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MONEY MARKET IN AUGUST

The usual contraction of member banks' excess reserves, which follows War Loan drives, has been apparent during August. The shift from reserve-free War Loan deposits, created during the Fifth drive, to private deposits requiring reserves, began during the week ended July 19 and proceeded at an accelerated pace thereafter. Owing largely to this shift, reserve requirements of member banks rose some 700 million dollars during the August period.

Treasury withdrawals from War Loan deposit accounts amounted to 4.9 billion dollars during the five weeks under review. In addition, Treasury receipts were augmented by quarterly Social Security taxes and withheld income taxes. These aggregate receipts, however, were just about counterbalanced by Treasury disbursements which appear in the member bank figures as deposits of Government checks to the account of private depositors. Thus Treasury operations had little effect on the actual amount of member bank reserves; their principal effect was to raise reserve requirements as War Loan deposits were drawn down and private deposits increased.

In addition, there was a renewed flow of currency into circulation which involved a substantial drain on bank reserves. In the three weeks ended July 26, there occurred a reduction of 14 million dollars in currency circulation, which led to hopes that the public demand for currency might be leveling off. It now appears, however, that the reduction was only temporary and may have been related to cash purchases of Government

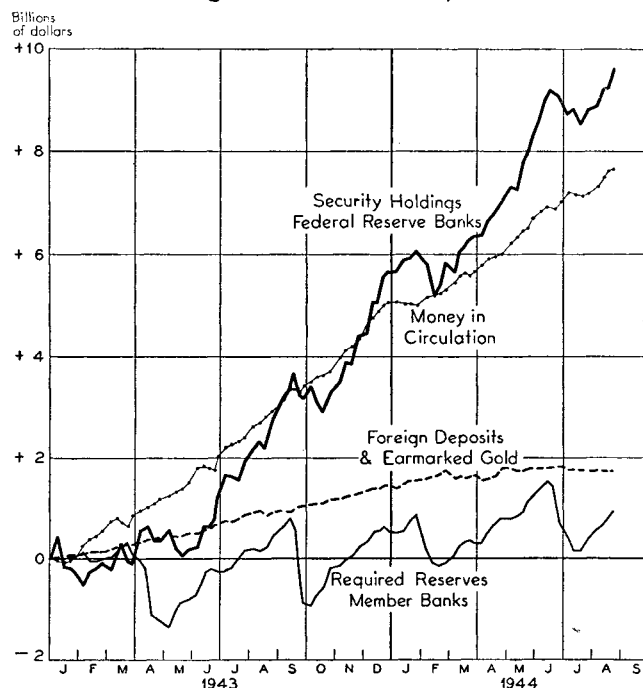
securities during the War Loan drive. In the five weeks ended August 30, currency outstanding increased at an average rate of about 130 million dollars a week, compared with a weekly rate of 155 million in the corresponding period a year ago.

The heavy public demand for currency, together with some loss of funds by the banks through foreign account transactions, and the increase in reserve requirements, led to an increase in member bank needs for Federal Reserve Bank credit which rose by more than one billion dollars during the five-week period. Most of the increase was in Reserve Bank holdings of Treasury bills, for the most part acquired directly from the member banks in need of additional reserves. Member bank borrowing from Reserve Banks also increased slightly. The expansion of Reserve Bank credit, though substantial, was considerably less than the losses of reserves by the member banks, and the increase in reserve requirements. Consequently, excess reserves declined from 1.3 billion dollars on July 26 (and a peak of 1.6 billion on July 12) to about 900 million on August 23, and remained

unchanged in the last statement week of the month. Most of this contraction occurred among the country and reserve city banks where gains in excess reserves during the War Loan drive had been largest. Excess reserves of New York and Chicago central reserve city banks remained nominal.

New York City banks, which had experienced a net gain of funds through Government transactions during the Fifth War Loan drive, sustained considerable losses of funds through

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



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

such transactions in August. During the drive, Treasury withdrawals of War Loan deposits in the banks were greatly reduced, partly as a result of quarterly income tax collections in the latter half of June, and partly as a result of cash payments for securities sold during the drive. Meanwhile deposits of Government checks in the New York banks continued in large volume. Subsequently, however, large withdrawals of War Loan deposits again were made and, together with other Treasury receipts, exceeded deposits of Government checks in the New York banks. In addition, there was an accelerated demand for currency at New York City banks as in other parts of the country. These losses of funds were only partly offset by some inflow of funds from other sections of the country, which was probably related, to a considerable extent, to the redistribution of Government securities after the close of the drive. In addition, the reserve requirements of the New York City banks increased considerably. Consequently, the New York City banks found it necessary to obtain substantial amounts of Federal Reserve credit, chiefly through the sale of Treasury bills to the Federal Reserve Bank of New York. (For the four weeks ended August 23, the amount of such sales totaled approximately 430 million dollars.) In addition, the New York banks sold moderate amounts of other securities, chiefly Treasury certificates and notes, in the market, and increased their borrowings at the Reserve Bank moderately.

REDISTRIBUTION OF FIFTH WAR LOAN SECURITIES

The brisk demand which developed in the market for Government securities after the close of the drive quieted down in August. The market, on the whole, continued firm, however, as there was a persistent, though moderate, demand especially for the new 2 per cent bonds and 1¼ per cent notes sold in the drive, and offerings were limited. Switching operations by investing institutions seeking to obtain securities of desired maturities were numerous, and resulted in a good demand for other fully taxable medium term bonds and the longer term notes. In these circumstances, there was a rapid liquidation of loans contracted for the purpose of carrying Government securities during the Fifth War Loan drive, and by August 23 loans to security brokers and dealers, both in New York City and at reporting member banks in other principal cities, had fallen to predrive levels. Loans to individuals and others which had increased even more rapidly during the drive than had loans to brokers and dealers, also were reduced substantially, either through sales of securities acquired during the drive or through payments against loans out of current income. The rapidity of the reduction in such loans suggested that a considerable part of the reduction was accomplished by the sale of securities which were subscribed for during the

drive, or by the sale of other securities. In New York City, approximately 45 per cent of such loans arranged during the drive were liquidated in the six weeks following its close, and at reporting member banks in 100 other principal cities throughout the country, the liquidation was even more rapid, amounting to approximately 60 per cent.

