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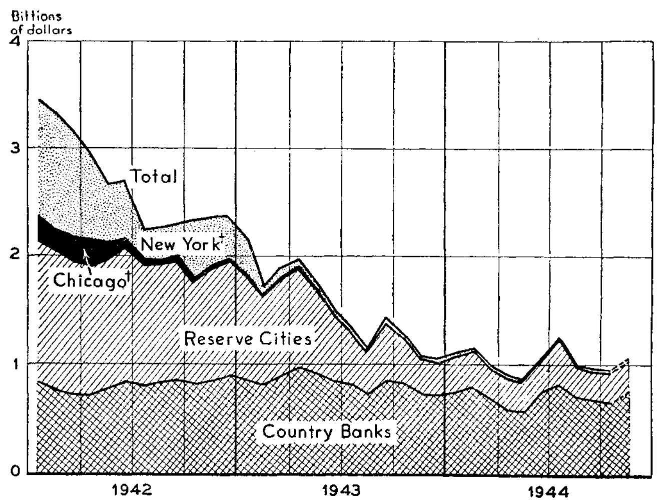
MONEY MARKET IN NOVEMBER

The coincidence of heavy demands for currency with a continued shift of deposits from War Loan accounts to private accounts, and the sale of Government securities to commercial banks by nonbank investors in preparation for the Sixth War Loan drive, led to further pressure on member bank reserves and in turn to a rise in the amount of Federal Reserve Bank credit outstanding to new peak levels during November. Added to the wartime trend toward higher currency circulation, the beginning of pre-Christmas demands lifted the amount of currency outstanding by about 650 million dollars during November—with one or two exceptions the largest monthly increase on record. The increase in member bank reserve requirements also was large, amounting to 500 million dollars in the four weeks ended November 22, as the growth of deposits which results from Government disbursement of funds from War Loan accounts was augmented by the effects of bank purchases of Government securities from nonbank investors and an expansion of bank loans to Government security dealers prior to the Sixth War Loan drive.

To meet this need for reserves, the commercial banks sold large amounts of Government securities to the Federal Reserve Banks, directly through the Treasury bill window, or indirectly through the open market, and also increased their borrowing from the Reserve Banks. Total security holdings of the Reserve Banks rose by 1,150 million dollars in the four weeks ended November 22. Loans and discounts of the Reserve Banks increased about 150 million in this period to a new eleven-year high of 474 million dollars and there was a considerable further increase in the following week. Total Reserve Bank credit including the "float" and other items rose some 1.4 billion dollars to more than 19 billion dollars. Although many banks were in need of reserves, others were not. Shifts of funds between banks increased excess reserves of the latter group from 800 million dollars on October 25 to 1.1 billion on November 15 where they held through November 28. A substantial reduction in member bank required reserves, which may be expected to result in further increases in excess reserves of some banks and a reduction in the need for Federal Reserve credit by others, will occur immediately following December 1 as a result of heavy payments for War Loan securities, most of which will be issued as of that date. These payments will result in large reductions in corporation and individual deposits and corresponding increases in Government deposits, which are secured but require no reserve. As the accompanying diagram indicates, this shift of deposits has caused temporary increases in excess reserves during each of the preceding War Loans.

The usual predrive shift in the ownership of Government securities from nonbank investors to commercial banks occurred prior to the Sixth War Loan drive. Nonbank investors desirous of rearranging their portfolios and of augmenting their cash resources to purchase new War Loan issues, sold substantial amounts of Government securities, most of which were absorbed by commercial banks. In addition, the commercial banks extended loans on Government securities to brokers and dealers in connection with their acquisitions of securities, which presumably included called 4 per cent Treasury bonds that are exchangeable for certain of the securities offered in the War Loan. Reserve funds needed by the banks to effectuate these operations, as well as to meet currency demands and transfers of funds, were obtained through sales of Treasury bills and certificates, which were absorbed mainly

Distribution of Excess Reserves of Member Banks*



* Monthly averages of daily figures. Data for November 1944 partly estimated.

