MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

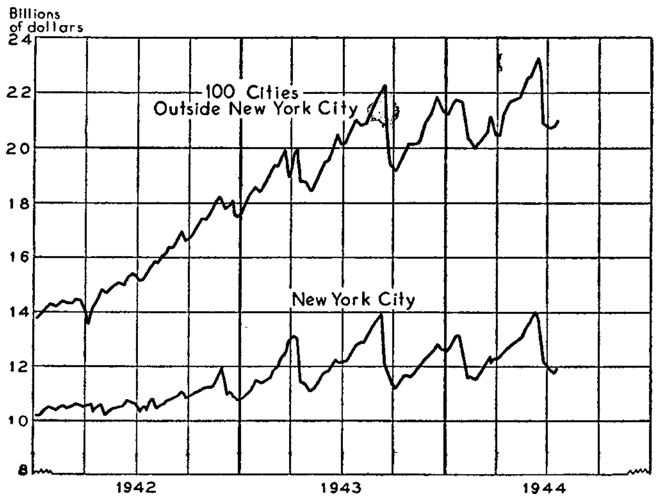
Vol. 26 AUGUST 1, 1944 No. 8

MONEY MARKET IN JULY

While the final results of the Fifth War Loan drive are not available as this *Review* goes to press, it is clear that the Treasury has succeeded in raising an amount of funds substantially greater than in any preceding War Loan. Data in the daily Treasury statements suggest that the total amount raised in the Fifth War Loan will prove to be approximately as great as the sum of sales during the Third War Loan drive plus the sales of approximately 3 billion dollars of securities to commercial banks following that drive. The working balance of the Treasury was at record levels by the middle of July, close to 22½ billion dollars, and subsequently was reduced only moderately during the latter part of the month.

It appears, however, that although there were no direct offerings of securities for subscription by commercial banks in the Fifth War Loan, with the exception of relatively small amounts—perhaps 750 million dollars—for the partial investment of time deposits, total bank purchases of Government securities during June and July, exclusive of Treasury bills, will prove to have been at least as large as in the months of September and October last year (Third War Loan), when the banks were permitted to make direct subscriptions for two security issues of 1½ billion dollars each. Reflecting exceptionally heavy purchases of securities from other investors, directly or through the market, holdings of Government securities (other than Treasury bills) at weekly reporting member banks increased by more than 3½ billion dollars between the end of May and July 12. If other commercial banks bought securities in proportionate amounts, total additions to Government security holdings of all commercial banks during this period may have been at least 6 billion dollars, including the direct purchases of perhaps ¾ billion dollars of securities from the Treasury for the investment of a part of the banks' time deposits. These heavy purchases of outstanding securities by the banks, of course, contributed large amounts to the funds available to other investors to cover subscriptions placed in the Fifth War Loan drive.

Adjusted Demand Deposits of Weekly Reporting Member Banks



Source: Board of Governors of the Federal Reserve System.

In addition, reporting member banks' loans on Government securities increased by approximately 1,900 million dollars during the same period (May 31-July 12). Approximately 600 million dollars of this increase represented loans to security brokers and dealers and about 1,300 million dollars represented loans to other borrowers. In many cases, it was evident that the banks made a real effort to avoid the making of loans to finance speculative subscriptions, in accordance with the request of the Treasury before the drive. But in some cases and some areas there were indications that loans were made without close scrutiny and were not limited, as requested, to the financing of subscriptions which might reasonably be expected to be paid, within a few months, out of anticipated income of the subscribers—not by the sale of the securities purchased and pledged as collateral for the loan.

Despite this evidence that a large volume of bank credit was involved in the huge amount of subscriptions received during the Fifth War Loan, it is also clear that the net absorption of Government securities by nonbank investors, exclusive of those financed by bank credit, was larger than in any preceding War Loan with the possible exception of the Third. This can be considered a very substantial accomplishment in view of the fact that prewar accumulations of idle funds available for investment were probably largely exhausted during the early War Loans.

As the accompanying chart indicates, the Fifth War Loan was successful in absorbing a large part of the growth in demand deposits of the reporting member banks during the period since the Fourth War Loan. "Adjusted" demand deposits in reporting New York City banks, which had increased by 2,485 million dollars between February 16 and June 14, declined more than 2,200 million dollars by July 12. In one hundred other principal cities throughout the country, such deposits in the reporting member banks increased by 3,235 million dollars between February 16 and June 14, and then dropped 2,530 million dollars between June 14 and July 12.

A review of the whole period since the United States entered the war indicates that a considerable degree of success has been achieved in diverting to the use of the Government, for the financing of the war, the funds that have accumulated in private hands between Treasury financing operations, and thus in retarding the growth in the deposit accounts of individuals, corporations, and others. Between the middle of 1942 and the end of that year (just after the First War Loan drive) adjusted demand deposits of weekly reporting member banks showed a net increase of approximately 2¾ billion dollars, an average of nearly 460 million dollars a month. Between the end of 1942 and the end of the Second War Loan drive, the net increase amounted to about 1.3 billion dollars, an average of about 325 million dollars a month. Since that time, up to the low point on July 12 in connection with the Fifth War Loan, the average monthly rate of increase has been reduced to a little over 200 million dollars a month.

It is true that, in addition, there has been a growth in time deposits which in general has only been checked, not reversed, during War Loan drives. This growth has been at an accelerating rate since 1942, and during the first half of 1944 averaged nearly 100 million dollars a month. However, there are indications that the increase in such deposits represents to a large extent real savings, and consequently involves less threat of inflationary pressure than the growth in demand deposits.