Despite the rapid liquidation of securities financed by temporary loans, the demand for medium term bonds and the longer term notes was in such volume that the Federal Reserve System Open Market Investment Account found it desirable to supply securities of those types to the market rather steadily. The demand was reported to have come largely from banks all over the country.

MEMBER BANK CREDIT

Data for weekly reporting member banks in the principal cities account for only part of the buying, and suggest that a considerable portion came from nonreporting member banks and nonmember banks. Reporting banks in 100 cities outside New York increased their holdings of Government bonds by 170 million dollars during the five weeks ended August 23, and their holdings of Treasury notes and certificates showed little net change. Their holdings of Treasury bills were reduced by 324 million dollars as the result of sales by some banks to the Federal Reserve Banks to obtain needed reserves. New York City reporting banks increased their holdings of Government bonds by only 62 million dollars during the five-week period and sold 110 million of Treasury certificates and 62 million of Treasury notes, in addition to their heavy sales of Treasury bills to the Reserve Bank, mentioned previously.

Just as the decline in private deposits during the Fifth War Loan drive was smaller than the gain in Government War Loan deposits, because of bank purchases of Government securities and loans to subscribers which provided funds for subscriptions to the securities offered during the drive, so the subsequent rise in private deposits has been smaller than the reduction in War Loan deposits. A reduction of approximately 2,970 million dollars in Government deposits in reporting member banks between July 12 and August 23 was accompanied by an increase of about 2,160 million dollars in the sum of "demand deposits—adjusted" and time deposits. At the same time, interbank deposits in the reporting banks were reduced by about 690 million dollars. The explanation for the disparity between the reduction in Government deposits and the growth in other deposits may be found mainly in a shrinkage during that period of about 1,300 million dollars in total loans and investments of reporting banks, due chiefly to the liquidation of loans on Government securities. In addition, public demands for currency were a smaller factor limiting the growth in private deposits.

WARTIME CHANGES IN FOREIGN CENTRAL BANK RESERVE REQUIREMENTS

Primarily because of the rapid wartime growth in the volume of currency outstanding, the reserve ratio of the Federal Reserve Banks has declined from a peak of 91 per cent in 1941 to 55 per cent as of August 23, 1944. Since the expansion in currency here has its parallel in all parts of the world, it may be instructive to examine briefly the wartime experience of foreign central banks with regard to their reserve requirements.

Traditionally, central banks throughout the world have been obligated by law to hold specified amounts of reserves against their notes, or against their notes and deposits. Requirements have been of essentially two major types. By far the most common type, exemplified by requirements of the Federal Reserve System, has been the maintenance of a proportional legal reserve against notes, or against notes and deposits in the same or differing ratios. Generally, this requirement has been coupled with the provision that, subject to certain conditions such as the payment of a penalty tax, the reserve ratio might be permitted to fall below the legal minimum. In some cases the legal reserves have consisted only of gold; in other cases foreign exchange holdings, generally in specified currencies or up to specified percentages, also have been included—a practice fostered by the widespread adoption of gold exchange standards during the interwar period. The second type of reserve requirement was exemplified by the Bank of England fiduciary note issue principle, under which the central bank was empowered to issue a fixed amount of notes covered only by government securities, with all notes in excess of that amount covered 100 per cent by gold. In some cases the nonfiduciary note issue had to be covered not 100 per cent in gold but by a smaller per cent. Elasticity was usually provided by the provision that the fiduciary issue, subject to certain conditions, could be increased.

Although there was a noticeable tendency during the thirties for reserve requirements to be relaxed and in certain cases, such as Germany, Italy, and Greece, completely suspended, nearly all central banks at the outbreak of the war were still subject in varying degrees to legal reserve requirements. Because of the almost complete elimination, before the war, of internal convertibility of notes into gold, the essential function of these reserves, to the degree that they exceeded the legal minimum, was to settle balance of payment deficits.

Since the beginning of the war substantial changes, ranging all the way from moderate liberalization to complete suspension, have been made in the reserve requirements of many foreign central banks. In some countries these changes have been motivated by a desire to make the national stock of gold fully available to meet an anticipated balance of payments deficit arising out of greatly expanded wartime import requirements. In most cases, however, the changes have been the result of actual or anticipated increases in note circulation,

accentuated in some instances by decreases in the monetary reserves, which made or would have made the maintenance of the preexisting reserve requirements either impossible or intolerable. Increases in the deposit liabilities of foreign central banks, in those cases where such liabilities had to be covered by reserves, have not been an important cause of changes in reserve requirements.

The outstanding illustration of a complete break with the prewar reserve requirements is provided by the Bank of England. In order to centralize all British gold holdings in the hands of a single authority and to make them available for use in meeting an unavoidable deficit in England's wartime balance of payments, the gold stock of the Bank of England, amounting to roughly 280 million pounds, was transferred early in September 1939 to the Exchange Equalization Account in exchange for Treasury bills. By this step the fiduciary note issue of the bank was automatically raised from 300 million pounds to 580 million pounds, and since then virtually the entire note issue of the bank has been unsecured by gold. Moreover, twelve subsequent increases in the fiduciary issue, totaling 620 million pounds, have had to be authorized by Parliament. In similar fashion, all the gold holdings of the Bank of Canada, valued at 226 million dollars, were sold to the Canadian Foreign Exchange Control Board on May 1, 1940 for government securities; simultaneously, the legal reserve ratio of 25 per cent gold cover for notes and deposits was suspended.