† Excess reserves in New York and Chicago reach such relatively small amounts at certain periods that they cannot be plotted separately.

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

by the Federal Reserve Banks, and through increased borrowing from the Reserve Banks.

Weekly reporting member banks in 101 cities increased their Government bond holdings by 482 million dollars in the four weeks ended November 22, but in the same period reduced their holdings of Treasury bills by 575 million. In addition, their holdings of certificates of indebtedness were reduced by 268 million dollars in the three weeks ended November 15, but subsequently increased as purchases by some banks of certificates sold by nonbank holders, in connection with the Sixth War Loan, more than offset further sales by banks in need of reserves.

The trend of changes in Government security portfolios during the month was the same among banks in New York City and in 100 other cities except that New York banks made heavier purchases of bonds and made net sales of certificates of indebtedness. Both groups disposed of substantial amounts of bills. By November 22, total bill holdings of the New York City banks had been reduced to 251 million dollars, the lowest level since April 2, 1941.

The banks presumably will be called upon to buy large additional amounts of Government securities in connection with further sales by other investors during the Sixth War Loan drive. Following the issue date for drive securities on December 1, however, the shift of deposits from subscribers' accounts to War Loan accounts will probably release bank reserves in sufficient amounts so that the banks will be able not only to acquire additional Government securities from nonbank investors, but also to repay indebtedness at the Reserve Banks or to buy back substantial amounts of bills from the Federal Reserve option accounts. After the drive the situation will again reverse itself and the banks will again have to sell securities or borrow in order to keep their reserves at the required levels.

During previous interdrive periods, the commercial banks have been forced to liquidate substantial portions of the securities acquired during War Loan drives to meet rising reserve requirements caused by Government expenditures of funds from War Loan accounts and to cover losses of reserves through increased currency circulation and foreign account operations. At the same time, liquidation of Government security loans through the sale of the collateral behind such loans has led to substantial reductions, during interdrive periods, in the holdings of nonbank investors other than insurance companies, mutual savings banks, and Government agencies and trust funds, which for the most part have retained their holdings between War Loan drives. This time, however, it is hoped to minimize such liquidation by closer scrutiny of subscriptions to eliminate those which appear to be speculative in character.

The extent to which various groups of commercial banks have reduced Government security holdings between drives has varied in accordance with the reserve or investment policies of the different classes of banks, and the movements of funds between them. New York central reserve city banks reached a fully invested position early in 1943—their excess reserves were eliminated at that time. Chicago banks reached this position at about the same time. Many reserve city banks have maintained a fully invested position since the middle of 1943, although this class of banks as a whole still retains about 300 million dollars of excess reserves. As shown in the accompanying chart, the only group of banks which still possess sizable surplus cash resources is the "country" banks.

Thus, as may be seen from the following table, over the period of the five War Loan drives up to the beginning of the Sixth, weekly reporting banks in Chicago sold between drives (except between the Second and Third) nearly as many Government securities as they had purchased during drives. For 26 New York banks, the tendency has been rather similar, although the proportion of sales between drives to purchases during drives has not been quite so high. The proportion of sales would have been higher if these institutions had not resorted to borrowing from the Federal Reserve Bank more frequently and in relatively larger volume than did other banks. Weekly reporting banks in 99 other important cities bought additional securities after the First and Second War Loans, reflecting the later date on which these banks, largely reserve city institutions, reached a fully invested position, but made substantial sales after the Third, Fourth, and Fifth War Loans.

All other banks (including other member banks and all nonmember commercial banks) were able to add large amounts of Government securities to their portfolios after the First and Second War Loan drives, and smaller amounts after the Third and Fourth, because of the substantial volume of excess reserves held by those institutions as a group. Inasmuch as these banks have continued to gain funds from the banks in the financial centers, there has been no general pressure on them to sell Government securities. They have utilized the additional funds that came to them, but have not generally adopted a fully invested position.