War Financing in Fiscal Year 1943-44

A comparison of the record of war financing during the fiscal year which ended on June 30, 1944 with that of the preceding fiscal year gives further evidence of the degree of progress in efforts to finance the war in noninflationary ways. In the past fiscal year, net Government receipts from income and other taxes and other revenues covered 46 per cent of total Government expenditures (including net expenditures of Government corporations), compared with 28 per cent in the year ended June 30, 1943. Of the excess of expenditures over receipts, 65 per cent was covered in the past year by net sales of Government securities to nonbank investors, compared with 50 per cent in the preceding year. Nearly 9½ per cent additional was covered by security purchases by Government agencies and trust funds during the fiscal year 1943-44, compared with a little less than 6½ per cent in the preceding year. (Most of the funds so invested represent tax collections by the Federal Government and by the States to support old age and unemployment benefits; such taxes are largely excluded from the reported net receipts of the Treasury.) It should be noted, however, that the last fiscal year included all of two War Loan drives, and a considerable part of a third which was still in progress as the year closed, so that investors were afforded an opportunity to invest their funds as fully as they wished right up to the end of the year.

Government expenditures, receipts, and net expenditures, as well as the increase in the interest-bearing public debt, and the sources of funds for the absorption of such debt, are summarized in the following table. Despite a substantial

(In billions of dollars)

	Fiscal years ended June 30	
	1943	1944
Total Government expenditures*	79.7	95.3
Net Treasury receipts	22.3	44.2
Excess of expenditures	57.4	51.1
Net absorption of Government securities by		
Nonbank investors	28.7	33.4†
U. S. Government agencies and trust funds	3.7	4.8†
Total	32.4	38.2†
Commercial banks	26.0	15.7†
Federal Reserve Banks	4.6	7.7
Total	30.6	23.4†
Increase in interest-bearing debt (direct and guaranteed)	63.0	61.6

* Including net expenditures of Government corporations.
† Preliminary estimates.

further increase in expenditures, the Government deficit in the last fiscal year was more than 6 billion dollars less than in the preceding year, owing to the fact that net Treasury receipts were nearly double those of the fiscal year 1943. The increase in the public debt was substantially greater than net expenditures in both years, but especially in the later year, reflecting large increases in the Treasury's working balance as the result of War Loan drives. Despite the great increase in tax collections, the volume of securities absorbed outside the commercial banks and Federal Reserve Banks was larger in the fiscal year 1944 than the preceding year, accounting for about 62 per cent of the total funds borrowed. The Federal Reserve Banks purchased at least 3 billion dollars more Government securities in the fiscal year 1944 than in the preceding year, as they continued putting funds into the market to offset drains on the reserves of member banks which the member banks were no longer able to meet, in any substantial part, by drawing upon idle funds. The commercial banks increased their holdings of Government securities about 16 billion dollars in fiscal year 1944, a reduction of 10 billion dollars from the preceding year.

Unquestionably bank absorption of Government securities is still a substantial factor in war financing, but it has become a much smaller factor than in the earlier part of the war period.

Member Bank Reserves and Federal Reserve Credit

The shift of demand deposits from private accounts to Government War Loan accounts during the Fifth War Loan drive was of such magnitude as to permit the retirement of nearly 800 million dollars of Federal Reserve credit between June 21 and July 19, and at the same time an increase in excess reserves of member banks from around 700 or 800 million dollars early in June to around 1½ billion in the four weeks ended July 19. Member bank borrowings from the Federal Reserve Banks were largely repaid during this period and the Government security holdings of the Reserve Banks were reduced by approximately 625 million dollars. The bulk of the reduction was in Treasury bills, reflecting in part the repurchase of such bills by banks which had previously sold them to the Reserve Banks to obtain needed reserves, and in part increased purchases by member banks of new issues of bills after their reserve positions became easier, so that Reserve Bank maturities were not replaced in full in some weeks.

In the week ended July 19, however, part of the reduction in Reserve Bank holdings of Government securities was in Treasury notes and bonds, reflecting the development of a strong market for Government securities after the close of the subscription books for the marketable securities offered in the drive. The active demand at that time apparently originated largely from banks in various parts of the country which had substantial excess reserves. It resulted not only in some reduction in Reserve Bank security holdings, but also in reductions of 214 million dollars in reporting member bank loans to Government security holders and 176 million in other loans on Government securities, and in some sales of Treasury certificates and notes by the New York City banks. Other reporting banks showed substantial increases in holdings of Treasury bonds and some increase in Treasury notes in that week.

During the remainder of the month, activity in the Government security market subsided. Prices, which had been quite strong around the middle of the month, eased slightly for a few days and then became firm in a quiet market. Excess reserves diminished somewhat, reflecting chiefly the effects of Treasury withdrawals and disbursements of funds from War Loan accounts which resulted in the beginning of a renewed increase in private deposits and reserve requirements of member banks, and some banks again found it necessary to sell Treasury bills to obtain additional reserves.

FIFTH WAR LOAN DRIVE

On the official closing date of the Fifth War Loan drive, July 8, the Treasury announced that the goal of 16 billion dollars had been exceeded by 650 million dollars. Figures shown in daily Treasury statements indicate that the final total for the drive will be well over 20 billion dollars, including sales of marketable issues that had not been tabulated on July 8 and all Savings bonds and notes processed at the Reserve Banks during the month of July. This indicated total compares with 16.7 billion for the Fourth War Loan, and would be much the largest amount raised in any drive. Even after allowance for the substantial volume of bank credit obtained, directly through bank loans, or indirectly through sales of other securities in the market, the net absorption of Government securities by nonbanking investors during the months of June and July will compare favorably with any of the preceding War Loans.

