial phase of the War Loan drive, and had an inhibiting effect on redemptions of War Savings bonds. Purchases of War Savings bonds by small subscribers especially were unusually numerous. (Large subscribers in many cases had subscribed during the Fourth War Loan to all the War Savings bonds they are permitted to buy this year, and consequently were limited to purchases of other securities in the Fifth Loan.) Redemptions of Series E bonds in this District were less in June than in May, contrary to the usual tendency of redemptions to increase in quarterly income tax periods.

One of the less satisfactory aspects of the situation during the opening weeks of the War Loan drive was a repetition of the large scale shifting of funds which has been characteristic of other War Loan drives, despite the urging by the Treasury

and the Federal Reserve System that subscriptions be placed where funds are deposited, and that the subscribers apply, if they so desire, for the allocation of parts of their subscription to other communities instead of transferring funds. Allocations to other districts of subscriptions received in this District have been much more numerous than in any previous War Loan; nevertheless, withdrawals of funds from New York during the two weeks ended June 28 appear to have been fully as large as in the corresponding weeks of either the Third or the Fourth War Loan drive. The total outflow of funds from New York City for business accounts amounted to nearly 900 million dollars in the two weeks. Part of this outflow may have been related to quarterly income tax payments, especially by corporations, and part reflected payments for securities sold in the New York market by institutions in other parts of the country; a substantial part, however, appears to have represented withdrawals of funds from New York to pay for subscriptions placed elsewhere.

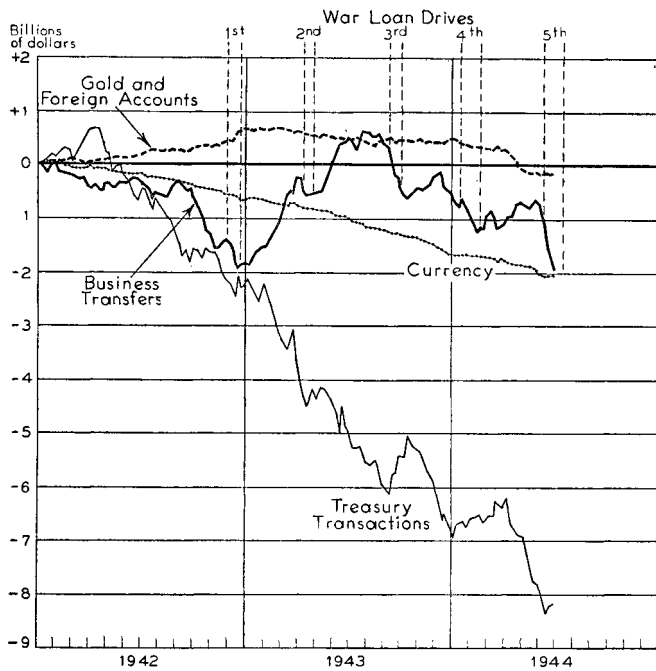
In addition to meeting this drain on their reserves, the New York City banks were called upon to purchase large amounts of Government securities offered for sale by other investing institutions to increase the funds at their disposal for the purchase of securities offered in the Fifth War Loan. In the four weeks ended June 28, New York City banks purchased a total of more than 900 million dollars of Government securities other than Treasury bills, and in addition made loans totaling 500 million dollars to Government security dealers, chiefly to enable the dealers to take up some of the securities sold by other institutions.

Although business transfers of funds to other parts of the country were partly offset by an increase in the New York balances of out-of-town banks and by net Government disbursements in New York during the first two weeks of the War Loan drive, the New York City banks sustained a net loss of

Back the Attack - Buy MORE Than Before

★ DURING FIFTH WAR LOAN DRIVE ★

**Principal Factors Affecting Member Bank Reserves in the
Second Federal Reserve District, Exclusive of
Federal Reserve Credit***



* Cumulative weekly changes since December 31, 1941.
Source: Federal Reserve Bank of New York.

reserves which necessitated substantial sales of Treasury bills to the Federal Reserve Bank, and intermittent borrowing, to maintain their reserves at the required levels.

The situation of member banks in the country as a whole did not indicate a need for additional Federal Reserve credit in this period, but the heavy shifting of funds caused an uneven distribution of reserves among individual banks and communities. Some banks—chiefly in other districts—accumulated excess reserves, while other banks, including the New York City banks, required additional Federal Reserve credit to maintain their reserves. As a result, excess reserves of all member banks increased considerably in the first three weeks of June, rising from about 700 million dollars on May 31, to nearly double that amount on June 21. In the following week, which included the issue date, June 26, for War Loan securities other than Savings bonds and Savings notes, excess reserves of all member banks increased further to 1,500 million dollars despite the retirement of a moderate amount of Federal Reserve credit through the repurchase by member banks of Treasury bills previously sold to the Reserve Banks under repurchase options and through repayments of loans from the Reserve Banks. This further rise was caused by a large reduction in private deposits on June 26, reflecting payments for War Loan securities, and a corresponding increase in Government War Loan deposits against which the banks are not required to maintain reserves. Estimated reserve requirements for all member banks were reduced by about 800 million dollars during the week as a result of this shift of deposits from private to Government accounts.

TREASURY OPERATIONS IN THIS DISTRICT

Treasury operations during June were conducted in such a manner as to minimize effects on the reserve positions of commercial banks of the large quarterly income tax payments as well as cash payments for securities sold during the drive. As the tax date approached, the Treasury suspended withdrawals of funds from War Loan deposit accounts and, pending the receipt of funds in large volume from tax collections, drew down its balances with the Federal Reserve Banks in meeting current disbursements. During the latter half of the month Government expenditures were more than covered by cash receipts from tax collections and from sales of securities, so that no further withdrawals from War Loan deposits were required.