At the outbreak of war reserve requirements were suspended by the Bank of France, which had previously required 35 per cent in gold against note and other demand liabilities, and by the National Bank of Denmark, whose legal minimum reserve ratio had been 25 per cent in gold against notes. In occupied Belgium, the Nazi-dominated institution which still styles itself the "National Bank of Belgium" was "relieved" by the German Military Commander in March 1942 of the obligation to maintain a 40 per cent reserve in gold and gold exchange against notes and deposits.

Other foreign central banks met the problem of greatly expanded note circulations (coupled in some cases with reduced reserves) either by lowering their legal reserve percentages or by broadening their definitions of legal reserves. For example, in September 1939 the required reserve of the National Bank of Rumania, previously consisting of 35 per cent in gold and gold exchange against notes and deposits (at least 25 per cent in the form of gold), was lowered to 25 per cent in gold alone. In December 1941 it was further provided that legal reserves could include not only gold but effective gold claims as well; the purpose of this provision was to make eligible for reserves Rumanian gold holdings that were blocked in the United States and Great Britain. In the case of the National Bank of Bulgaria legal reserves, which had consisted

of gold and gold exchange, were broadened in May 1941 to include all other foreign exchange, in order to make possible the use of large accumulated clearing balances in Germany as cover for note and other demand liabilities. The reserve requirements of the Nazi-dominated Netherlands Bank were similarly altered to permit the inclusion of reichsmark clearing balances in legal reserves. Until March 1942 the bank had to maintain a legal reserve of 40 per cent in gold behind its notes and deposits, but thereafter the bank was permitted to include in its reserves foreign balances and "checks, bills, other commercial instruments and Treasury certificates payable abroad," the required reserve ratio remaining at 40 per cent. Actually, most of the bank's gold reserves were removed from Holland during the German invasion and they are now under the control of the Dutch Government-in-exile. In June 1943 the fiction of a 40 per cent legal reserve ratio was dropped and the bank was authorized thereafter merely to hold such stocks of gold and foreign exchange "as are necessary for the settlement of foreign payments and for the maintenance of the value of the currency." Another illustration of a widening of the concept of legal reserves is provided by the central bank of Sweden, the Sveriges Riksbank. Before the war, 85 per cent of the gold cover behind the bank's note issue had to be held at home, but in January 1940 the distinction between gold reserves at home and abroad was removed in order to enable the bank to increase its gold earmarked abroad without reducing its reserve ratio. At the same time the bank was authorized to revalue its gold holdings at the market price, rather than at the lower parity value, in computing the reserve ratio.

Important changes have also been made with respect to the reserve requirements of two Axis central banks adhering to the fiduciary note issue principle. Up to March 1941 the Bank of Japan was permitted a fiduciary note issue of 2.2 billion yen; any sum in excess of that amount had to be covered 100 per cent in gold and silver (of which silver could not exceed 25 per cent). In that month the distinction between fiduciary and nonfiduciary note issues was abolished and an over-all limit of 4.7 billion yen was fixed as the maximum permissible tax-free note issue, to be covered by gold, silver, commercial bills, Treasury bills, and government bonds (no minimum proportion of gold being specified). This limit was raised to 6 billion yen on April 1, 1942, and since then further increases are believed to have been authorized in view of the rise of the note issue well above that limit. In similar fashion the Bank of Finland had been authorized in December 1938 to increase its fiduciary issue from 1.2 billion markkaa to 1.8 billion markkaa. A year later the cover for the bank's nonfiduciary issue, which previously had to be gold and specified foreign balances, was broadened to include other assets, notably Treasury bills.

Exceptions to the tendencies described in the preceding paragraphs are found most notably in Near and Middle Eastern countries and in Latin American countries. Net payments

to these countries by foreign countries (principally belligerents), for goods and services have caused an expansion of their reserves coincident with the expansion of their money supply as a whole, and consequently have tended to increase the reserve ratios of the central banks. Therefore, no significant alterations in legal reserve requirements have been necessary. Similarly, the central banks of the four British dominions and of the European neutrals have, in general, shown substantial increases in their eligible foreign exchange and gold reserves since the beginning of the war, under the influence of an active balance of payments, although their reserve ratios have not increased so conspicuously or so consistently as those of the Near and Middle Eastern and Latin American groups. With the exception of Canada, however, none of these countries has suspended its reserve requirements, although as noted above a slight liberalization was made in the case of the Bank of Sweden. (In the case of Canada the bulk of the gold and foreign exchange reserves has been held by the Foreign Exchange Control Board since May 1940.)