During the past year, the principal buyers of Government securities at times when the commercial banks were selling to maintain their required reserves have been the Federal Reserve Banks.

Changes in Commercial Bank Holdings of Government Securities
(In millions of dollars; rounded to nearest hundred million)

Drive	New York*		Chicago*		99 Cities*		All other banks	
	During drives	Between drives	During drives	Between drives	During drives	Between drives	During drives	Between drives
First	+1,400	0	+300	−500	+1,500	+1,300	+1,500	+2,000
Second	+1,900	− 800	+900	0	+2,900	+ 600	+2,900	+2,600
Third	+1,500	−1,000	+300	−300	+2,400	−1,000	+2,500	+ 200
Fourth	+ 900	− 800	+400	−400	+1,700	− 800	+2,100	+ 300
Fifth	+2,200	−1,600	+600	−300	+3,000	−1,000	+3,000	†

* Weekly reporting member banks, except for New York City which includes 10 banks in addition to the 16 weekly reporting member banks.

† Not available.

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

SIXTH WAR LOAN

The Sixth War Loan drive formally opened on November 20, the date when marketable securities first went on sale; but, following the customary practice, sales of Savings bonds and Savings notes from the start of the month were credited to the drive. Prior to December 1, the payment date for the marketable issues, the Treasury Department reported only the subscriptions by individuals; consequently it is too early to draw reliable conclusions as to the results of the drive.

Even greater emphasis than in previous drives is being placed on sales of securities to nonbanking investors, especially those who will retain their investment unless there arises a pressing and urgent need for its liquidation. All banking institutions in the Second District were requested in a letter from the President of this bank[1] to help achieve the objective sought by continuing to give support to the sales effort, by declining to make loans which would permit speculative subscriptions, and by discouraging purchases made in anticipation of quick resale after the close of the drive. These institutions were also asked not to make loans for the purpose of acquiring indirectly, for their own account, securities offered in the drive to nonbanking subscribers; and not to solicit sales of outstanding Government securities with an understanding that the sellers would use the proceeds to pay for subscriptions entered through the institution during the drive. Somewhat similar requests were sent by other Reserve Banks to banks in their respective districts.

Other means, new to this drive, are being employed by the Treasury and the Reserve Banks to curb subscriptions other than those for the permanent investment of funds which are currently available, or shortly to become available, to nonbanking investors. Subscriptions by brokers and dealers in securities are limited to an amount not in excess of (a) 50 per cent of their net worth, or (b) the amount of Fifth Loan securities sold by them to nonbanking investors during the first thirty days following the Fifth drive, whichever is greater. Dealers and brokers were also asked to cooperate in discouraging subscriptions for the purpose of subsequent prompt resale.

In the publicity material designed to appeal to individual investors, especially purchasers of Savings bonds, the importance of permanent, as distinguished from temporary, investment is stressed. For example, the Treasury Department, through the Reserve Banks, has requested all issuing agents of Series E War Savings bonds to distribute to bond purchasers statements supplied by the Treasury emphasizing the importance both to the war effort and to the subscriber of not cashing the bonds before maturity. The statement calls attention to the financial security of Savings bond holdings and to the increasing interest yield the longer the investment is held. The desirability of promoting the retention of War Savings bonds at this time was heightened by the substantial increase in redemptions of these securities during October, the first month of commercial bank participation in the function heretofore restricted to Reserve Banks and the Treasury. There was concrete evidence that many of the persons who cashed their bonds through the banks did so as a result of a misunderstanding of the purpose of the change, which was merely to provide more convenient facilities for the redemption of bonds in case of actual need for the funds by the holders, and to spread the work of handling redemptions among a large number of institutions.