The proportion of income taxes paid by the surrender of Treasury Savings notes, rather than cash, is higher in the Second District than in the rest of the country, and the great bulk of securities sold during the War Loan drives are paid for initially with credits to War Loan deposit accounts on the books of the banks, rather than in cash. Consequently, Government disbursements in the Second District ran well in excess of cash receipts during the latter half of June. Disbursements in this period were augmented by large interest payments on the public debt, and by cash redemptions of the unexchanged portion of a Treasury note issue that matured on June 15, a large part of which was held in this District. As the accompanying chart shows, member banks in this District, after a steady and substantial loss of funds through Treasury operations since the early part of April, had some net gain through such transactions after the first two weeks of June. The funds gained in this manner helped to meet the loss of funds through business transfers, referred to previously.

On the whole, withdrawals of funds from this District by the Treasury have been considerably less rapid thus far in 1944 than in the corresponding period of 1943. In the first five months of this year, the Treasury transferred approximately 1,250 million dollars out of this District to other parts of the country, compared with 1,900 million in the first five months of 1943. Revenue collections in the District were about 2,600 million dollars greater than in the first five months of 1943, but Government disbursements were nearly 2 billion dollars more, and Treasury receipts from public debt operations (including withdrawals from War Loan deposit accounts as well as cash receipts from security sales) were almost 1,300 million less.

Income tax collections in the first five months of 1944 were nearly double those of a year previous, and miscellaneous receipts, including excise taxes, proceeds of war contract renegotiation, and other items, also increased considerably. On the other hand, Government checks deposited in the banks of the District, representing largely war expenditures, increased substantially.

Most of the reduction in receipts from public debt operations was due to the smaller net increase in Treasury bills outstanding in the early months of 1944 as compared with 1943. From

January through May of 1943 the increase in Treasury bills outstanding amounted to more than 4,200 million dollars, whereas in the corresponding months this year the increase was less than 700 million dollars. Net sales of bills in this District in the first five months of the year, consequently, produced about 1,200 million less cash for the Treasury this year than last. Net sales of other securities in the District showed no material change, increases in sales to nonbank investors

being offset by the virtual elimination of direct offerings of securities to the banks.

On the whole it appears that, underlying these divergent trends in the major classes of Government receipts and disbursements, there is a tendency toward closer balance between total receipts and disbursements in the Second Federal Reserve District, and a consequent reduction in the net drain of funds from the District to other parts of the country.

INDUSTRIAL LOANS OF THE FEDERAL RESERVE BANK OF NEW YORK

Under an amendment to the Federal Reserve Act dated June 19, 1934, the Federal Reserve Banks were authorized to make working capital loans, or to enter into commitments to make such loans. These loans must be for periods not exceeding five years, and may be made either directly to established business enterprises, or indirectly through advances on, or discount or purchases of, up to 80 per cent of the value of loans extended by other financial institutions. In view of the fact that ten years have now elapsed since the Reserve Banks received authority to make such loans, and that little of the business now remains on the books of the Federal Reserve Bank of New York, this is a convenient time to review the experience and to draw some conclusions concerning it. Furthermore, such a review seems appropriate at this time in view of current public interest in the availability of credit, especially to small businesses, in the postwar period.

Applications at this bank for working capital loans have largely disappeared during the war period. There have been many instances in which war contractors have needed credit in amounts substantially greater than they could reasonably expect to obtain from their usual banking connections on the basis of their current position, but these needs have been largely met by advance payments by Federal procurement agencies or by loans made by commercial banks, with guarantees obtained through this bank from the War Department, the Navy Department, or the Maritime Commission under the provisions of Regulation V of the Board of Governors of the Federal Reserve System.

Aside from the effects of the war on business activity and on business financing, however, there has been a downward trend in applications received by this bank for direct loans to industry, or for commitments to participate with other lenders, since the initial period following the enactment of the legislation in June 1934. The total of outstanding loans and commitments of this bank, as of any one date, fell from a peak of approximately 8 million dollars in December 1935 to a low of 120 thousand dollars at the end of May 1944 (exclusive of loans in default). In general, applications to this bank for direct loans have been most numerous in periods of depression and have diminished as business conditions improved. The growing tendency of commercial banks to extend credit for longer periods (term loans) and to adopt other new methods of financing business during the period under review may also

have been a factor in the reduction in demand for Federal Reserve industrial loans.

In the ten years since the inception of the industrial loan program, over 5,000 inquiries for loans have been reviewed by the Credit Department of this bank. Many of the inquirers sought types of loans clearly ineligible under the law; in numerous cases applicants for funds were found to be in need of fixed capital rather than working capital. The financial position of still others was such as to present no sound basis for the extension of credit. As a result, the number of formal applications filed was reduced to 1,380, and many of these applicants failed to qualify for working capital loans; a few withdrew their applications before final action was taken. The total number of loans approved was 538, but in 162 cases the applications were withdrawn after approval. Credits actually drawn upon numbered 376, involving 285 individual borrowers and a total amount of close to \$32,000,000. A small portion of these credits was not used, however.