GROWTH IN CURRENCY CIRCULATION

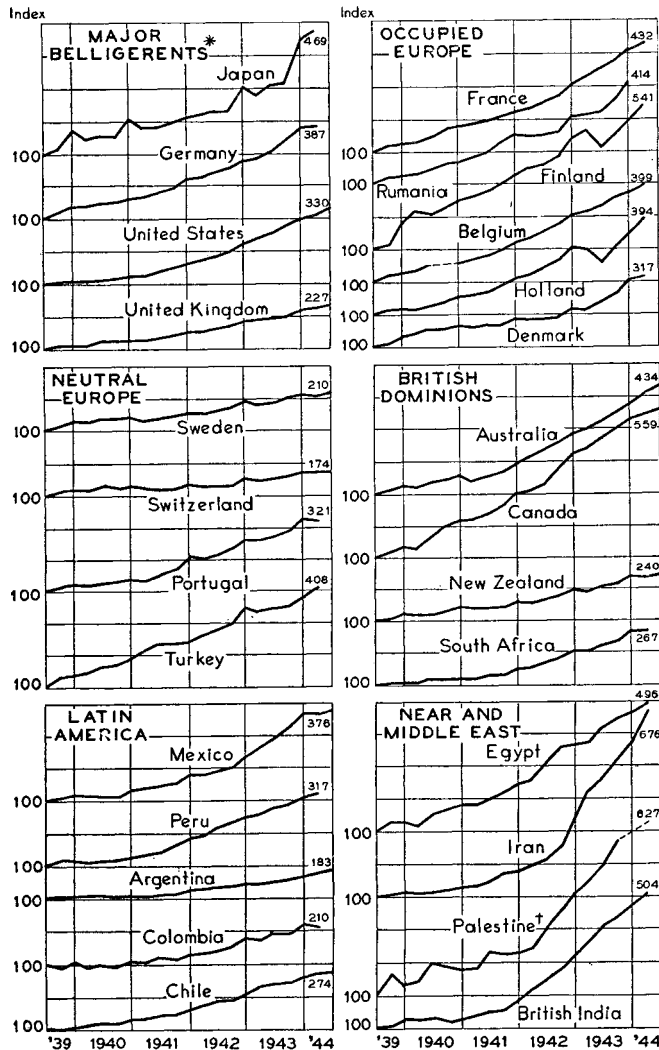
The primary reason for the relaxation or suspension of reserve requirements by foreign central banks, as indicated earlier, has been the expansion in their currency circulations. The universal rise in currency circulation during the war may be explained by (a) the factors increasing the aggregate money supply¹ in general and (b) the factors causing currency to increase faster than deposits. The chief cause of the expansion in the aggregate money supply has been, in most cases, war or defense financing by governments, to the degree that such financing has involved borrowing from the banking system; in some cases, expansion has been due primarily to a large excess of payments received from abroad over payments made abroad. The almost universal tendency for currency to rise faster than bank deposits is due to a variety of reasons. One such reason is the fact that income payments to wage earners, many of whom use cash rather than checks, have tended to rise at a faster rate than the total of income payments. Part of the increased currency circulation in most countries, moreover, undoubtedly reflects large shifts in population, disruption of normal trade channels, reduced banking facilities in many areas, and increased currency hoarding, owing to uncertainties arising out of the war. Black market transactions and efforts to reduce taxation by concealing income have also been factors in some cases. In summary, then, the degree to which currency circulation has expanded in any given country during the war has been primarily dependent upon the amount of government borrowing from the banking system, the character of the country's international balance of payments, and the strength of the factors tending to cause a preference for currency relative to deposits.

¹The term "aggregate money supply" includes demand deposits, currency issued by banks and governments, and coin.

The rate of expansion in the note circulation of central banks in 27 countries since the outbreak of the war is presented in the accompanying chart, which is divided for convenience into six main groups of countries. While all of the countries represented in the six groups have experienced substantial increases in note circulation, the rate of expansion has been most rapid in the Near and Middle Eastern countries and in Canada, Finland, and Japan, and least rapid in the Latin American group, the United Kingdom, Sweden, and Switzerland. (Data for Russia, China, and Greece are not available; in China and Greece the note issues are reported to have increased several thousand times.) No attempt can be made here to account in detail for the different rates and patterns of note expansion in the different countries, but certain general influences affecting groups of countries can be indicated.

Among the four major belligerents represented in the first group, the rate of expansion in the note circulation in Japan has been twice as rapid as that in the United Kingdom, while Germany and the United States occupy an intermediate position. In all four countries government borrowing from the banking system has been the principal factor increasing the money supply in general, but various special factors as well have brought about the different rates of expansion in note circulation. The expansion of note circulation in the Near and Middle Eastern countries may be attributed largely to heavy Allied military expenditures in those countries. An exception is Turkey, which has differed from other Near Eastern countries in being a neutral (until quite recently); for this reason, as well as because it lies partly in Europe, it is shown in the group of European neutrals. The expansion in the Latin American countries has reflected mainly British and American purchases of war materials and foodstuffs. In the European occupied countries, note expansion has been due largely to the payment of heavy occupation costs and to the accumulation of reichsmark clearing claims as a result of large net exports to Germany.

**Wartime Increase in Central Bank Note Circulation
(June 1939=100 per cent)**



* Data for the U. S. S. R. and for China are not available. United States data include Treasury as well as Federal Reserve notes in circulation.
† Represents note circulation of Palestine Currency Board.

FIFTH WAR LOAN DRIVE

The final report on the Fifth War Loan drive, issued early in August, showed that total subscriptions amounted to 20.6 billion dollars, thus exceeding by a wide amount the minimum goal of 16.0 billion. Comparable totals for previous War Loans, excluding commercial bank and Treasury investment account purchases, were: First, 7.6 billion dollars; Second, 13.1 billion; Third, 18.3 billion; and Fourth, 16.7 billion. In the Fifth drive, as in the Fourth, sales of Savings bonds and Savings notes over a two-month period were credited to the War Loan, while subscriptions to marketable issues were accepted within a period of somewhat less than one month. The drive figures do not include purchases by Treasury investment accounts or commercial banks. Large offerings of securities to commercial banks were included in the First and Second drives, but were eliminated from the Third and subsequent War Loans.

