MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

Vol. 26 | OCTOBER 1, 1944 | No. 10

MONEY MARKET IN SEPTEMBER

The heavy flows of funds characteristic of Federal income tax periods have occurred again during the past month. Income tax collections amounted to approximately 4.5 billion dollars up to the end of September, with substantial additional amounts still to be cleared during the early part of October. Actual cash payments totaled approximately 3.3 billion dollars, while payments in the form of Treasury Savings notes amounted to 1.2 billion or about 27 per cent of the total. Because of the high rate of Government expenditures, however, there were only a few days on which tax collections exceeded Government disbursements; in the week ended September 20 Treasury balances with the Reserve Banks increased by more than 300 million dollars, but subsequently disbursements exceeded tax collections and the Treasury balance was drawn down again.

On September 15, before the clearance of tax checks reached its maximum volume, Treasury disbursements substantially exceeded receipts because of two factors: interest payments on the Government debt and cash redemptions of maturing securities which were not exchanged for new issues. Interest payable on September 15 amounted to about 500 million dollars (not all of which was actually cleared on that day, however), and cash redemptions of Treasury notes and certificates of indebtedness were in excess of 100 million dollars.

Because of the large receipts from taxes, the Treasury was able to suspend withdrawals of funds from War Loan deposit accounts in the banks after September 16, and did not resume such withdrawals until September 28—and then on a limited scale as tax checks were still being collected in substantial volume.

As usual, the heavy flows of funds during the tax period fell disproportionately on the New York City banks. Before and during the tax period there was an outflow of business funds to other parts of the country, associated in part with a seasonal flow of funds to the interior, presumably to finance the marketing of crops, and in part with transfers of corporation funds from New York City to other districts to meet income tax payments. In addition, there was some corporation selling in the New York market of Government securities, chiefly certificates of indebtedness, to raise funds for tax payments. For the month as a whole, the New York City banks sustained a net loss of funds through Treasury operations and they, like other banks, continued to be subject to public demands for currency and to increasing reserve requirements.

A substantial amount of Federal Reserve credit was required to meet the needs of individual banks for reserves, although all member banks continued to hold between 800 million and 1 billion dollars of excess reserves during the month. Between August 30 and September 27, total Federal Reserve credit outstanding increased by 776 million dollars. The funds were supplied largely through direct purchases of Treasury bills from banks in need of reserves, but partly through purchases of Treasury certificates of indebtedness in the market, and at times through loans to member banks. Total holdings of Treasury bills by the Reserve Banks increased 528 million dollars, and certificates of indebtedness 161 million dollars, while Reserve Bank holdings of Treasury notes and bonds were reduced by 13 million and 26 million, respectively, reflecting market demands for those types of securities.

The demands for Federal Reserve credit were concentrated to a considerable extent in New York City, because of the disproportionate losses of funds by the New York City banks through the outflow of commercial funds and Government transactions, as well as currency and other demands. The weekly reporting New York City banks made net sales of 420 million dollars of Treasury bills to the Reserve Bank during the three weeks ended September 20, which reduced their bill holdings to 558 million dollars, but in the following week they were able to increase their holdings by 134 million.

Impact of the War on the New York Money Market

An article under this heading in the August 1943 issue of this *Review* pointed out that the New York City banks had been subject to a very heavy drain on their reserves since the beginning of the war, which had been due in large part to a substantial excess of Treasury sales of securities and tax collections over Government disbursements in New York, but partly to the almost continuous public demands for currency, to business withdrawals of funds from their New York balances prior to 1943, and to net losses of funds through gold and foreign account operations in 1943. As a result of these developments, the New York City banks by the middle of 1943 had lost approximately half of their reserves and no longer held any appreciable amount of excess reserves, while banks in other parts of the country on the whole had gained reserves in substantial volume, and continued to hold fairly sizable amounts of excess reserves. Correspondingly, the growth of deposits in other parts of the country had been far more rapid than in the New York City banks.

In general, the same tendencies have continued during the past year, but the rates at which the various major factors have affected the reserves of the banks in this District have changed materially in some cases, and the disparities between changes in the reserves and deposits of New York City banks and other member banks have been less wide. As the first of the accompanying tables indicates, the net loss of funds to banks in this District through Treasury transactions from the beginning of 1944 through September 20 was somewhat over 1½ billion dollars, compared with nearly 3½ billion in the corresponding period in 1943. The volume of Government checks deposited in banks of the District has been larger in 1944 than in 1943, and of the total funds obtained by the Treasury through the sale of Government securities, a smaller proportion has been raised in the District this year than last (not because of reduced sales in the Second District, but because of greater increases in sales in other parts of the country).

Factors of Gains and Losses of Reserve Funds to Member Banks in the Second Federal Reserve District (In millions of dollars)

	1941	1942	1943	1943 (through Sept. 22)	1944 (through Sept. 20)
Treasury transactions	− 490	−2,260	−4,430	−3,450	−1,580
Commercial and financial transactions	−1,740	−1,930	+1,080	+1,398	− 305
Currency movements	− 510	− 680	−1,000	− 590	− 620
Gold and foreign account transactions	+ 760	+ 650	− 210	− 210	− 650
Nonmember and other deposit accounts	—	+ 150	+ 50	− 5	− 20
Reserve Bank transactions	+ 60	+3,460	+3,750	+1,920	+3,315
Member bank reserve balances	−1,920	− 610	− 770	− 940	+ 140

On the other hand, commercial and financial transfers have resulted in a relatively small outflow of funds from the District thus far this year, whereas in the corresponding period last year there was a substantial flow from other parts of the country. The demand for currency has been of much the same magnitude this year as last, but gold and other foreign account transactions have resulted in a considerably greater loss of funds to banks in this District for the elapsed portion of 1944 than in the similar period last year.