The total liability of the Federal Reserve Bank of New York for loans actually made over the whole period amounted to \$22,000,000, of which \$6,000,000 consisted of direct advances to business enterprise and \$16,000,000 consisted of commitments to participate with other financing institutions. Inasmuch as this bank was called upon to take up only \$6,000,000 of these commitments, the total of Federal Reserve funds actually advanced was \$12,000,000. On the other hand, although the participating commercial banks and other financial institutions had limited their liability to \$9,000,000, they actually retained

Industrial Loans and Commitments Approved in the Second Federal Reserve District* (June 1934-May 1944; values in thousands)

Size of loan	Loans and commitments					
	Direct		Indirect**		Total	
	Number	Amount	Number	Amount	Number	Amount
\$ 10,000 and under....	64	\$ 308	42	\$ 274	106	\$ 581
10,001— 25,000....	41	657	45	785	86	1,442
25,001— 50,000....	34	1,128	35	1,202	69	2,330
50,001— 100,000....	24	1,477	29	2,052	53	3,530
100,001— 250,000....	12	1,840	24	3,844	36	5,684
250,001— 500,000....	6	1,650	13	5,160	19	6,810
500,001—1,000,000....	0	0	5	4,982	5	4,982
Over 1,000,000.....	0	0	2	6,400	2	6,400
Total.....	181	\$7,060	195	\$24,699	376	\$31,759

* Exclusive of applications approved but subsequently withdrawn.

** Includes liability of both Federal Reserve Bank of New York (approximately \$15,500,000) and other financial institutions (approximately \$9,000,000).

full liability on loans totaling \$18,000,000. About \$1,000,000 of commitments was not used by the borrowers.

Individual loans have varied in original amount from \$300 to more than \$4,000,000, with an average of about \$85,000. As may be seen from the accompanying table, the smaller loans of \$25,000 or less came to more than 50 per cent in number but only 6 per cent in value of all loans. Loans of over \$250,000 constituted 7 per cent in number and more than 55 per cent in value. Two thirds of the borrowers were engaged in manufacturing, largely in the durable goods industries. The remaining borrowers were mainly in wholesale and retail distribution, construction and contracting, and in the service trades. More than 40 per cent of the dollar amount of the loans was secured by first mortgages on real estate. A wide variety of other security devices was used including liens on commodities and inventories and on machinery and equipment, and assignments of accounts receivable, contracts, and cash surrender value of life insurance policies. About 15 per cent in amount were unsecured loans.

Gross earnings from industrial advances and commitments of this bank in the almost ten years ended May 31, 1944 came to approximately \$1,816,000, compared with expenses of \$867,000, leaving a balance of about \$949,000 available for absorption of losses. Expenses have been relatively high (even though no overhead charges have been allocated to the industrial loan operations), because the financial position of most borrowers necessitated extensive credit investigation, and close supervision over loans once granted. In addition, this bank has absorbed costs of handling loans ordinarily borne by borrowers (accounts receivable loans are a case in point). Finally, expenses have been swollen, especially during the first year, by the cost of interviewing the large number of inquirers and instructing those who decided to file applications.

Net realized losses to date have amounted to \$646,000, and it is now estimated that further losses on loans in default and still unsettled will amount to approximately \$332,000 additional, for which reserves have been provided. Thus it now appears that expenses and losses on loans made to date will exceed earnings by a small margin. The loss experience on

loans has been more favorable than might have been the case under ordinary circumstances. The high level of industrial activity induced by the war appreciably facilitated disposal of buildings and other collateral pledged as security for defaulted loans. And a continuation of these favorable conditions for the disposal of remaining collateral is assumed in the estimate of future losses.

All but 15 advances and one commitment out of the total of 376 have been repaid in full, although in about one third of the cases extensions or renewals of loans or other relaxation of terms have been made. Losses were heaviest among the larger loans, those with original amounts of over \$250,000. Concentration of losses among the larger loans has occurred chiefly because in several cases such loans were made, with full recognition of the high degree of risk involved, primarily to continue in operation businesses that were large factors in the maintenance of employment in their respective communities. On the other hand, the relative absence of losses among the small loans has been offset by a lack of profitability for other reasons. Income from such advances has often been exceeded by the high cost of handling them. Whereas losses have been relatively high among large loans, the latter have provided the bulk of the revenue.

A general conclusion that may be drawn from this bank's experience over the last ten years is that the type of business financing which the bank was called upon to undertake was definitely a marginal one, not to be expected to result in profits but not necessarily committed to losses. Some of the borrowers failed in spite of the financial assistance they received, but others have been enabled to reestablish themselves on a firm basis, and meanwhile have helped to provide employment in their communities. The volume of loans made has been a small factor in the over-all total of business financing in the District, of course, and the effects have been of importance in individual communities rather than in the District generally. The whole episode represents an experiment, in a field where further experimentation is probably desirable, to determine the extent to which the credit requirements of marginal borrowers can reasonably be met and the best means of supplying them.