During the last drive, bank loans on Government securities, and bank purchases in the market of securities previously held by nonbank investors, were larger than in any of the previous drives. Between June 7 and July 12 the weekly reporting member banks in leading cities expanded their total loans on Government securities by over 1.8 billion dollars, the increase amounting to nearly twice that in the Fourth Loan; and their holdings of Government securities rose by 4.9 billion dollars, compared with an increase of 3.1 billion during the previous drive. Funds realized by nonbank investors from bank loans and from sales of prior holdings of Government securities, and invested in drive issues, played an important role in the attainment of the high sales total for the drive. Nevertheless, the

amount of funds raised from savings of individuals and available funds of corporations appears to have surpassed that of any previous drive.

Of the total sales, 6.3 billion dollars represented purchases by individuals, whose quota had been set at 6 billion, while subscriptions by corporations and other investors amounted to 14.3 billion, compared with a quota of 10 billion. Every class of nonbank investor (with the minor exception of brokers and dealers, whose subscriptions were restricted) subscribed to an amount greater than that in any other drive. Purchases by individual investors exceeded those in the previous drive by 1 billion dollars; insurance companies and mutual savings banks purchased 900 million dollars more; and other investors, 2 billion more.

In the accompanying chart are shown the sales of securities in the five War Loans, by type of investor, for the entire country and for the Second Federal Reserve District, together with the percentages of the country's total sales that were made in the Second District. It will be noted that, for every investor class but one, Fifth War Loan sales in the Second District, as in the entire country, surpassed previous records. On the other hand, in every category the percentage of Second District subscriptions has tended to decline since the First drive. This appears to be the result of (1) the gradual absorption into War Loan investments of accumulations of idle funds centered in New York City at the start of the War Loan drives, (2) the increasing proportion of allocations of sales to other sections of the country as procedure for such transfers was perfected, and (3) the relatively increased effectiveness of sales

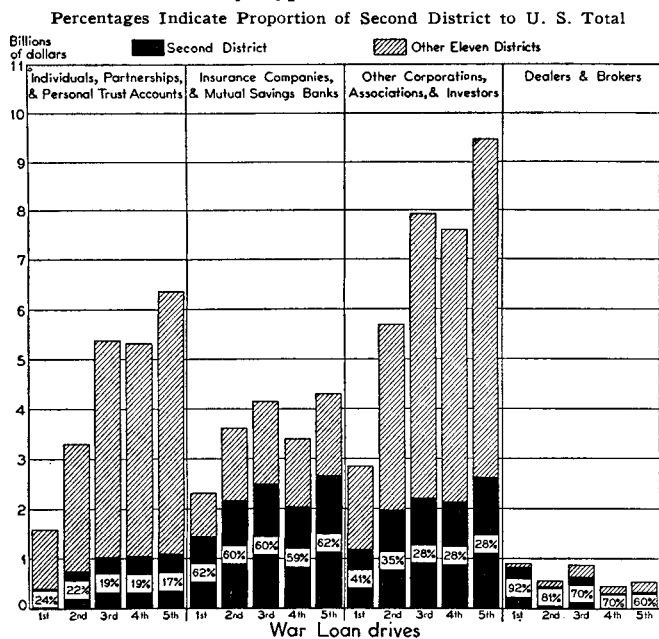
organizations in other regions where the machinery was not so well established at the start. However, in the Fifth drive as in previous drives, all three States included in whole or in part in the Second Federal Reserve District exceeded their over-all quotas, despite the fact that their goals for sales to individual investors were not reached. New York State exceeded its quota by 24 per cent, New Jersey by 17 per cent, and Connecticut by 16 per cent.

For the country as a whole, the percentage of total subscriptions accounted for by sales to individual investors was approximately the same (31 per cent) in the Fifth drive as in the Fourth. Of the total subscriptions by individuals, 57 per cent represented purchases of Savings bonds, compared with 71 per cent in the last drive. Sales of Series E Savings bonds barely exceeded the quota of 3 billion dollars and fell somewhat short of the 3.2 billion total reached in the Fourth Loan. This may have been due to the fact that many large investors purchased their full calendar year limit of this type of security during the earlier drive this year; evidence of this is found in the decline in the number of large denomination Savings bonds sold. However, the number of Series E Savings bonds of all denominations that were sold reached a new high record of 72,100,000, indicating the success of the widespread sales efforts. About 200,000 units were sold of the new 10 dollar denomination Series E Savings bond, authorized June 7 for purchase only by members of the armed forces through agencies within their organizations.

About 5.2 billion dollars, or 25 per cent of total subscriptions, represented sales of the 2 per cent 8 to 10 year Treasury bonds. Although a similar issue had been offered in the Third War Loan, it was replaced in the Fourth drive by a 2¼ per cent bond which commercial banks were not eligible to acquire. Individual investors and corporations purchased about the same amount of the 2 per cent bonds as during the Third drive, while savings banks increased their purchases somewhat. The next most popular issue was the 7/8 per cent certificate of indebtedness, sales of which amounted to 4.8 billion dollars, primarily to corporations. Sales of Savings notes reached 2.6 billion dollars, a new high record for a War Loan drive. Sales of 2½ per cent bonds totaled 2.3 billion dollars, which is more than was sold during the Fourth Loan, but considerably less than during the previous drives. For the first time, Treasury notes were included among the War Loan offerings; corporations and associations other than insurance companies and mutual savings banks took nearly half of the 1.9 billion sales of this issue. Sales of Series F and G Savings bonds declined to approximately 800 million dollars in this drive, apparently because of earlier purchases of the calendar year limit.