A substantially greater volume of Federal Reserve credit has been needed to maintain the reserves of Second District banks at the required levels than was the case in 1943—about 3.3 billion dollars this year, compared with 1.9 billion last year. The disparity has been due, not so much to a greater loss of funds through the total of all of the transactions mentioned above, as to other factors. First of all, the New York City banks at the beginning of 1943 still held approximately ½ billion of excess reserves, whereas at the beginning of 1944 they had very little. Furthermore, in the early part of 1943, the elimination of reserve requirements against Government War Loan deposits released a substantial amount of reserves and there has been no development having such an effect in 1944.

Changes in Reserve Balances of Member Banks Since December 31, 1940 (In millions of dollars)

	Dec. 31, 1940	Dec. 31, 1943	Sept. 20, 1944	Change: Dec. 31, 1940 to Dec. 31, 1943	Change: Dec. 31, 1943 to Sept. 20, 1944
Second Federal Reserve District	7,557	4,264	4,401	−3,293	+137
Central reserve New York City	*7,062*	*3,601*	*3,700*	*−3,461*	*+ 99*
Other Second District	*495*	*663*	*701*	*+ 168*	*+ 38*
Other Federal Reserve Districts	6,469	8,622	9,044	+2,153	+422
United States total	14,026	12,886	13,445	−1,140	+559

After losing nearly half of their reserves between the end of 1940 and the end of 1943, the New York City banks have increased their reserves slightly this year, as the second table indicates. This increase has been necessary to cover a moderate rise in their reserve requirements incident to the growth in their deposits. Other banks in the Second District had a substantial increase (proportionately) in their reserves during the three years 1941-43, and they have had a further small increase this year. Member banks in other Federal Reserve districts, after gaining reserves rapidly up to the end of 1943, largely at the expense of New York City banks, have gained reserves somewhat less rapidly in 1944.

The final table shows the relative growth in deposits of member banks in the Second Federal Reserve District and in other districts since the end of 1940. As the data indicate, New York City banks had an expansion of 31 per cent in their total deposits between the end of 1940 and the end of 1943, whereas the deposit growth for other member banks in this District was nearly 67 per cent, and for all other Federal

Changes in Total Deposits of Member Banks Since December 31, 1940 (Dollar amounts in millions)

	Dec. 31, 1940	Dec. 31, 1943	Aug. 1944*	Percentage increase: Dec. 31, 1940 to Dec. 31, 1943	Percentage increase: Dec. 31, 1943 to Aug. 1944
Second Federal Reserve District	$21,186	$28,990	$ 31,441	36.8	8.5
Central reserve New York City	*17,744*	*23,256*	*25,049*	*31.1*	*7.7*
Other Second District	*3,442*	*5,734*	*6,392*	*66.6*	*11.5*
Other Federal Reserve Districts	35,244	63,272	70,217	79.5	11.0
United States total	$56,430	$92,262	$101,658	63.5	10.2

* Daily average for the month.

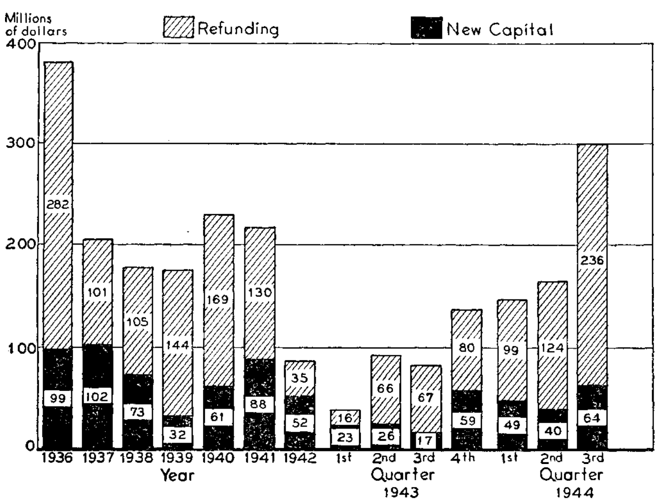
Reserve districts nearly 80 per cent. For the first eight months of 1944, the disparity was much less wide—the growth of deposits of New York City banks was at least two-thirds as great as the increase either in other banks in the District or in all other districts. The increase in Second District banks outside New York City was slightly greater than the average for banks in other districts. The diminishing disparity between New York City banks and other member banks may be attributable at least partly to a less uneven distribution of Government expenditures in various parts of the country, and in part to the increasing success in selling Government securities in other parts of the country during War Loan drives.

NEW CORPORATE FINANCING

The upward tendency in the volume of corporate financing through new security issues, which has prevailed for more than a year, has recently been sharply accelerated. A preliminary compilation of the new issues publicly offered or privately placed during the month of September indicates that the month's total, at $442,000,000, was the largest of any month in nearly eight years; for the three months ended September 30 the aggregate of $899,000,000 was the greatest for any quarter since 1940.