CONSUMERS' GOODS INDUSTRIES IN NEW YORK CITY

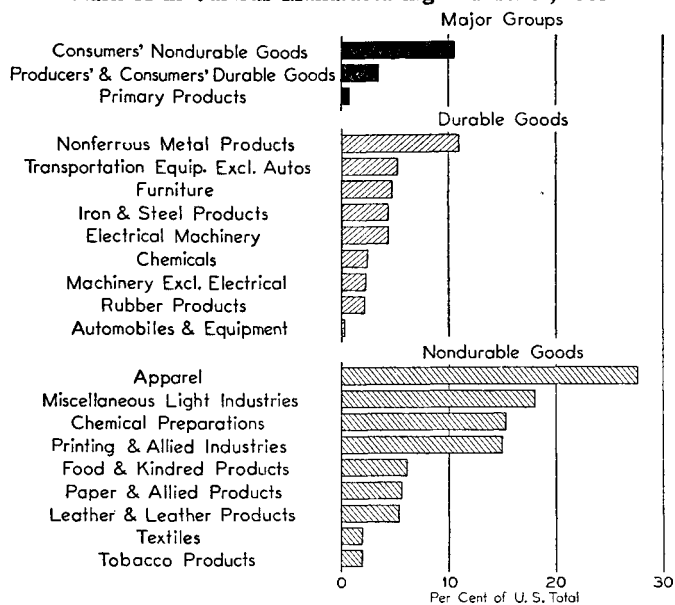
The real strength and nation-wide importance of New York City's manufacturing industries lies in the field of consumers' nondurable goods, as pointed out in the June 1 issue of this *Review*. The extent to which these industries depend on markets in the rest of the country varies tremendously. Some industries, such as bread baking, by the very nature of their product rely essentially on the local market, whereas other industries, such as furs and apparel, supply consumers from coast to coast.

Three groups of consumer industries produce substantially more than the City's population purchases: the apparel industries, printing and allied industries, and those light industries that are lumped together as "miscellaneous." The output of

these three groups is largely for national markets and is exchanged for goods and services of other regions. The importance of these industries in the manufacturing activities of the City is indicated by the fact that these industries together employ nearly 58 per cent of the City's manufacturing wage earners.

In three other industries—food and kindred products (which is the second largest industry group in the City), leather and leather products, and paper and allied products—output is on the whole not much greater than the City can absorb. Of course, high grade shoes and certain leather goods find national markets, and less expensive goods are imported from other production centers. The same is true to a lesser extent for certain

New York City's Share in Total Employment of Wage Earners in Various Manufacturing Industries, 1939



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

products of the food industry, but the bulk of the food industries located in the City supply the local and transient population. The paper industry also produces about the number of containers, bags, and similar products required by the City's production and trade.

In only two groups of consumers' nondurable goods industries does New York City's output fall short of the requirements of the metropolis. The cigar and cigarette industry, once important in the City, has nearly disappeared; and many of the major industries in the textile group are barely represented here. The City's many apparel industries are supplied with textile products from various parts of the country, and only a few finishing industries of the textile group are located in New York.

PRINCIPAL INDUSTRIES

Apparel industries

The apparel industries are paramount among New York City's manufacturing industries. In 1939, this group of industries alone employed 208,000 of the City's manufacturing wage earners, a number greater than the total employed by the automobile industry in the entire Detroit industrial area or by the steel industry in the Pittsburgh area. Because of the predominance of distributive and service industries in New York, however, the economic life of the City does not depend on the apparel industries to the same extent that the welfare of either Pittsburgh or Detroit depends on its leading manufacturing industry.

The apparel group consists of a large number of more or less connected industries. Nearly all degrees of mechanization, standardization, and integration can be encountered, and all of the industries are highly specialized and closely related to the wholesale trade. According to the 1940 Census of *Manufactures*, no less than 56 different apparel industries were

represented in New York City; they provided employment for 27.6 per cent of all the wage earners in the country engaged in the various apparel industries. Some of these industries in New York were exceedingly small; others employed thousands of wage earners each.

The women's clothing industry (including children's and infants' wear), which is the most important component of the apparel group, employed 115,000 wage earners in 1939. During the past two or three decades, however, New York City has not fully retained its dominant position in this industry; in 1939 its share in the national total of all wage earners in the women's clothing industry was only 41 per cent, compared with the peak figure of 62 per cent for 1914. The decline between the two years was continuous. Manufacturers of the lower priced lines tended to seek factory locations where operations could be carried on at lower costs. Since the machinery investment in the dress industry is relatively small, removal (or entry of out-of-town competitors into the field) is relatively easy. Many firms maintain only designing rooms and sales offices in New York; their manufacturing plants are located in neighboring areas outside the City. Nevertheless, the number of people employed by the industry in the City has not shown an actual decline over the years; the reduction in the City's share of the national total has been only relative, and is attributable to more rapid growth in some other areas. During recent years, efforts have been made to make New York City the world fashion center for women's dresses. It is premature to judge whether after the war New York City will be able to supersede Paris as the world's style center, but thus far it has maintained its leading position as a fashion center in this country.

New York City never dominated in the men's clothing industry to the same extent as in the production of women's clothing. The City's share in the total number of wage earners in the men's clothing industry, after reaching a peak of 28 per cent in 1909, declined continuously to 10.0 per cent in 1933; it was 11.5 per cent in 1939. The actual number of workers employed in this industry also declined, in contrast to the women's clothing industry.

Printing industries

While the number of wage earners employed in the printing industries is considerably smaller than that in the apparel industries, the activities of the printing industries contribute substantially to the manufacturing life of New York City. The City retains a large share of the nation's printing business, although a significant decline has occurred since the first World War. Newspaper printing has been an exception to the general trend, particularly since the advent of the tabloid. The printing of periodicals has suffered the greatest losses. Beginning in the early twenties, national magazines, one after another, transferred the manufacture of their publications from New York City to more central locations which offered economies in mailing charges, although many of the magazines retained publication offices in the City.

The largest group of wage earners in the printing industry in 1939 was employed in the general commercial job printing branch. Despite the fact that New York's losses in this trade were heavy after the early twenties, the printing which has remained in New York City is in many cases so closely associated with the immediate needs of the City (newspapers, printing of reports, circulars, forms, pamphlets required in large quantities by corporate offices, banks, insurance companies, trade associations, etc.) that a continuation of the decline can hardly be anticipated.