The over-all success of the Fifth War Loan drive was due largely to the substantial purchases of market issues by institutional investors. The Treasury's daily statement indicates that through July 27 the Treasury raised about 15.3 billion dollars from the sale of marketable issues of bonds, notes, and certificates of indebtedness. More than 1 billion dollars of this total, however, probably reflects sales to Government agencies and trust funds, and to commercial banks under the Savings deposit formula, and these sales will not be included in the drive totals. Even so, the final figures for sales of marketable issues during the drive will be substantially above the 10.3 billion dollars sold in the Fourth drive and probably well in excess of any previous drive.

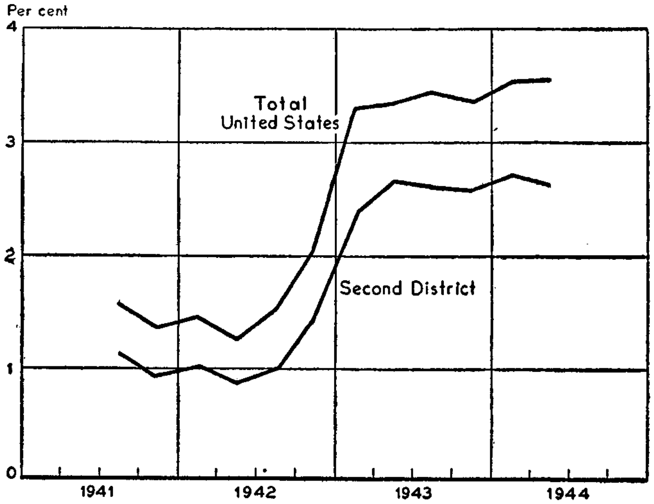
The daily statement shows that sales of Savings notes by July 27 had already reached 2.5 billion dollars, indicating that the final figures will exceed the Fourth drive total of 2.2 billion by a substantial margin. On the other hand, sales to individuals probably will not exceed the Fourth drive by as wide a margin as sales to other nonbanking investors. Sales of Savings bonds, which are largely purchased by individuals, amounted to 3.6 billion dollars through July 27, and although the final figures will include bonds processed through the end of the month, it is questionable whether the final total will reach the 4.2 billion dollars of Savings bonds credited to the Fourth drive.

REDEMPTION OF SERIES E SAVINGS BONDS

The rate of redemption of Savings bonds, measured by the ratio of redemptions to the volume of bonds outstanding, has shown remarkably little change during the past year, following a rapid increase in the closing months of 1942 and early months of 1943. The dollar value of bonds redeemed, particularly Series E bonds, has, of course, increased considerably but the increase in redemptions has not been out of proportion to the rapid growth in the amount of bonds outstanding. In the Second Federal Reserve District, the rate of redemption appears to have been below that of the country as a whole. Because of the irregularity of monthly data, the present study has been based on quarterly figures. Furthermore, the discussion has been limited to Series E Savings bonds, as these bonds account for all but about 10 per cent of all Savings bonds redeemed in the country.

Through the third quarter of 1942 the volume of Series E bonds redeemed in any quarter averaged about 1½ per cent of the amount outstanding at the beginning of the quarter. In absolute amounts, redemptions never exceeded 60 million

Redemptions of Series E Savings Bonds as Per Cent of Amount Outstanding at Beginning of Quarter



Source: U. S. data from *Treasury Bulletin;* Second District data estimated by Federal Reserve Bank of New York.

dollars a quarter during that period. During the last quarter of 1942 and the first quarter of 1943, however, the rate of redemption increased rapidly, but since that time the rate has leveled off at about 3½ per cent. (See accompanying chart.)

In the Second Federal Reserve District, also, the rate of redemption has tended to flatten out during the past year. Although figures on the amount of Savings bonds outstanding in this District are not available, a rough estimate may be constructed by cumulating net sales in the District since the second quarter of 1941, when such bonds were first sold, and adding a small allowance for the accrual of redemption values. On this basis, it appears that redemptions in each quarter of the past year have been running at a little more than 2½ per cent of outstandings at the beginning of the quarter, compared with roughly 3½ per cent for the country. The somewhat lower rate for the District reflects the fact that while sales in the New York District have been accounting for about 14 per cent of total sales, redemptions in the District have been running at about 12 per cent of all redemptions.

Figures quoted from time to time on the ratio of redemptions to sales of War Savings bonds have tended to give a distorted impression of the rapidity of the growth in redemptions. Since there is a heavy concentration of sales in War Loan drive periods, and redemptions tend to be larger in months between drives and around income tax payment dates, the ratio of redemptions to sales shows extremely wide fluctuations from month to month. In nondrive months the ratio tends to be so high as to give the impression that redemptions are rapidly overtaking sales, while in drive months the ratio falls to relatively low levels. For this year as a whole, it appears unlikely that redemptions will exceed 25 per cent of sales, although the percentages in some months have been considerably higher.

The ratio of redemptions to sales naturally rises as the volume of War Savings bonds outstanding grows, but the ratio to the amount outstanding is the more significant figure in gauging any changes in the rate of redemption.

NEW YORK CITY AS THE CORPORATE CAPITAL OF THE UNITED STATES[1]

The last fifty or sixty years have been characterized by growth of the corporate form of enterprise, and one of the most important of the numerous changes associated with such growth has been the spread of the multiple unit system in production and distribution. Originally, executive offices of corporations were usually located at the premises of the main plant. As the size of corporations grew, however, and as the various establishments—scattered over the entire country or even located abroad—increased in number, many corporations established administrative headquarters entirely separate from their production facilities. New York City attracted a large proportion of such administrative offices. With the concentration in the City of executive offices of corporations which employ millions of wage earners in all parts of the country, the strategic importance of New York in the economic life of this country is self-evident.