Subscriptions to Fifth War Loan securities by commercial banks under the savings deposit formula amounted to 765 million dollars, and Treasury investment accounts subscribed

Sales of Securities in the Five War Loans, by Type of Investor*



* Excludes sales to commercial banks and Treasury investment accounts.
Sources: Treasury Department and Federal Reserve Bank of New York.

to 593 million; but these amounts were not credited to the Fifth War Loan sales. The bulk of the commercial bank subscriptions represented the 2 per cent bonds, while the Treasury investment account purchases were entirely of the 2½'s. During the Fourth drive, commercial bank subscriptions totaled 618 million and Treasury investment accounts 350 million.

INCOME PAYMENTS IN THE SECOND FEDERAL RESERVE DISTRICT

Income payments to individuals in the Second Federal Reserve District are estimated at 22.2 billion dollars in 1943, compared with 19.2 billion in 1942 and 13.9 billion in 1939.¹ Continued expansion in activity in most major industry groups except construction was responsible for the 16 per cent gain last year; in 1942 the rise amounted to 15 per cent, and in 1941 to 14 per cent. Thus, in the Second District the rate of expansion last year was a little greater than in either of the two years preceding, whereas for the entire country the rate of increase in 1943 (20 per cent) was less than in either 1941 (22 per cent) or 1942 (24 per cent).

The fact that the Second Federal Reserve District was slow to feel the effects of war production has been pointed out in a previous article in this Review.² The concentration of consumer goods industries in New York City and some Upstate areas, the importance of trade, finance, and service activities, and the prevalence of many small manufacturing concerns in the region meant that the District did not respond so readily as other sections of the country to the stimulus of war contracts. But as activity in the large durable goods industries began to spread, through subcontracting, to the smaller plants, and as nonmanufacturing industries were drawn into the war effort, income payments in the District increased substantially. The expansion, however, has lagged considerably behind that in the entire country, and, therefore, the District's share in the nation's total has declined in each year of the war period.

In New York State, which accounts for an estimated 80 per cent of total District income payments, the increase between 1939 and 1943 amounted to 54 per cent, which was little more than half that for the country. (See accompanying table.) In Connecticut and New Jersey, parts of which are included in the Second District, the gains were 99 per cent and 85 per cent, respectively. The major gains in income payments throughout the country during the war period have come from three sources: manufacturing, agriculture, and government. These three groups as a source of payments are relatively less important in New York State than in the country as a whole, which explains to a considerable extent the slower rate of expansion in this State. Groups that, taken collectively,

¹ Estimates based on revised Department of Commerce data for the various States.

² March 1, 1943.

**Income Payments to Individuals by Industrial Source
United States and New York State
(Dollar figures in millions)**

Industrial source	United States		New York State		Per cent change, 1939-43	
	1939	1943	1939	1943	United States	New York State
Agriculture	\$ 5,091	\$ 13,500	\$ 154	\$ 325	+165	+111
Mining	1,201	2,098	16	41	+ 75	+156
Manufacturing	13,504	41,416	1,907	5,122	+207	+169
Contract construction	1,839	4,134	316	306	+125	- 3
Transportation	3,929	7,121	562	881	+ 81	+ 57
Power and gas	671	779	116	110	+ 16	- 5
Communication	622	885	152	180	+ 42	+ 18
Trade	10,012	15,707	1,708	2,403	+ 57	+ 41
Finance	2,573	3,316	703	854	+ 29	+ 21
Government	6,144	17,212	893	1,662	+180	+ 86
Service	6,807	9,916	1,259	1,720	+ 46	+ 37
Miscellaneous	2,954	4,343	574	784	+ 47	+ 37
Payroll deductions for social insurance*	524	1,184	91	152	+126	+ 67
Net salaries and wages & entrepreneurial income	54,823	119,243	8,268	14,234	+118	+ 72
Dividends, interest, net rents	11,023	13,448	2,362	2,459	+ 22	+ 4
Other income payments †	4,755	5,410	671	668	+ 14	‡
Total income payments	\$70,601	\$138,101	\$11,301	\$17,361	+ 96	+ 54

Source: United States Department of Commerce.
* Contributions to Social Security and other retirement funds under Government control.
† Includes direct relief, pensions, compensation for injuries, social insurance benefits; in 1943, allowances and allotments paid to dependents of military personnel also were included.
‡ Decline of less than one per cent.

accounted for more than half of the income payments in New York State before the war—trade, service, finance, and property (including dividends, interest, and net rents)—are among those that have shown the smallest increases since 1939.

In per capita payments New York, Connecticut, and New Jersey rank high among the rest of the States. According to 1943 payments, Connecticut was first with an average income of \$1,452 per person; New York sixth, with an average income of \$1,340; and New Jersey ninth, with a per capita income of \$1,282. The average for the country was \$1,031.

Indexes of Business

Index	1943	1944		
	July	May	June	July
Industrial production*, 1935-39 = 100 (Board of Governors, Federal Reserve System)	240	236	235	233p
Munitions output, 1943 = 100 (War Production Board)	101	115	115	112p
Electric power output*, 1935-39 = 100 (Federal Reserve Bank of New York)	192	198	198	197p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	235	235	233p	
Sales of all retail stores*, 1935-39 = 100 (Department of Commerce)	165	172	171p	
Factory employment United States, 1939 = 100 (Bureau of Labor Statistics)	170	159	159	158p
New York State, 1935-39 = 100 (New York State Dept. of Labor)	160	149	148	145p
Factory payrolls United States, 1939 = 100 (Bureau of Labor Statistics)	316	318	318p	
New York State, 1935-39 = 100 (New York State Dept. of Labor)	284	284	283	274p
Income payments*, 1935-39 = 100 (Department of Commerce)	213	231	233p	
Wage rates, 1926 = 100 (Federal Reserve Bank of New York)	154	163	164p	
Cost of living, 1935-39 = 100 (Bureau of Labor Statistics)	124	125	125	126p
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City	69	66	88	90
Outside New York City	76	72	87	85

* Adjusted for seasonal variation. p Preliminary.