Miscellaneous light industries

The group of miscellaneous industries—which includes a wide range of unrelated industries, such as hair work, optical instruments, plastic products, and umbrellas—covers more than 2,100 establishments and employs almost as many wage earners as printing. Most of these industries require neither heavy plant equipment nor bulky raw materials. No statistical data can adequately describe the amount of ingenuity, initiative, and adaptability required by these industries to meet the changing tastes of the public, and to create constantly new fashions, new needs, and new demand. Because of the rapid style changes, a location near the New York wholesale markets is favored by many concerns within this group. This influence, among others, is reflected in the large and increasing share of New York City in the country's total output of a substantial number of the "miscellaneous" industries.

ADEQUACY OF LABOR SUPPLY IN THE SECOND FEDERAL RESERVE DISTRICT

The labor supply in relation to war labor requirements is considerably more adequate in the Second District than in the country as a whole, according to ratings given the various areas of the country by the War Manpower Commission. All labor market areas in which there is a central city with a population of 25,000 or more, or which have special labor supply problems, have been classified by the Commission into four groups: *Group I*—Areas of current acute labor shortage; *Group II*—Areas of labor stringency and those anticipating a labor shortage within six months; *Group III*—Areas in which a slight labor reserve will remain after six months; and *Group IV*—Areas in which a substantial labor reserve will remain after six months. Classification is based on estimates of anticipated labor requirements and Selective Service withdrawals, and of the presently available and potential labor supply.

During June, 24 labor market areas in the Second District were classified in the four groups. The favorable position of the District, in so far as the adequacy of the labor supply is concerned, is indicated by the fact that only about 6 per cent of the total population of the District was included in Group I, whereas the comparable figure for the entire country was about 20 per cent. (See accompanying table.) Furthermore, the ratings indicate that the labor market in this District has not, on the whole, become materially tighter since the beginning

Population of Labor Market
Areas as Percentages of Total Population

Labor market areas	Second District		United States	
	January 1943	June 1944	January 1943	June 1944
Classified areas	91.0	91.8	60.5	66.5
Group I	7.4	6.4	7.8	20.4
Group II	26.0	28.1	19.4	21.7
Group III	7.1	6.8	16.5	12.8
Group IV	50.5	50.5	16.8	11.6
Unclassified areas	9.0	8.2	39.5	33.5
Total	100.0	100.0	100.0	100.0

of last year, contrary to the situation in the country as a whole.

Because of the predominantly urban character of the District, the population included in the classified labor market areas represents about 90 per cent of the District's total population, while the comparable figure for the nation is considerably lower. Areas of labor shortage (Groups I and II), which include about 35 per cent of the population of all classified areas in the District, have received roughly two thirds of the total war supply and facility contracts let in the classified areas. This concentration of contracts has been the chief cause of the labor shortages.

The position of labor market areas in the W.M.C. classification is of considerable significance, since the War Production Board places adequacy of labor supply second among the factors to be considered by procurement agencies in awarding war contracts, and prime contractors are requested to pursue the same policy in letting subcontracts. Also, limitations have recently been placed by the War Production Board on the resumption of civilian production in Group I and Group II areas.

Apparently in response to such factors as changes in the volume of war contracts, recruitment drives, etc., which influence the adequacy of labor supply, many Second District areas have shifted from one group to another at different times.¹ Bridgeport, Connecticut was classified as an area of current acute labor shortage (Group I) during all of 1943, but moved into Group II in 1944; Massena, N. Y. was classified in Group I between October 1943 and February 1944, but at other times it was included in Group II; Plainfield-Somerville, N. J. has been a Group I area except from October 1943 to March 1944; and Buffalo-Niagara Falls, N. Y. has been placed in Group I continuously since January 1943.

As of July 1 the War Manpower Commission has extended the application of several of its special programs designed to relieve labor shortages. Manpower Priorities Committees, which fix manpower allocations in accordance with the need for war products, were established in all Group I and Group II areas. These Committees, therefore, are now in operation in 15 labor market areas of the Second District, whereas formerly they were confined to 9 areas. Employment ceilings, limiting the number of workers which can be hired by major firms, were established in all Group I and Group II areas; formerly they were utilized in the Second District only in the Bridge-

¹ The W.M.C. classification is available beginning January 1943.

port, Newark, Paterson, and Plainfield-Somerville areas. A nation-wide system of priority referrals was established, providing for the hiring of all male workers through the U. S. Employment Service or other approved agencies; in the Second District, such plans were previously in operation only in the Buffalo-Niagara Falls, Newark, and Syracuse areas. The new War Manpower Commission ruling also limits replacements in nonessential industries to women, and intensifies programs for transferring workers from areas with surplus labor to areas with shortages.

Production Urgency Committees, which establish production urgency ratings for war products to enable Manpower Priorities Committees to allocate workers in accordance with these needs, are utilized in the Albany-Schenectady-Troy, Buffalo-Niagara Falls, New York City, Newark, Paterson, Rochester, and Syracuse areas. The minimum wartime work week of 48 hours is in force in seven areas of the District: Bridgeport, Buffalo-Niagara Falls, Massena, Newark, Perth Amboy, Plainfield-Somerville, Utica-Rome. Every classified labor market area in the Second District has in operation at least one of the special programs of the War Manpower Commission designed to relieve labor shortages.