Historically, the position of New York City as the leading financial center of the country contributed much toward attracting headquarters of corporations. In the nineties, the financial interests of the City participated actively in the organization of industrial corporations of nation-wide importance. After the first large corporations had made New York their operational headquarters, those that were formed later also found it convenient to establish executive offices here. Few corporations, however, would maintain their head offices in the City for purely historical reasons, and new ones would not locate here if New York did not offer distinct and important advantages. In addition to predominance in the field of commercial and investment banking, the City's principal advantages are its leading position in wholesale and foreign trade and its excellent transportation and communication facilities. The concentration of publishing and advertising in New York, the existence in the City of numerous specialized market research organizations, credit rating services, and various other business services, and the availability of numerous leading law and accounting firms have made it convenient for large corporations to have their administrative offices here.

[1] This study is based upon a more extensive analysis made by this bank. Copies of the more detailed study may be obtained upon request.

Executive Offices Located in New York City

Corporations with executive offices located in New York City differ widely in character. Some are holding companies with subsidiaries operating on an independent or semi-independent basis. In such cases, the work of the New York office is devoted almost exclusively to financial activities and the staffs are relatively small. Other cases, however, include corporations with nation-wide activities which are managed from headquarters located in New York. These executive headquarters include not only financial offices but also sales, promotional, purchasing, and engineering departments and, in addition, administrative offices of domestic and, in many cases, foreign subsidiaries.

Data available for a sample of large corporations indicate that headquarters of a substantial proportion of those with nation-wide activities are located in New York City. Of the 1,872 nonfinancial corporations which in 1937 had securities listed on a national securities exchange, 383 or more than one fifth had their principal executive offices in this City (Table I).[1] However, the degree of concentration of executive offices in New York, as shown by this sample, varies from industry to industry. It is significant that the City's share is relatively high for consumers' industries. Eleven of the country's 21 administrative offices in the tobacco group, and 19 of the 60 corporations in the textile group, are located here. Among the producers' goods industries, on the other hand, the nonferrous metals industry is the only one in which nearly half of all listed corporations have executive offices in New York City. Head offices of only four of the 53 corporations in the iron and steel group, and of only 38 of the 356 corporations in the machinery and transportation equipment industries, may be found here. In the relatively new and expanding chemical industry, administrative offices of 29 of the 76 corporations surveyed are located in the City. These differences indicate that heavy industries tend to locate their administrative offices near production facilities, whereas light industries, in which contact with large distributors and the ultimate consumer is so important, gain distinct advantages by locating in New York. In the merchandising field, New York City is clearly leading. Within this group, 33 of the 84 corporations that operate chain stores maintain their executive offices in the City. For service industries, New York is the home of more than half of the corporations included in the sample.

Chicago, the only city other than New York in which a large number of main offices of corporations of nation-wide importance are located, has about 140 executive offices of listed corporations, only one third of the number for New York City. Each of seven other cities has more than fifty such offices, largely of local corporations; only a few of the offices are those of firms of really nation-wide importance.

[1] Based on data of the Securities and Exchange Commission which exclude railroads and most corporations in the communications field. In the industries covered, the corporations included in the sample account for substantially more than half of the aggregate assets.

Table I
Number of Principal Executive Offices of Listed Corporations in 1937, by Selected Industry Groups

Industry groups	United States	New York City
Mining	313	32
Manufacturing, total	1,054	202
Food	*100*	*19*
Tobacco products	*21*	*11*
Textiles and textile products	*60*	*19*
Chemicals	*76*	*29*
Iron and steel	*53*	*4*
Nonferrous metals	*37*	*18*
Machinery and tools	*192*	*23*
Transportation equipment	*164*	*15*
Merchandising	178	57
Transportation and communication*	53	16
Service industries	44	24
Public utilities	168	28
All nonfinancial corporations	1,872†	383†

Source: Securities and Exchange Commission, *Statistics of American Listed Corporations*, Part I, Table 36, and tabulations of the S. E. C.
* Excludes railways and other common carriers, and most telephone, telegraph, cable, and broadcasting companies.
† In addition to above groups, total includes agricultural, real estate, construction, and miscellaneous corporations.

The leadership of New York is even more striking if the assets of the corporations with New York executive offices are considered (Table II). The share of New York City increases with the size of assets. Of the 32 corporations with assets in excess of half a billion dollars, 20 were managed from New York headquarters.

The concentration of corporate activities in New York City provides employment to a large number of the City's residents and commuters. According to the New York State Department of Labor, about a thousand administrative offices located in the City employed 62,000 persons in September 1942, mainly in a clerical capacity. Employment in executive and other administrative offices of corporations exceeded that in all banks and trust companies in the City. As a source of clerical employment, administrative offices were outranked only by insurance companies. In addition, industries which derive a major part of their business from servicing these offices offer numerous jobs. It is impossible to estimate even approximately the volume of employment in the City's law, accounting, and engineering firms, advertising agencies, trade associations, printing offices, and commercial banks and trust companies which is dependent on the presence in New York City of a large number of corporate headquarters.