Although the bulk of the new financing continued to be for refunding purposes, the monthly average for new capital raised during the past quarter exceeded that of any other quarter in the last two years and compared favorably with monthly averages for the years immediately preceding this country's entry into the war. (See accompanying chart.) If the present tendency continues, which seems likely in view of announcements of forthcoming new issues, total new financing for the entire year 1944 may exceed $2,500,000,000, the average annual figure for the period 1939-41. In each of the first two years that this country was at war, corporate financing amounted to about $1,050,000,000.

Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital*



* Figures for September in third quarter of 1944 estimated by Federal Reserve Bank of New York.
Source: *Commercial and Financial Chronicle.*

Refunding operations of public utility companies account for about one third of the increase in refunding issues that occurred in the first eight months of 1944, compared with the corresponding eight months of 1943. Railroads and the metals industries also were responsible for a substantial part of the advance.

More than half of this year's increase in the total amount of new capital financing resulted from operations of companies classified by the *Commercial and Financial Chronicle* as "other industrial and manufacturing" and "miscellaneous". The remainder of the increase was accounted for chiefly by the railroads and the oil group.

A large number of operating utilities which were not in a position to undertake refunding measures before the war apparently are financially stronger now and are taking advantage of the continued low interest rates to reduce charges on funded debt. Other utilities have announced plans for redistributing control under the terms of the Holding Company Act, which in some cases have involved new financing. Some industrial companies are expected to float new issues to obtain capital for postwar needs, while others may be influenced by low interest rates to refund outstanding issues. As restrictions on obtaining materials are removed, the railroads may place larger amounts of equipment trust certificates on the market.

Despite the increased volume of corporate financing, the demand for new issues continues to be strong and flotations are quickly absorbed by investors. It is expected, however, that offerings will diminish in volume during the coming Sixth War Loan drive.

FOREIGN EXCHANGES

Accompanying the Allied liberation of part or all of several European countries and the invasion of parts of Germany, a number of currency arrangements and the relative rates of exchange to be used tentatively by the Allied forces were announced during the past month. Acccording to statements issued jointly by the United States Treasury and War Departments, officials of the United States and British Governments and representatives in London of the Belgian and Netherlands Governments completed arrangements some time ago for supplying the liberating forces with the currencies of the liberated countries at established rates of exchange. The Belgian franc has been fixed at a rate of 43.773 to the dollar, or equivalent to $0.0228 per franc. Compared with the level prevailing prior to the suspension in May 1940 of New York trading in Belgian exchange, the new rate represents a depreciation of slightly over 30 per cent. In terms of pounds sterling, the Belgian franc has been fixed at 176⅝ francs to the pound.

Inasmuch as Belgian currency was in general use in Luxembourg before the war and the currencies of the two countries were freely interchangeable, the exchange rates established for the Belgian franc have also been made applicable in Luxembourg, at the instance of the Luxembourg Government.

The Netherlands Government has selected rates of 2.64957 guilders to the dollar—equivalent to $0.3774 per guilder—and 10.691 to the pound sterling. These rates also represent a depreciation of about 30 per cent from the pre-invasion level.

Press reports have indicated that Allied occupation marks have been issued at the rate of 10 to the dollar (equivalent to 10 cents a mark) and at 40 to the pound. Although the "free" mark was quoted at about 40 cents prior to the freezing of German accounts in this country, the registered mark which had more limited uses was then quoted in New York at around 12 cents, and various other types of marks at rates ranging from about 4 to 17 cents.

In the New York foreign exchange market, the only fluctuations of any consequence in recent months have occurred in the unofficial quotation for the Canadian dollar. Apparently reflecting some slackening in demand for Canadian securities on the part of American investors, the Canadian dollar declined in the unofficial market here, to be quoted on September 12 at $0.8875—the lowest since last December. Subsequently, there has been some recovery but the present rate, at $0.8987½, is still more than one cent below the 1944 high reached in May. Among the other Western Hemisphere currencies, the free Argentine peso has held fairly steady around $0.2500, despite the political tension between Argentina and the United States.

SURVEY OF OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS JULY 1944

In continuation of the Reserve System program of surveys, at approximately six-month intervals, of the ownership of demand deposits of individuals, partnerships, and corporations, this bank has compiled reports from 137 member banks in the Second Federal Reserve District, as of the end of July 1944. The deposit accounts classified by the banks were the larger accounts, the minimum size of account classified varying according to the size of bank, as indicated in Table IV. Classified accounts represented 65 per cent of the total dollar volume of total demand deposits of individuals, partnerships, and corporations in the cooperating banks.[1] These surveys contribute substantially to an understanding of the character of the wartime growth in bank deposits, and are useful to the banks in analyzing the types of accounts in which changes in their deposits are occurring.

The changes since July 1943 and February 1944, as reported by 106 identical banks, may be seen in Table I. Since the War Loan drives absorb large amounts of these deposits, the level of deposits at specific times depends, to a great extent, upon the relationship of the dates of the deposit surveys to the War Loan drives. This fact must be kept in mind when the figures for the three dates are compared, since the last two dates were just after the Fourth and Fifth War Loans, whereas the one in 1943 preceded the Third War Loan by a little more than one month. Between February and July 1944, the larger deposit accounts (those classified by the banks) increased less than 1½ per cent and remained about 5 per cent below a year ago. The rise between February and July was due mainly to growth in deposits of trade accounts and financial businesses other than insurance companies. The manufacturing and mining group and the public utilities, transportation, and communications group showed further reductions in bank balances. Insurance companies' deposits and trust funds of banks changed very little in the six-month period and were substantially smaller than in July 1943. Large personal deposits declined slightly further. The smaller, unclassified deposits, which represent mainly accounts of individuals and unincorporated businesses, showed a greater increase than the classified deposits since February and were larger than a year ago. It would appear that the War Loan drives have not been as successful in reaching these smaller deposits as they were in tapping large deposit accounts.