CLASSIFIED LABOR MARKET AREAS, JUNE 1944
SECOND FEDERAL RESERVE DISTRICT

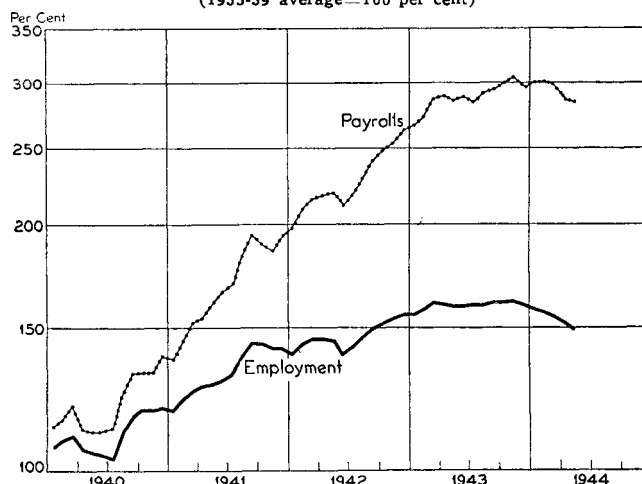
- | | |
|---|--|
| <p><i>Group I</i></p> <p>Buffalo-Niagara Falls, N. Y.
Plainfield-Somerville, N. J.</p> <p><i>Group II</i></p> <p>Albany-Schenectady-Troy, N. Y.
Auburn, N. Y.
Bridgeport, Conn.
Geneva, N. Y.
Massena, N. Y.
Morristown, N. J.
Newark, N. J.
Norwalk, Conn.
Paterson, N. J.
Perth Amboy, N. J.
Rochester, N. Y.
Stamford, Conn.
Syracuse, N. Y.</p> | <p><i>Group III</i></p> <p>Batavia, N. Y.
Binghamton, N. Y.
Dunkirk, N. Y.
Elmira, N. Y.
Jamestown, N. Y.
Long Branch, N. J.
Sidney, N. Y.
Utica-Rome, N. Y.</p> <p><i>Group IV</i></p> <p>New York Metropolitan Region, N. Y.</p> |
|---|--|

EMPLOYMENT AND PAYROLLS

The number of wage earners employed in manufacturing industries in the United States declined by 165,000 between April and May, to 13,007,000, a figure 7 per cent below the peak reached last November. The decline reflects the continued withdrawal of men into the armed services, more efficient use of labor in war industries, completion of many war contracts, cutbacks in certain industries, and a continued low level of output of some consumer goods. The downward tendency of recent months for the country as a whole has also been apparent in New York State, as indicated on the accompanying chart.

In general, those New York State industries which had reported the greatest expansion between 1940 and 1943 have shown the largest declines in recent months. Employment in the metals and machinery industries, which had increased to

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



* Plotted on ratio scale to show proportionate changes. Source: *Industrial Bulletin*, New York State Department of Labor.

about two and a half times its prewar level, has declined 10 per cent from the November peak; reductions have been especially large at plants producing aircraft, tanks, munitions, and electrical and scientific equipment.

Among the various industrial areas of the State, the decreases in employment between November and May have ranged from 3.6 per cent for Rochester to 14.3 per cent for Utica. In several areas, such as Albany-Schenectady-Troy, Utica, Buffalo, and Rochester, the contraction of the last six months is a continuation of the decline that began in the summer of 1943.

The State index of factory payrolls dropped from 286.0 per cent of the 1935-39 average in April to 284.3 per cent in May; the May figure was slightly below the level of May 1943 and

Indexes of Business

Index	1943	1944		
	May	Mar.	Apr.	May
Industrial production*, 1935-39 = 100 (Board of Governors, Federal Reserve System)	239	241	239	237p
Munitions output, 1943 = 100† (War Production Board)	95r	117r	113r	114p
Electric power output*, 1935-39 = 100 (Federal Reserve Bank of New York)	190	201	202	198p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	236	232	243p	
Sales of all retail stores*, 1935-39 = 100 (Department of Commerce)	155	178	167p	
Factory employment United States, 1939 = 100 (Bureau of Labor Statistics)	167	164	161	159p
New York State, 1935-39 = 100 (New York State Dept. of Labor)	159	155	152	149p
Factory payrolls United States, 1939 = 100 (Bureau of Labor Statistics)	314	324	318p	
New York State, 1935-39 = 100 (New York State Dept. of Labor)	285	299	286	284p
Income payments*, 1935-39 = 100 (Department of Commerce)	209	230	230p	
Wage rates, 1926 = 100 (Federal Reserve Bank of New York)	152	161	161p	
Cost of living, 1935-39 = 100 (Bureau of Labor Statistics)	125	124	125	125p
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City	85	79	73	66
Outside New York City	80	82	76	72

* Adjusted for seasonal variation. p Preliminary. r Revised.
† Base shifted from November 1941 to year 1943.

6.6 per cent below the November 1943 peak. The April-May decrease was due to the lower employment at war plants in most areas of the State, and to a seasonal decline in the number of workers in the apparel industries; the latter decrease was especially sharp in New York City and in the Kingston-Newburgh-Poughkeepsie area. Advances in payrolls occurred in the iron and steel mills in Syracuse and Buffalo, and in the photographic and optical goods and the metals and machinery industries in Rochester.