It is to be expected that the total funds raised during the Sixth War Loan will be less than would have been the case if curbs on speculative purchases and indirect bank buying had not been strengthened as described above. The reduction in the over-all goal from 16 billion dollars in the Fifth drive to 14 billion in the Sixth reflects in part this expectation. It should be borne in mind, therefore, that while a substantial excess of sales over the quota figure is in prospect, there may be a decrease in aggregate sales for the Sixth drive as compared with the preceding drive. This will not mean that the campaign was less successful than previous ones in absorbing true savings through sales of securities to nonbanking investors for permanent investment.

BANK CREDIT GROUPS FOR FINANCING SMALL BUSINESS

As part of a program of increasing the availability of bank credit to small business enterprise during the present war and in the postwar period, at least fourteen bank credit groups have been formed in recent months, primarily by banks in larger cities, or are now in process of formation. The aim of these groups is to provide an additional source of credit for small and medium-sized business enterprise through participation in loans originated by local banks which are unable to handle the credits alone or with their correspondent banks because of legal limits, or unfamiliarity with the type of accommodation required, or because of the term or other conditions of the loan. The bank credit groups are being formed in order to assure that "every competent man, firm or corporation that needs bank credit for some constructive purpose will get it." Such loans may be extended even though the term of the loan is longer than customarily made by individual banks and though the loans involve risks which individual banks unaided might hesitate to assume.

The organization of bank credit groups may be regarded as an indication in itself of an intention to widen the area of bank risk-taking and as recognition that with the adoption of new lending techniques, which are tantamount to additional safeguards, this area may properly be expanded without appreciable increase in losses. In its banker education program, the Post-War Small Business Credit Commission of the American Bankers Association is stressing the value of adopting new types of loans—term loans, field warehouse, chattel mortgage, and accounts receivable loans, and instalment loans on equipment and machinery. The emphasis is to be placed on

[1] Circular No. 2865, dated November 13, 1944.

making loans bankable. Bank credit groups, composed chiefly of representatives of larger banks with considerable experience in these techniques, may be instrumental in spreading their use among large numbers of smaller institutions.

It is estimated that, upon the final organization of all credit groups now contemplated, the aggregate commitment to participate in group credits will amount to well over 500 million dollars. Although this sum may not appear very large, it is sufficient to cover participations with local banks in a very large number of loans to small business. It is expected that a large majority of such loans will be made directly by individual banks—with the help of correspondent banks if the local institutions are not able to handle the credits unaided. The facilities of the bank credit groups, in other words, will ordinarily be utilized only when unusual problems are encountered.

With the exception of the New York City group, which in its lending activities will encompass the entire country, these voluntary associations of banks are or will be largely regional in scope, operating within trade areas, States, or at most, Federal Reserve districts. The limited information that is available at the present time is shown in the accompanying table.

In New York City, 27 leading banks have provided an aggregate of 100 million dollars to be made available for participations in loans to small business through local banks within the Second District or wherever assistance may be needed. The Bank Credit Group of New York City is not only the largest of the bank credit groups but it is the first one to have been formally organized, and for this reason has to some extent served as the pattern for the others. Each member of the New York group has pledged a specific maximum sum to be outstanding at any one time, which may be drawn upon from time to time under the terms of the arrangement at the call of the group's credit committee. The credit committee consists of one representative, or his alternate, from each member bank. A chairman, vice chairman, and secretary will head the

Bank Credit Groups

Location	Number of banks in group	Amount of commitment (In thousands)	Territorial limits of lending activities
Organization completed			
New York City	27	$100,000	Nation-wide
Chicago	6	50,000	Chicago trade area
New Orleans	5	25,000	Louisiana, Mississippi, and surrounding area
Houston	—	25,000	—
Dallas	—	25,000	—
Louisville	9	21,900	Louisville trade area
Fort Worth	—	20,000	—
Oklahoma City	5	15,000	Oklahoma City trade area
Philadelphia	20	10,000	Third Federal Reserve District
Total	—	$291,900	—
Organization in process*			
San Francisco	—	$ 50,000	—
St. Louis	—	25,000	—
Baltimore	—	10,000	—
Connecticut	†	4,000	State-wide
Maine	‡	1,000	Probably State-wide