Table I

Demand Deposits of Individuals, Partnerships, and Corporations, Classified by Type of Owner, in 106 Banks in the Second Federal Reserve District, July 1943, February 1944, and July 1944 (In millions of dollars)

Type of owner	July 1943	Feb. 1944	July 1944
Manufacturing and mining	4,761	4,578	4,538
Public utilities, transportation, and communications	1,071	1,033	981
Retail and wholesale trade and dealers in commodities	629	590	701
All other nonfinancial business, including construction and services	282	283	306
All financial business*, other than insurance companies and trust funds of banks	507	421	506
Total	7,250	6,905	7,032
Insurance companies	672	545	542
Trust funds of banks	473	351	347
Nonprofit organizations	129	133	130
Personal (including farmers)	565	555	550
Total classified deposits	9,089	8,489	8,601
Total unclassified deposits	4,540	4,586	4,752
Total demand deposits of individuals, partnerships, and corporations	13,629	13,075	13,353

* Including investment, loan, insurance agency, and real estate businesses, etc.

Corporate and Other Businesses

For the first time an effort was made in the July survey to obtain a breakdown of business deposits to show the relative

[1] Approximately the same banks reported in this survey as in the February 1944 survey, the results of which were published in the April 1 issue of this *Review*. Results of the two previous surveys were discussed in the July 1943 and the October 1943 issues, and those for the country as a whole have been published from time to time in the *Federal Reserve Bulletin*.

Table II

Estimates of Demand Deposits of Individuals, Partnerships, and Corporations, Classified by Type of Owner, for All Member Banks in Second Federal Reserve District, July 1944*

Type of owner	Millions of dollars		Per cent of total deposits	
	Corporate	Other	Corporate	Other
Manufacturing and mining	5,407	148	32.5	0.9
Public utilities, transportation, and communications	1,189	17	7.2	0.1
Retail and wholesale trade and dealers in commodities	841	197	5.1	1.2
All other nonfinancial business, including construction and services	356	73	2.1	0.4
All financial business† other than insurance companies and trust funds of banks	436	193	2.6	1.2
Total	8,229	628	49.5	3.8
Insurance companies	608		3.7	
Trust funds of banks	401		2.4	
Nonprofit organizations	191		1.1	
Personal (including farmers)	902		5.4	
Total classified deposits	10,959		65.9	
Total unclassified deposits	5,663		34.1	
Total demand deposits of individuals, partnerships, and corporations	16,622		100.0	

* Estimated on basis of 137 banks in survey.
† Including investment, loan, insurance agency, and real estate businesses, etc.

amounts in accounts of incorporated and unincorporated businesses—the latter including partnerships and self-employed proprietors. The estimated distribution of total demand deposits of individuals, partnerships, and corporations in all member banks in the Second District at the end of July 1944 (based upon data for banks reporting in the survey) indicate that total classified corporate accounts were many times larger than noncorporate business accounts (Table II). This relationship existed for all groups of depositors but it was most pronounced for the manufacturing and mining and public utility groups. No doubt many noncorporate accounts are smaller than the minimum balances classified by the reporting banks, and are therefore included among unclassified deposits (shown at the bottom of the table).

The distribution of corporate and noncorporate accounts at the end of July 1944 in the different size banks reporting in the survey (Table III) shows that the proportion of corporate accounts, as might be expected, was greater the larger the bank, and was especially high in the manufacturing and mining group and the public utilities, transportation, and communications group. For trade accounts and nonfinancial businesses other than those specifically mentioned the noncorporate accounts in banks with deposits of less than 10 million dollars were larger in the aggregate than corporate accounts. In general, the smaller banks have a considerably greater proportion of personal deposits and deposits of unincorporated businesses than the larger banks, even when allowance is made for the probable ownership of unclassified accounts.

Distribution of Deposits by Size of Account and by Size of Bank

In general, the variation in the proportions of classified deposits held by various types of owners in different size banks remained about the same in the present survey as in that of last February. As indicated in Table IV the distribution of the classified accounts varied sharply from one deposit range to another within each group of banks and among banks

Table III

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

Type of owner	Size of bank measured by range of deposits in millions of dollars									
	Under 1 (30 banks)		1-10 (69 banks)		10-50 (18 banks)		50-250 (8 banks)		Over 250 (12 banks)	
	Corporate	Other	Corporate	Other	Corporate	Other	Corporate	Other	Corporate	Other
Manufacturing and mining	12.5	4.2	27.0	3.6	42.0	1.5	43.7	6.0	53.3	0.4
Public utilities, transportation, and communications	2.8	0.7	4.3	0.3	10.3	0.1	8.4	0.1	12.0	0.1
Retail and wholesale trade and dealers in commodities	6.2	16.7	10.2	11.3	12.5	3.4	9.1	3.2	6.9	0.4
All other nonfinancial business, including construction and services	2.1	7.6	3.3	3.8	4.5	1.6	3.2	0.9	3.1	0.2
All financial business* other than insurance companies and trust funds of banks	0.7	1.4	4.2	1.6	4.4	1.6	4.6	1.3	3.9	1.8
Total	24.3	30.6	49.0	20.6	73.7	8.2	69.0	11.5	79.2	2.9
Insurance companies	†		0.9		2.9		4.5		6.6	
Trust funds of banks	†		2.0		2.6		2.3		4.2	
Nonprofit organizations	2.1		3.2		3.0		2.8		1.4	
Personal	43.0		24.3		9.6		9.9		5.7	
(a) Farmers	17.4		3.5		‡		‡		‡	
(b) Other personal accounts	25.6		20.8		‡		‡		‡	
Total classified deposits	100.0		100.0		100.0		100.0		100.0	
Classified deposits as percentage of total demand deposits of individuals, partnerships, and corporations	73.5		65.3		63.6		73.0		65.0	