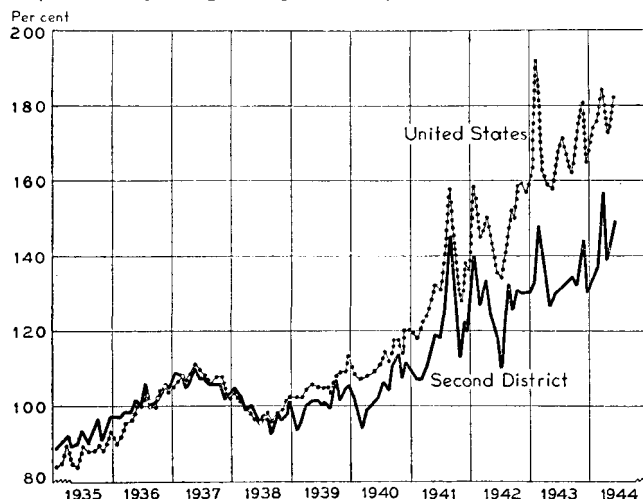
DEPARTMENT STORE TRADE

Department store sales in this District during June are estimated to have been about 10 per cent above those in the corresponding month of 1943. So far this year sales in the District have shown approximately the same percentage increase since a year ago as sales in the country as a whole. In the period since 1939, however, the District's gain has been considerably less than that for the entire country and the smallest of any one of the Federal Reserve Districts. Department store sales in the United States are now approximately 70 per cent above the 1939 level.¹ Increases for the various districts are: Atlanta and Dallas, 120 per cent; San Francisco, 95 per cent; Richmond and Kansas City, 90 per cent; St. Louis, 75 per cent; Cleveland, 65 per cent; Chicago, Philadelphia, and Minneapolis, 55 per cent; Boston, 50 per cent; and New York, 45 per cent. As indicated on the accompanying chart, the slower rate of growth in this District, compared with that in the entire country, was most pronounced during 1942 and 1943.

The largest dollar volume of department store sales of any city in the country is that for New York City. In this City the annual rate of department store sales is now approximately 400 million dollars; apparel store sales account for an additional 300 million. New York City, therefore, currently accounts for

¹ Department store sales in 1939 for each district are given in the article, "Revised Index of Department Store Sales," in the *Federal Reserve Bulletin* for June 1944.

Revised Indexes of Department Store Sales, United States and Second Federal Reserve District
(1935-39 daily average=100 per cent; adjusted for seasonal variation)



Source: Board of Governors of the Federal Reserve System and Federal Reserve Bank of New York.

about 8 per cent of all department and apparel store sales in the United States. Among the ten cities in the country with the largest volume of sales, New York City has shown one of the smallest increases since 1939; in fact, only two of these large cities—Los Angeles and Baltimore—have reported sales increases greater than the average for the country. Sales in each of these two centers were up 85 per cent, compared with 70 per cent for the United States. Percentage increases for the other cities are: Washington, 70; Philadelphia, Detroit, and Cleveland, 60; Pittsburgh, 55; New York City, 45; Chicago and Boston, 40. In general the small cities of the country have shown greater increases in retail sales during the war period than the large cities.

In all districts, department store sales as a percentage of income payments have dropped sharply during the war period. Because of increased taxes and savings, consumer expenditures have been accounting for a decreasing proportion of total income payments. For the country as a whole, consumer expenditures declined from 87 per cent of total income payments to individuals in 1939 to 64 per cent in 1943. Taxes during the four-year period rose from an estimated 4 per cent to 13 per cent, and savings increased from 9 per cent to 23 per cent. The situation in the New York District is similar; retail trade appears to have expanded considerably less than the income of the District, which in turn has increased less than that of the country as a whole.

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

Locality	Net Sales		Stocks on hand May 31, 1944
	May 1944	Jan. through May 1944	
Department stores, Second District	+19	+ 8	+13
New York City	+23	+11	+14
Northern New Jersey	+14	+ 2	+12
Newark	+12	- 1	+12
Westchester and Fairfield Counties	+ 6	- 2	0
Bridgeport	+ 1	- 6	- 7
Lower Hudson River Valley	+16	+17	+19
Poughkeepsie	+19	+16	-
Upper Hudson River Valley	+ 4	+ 1	+ 1
Albany	+ 5	+ 6	-
Schenectady	+ 5	- 4	0
Central New York State	+19	+11	+16
Mohawk River Valley	+ 8	+ 3	+ 5
Utica	+13	+ 6	-
Syracuse	+24	+15	+22
Northern New York State	+ 8	+ 8	-
Southern New York State	+13	+ 7	+12
Binghamton	+12	+ 6	-
Elmira	+19	+ 9	-
Western New York State	+15	+ 6	+11
Buffalo	+14	+ 6	+11
Niagara Falls	+10	+ 1	+11
Rochester	+19	+ 7	+10
Apparel stores (chiefly New York City)	+18	+ 8	+18

**Indexes of Department Store Sales and Stocks
Second Federal Reserve District**

Item	1943	1944		
	May	Mar.	Apr.	May
<i>1935-39 average = 100</i>				
Sales (average daily), unadjusted	124	138	136	142
Sales (average daily), seasonally adjusted	130	157	139	149
<i>1925-25 average = 100</i>				
Stocks, unadjusted	104	121	112	118
Stocks, seasonally adjusted	102	120	111	116

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, JULY 1, 1944

General Business and Financial Conditions in the United States

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

INDUSTRIAL activity and employment declined slightly further in May. Value of retail trade was maintained in May and the first three weeks of June and commodity prices showed little change.

INDUSTRIAL PRODUCTION

Industrial production continued to decline in May and the Board's seasonally adjusted index was 237 per cent of the 1935-39 average as compared with 239 in April. Small declines in output of metal products and nondurable goods accounted for most of the decrease in the total index.

Steel production was maintained at a high rate. Supplies of aluminum and magnesium continued to exceed military requirements after further curtailment of output in May, and relaxation of restrictions on the use of these metals in civilian products was announced on June 18. Activity in munitions industries declined slightly in May. Aircraft production was at approximately the same daily average rate as in the preceding month. Deliveries of merchant ships declined somewhat from the April rate, reflecting curtailment of Liberty ship construction; the number of Victory ships delivered rose further in May.