* Amounts given for these groups are provisional. In addition, bank credit groups, for which commitments are unknown, are contemplated in the following cities or States: Cincinnati, Cleveland, Los Angeles, Portland (Ore.), Seattle, Tulsa, Wilmington, New Jersey, North Carolina, Rhode Island, Virginia, and West Virginia.
† State-wide, all commercial banks in the State are eligible for membership.
‡ State-wide membership contemplated.

committee and will designate individual committeemen, who may be specialists (or whose banks may have specialized) in particular types of loans, to conduct negotiations with originating banks, to make supplementary credit investigations beyond those made by originating banks, and to make recommendations as to acceptance or rejection of particular loans.

Any member bank acting through its representative on the credit committee may, however, refuse to participate in any proposed loan. The committee will not consider any proposal unless the originating bank agrees to accept a reasonable share of the risk. The originating institution will also be required to furnish financial and other relevant data concerning the borrower and the plan or type of loan proposed as the result of its negotiations with the credit-taker. Alternative plans or revisions of the proposed plans may well be suggested by the committee. The originating bank must further agree to service the loan, for which it will be reimbursed by the group, and to issue its participating certificates to members of the group.

Membership in the credit group is open to all banks having principal offices in New York City. The number of bank members originally was 23 but has been increased to 27 up to the time of this writing. Any member bank may withdraw from the group upon ten days' written notice to the secretary of the credit committee. Out-of-pocket expenses of the group are to be borne by the member banks in the same proportion that their commitments bear to the total.

The general outlines of organization and operating procedures of most of the other bank credit groups that have already been established or that are still in process of formation are said to follow that of the New York group. In Connecticut where a Bank Credit Association is now being organized, there are a few variations in details. Because all commercial banks in that State have been invited to join the group, its credit committee is to consist of only 5 to 7 members, selected by majority vote of the member institutions. Unlike the New York group, the credit committee for the Connecticut association has the authority to commit all the member institutions to accept participation in any loan it has approved by unanimous vote. The only way, therefore, that a bank could refuse to share in an approved loan would presumably be to withdraw from the Association. In addition to a credit committee (which is the sole operating unit in the New York group), the Connecticut organization calls for an agent which is to be a trust company or a bank with trust powers and which is to have custody of the records and files of the Association and the credit committee. Inasmuch as it is hoped that all Connecticut banks will be members of the group, the originating bank may have a participation in a loan over and above its proportionate part of the Association commitment.

The bank credit groups in other cities or States differ only in detail from those discussed above. Although these associations of banks are primarily designed to provide additional credit facilities for small business, two agricultural credit groups are reported to be in the formation stage, one being promoted by banks in three counties surrounding Culpepper, Virginia, the other, in Frederick, Maryland, by Group 2 banks of the Bankers Association of that State.

The bank credit group represents an interesting development in the field of banking. By providing for the distribution of credit risks among a number of institutions, these banking groups may be the means of enabling the banking system to widen the range of its lending activities and its usefulness to the business community, and at the same time improve its competitive position vis-a-vis nonbank lending institutions, both private and governmental. The bank credit group represents another development, "in a field where further experimentation is probably desirable, to determine the extent to which the credit requirements of marginal borrowers can reasonably be met and the best means of supplying them."[1] In large measure, the success of this latest development will depend upon the degree to which local originating banks become familiar with new lending techniques.

[1] Quotation is from a review of this bank's own experience in the field of business loans, which appeared in the July 1, 1944 issue of this *Monthly Review*.

GOLD AND SILVER SALES IN EASTERN COUNTRIES

Sales of gold in many parts of the area extending from Egypt to China, which have been reported for many months at prices ranging far above the United States official price of 35 dollars a fine ounce, have attracted considerable attention, and at times have given rise to certain misunderstandings. Sales of silver also have been made at relatively high prices in a few countries. Since the beginning of 1943, and in some cases even earlier, monetary metal sales to the public have been employed for the specific purpose of combating inflation in Egypt, Palestine, Syria and Lebanon, Saudi Arabia, Iran, Iraq, India, and China. These sales have been made out of monetary stocks of local origin or from United States and United Kingdom supplies. Though the volume of such gold and silver sales has been modest, the experiment has some significance to monetary developments in the foreign countries concerned and also to the postwar position of the two monetary metals.