* Including investment, loan, insurance agency, and real estate businesses, etc.
† Less than one tenth of one per cent.
‡ Not reported.

of different sizes. As might be expected, the proportion of deposits owned by manufacturing and mining industries rose in direct relationship to the size of the account reported, and there was the same ascending tendency in public utility accounts. On the other hand, the trade accounts and personal accounts, in general, showed the reverse tendency. In banks with deposits of under 1 million dollars, farmers' accounts made up a considerable portion of the classified personal accounts.

In attempting to estimate from these deposit classifications the ownership distribution of deposits of all banks in the District, it should be borne in mind that limiting the classification to the larger accounts in the different groups of banks tends to overemphasize the importance of the balances of large business organizations and to minimize the importance of personal and small trade accounts. Undoubtedly a substantial part of the unclassified accounts falls into the last two categories. Also, it should be remembered that the breakdowns covering the lower ranges of deposits are based upon data supplied by the smaller institutions, while those for deposits over 100 thousand dollars are based upon data supplied by the larger banks. For example, deposits within the range of 3 to 10 thousand dollars in the larger banks may differ significantly from the distribution of the deposits within this range in the smaller banks. Nevertheless, it is very probable that for the larger banks the distribution of deposits within the 3 to 10 thousand dollar range is closer to that of deposits within this range for the smaller banks than it is to the distribution of their own deposits of more than 100 thousand dollars. It is at least safe to conclude that a much greater proportion of total demand deposits of all member banks in the District consists of business accounts than of personal accounts, and that corporate accounts represent a much larger proportion than accounts of unincorporated businesses; also that further growth in deposits during the past year has been largely confined to the distributive trades and to the smaller, unclassified accounts—probably mainly deposits of individuals and unincorporated businesses.

FINANCING WAR CONTRACT TERMINATION

On September 12, 1944, the Board of Governors of the Federal Reserve System announced the inauguration of a program of guaranteed loans and commitments pursuant to the Contract Settlement Act of 1944 and General Regulation No. 1 of the Office of Contract Settlement. Under the program, termination (T) loans, based on the assignment of moneys due and to become due on terminated contracts, will be made by commercial banks and other financing institutions to war contractors. Such loans will carry the guarantee of the Government contracting agency having the preponderant interest in the borrower's war contracts. The guarantees will be executed in behalf of the War and Navy Departments and the Maritime Commission by the Federal Reserve Banks as fiscal agents of the United States Government.

The purpose of the T loan program is to provide war contractors, whose contracts have been terminated, with prompt financing where working capital would otherwise be frozen pending settlement of termination claims. Thus T loans represent a logical extension of the V and VT guaranteed loan

Table IV

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

Type of owner	Size of bank measured by range of deposits in millions of dollars												
	Under 1			1–10			10–50			50–250			Over 250
	Accounts of			Accounts of			Accounts of			Accounts of			Accounts of
	$1,000 to $3,000	$3,000 to $10,000	Over $10,000	$3,000 to $10,000	$10,000 to $25,000	Over $25,000	$10,000 to $25,000	$25,000 to $100,000	Over $100,000	$10,000 to $25,000	$25,000 to $100,000	Over $100,000	Over $100,000
Manufacturing and mining	2.2	8.0	41.7	6.8	19.0	52.5	15.7	29.4	60.2	30.0	39.4	56.7	53.7
Public utilities, transportation, and communications	2.2	2.0	4.2	1.8	4.1	6.9	2.7	4.3	16.3	1.5	2.9	11.6	12.0
Retail and wholesale trade and dealers in commodities	17.8	26.0	25.0	25.5	31.2	14.0	24.8	24.7	8.2	21.5	19.0	8.4	7.3
All other nonfinancial business, including construction and services	6.7	12.0	10.4	9.1	8.8	5.0	10.5	9.0	3.1	6.6	6.4	2.9	3.3
All financial business* other than insurance companies and trust funds of banks	2.2	2.0	—	4.5	5.8	6.7	8.9	11.0	2.5	8.6	8.4	4.5	5.8
Total	31.1	50.0	81.3	47.7	68.9	85.1	62.6	78.4	90.3	68.2	76.1	84.1	82.1
Insurance companies	—	—	—	0.5	1.3	1.3	2.7	4.4	2.2	1.8	3.4	5.3	6.6
Trust funds of banks	—	—	—	1.6	0.7	3.0	4.1	0.3	3.3	0.1	0.1	3.5	4.2
Nonprofit organizations	4.4	2.0	2.1	4.3	3.4	2.2	4.3	5.1	1.4	3.2	3.7	2.5	1.4
Personal	64.5	48.0	16.6	45.9	25.7	8.4	26.3	11.8	2.8	26.7	16.7	4.6	5.7
(a) Farmers	26.7	20.0	6.2	5.9	4.4	1.4	†	†	†	†	†	†	†
(b) Other personal accounts	37.8	28.0	10.4	40.0	21.3	7.0	†	†	†	†	†	†	†
Total classified deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Including investment, loan, insurance agency, and real estate businesses, etc.
† Not reported.

programs which have provided funds to contractors to finance war production. In addition to war production, VT loans have financed contract termination, but they have been available only prior to cancellation of contracts. T loans provide such financing after cancellation, but commitments may be obtained prior to termination.