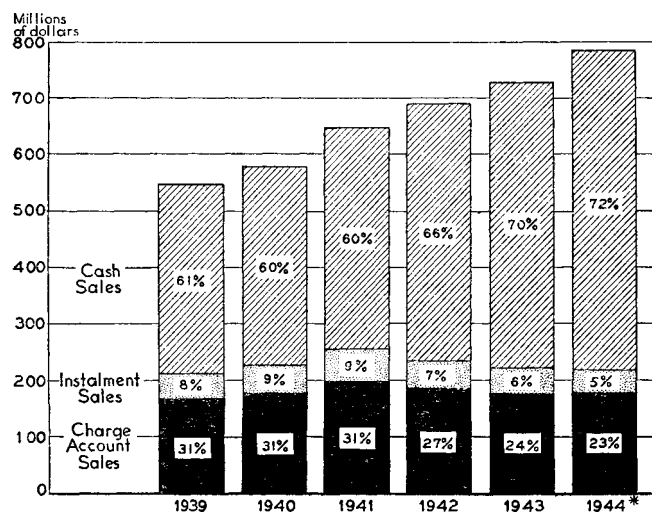
DEPARTMENT STORE TRADE

Department store sales in this District during August were the largest on record for that month and approximately 15 per cent greater than in August a year ago. The seasonally adjusted index held close to the high for July; for the year to date, the index has averaged 8 per cent above the corresponding period in 1943.

The dollar volume of sales thus far this year indicates that the annual total will reach the all-time record of around 785 million dollars—a figure 240 million dollars, or almost 45 per cent, above that for 1939. The accompanying chart shows that virtually the entire gain during the five-year period has occurred in cash purchases. The rapid rise in consumer incomes, together with consumer credit regulations, has been the principal cause of the increase in cash payments. These transactions in Second District department stores now amount to approximately 570 million dollars annually, or 72 per cent of total store sales, compared with 335 million, or 61 per cent of total sales, in 1939.

Although total credit sales currently are about the same as in 1939, they have contracted sharply since 1941. Instalment sales rose 30 per cent between 1939 and 1941, and the annual total of 55 million dollars for the latter year established a new record. The decline that took place in 1942 reflected both restrictions on the extension of instalment credit (imposed by Regulation W on September 1, 1941) and shortages in many lines of durable goods. The downward tendency in instalment sales has continued since 1942, and the total for this year is now estimated at 40 million dollars, or only 5 per cent of all department store sales. Charge account sales increased 18 per cent between 1939 and 1941, reaching a peak of 200 million

Department Store Sales by Type of Transaction
Second Federal Reserve District



* Estimated on basis of sales in first seven months.
Source: Federal Reserve Bank of New York.

dollars in the latter year. The broadening, in May 1942, of Regulation W to include charge accounts was largely responsible for a decline in total charge account sales for that year; and a further decrease, to 175 million dollars, occurred in 1943. So far this year such sales have continued at approximately the same rate as in 1943, and have accounted for about 23 per cent of total department store sales.

Because of the exceptionally large volume of instalment accounts outstanding in 1941, receivables of department stores in this District reached a record high level in that year. In 1942, however, considerable improvement occurred in the rate of collections, and receivables declined fairly sharply. Since 1942, the collection ratios have changed very little. Instalment receivables have declined, as sales have contracted, while charge accounts outstanding have shown no significant change. At the close of July this year, about 65 per cent of the accounts outstanding were for charge account purchases, compared with 55 per cent on the corresponding date of 1941. Charge accounts are now being paid up in slightly less than 2 months on the average, compared with 7 months for instalment accounts; the corresponding averages in 1941 were about 2½ months for charge accounts and about 10 months for instalment accounts.

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

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

Indexes of Department Store Sales and Stocks
Second Federal Reserve District

Item	1943	1944		
	July	May	June	July
<i>1935-39 average = 100</i>				
Sales (average daily), unadjusted	91r	141	131	99
Sales (average daily), seasonally adjusted	136r	149	141	147
<i>1923-25 average = 100</i>				
Stocks, unadjusted	106	118	113	110
Stocks, seasonally adjusted	117	116	118	121

r Revised.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, SEPTEMBER 1, 1944

General Business and Financial Conditions in the United States (Summarized by the Board of Governors of the Federal Reserve System)

INDUSTRIAL production and employment declined slightly further in July. Wholesale commodity prices generally continued to show little change, while the cost of living increased somewhat.

INDUSTRIAL PRODUCTION

Output at factories and mines continued to decline slightly in July and the Board's seasonally adjusted index was 233 per cent of the 1935-39 average as compared with 235 in June. The decrease in industrial production largely reflected small declines in a number of industries due to continued minor readjustments in the munitions program and to manpower shortages.

Output of steel and of nonferrous metals declined further in July to levels respectively 8 per cent and 20 per cent below the high levels of last autumn. A small decrease in activity in transportation equipment industries reflected partly the indirect effects of manpower shortages in foundries and continued readjustments in the shipbuilding and aircraft industries. In August a cutback in aircraft production was announced which was expected to result in the immediate release of 20,000 aircraft workers and the gradual release of 100,000 more during the balance of this year.