Throughout the Near and Middle East and China inflation has been under way in varying degree for several years, chiefly as a result of large military expenditures in an area acutely lacking in certain types of consumer goods and in transport facilities. The military spending has directly taken away supplies and transport from the local populations and, more importantly in most cases, has increased the money expenditures of local laborers and others competing for the remaining supplies. The Allied procurement of strategic materials from some areas has contributed to the inflationary pressure, and special local circumstances have also helped to promote inflation. In a community of farmers and small traders, with poorly developed savings habits and no organized money markets, the traditional anti-inflation measure of borrowing from the public encounters obvious difficulties. Inflation control measures such as price control and rationing, which presuppose a highly developed administrative system and a skilled bureaucracy, cannot be relied upon as much as in Western countries. Administrative difficulties have also been a reason for the limited recourse to additional taxation, though more progress has been made here than in other fields of wartime inflation control. In several areas, for instance, new taxation has been introduced, including a wider application of the income tax and a new excess profits tax, higher levies on crops and farm property (sometimes payable in kind), and a number of new indirect taxes.

Reports from the Near and Middle East indicate slackening of the inflationary pressure this past summer and fall, and these reports find some degree of confirmation in the course of wholesale prices, note circulation, and bank deposits in some of the countries concerned.

The sales of gold coming from United States or British supplies have been made either separately or for joint Anglo-American account. The intended result of such gold sales is dual: (1) to stimulate commodity dishoarding; and (2) to cover Allied needs for local currency for disbursement purposes. A secondary result of this latter aim is that a certain restraint is placed upon the further growth of these countries' already ample official exchange reserves; instead of giving the countries in question dollar or sterling balances in exchange for new issues of their local currencies, the British and American authorities sell gold for hoarding or circulation. Whereas an exchange of dollar or sterling balances for new local currency issues would directly increase the aggregate money supply, the gold sale procedure tends to restrain the rise in the money supply.

Public data are not available to show the total imports of monetary metals under the anti-inflation program by the countries under consideration. However, there is reason to believe that the sales have been confined to moderate limits. In some areas, according to unofficial reports, sales of gold to the public have been suspended, at least temporarily. India, which has in times past been called the "sink of precious metals," is reported to have absorbed the largest share of the wartime Anglo-American distribution of the monetary metals under the anti-inflation program.

In the case of the foreign silver sold in India, the supply has come mainly from a shipment of 100 million ounces out of the "free" silver of the United States Treasury; this silver has been lend-leased on condition that an equivalent amount will be returned after the war. Other countries have received silver under lend-lease in the form of coins minted for them; this silver was shipped from the United States in order to replenish the local coin supply, required in expanded amounts by the native population and by Allied personnel for payment purposes, as well as to offer a hoarding medium.

Considerable attention has been drawn to the fact that an ounce of gold has sold at more than the equivalent of 35 dollars (at official exchange rates) throughout the Near and Middle East and China. An ounce of gold in India, for instance, during most of the past year fluctuated around the local currency equivalent of about 60 dollars, while the price in Egypt and Iran has been higher, standing around 71 dollars a fine ounce. In China the price has been very much higher, reaching during the past few months a level of more than 500 dollars a fine ounce. However, a decline has occurred in the gold price in all Near and Middle Eastern markets in recent months, apparently in expectation of an early United Nations victory in Europe. For example, the price in India in late October reached the relatively low quotation of 50 dollars. The gold sovereign in Egypt, selling at a slightly higher price than the gold bullion distributed through the National Bank of Egypt, fell from $77.83 this past July to $73.28 early in September.