A new schedule of charges generally lower than those in effect under previous arrangements has been adopted for T loans, and has been made applicable also to all new VT loans made under the revised 1944 guarantee agreement effective September 15. The maximum interest rate has been reduced from 5 to 4½ per cent per annum. The maximum commitment fee which may be charged by the lending institution has likewise been cut from ½ to ¼ per cent of the average unused portion of the commitment (or alternatively a flat fee not to exceed $50), but it is no longer shared with the guarantor. Guarantee fees payable by the borrower as a part of the interest charge also have been reduced. Financing institutions may obtain reimbursement from borrowers for out-of-pocket expenses in connection with the loan.

The amount of the T loan made to an applicant is to be based on the following items related to terminated war contracts: (1) accounts receivable from Governmental contracting agencies and from others; (2) reimbursable expenditures for inventory including only direct labor, cost of raw materials, purchased parts and supplies, and manufacturing and administrative overhead; and (3) reimbursable amounts for payments of claims settled with subcontractors. The amount to be loaned on these items is, of course, the subject of negotiation between banker and contractor. The total will be reduced by any unliquidated advance payments made by the contracting agencies to contractors, by partial payments, and by any amounts which have been disallowed by the contracting agency.

T loans constitute one of two major forms of termination financing prescribed in the Contract Settlement Act. The other form, partial payments to war contractors by Federal contracting agencies, represents merely a payment on account based chiefly on contractors' estimates of costs. The cost items upon which the amount of partial payment is based are the same as those used in determining the amount of the T loan. Partial payments with respect to settlement payments made or to be made on subcontractors' claims, however, are based on the subcontractors' own statements of costs submitted through the contractual chain to succcessively higher tiers of contractors. The proportion of costs allowable runs generally from 75 per cent to 90 per cent.

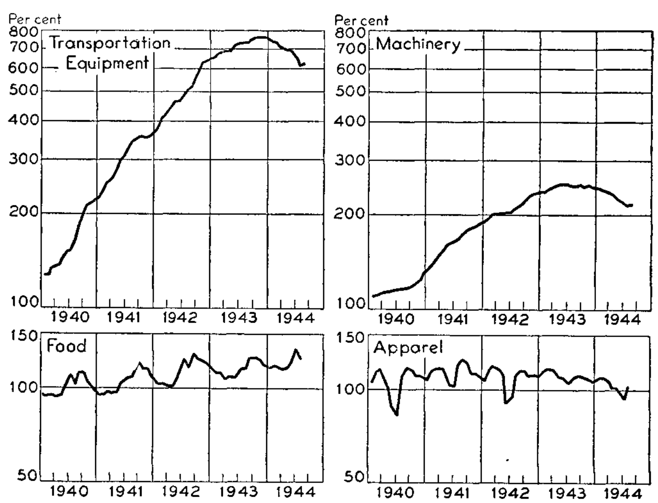
The T loan is expected to be of particular assistance to subcontractors who may experience delay in receiving partial payments from the contracting agencies because applications for such payments and cost estimates, as noted above, are submitted through the contractual chain. It may also be of material help to the contractor who has a great number of contracts and who, therefore, might have to deal with a considerable number of procurement officers in order to secure partial payments. The T loan is based on all terminated contracts regardless of the awarding officer or the contracting agency.

RECENT CHANGES IN EMPLOYMENT

A small proportion of the nation's working population is now being released from industries where war contracts have been completed or cut back. As yet the placing of these workers elsewhere is no great problem, since most of them are being reabsorbed by other key industries where programs have been stepped up because of revised military requirements. The armed forces continue to take about 100,000 men a month, and many women are withdrawing entirely from the labor force. The total number of employees in nonagricultural industries in August was 38,771,000, compared with 39,860,000 a year earlier. Most of the decrease in the past year has occurred in manufacturing plants and in the construction industry; the numbers engaged in transportation, finance, and service industries have increased.

In New York State, as in the country, factory employment has declined fairly steadily since the latter part of last year. The employment index compiled by the State Department of Labor for August was 145.6 per cent of the 1935-39 average, compared with 160.2 per cent for August 1943. Declines in plants manufacturing transportation equipment and machinery have been chiefly responsible for the downswing; in 1943 these two groups combined accounted for more than a quarter of total factory employment in the State. The sharp decreases in these two industries this year (see accompanying chart) reflect the loss of a substantial number of workers in plants in the Buffalo region, but losses were reported also for the

Indexes of Factory Employment, Selected Industries, New York State* (1935-39 average=100 per cent)



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

Albany, Elmira, and Utica areas. The slight upturn in the index between July and August this year resulted from the addition of workers at a few plants making aircraft, ships, railroad equipment, munitions, and office machines. The largest increase was in the Elmira area. In some regions, particularly the Buffalo-Niagara Falls area, difficulties in recruiting the necessary types of labor continue. That area is still classified by the War Manpower Commission as one of acute labor shortage.