Table II
Number of Principal Executive Offices of Listed Corporations in 1937, by Size of Assets*

Assets† (In millions of dollars)	United States	New York City
Under 5	912	90
5— 50	731	201
50—100	125	42
100—200	76	28
200—500	56	14
500 and over	32	20
Total	1,937‡	398#

Source: Securities and Exchange Commission, *Statistics of American Listed Corporations*, Part I, Table 37, and tabulations of the S. E. C.
* Includes, in addition to corporations included in Table I, a few miscellaneous financial corporations other than banks and insurance companies.
† Inclusive of lower and exclusive of upper limits.
‡ Includes 5 companies with unknown assets.
\# Includes 3 companies with unknown assets.

Recent Changes

No clear-cut trend, either toward or away from New York City, is revealed by a comparison of the location in 1925 and in 1942 of executive offices of a representative sample of 416 large nonfinancial corporations.[1] Of 23 corporations which relocated their headquarters between 1925 and 1942, New York City's gains balanced losses. The sample includes 41 corporations which were formed between 1925 and 1942; 15 of them chose New York City for their headquarters. Six of the 13 firms which liquidated or went into receivership had their principal offices in New York City.

[1] Our sample covers all nonfinancial corporations (excluding railways and public utilities) included in Poor's index of stock prices in 1925, and in Standard and Poor's index in 1942.

Continuance of the movement toward concentration in production and trade increases the importance of the larger organizations, many of which, as pointed out above, are already located in New York City. In recent years, a number of independent corporations that had executive offices elsewhere have been absorbed by corporations with headquarters in this City.

On the whole, it may be concluded that New York City is fully maintaining its position as the corporate capital of the nation; the various factors which have attracted executive offices to the City show no sign of losing their weight. Other factors favoring the location of administrative offices here are further specialization of industry and the probable expansion of foreign trade after the war.

THE POSITION OF THE NEW YORK INDUSTRIAL REGION IN WAR PRODUCTION

The industries of the New York industrial region have taken a leading part in supplying our armed forces with the implements of war. According to the records of the War Production Board, the New York region in the period from June 1940 to March 1944 received war supply contracts valued at over 27 billion dollars, a figure well in excess of that for any other region. The nearest competitors are the Chicago and Detroit regions, which received contracts valued at 19.6 and 19.5 billion dollars, respectively. These figures are for prime contracts, and do not give any indication of geographic distribution of subcontracts.

The industrial regions of the War Production Board do not conform to the geographical outlines of the Federal Reserve districts. All of New York State, for example, is included in the New York Federal Reserve District, while only those counties of the State that are industrially important are part of the New York industrial region of the War Production Board. Another illustration is the inclusion of Detroit in the Chicago Federal Reserve District, whereas the War Production Board has set up separate industrial regions for Detroit and Chicago. If the comparison of war supply contracts is made on the basis of Federal Reserve districts, Chicago takes the lead with New York in second place.

War supply contracts have, on the whole, been widely distributed among the industrial regions. Certain exceptions to this rule may result in temporary hardships when the time for contract termination arrives; for example, difficulties are likely to result from the dominance of aircraft contracts in San Francisco and Kansas City, ship construction in Seattle, and ordnance production in Denver and Minneapolis. To what extent such situations may prove critical depends upon a number of factors, among which the volume of orders outstanding and scale of operations at the time of contract termination are probably the most important.

Position of the New York Metropolitan Area in War Production

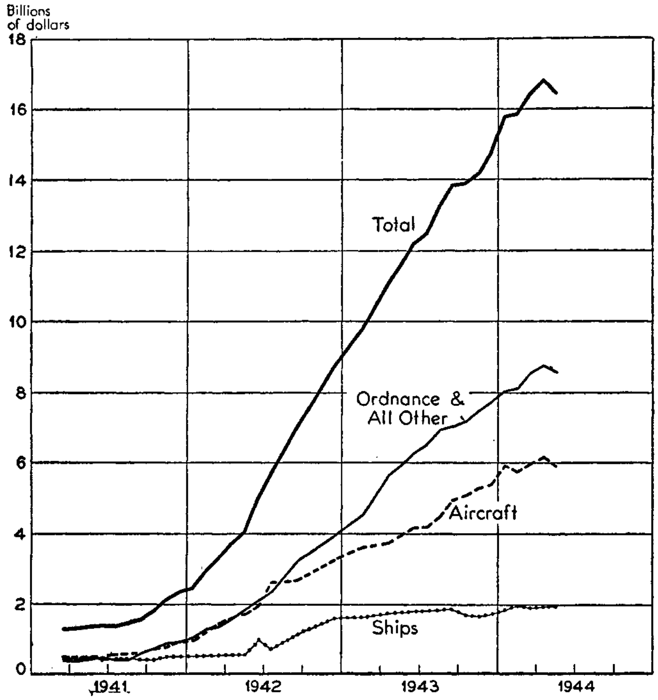
The New York Metropolitan area is the most important center of war production in the United States. From June 1940 through March 1944 its industries received war contracts valued at 16.5 billion dollars, or 60 per cent of all war con-

Distribution of Major War Supply Contracts by Leading Urban Industrial Areas
June 1940—March 1944