Output of lumber and of stone, clay, and glass products declined further in May. Additional Federal control was established over lumber consumption, effective in the third quarter, in order to assure sufficient supplies for essential requirements.

Production of most nondurable goods was likewise somewhat lower in May than in April. Cotton consumption declined 6 per cent from the rate prevailing earlier this year to a level 16 per cent below May 1943. Output of manufactured dairy products showed a large seasonal rise in May while manufacture of most other food products declined somewhat, after allowance for seasonal changes.

Output of crude petroleum and coal continued to rise and iron ore production reached an exceptionally high level for this season of the year.

DISTRIBUTION

Department store sales in May were maintained at the April level, and the Board's seasonally adjusted index, as recently revised, was 183 per cent of the 1935-39 average. During the first half of June sales continued at about the April-May rate and were 4 per cent larger than in the corresponding period last year.

Railroad freight traffic was maintained at a high level during May and the early part of June.

COMMODITY PRICES

Wholesale commodity prices continued to show little change in May and the early part of June. Retail prices showed a further slight increase in May. The wholesale price index and the cost of living index of the Bureau of Labor Statistics were both at the same level as they were in May 1943.

AGRICULTURE

Crop prospects on June 1 were better than on the same date in the last 10 years except 1942. The total wheat crop appeared likely to exceed a billion bushels as compared with a harvest of 836 million bushels in 1943 and 974 million in 1942. Prospects for other grains, however, were not as favorable and, with grain stocks reduced, it is expected that total supplies available to meet food, feed, and industrial needs will continue short. In recent months the feed situation has been eased by generally good condition of the hay crops and pastures.

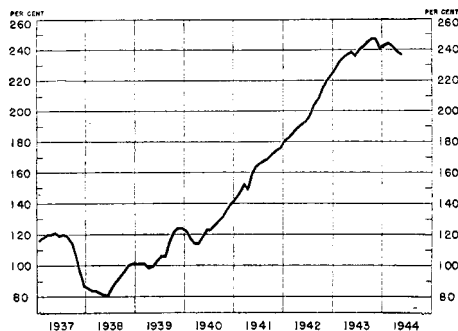
BANK CREDIT

In the five months from the beginning of the Fourth War Loan Drive to the beginning of the Fifth Drive, Federal Reserve Bank holdings of U. S. Government securities increased by more than 3 billion dollars. Member bank borrowings at Federal Reserve Banks also increased somewhat during the period, and at times exceeded 200 million dollars for the first time in more than a decade. These additions to Reserve Bank credit supplied the market with funds to meet a growth of nearly 2 billion dollars in money in circulation, an increase of 700 million in member bank required reserves, and a loss of gold of 700 million. Excess reserves, which declined to as low as 600 million dollars during the period, amounted to 1.1 billion on June 14.

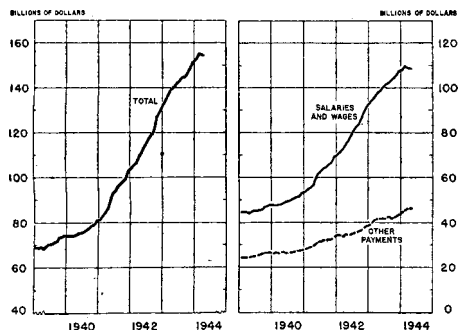
During the Drive, purchases of Government securities by businesses and individuals will shift deposits to reserve-exempt Government war-loan accounts and reduce the amount of reserves that member banks are required to hold. This will result in some further increase in excess reserves and some repurchases of Government securities by member banks from the Reserve Banks.

Adjusted demand deposits at member banks in leading cities have risen by about 5¾ billion dollars since the end of the Fourth Drive and are more than 2¼ billion dollars above the level prevailing prior to that Drive. Time deposits also increased steadily.

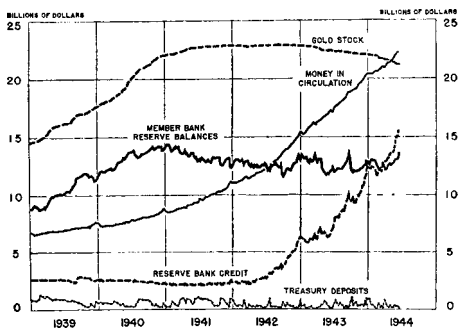
Government security holdings at reporting banks declined by close to 2 billion dollars between mid-February and mid-June, following an increase of around 3 billion during the Fourth Drive. Bill holdings declined substantially, paralleling increases in such holdings at the Reserve Banks. Loans to brokers and dealers in securities, which by the end of May had declined well below their early January levels, increased somewhat in the first two weeks of June preparatory to the Drive. Other loans for handling Government securities are close to their pre-Fourth Drive level. Again in the Fifth Drive, as in the previous one, borrowings for speculative purchases will be discouraged.



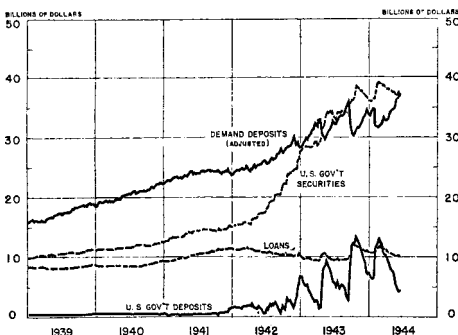
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Member Bank Reserves and Related Items (Latest figures are for June 14)



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 June 14)