In the nondurable goods group, the most important decline this year has been in the apparel industry, reflecting primarily a reduction in the number employed by New York City firms. The food industry is the only one in either the nondurable or durable goods group in which employment in August this year was above that a year ago.

Indexes of Business

Index	1943	1944		
	Aug.	June	July	Aug.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	242	235	231	232*p*
Munitions output, 1943 = 100 (*War Production Board*)	105	115	113	115*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	195	198	198	198*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	235	232	231*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	168	171	178*p*	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	171	159	158	159*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	160	148	145	146*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	322	318	310*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	291	283	274	279*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	215	233	232*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	155	164	165*p*	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	123	125	126	126*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	67	88	90	83
Outside New York City	77	87	85	78

* Adjusted for seasonal variation. *p* Preliminary.

DEPARTMENT STORE TRADE

September was the third consecutive month in which the seasonally adjusted index of department store sales in this District held close to 150 per cent of the 1935-39 average. The only month on record with an index higher than the average for the third quarter is March 1944, with a peak figure of 158. District sales are now estimated at an annual rate of about 800 million dollars, compared with a yearly rate of 543 million dollars in the 1935-39 base period.

For six of the largest cities of the District, estimated sales for 1944, based on the experience of the year to date, are given below, together with the annual averages for 1935-39. New York City sales this year have accounted for 52 per cent of the District's total sales, a slightly lower percentage than that for the 1935-39 period. The proportion of District sales made in Newark also has diminished, while the percentages for Buffalo, Rochester, and Syracuse have increased. Bridgeport's share has remained unchanged.

(In millions of dollars)

City	Estimated 1944	Annual average 1935–39
New York City	415	287
Newark	70	54
Buffalo	65	35
Rochester	40	24
Syracuse	20	11
Bridgeport	12	8

Department store stocks rose sharply during August because of exceptionally heavy receipts of merchandise on order. The seasonally adjusted index of stocks was almost 20 per cent above the low level of last April and the highest since November 1942. When comparison is made with the all-time high of July 1942, however, stocks are 25 per cent lower. Outstanding orders for merchandise purchased by the stores but not yet delivered to them at the end of August equaled the dollar amount of stocks on hand; two years ago such orders amounted to about one third of stocks on hand.

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

Locality	Net Sales		Stocks on hand
	August 1944	Jan. through August 1944	Aug. 31, 1944
Department stores, Second District	+16	+ 9	+ 4
New York City	+21	+11	+ 3
Northern New Jersey	+18	+ 4	+ 2
Newark	+18	+ 2	+ 3
Westchester and Fairfield Counties	+ 3	− 2	+ 1
Bridgeport	+ 1	− 6	− 4
Lower Hudson River Valley	+13	+15	+21
Poughkeepsie	+10	+13	—
Upper Hudson River Valley	+ 3	− 1	+ 3
Albany	+ 4	+ 3	—
Schenectady	+ 4	− 4	+ 1
Central New York State	+ 6	+ 9	+ 9
Mohawk River Valley	+ 5	+ 1	+ 3
Utica	+ 5	+ 4	—
Syracuse	+ 6	+13	+12
Northern New York State	+10	+ 8	—
Southern New York State	+10	+ 7	0
Binghamton	+15	+ 7	—
Elmira	− 1	+ 8	—
Western New York State	+ 8	+ 6	+ 5
Buffalo	+ 4	+ 5	+ 6
Niagara Falls	+10	+ 2	+ 9
Rochester	+12	+ 7	+ 3
Apparel stores (chiefly New York City)	+19	+ 8	+ 8

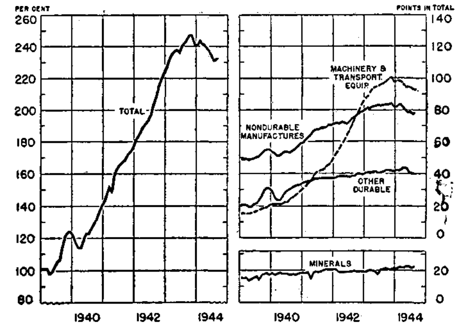
Indexes of Department Store Sales and Stocks Second Federal Reserve District

Item	1943	1944		
	Aug.	June	July	Aug.
1935-39 average = 100				
Sales (average daily), unadjusted	98	132*r*	100*r*	110
Sales (average daily), seasonally adjusted	135*r*	142*r*	149*r*	151
1923-25 average = 100				
Stocks, unadjusted	123	113	109*r*	128
Stocks, seasonally adjusted	127	118	120*r*	131

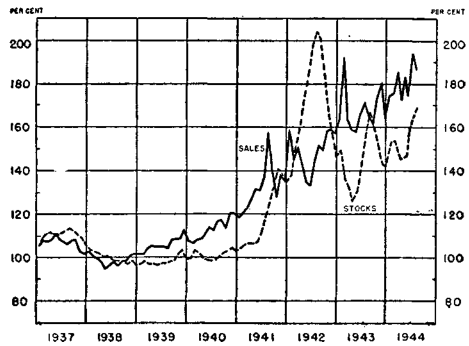
r Revised.