Urban industrial area	In millions of dollars					Per cent of total				
	Total	Aircraft	Ships	Ordnance	All other	Total	Aircraft	Ships	Ordnance	All other
New York Metropolitan area	16,462.1	5,989.9	1,903.0	2,654.3	5,914.9	100.0	36.4	11.6	16.1	35.9
New Jersey portion*	*9,037.6*	*3,509.5*	*1,325.7*	*991.6*	*3,210.8*	*100.0*	*38.8*	*14.7*	*11.0*	*35.5*
New York portion*	*7,424.5*	*2,480.4*	*577.3*	*1,662.7*	*2,704.1*	*100.0*	*33.4*	*7.8*	*22.4*	*36.4*
Detroit	12,865.4	3,872.0	637.0	4,324.3	4,032.1	100.0	30.1	5.0	33.6	31.3
Los Angeles	9,215.6	6,987.1	1,287.9	253.0	687.6	100.0	75.8	14.0	2.8	7.4
Chicago	7,060.7	1,625.6	150.8	2,315.1	2,969.2	100.0	23.0	2.1	32.8	42.1
Cleveland	4,239.0	959.7	1,100.1	765.8	1,413.4	100.0	22.6	26.0	18.1	33.3
Buffalo	3,886.5	2,986.3	97.6	293.1	509.5	100.0	76.8	2.5	7.6	13.1
Seattle-Tacoma	3,357.2	1,881.9	1,180.0	34.7	260.6	100.0	56.1	35.1	1.0	7.8
Boston	3,155.0	182.4	1,231.9	316.3	1,424.4	100.0	5.8	39.0	10.0	45.2
San Francisco-Oakland	2,984.2	3.4	2,474.3	76.0	430.5	100.0	0.1	82.9	2.6	14.4
St. Louis	2,246.1	354.7	80.8	1,441.4	369.2	100.0	15.8	3.6	64.2	16.4
Dallas-Ft. Worth	2,072.9	1,913.3	—	76.8	82.8	100.0	92.3	0.0	3.7	4.0
Kansas City	1,925.0	1,269.8	21.6	394.7	238.9	100.0	66.0	1.1	20.5	12.4
Minn.-St. Paul	1,272.1	47.2	31.1	915.5	278.3	100.0	3.7	2.4	72.0	21.9

* The New Jersey portion includes seven counties in N. E. New Jersey—Bergen, Essex, Hudson, Middlesex, Morris, Passaic, and Union. The New York portion includes New York City, Nassau County, and Westchester County.

Value of War Supply Contracts in New York Metropolitan Area*



* Includes New York City, Nassau County, Westchester County, and seven counties in New Jersey—Bergen, Essex, Hudson, Middlesex, Morris, Passaic, and Union. Data are cumulative from June 1940 through May 1944; recessions at certain points are due to corrections for cancellations and contract changes.

tracts in the entire New York industrial region. Contracts awarded in the seven counties of Northern New Jersey amounted to 9 billion dollars and contracts totaled nearly 7½ billion in New York City, Nassau County, and Westchester County. The total value of all goods manufactured in the Metropolitan area in 1939 was 7.0 billion dollars; the war orders, therefore, are equal to approximately two years and four months of peacetime production at the 1939 rate.

New York industries are playing a major role in each of the principal fields of war production—aircraft, ships, and ordnance and munitions. In fact, in each of these fields the Metropolitan area holds second place in the value of war supply contracts awarded. But in contrast to most other production centers no one type of contract holds a dominant position in the New York Metropolitan area, a fact that reflects the diversified industrial character of the Metropolitan region.

Aircraft orders placed in the Metropolitan area from June 1940 through March 1944, amounting to almost 6 billion dollars, represented only 36 per cent of the area's total war supply contracts. In Los Angeles, the only urban area that exceeded New York's record, aircraft orders reached a total of approximately 7 billion dollars and accounted for 76 per cent of total awards in that area. When the New York area is compared with such important aircraft centers as Detroit and Dallas-Fort Worth, New York's output is seen to have exceeded the combined production of these cities. (See accompanying table.)

The San Francisco-Oakland area is first in ship construction, with orders aggregating 2.5 billion dollars or 83 per cent of the area's war business. In this field the New York Metropolitan area has received orders valued at 1.9 billion dollars, which account for only 12 per cent of the area's total war orders.

Detroit holds a wide lead in the field of ordnance and munitions. The value of such Detroit contracts is 4.3 billion dollars as against 2.7 billion dollars for New York. The Detroit contracts comprise 34 per cent of the city's war business, whereas in New York ordnance awards account for but 16 per cent of total contracts.

The distribution of contracts for aircraft, ships, and ordnance in the New York Metropolitan area shows clearly that the increase in activity here during the war period has been less dependent upon the demand for a particular war product than is the case in some other urban centers. The Dallas-Fort Worth area has 92 per cent of its war business in aircraft, and, as indicated above, the war contracts for the San Francisco-Oakland District are primarily for the production of ships.

The closer approach to a balanced situation in New York will probably aid in bringing about a more gradual and a smoother industrial transition from war to peace than will be possible in communities dominated by a single type of production. The impressive fact concerning the area is that it is an outstanding manufacturing center for war goods as well as the leader in meeting the requirements of peace.

BUSINESS ACTIVITY AND MANPOWER SHORTAGES

During the second quarter of 1944 manpower shortages continued to be one of the principal factors limiting industrial production. The number of wage earners employed in factories is now almost one million less than a year ago. Some industries have been able to offset recent declines in their working forces by more intensive use of men and machinery; in this group are the various fuel producing industries, which have maintained output at a high level since the beginning of 1944. Crude petroleum production rose steadily from January to June, reaching an all-time high of 4,560,000 barrels daily in the latter month, and both bituminous and anthracite coal output fluctuated around levels close to the peaks of early 1943.