Production of manufactured dairy products and meats, after allowance for seasonal change, was maintained in July while output of other food products declined slightly. Cotton consumption showed little change from the rate of the last two months. Activity in the rubber products industry continued to decline slightly in July and supplies of heavy truck and bus tires available for civilians during the third quarter were substantially below estimated needs. Output of chemicals likewise continued to decline slightly.

Crude petroleum output and metal mining were maintained in large volume during July. Coal production dropped 5 per cent from the level of the preceding month, but for the year through August 12 was approximately 8 per cent above the corresponding period of last year, reflecting uninterrupted operations, longer working hours, and a great expansion of strip mining.

So far this year the value of construction contracts awarded, as reported by the F. W. Dodge Corporation for 37 States, has fluctuated around 160 million dollars a month—the lowest level since early 1935.

DISTRIBUTION

Department store sales declined considerably less than is usual in July, and have continued in August at a higher level than a year ago.

Freight carloadings continued to rise in July and were maintained at a high level during the first two weeks in August. There were considerable increases in shipments of grain, forest products, and miscellaneous freight, offset partly by a small decrease in coal shipments.

AGRICULTURE

Dry weather during July in the east central area has reduced somewhat national prospects for corn, hay, and potatoes. Aggregate crop production, however, is likely to exceed last year by 5 per cent, reflecting chiefly a record wheat crop 35 per cent larger than last year.

Total production of all feed grains is estimated at 112 million tons compared with 115 million tons produced in 1943. While hay production, except in the drought areas, has been large, it will provide a smaller supply per animal unit than has been available in any of the last 6 years.

Crop prospects for most fruits and vegetables, except potatoes, are better than last year. Tobacco production is indicated as being above average and cotton yields may be good as dry weather has held the boll weevil in check.

BANK CREDIT

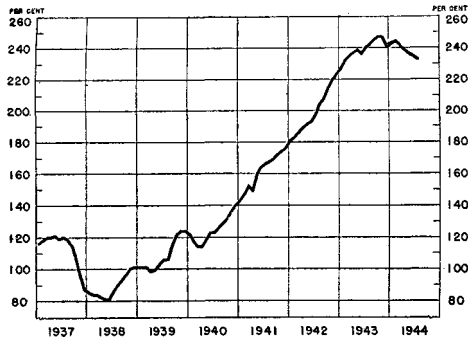
In the five weeks following the close of the Fifth War Loan Drive, loans by banks for purchasing and carrying U. S. Government securities declined sharply; calls on War Loan deposits and subsequent Treasury expenditures increased adjusted demand deposits and consequently required reserves; the rapid outflow of currency into circulation was renewed; and excess reserves declined.

In the five weeks from July 12 through August 16 loans to brokers and dealers for purchasing and carrying Government securities declined 500 million dollars to about the pre-drive level. Loans to others for purchasing and carrying Government securities declined about the same amount, but are still considerably larger than before the drive. Commercial loans continued to show little change.

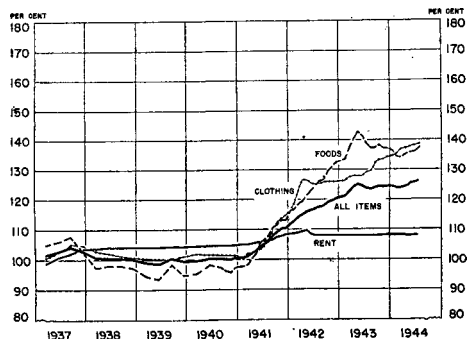
Treasury War Loan balances at all depositories declined in the five-week period by 2.7 billion dollars. At weekly reporting banks, Government deposits fell by 2.2 billion during the same period and adjusted demand deposits increased by 1.4 billion. Time deposits continued the steady increase that has been in progress for more than a year.

Following a slackened rate of outflow during the War Loan drive, currency renewed its rapid outflow and in the next few weeks increased at a rate of about 500 million dollars a month. The resulting drain on bank reserves and the increase in required reserves were met in part by purchases of Government securities by the Reserve Banks and in part by a decline in excess reserves.

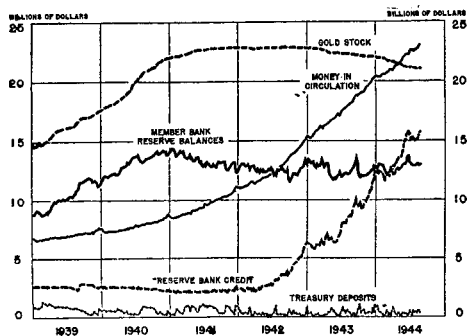
Weekly average excess reserves of all member banks declined about 300 million dollars from their peak during the War Loan drive and amounted close to 1.1 billion dollars in mid-August. The rate of decline was about the same at reserve city and at country banks.



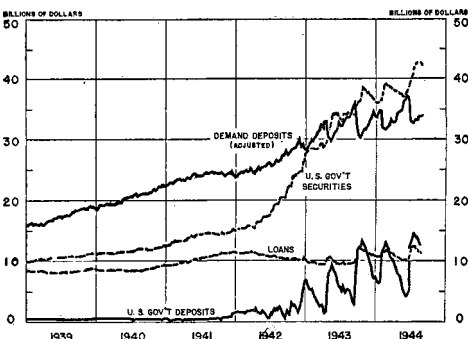
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of the Cost of Living as Compiled by Bureau of Labor Statistics. Last Month in Each Calendar Quarter through September 1940, Monthly Thereafter (1935-39 average=100 per cent)



Member Bank Reserves and Related Items (Latest figures are for August 16)



Member Banks in Leading Cities. Demand Deposits (Adjusted) Exclude U. S. Government and Interbank Deposits and Collection Items. Government Securities Include Direct and Guaranteed Issues (Latest figures are for August 16)