FEDERAL RESERVE BANK OF NEW YORK

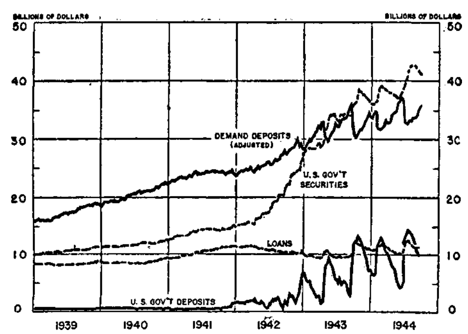
MONTHLY REVIEW, OCTOBER 1, 1944



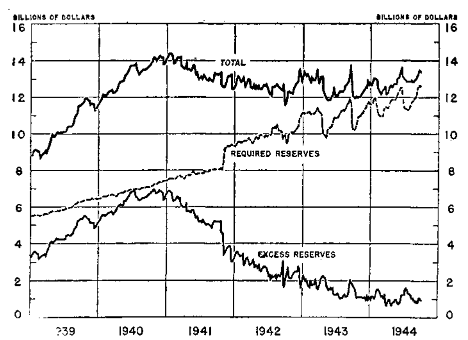
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average =100 Per Cent (Groups shown are expressed in terms of points in the total index)



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



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 September 13)



Member Bank Reserves. Breakdown between Required and Excess Reserves Partly Estimated (Latest figures are for September 20)

General Business and Financial Conditions

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

INDUSTRIAL output and employment showed little change in August. Retail trade was at a new high level for the month. There was a small further rise in retail commodity prices.

Industrial Production

Output at factories and mines was 232 per cent of the 1935-39 average in August as compared with 231 for July, according to the Board's seasonally adjusted index of industrial production. Steel production was maintained, while output of nonferrous metals continued to decline. Over-all, activity in the metal fabricating industries continued at the level of the preceding month. There were large increases in output of heavy trucks, tanks, and some other critical ordnance items in August; aircraft production showed little change; while shipbuilding declined.

Output increased in the shoe, woolen and worsted, and paper industries in August following a drop in July which reflected chiefly the curtailment of operations around the Fourth. Output of manufactured foods, after allowance for seasonal changes, declined in August, largely reflecting decreases in output of meats, dairy products, and sugar products. Distilleries were shifted for the month of August from production of industrial alcohol for war purposes and output of about 50,000,000 proof gallons of beverage spirits was reported. Production of other nondurable goods was maintained at the level of the preceding month.

Minerals output in August rose 2 per cent from July, reflecting increases in coal and crude petroleum. Crude petroleum production was at a rate 11 per cent above the same month last year.

Distribution

Value of department store sales, according to the Board's seasonally adjusted index, was larger in August and the first half of September than in the first half of 1944 and averaged 12 per cent above the corresponding period of last year. In the third quarter the index at 90 per cent above the 1935-39 average has been at the highest level on record.

Carloadings of railroad freight were maintained in large volume in August. During the first three weeks in September loadings were slightly less than during the same period a year ago, owing to decreases in all classes of freight except merchandise in less than carload lots and miscellaneous shipments.

Commodity Prices

Wholesale prices of farm products and foods showed small seasonal decreases from the middle of August to the middle of September. Maximum prices of such industrial goods as cotton fabrics, cement, and bricks were increased.

Retail prices of food and other cost of living items increased slightly in August and the average of all items was 2 per cent higher than a year ago, according to the Bureau of Labor Statistics index.

Agriculture

Crop prospects improved during August and the early part of September and harvests of most major crops are expected to be larger than last season. Marketings of livestock products, which were at a record level earlier this year and 15 per cent higher than during the first six months of 1943, have declined in July and August to about the same level as that prevailing last year.

Bank Credit

Bank deposits of businesses and individuals, as well as currency in circulation, have increased since the end of the Fifth War Loan Drive. This increase in the money holdings of businesses and individuals is largely a reflection of the expenditures made by the Treasury from its War Loan accounts built up during the drive. Adjusted demand and time deposits at member banks in leading cities increased by nearly 4 billion dollars between the close of the drive and mid-September, or by over three-quarters of the amount of reduction in such funds during the drive. Deposits at nonreporting banks probably increased by nearly 2 billion dollars. Treasury War Loan accounts at banks declined by nearly 8 billion dollars.

In the same period loans and investments at weekly reporting member banks in 101 leading cities declined by 2.2 billion dollars. Loans to brokers and dealers for purchasing and carrying Government securities declined to a level approximately equal to that of the pre-drive period. There was, however, a temporary increase in such borrowings in late August and early September presumably associated with market transactions stemming from the Treasury offer to exchange certificates maturing on September 1 and notes maturing on September 15 for new issues. Loans to others for purchasing and carrying securities declined steadily, but on September 13 were still well above the pre-drive level. Government security holdings showed a net decline of 800 million dollars over the period, reflecting mainly substantial bill sales by reporting banks partially offset by some increase in bond holdings.

As the result of the increase in deposits of businesses and individuals, the average level of required reserves at all member banks rose by about a billion dollars between the close of the Fifth drive and mid-September. In addition, a billion dollar increase in money in circulation and some further decrease in gold stock served to absorb reserve funds. Member bank needs for reserves due to these factors were met largely through an increase of 1.7 billion dollars in the Government security portfolio of the Federal Reserve Banks and there was also a slight increase in Reserve Bank discounts. Excess reserves declined from an average level of 1.4 billion at the close of the drive to somewhat less than a billion by early September.