Output of steel, however, which is urgently needed for the accelerated tank production program, decreased 5 per cent between March and June, as shortages of men in furnaces and mills, shutdowns for repairs, and scattered strikes restricted operations. A critical shortage of men in foundries and forge shops threatened to hold up production of trucks and other munitions items. Seasonally adjusted output of copper, required for the recently expanded heavy artillery program, declined 10 per cent between March and June. Lumber operations during the second quarter were affected both by shortages of men and by lack of heavy trucks for hauling; the adjusted index of production fell 11 per cent between March and June. The War Production Board has tightened restrictions on distribution of lumber, effective August 1, to

Indexes of Business

Index	1943 June	1944 Apr.	1944 May	1944 June
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	237	239	237	235*p*
Munitions output, Nov. 1941 = 100 (*War Production Board*)	97	113	114*p*	
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	190	202	198	198*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	218	243	234*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	165	168	172*p*	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	169	161	159	158*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	159	152	149	148*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	317	318	318*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	288	286	284	283*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	212	229	231*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	153	162	163*p*	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	125	125	125	125*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	71	73	66	88*p*
Outside New York City	75	76	72	87*p*

* Adjusted for seasonal variation. *p* Preliminary.

insure an adequate supply for packing, crating, military construction, and other essential uses. Activity at cotton textile mills in the second quarter continued the downward movement in progress for about a year. For the quarter as a whole, the Federal Reserve index of total industrial production averaged 237 (1935-39=100), compared with 243 in the first three months of the year.

Lack of manpower has prevented any extensive reconversion of industry even where plant facilities and raw materials are available. Some relaxation of Government controls over output was effected during July when the War Production Board removed restrictions on the use of aluminum and magnesium and granted permission to manufacturers to make experimental models and to place orders for machine tools.

In contrast to the gradual decline in industrial production during the second quarter, the volume of transportation and trade was about the same as in the first three months of the year. Ton-miles of railway freight, after allowance for seasonal changes, remained at the level of the first quarter, while passenger-miles flown by domestic airlines continued to increase and in May were equal to those in the peak month of April 1942. The value of exports during May was the largest of any month in history, and the value of imports was the highest since October 1929. Seasonally adjusted sales of retail stores (including department stores, grocery chains, variety chains, and mail order houses), continued at high levels during the second quarter.

DEPARTMENT STORE TRADE

The dollar volume of department store sales in this District in July was approximately 5 per cent greater than in July 1943. The index of sales, adjusted for variations in the number of shopping days and for seasonal changes, rose moderately above the level to which it had fallen in June, and was about the same as the index for May. It was only 5 per cent below the all-time high attained last March.

In the first six months of the year, sales of both department and apparel stores in the District were 8 per cent greater than during the first half of 1943. Among the six largest cities in the District, Syracuse reported the greatest increase over a year ago (14 per cent) in sales of department stores. The gain in sales of New York City stores[1] (11 per cent) also exceeded the average for the District as a whole, but the increases in Buffalo and Rochester were less than average. Decreases were reported for Newark and Bridgeport. Sales in these last two cities reached a peak in 1942, whereas for the four other cities sales thus far this year indicate continuance of the increase that has been in progress throughout the war period. On the basis of sales in the first six months, the percentage increases between 1939 and 1944 are estimated for the six cities as follows: Syracuse, 80; Buffalo, 80; Rochester, 50; New York, 45; Bridgeport, 40; Newark, 20. For Bridgeport and Newark, the increases between 1939 and the peak year 1942 were 57 and 25 per cent, respectively.

[1] New York City department stores account for more than one half of all department store sales in this District and apparel store sales in the City comprise more than 60 per cent of the District's total.

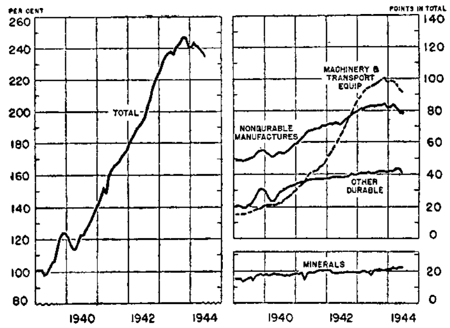
Indexes of Department Store Sales and Stocks
Second Federal Reserve District

Item	1943 June	1944 Apr.	1944 May	1944 June
1935-39 average = 100				
Sales (average daily), unadjusted	122	136	141*r*	131
Sales (average daily), seasonally adjusted	131	138*r*	149	141
1923-25 average = 100				
Stocks, unadjusted	104	112	118	113
Stocks, seasonally adjusted	109	111	116	118

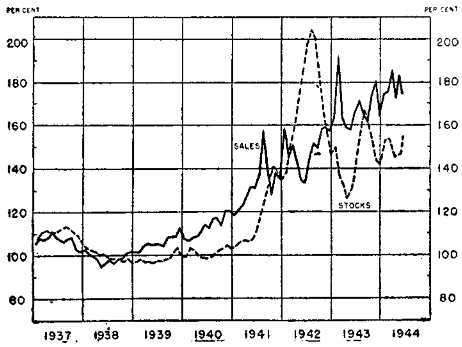
r Revised.

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

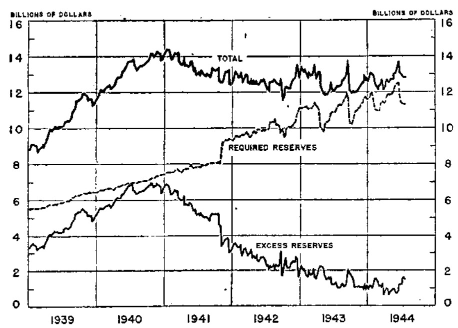
Locality	Net Sales June 1944	Net Sales Jan. through June 1944	Stocks on hand June 30, 1944
Department stores, Second District	+ 9	+ 8	+ 8
New York City	+12	+11	+ 8
Northern New Jersey	+ 3	+ 2	+ 6
Newark	0	− 1	+ 7
Westchester and Fairfield Counties	− 1	− 2	− 3
Bridgeport	− 7	− 7	−10
Lower Hudson River Valley	+13	+16	+19
Poughkeepsie	+13	+15	—
Upper Hudson River Valley	− 3	0	+ 2
Albany	− 1	+ 5	—
Schenectady	− 3	− 3	− 3
Central New York State	+ 4	+10	+13
Mohawk River Valley	− 5	+ 1	+ 8
Utica	− 4	+ 4	—
Syracuse	+ 9	+14	+16
Northern New York State	+ 4	+ 7	—
Southern New York State	+ 9	+ 7	+11
Binghamton	+ 9	+ 7	—
Elmira	+12	+ 9	—
Western New York State	+ 3	+ 6	+ 7
Buffalo	+ 3	+ 6	+ 7
Niagara Falls	+ 1	+ 1	+11
Rochester	+ 2	+ 6	+ 5
Apparel stores (chiefly New York City)	+ 8	+ 8	+14



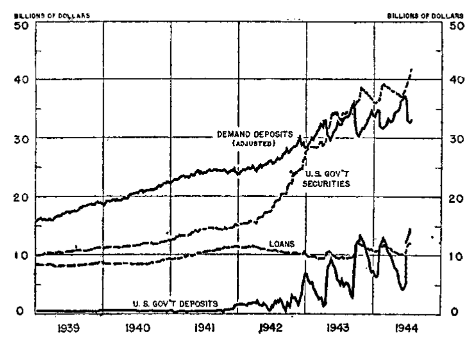
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Member Bank Reserves. Breakdown between Required and Excess Reserves Partly Estimated (Latest figures are for July 19)



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 July 12)

General Business and Financial Conditions in the United States

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

EMPLOYMENT and production at factories continued to decline slightly in June; output of minerals was maintained in record volume. Retail trade and commodity prices showed little change in June and the early part of July.

Industrial Production

The Board's seasonally adjusted index of industrial production was 235 per cent of the 1935-39 average in June as compared with 237 in May and 243 in the first quarter.

Steel production declined 4 per cent from the rate in May, reflecting partly manpower shortages. Output of nonferrous metals dropped 8 per cent, largely owing to the continued planned curtailment of aluminum and magnesium production. The lifting on July 15 of some of the restrictions on use of these metals was the initial step in a program to prepare for limited reconversion to peacetime output. Activity in the machinery and transportation equipment industries in June was maintained at the level of the preceding month. Increasing emphasis was reported on output of heavy artillery and artillery shells and of tanks. Lumber production continued to decline and was approximately 10 per cent below June 1943.

Production of nondurable goods was maintained in June. Meatpacking activity declined further from the exceptionally high level in the first quarter, but output of most other food products continued to rise seasonally. Refinery output of gasoline advanced further and reached the earlier record level of December 1941. Activity in cotton textile mills and in the chemical and rubber industries showed little change in June.

Mine production of metals and coal was maintained in large volume and crude petroleum production continued to rise to new record levels.

Distribution

Department store sales declined more than seasonally in June, following a considerable increase in May, and the Board's index was 175 per cent of the 1935-39 average as compared with 183 in May and an average of 177 in the first four months of this year. Value of sales in the first half of 1944 was 7 per cent greater than in the first half of 1943. In the early part of July sales were 9 per cent larger than a year ago.

Railroad freight carloadings showed little change in June and the first three weeks of July after allowance for seasonal movements.

Commodity Prices

Legislation extending Federal price controls for one year was enacted June 30; certain restrictive provisions were relaxed, especially those relating to prices of cotton products. Prices of most commodities in wholesale and retail markets have recently shown little change.

Agriculture

Well over a billion bushels of wheat and almost 3 billion bushels of corn were in prospect on July 1. This is an improvement over June 1 prospects and aggregate crop production in 1944 may be about the same as in 1943 and larger than any year prior to 1942.

The number of chickens raised this year was 19 per cent smaller than last year; the spring pig crop was 24 per cent smaller and the fall crop may be a third smaller than in 1943. Marketings of cattle, however, have been normal in relationship to the numbers and unless marketings are increased during the rest of this year no material reduction of the large numbers of cattle on farms will occur.

Bank Credit

As payments for securities purchased during the Fifth Drive transferred funds from private deposits to reserve-exempt Government accounts, the average level of required reserves at all member banks declined by close to 1¼ billion dollars. Reserve balances were reduced by about 800 million dollars and excess reserves rose by around 400 million. Reserve funds were absorbed through declines in Reserve Bank holdings of Government securities, by a moderate increase in currency, and by temporary increases in Treasury deposits at the Reserve Banks. Over the four weeks ended July 12, money in circulation rose by 230 million dollars, which is a smaller rate of growth than prevailed in recent months, reflecting the influence of the war loan drive.

During the Fifth Drive, between June 14 and July 12, Government security holdings at reporting member banks in 101 leading cities increased by 4.7 billion dollars. Additions to bank holdings resulted from purchases of securities from investors who were adjusting their positions prior to subscriptions during the drive, from increased purchases of Treasury bills, and from subscriptions to new securities in limited amounts.

Loans for purchasing and carrying Government securities increased by 1.8 billion dollars over the Fifth War Loan, an increase larger than that of any other drive. Of the total amount advanced by banks in 101 cities, loans to brokers and dealers accounted for 500 million and loans to others for 1.3 billion.

Accompanying purchases of securities during the Fifth Drive, adjusted demand deposits declined by 4.7 billion dollars at banks in 101 cities. Government deposits at these same banks increased by 10.5 billion dollars. The difference reflected the effect of the increase in bank loans and investments.