The price of silver in the areas considered is also reported to be above the 71.11 cents a fine ounce at which domestically mined silver is sold in the United States. In India an ounce of silver brought the equivalent of about $1.16 in the period before April of this year, and a price of $1.09 was reported in August. The downward tendency of the gold price this past summer has also been reflected in the foreign markets for silver.

While the high prices received abroad for the monetary metals has been the most widely noted feature of the gold and silver sales, the fact is that these high prices prevail, not because of any depreciation of the dollar and sterling in the affected areas, but, on the contrary, because the exchange rates of the local currencies against United States dollars and sterling have generally been held steady by official control in the face of inflation in those areas. If there were a free market for these currencies so that the relative changes in national commodity price levels could be reflected in depreciation of the currencies in the exchange markets, and if free gold movements were permitted, the dollar equivalent of the local currency price of an ounce of gold sold in these foreign markets would be close to 35 dollars.

It may be recalled that during and immediately following the last war, also, the monetary metals were quoted, for a short time, at very high levels in India and China. Both these countries absorbed substantial amounts of monetary metals from abroad during that period. The reason was essentially the same as now, but this time inflationary forces have been strengthened by the fact that many parts of the Middle and Far East have been serving as active war theaters, as well as centers of heavy purchases of supplies by the Allied powers.

It is not yet possible to appraise the success of the monetary metal sales as a factor in inflation control. One reason for this is that the inflationary influences in many areas have not spent themselves, so that it is not yet clear whether inflation will be kept under control or will assume more serious proportions. Another reason is that the monetary experiment of selling gold and silver to the public is but one factor of inflation control among many and it is not possible yet to weigh the respective effects of each one. So far as India is concerned, however, Sir Jeremy Raisman, Finance Member of the British Indian Government, declared in his budget speech last March that the effect of the metal sales had been "extremely beneficial." This statement is in contrast to the critical views of the Indian Nationalist press, which remarked at one time that "there is little to be said for encouraging so late in the day the historic habit of hoarding in precious metals."

WAR PRODUCTION AND RECONVERSION

War production goals for the second half of 1944 call for a volume of supplies larger than that achieved during any previous 6 months' period. In 1942 the output of munitions amounted to 31 billion dollars, in 1943 it reached 57 billions, and the 1944 goal—after a net cutback of 7 per cent in munitions requirements—is 67 billion dollars. About 52 per cent of the 1944 program remained to be achieved during the last six months of this year. Cutbacks of a few products—notably aluminum, magnesium, steel landing mats, and some airplane models—have been largely counterbalanced by new orders for other supplies which are required in increasing amounts. Among the items which are reported to be still short of military needs or which lag behind production schedules are heavy trucks, truck tires, heavy artillery and ammunition, superbombers, cotton duck, assault cargo ships, and radar equipment. On November 24 the War Production Board announced that, at the request of General Eisenhower, production of small-arms ammunition will be doubled and the manufacture of mortar shells sharply increased. Recent small drops in production indexes are due in most cases to readjustments in production programs or labor shortages rather than to reduced war needs. As long as the war in Europe continues total war production is not likely to decline appreciably although new weapons, shifts in materiel requirements, and changes in the demand for certain ship, airplane, or tank models may result in a large volume of contract cancellations.

The War Production Board reports that between July 15 and October 15 less than one half of one per cent of all war workers were affected by contract cancellations. Those who lost their jobs because of cutbacks had, on the whole, little difficulty in finding other work. However, in order to prevent hardships resulting from cutbacks in small communities or in plants which cannot secure new contracts, the War Production Board on August 15 authorized its regional directors to permit a limited output of civilian goods by manufacturers who can prove that they have labor and machinery not needed for war work, and can get the necessary materials. Preference under this "spot authorization" plan is to be given to firms with fewer than 250 employees and to those that can produce items which are on the essential list of the

Office of Civilian Requirements.[1] A total of 2,235 applications under this plan had been approved by November 14, authorizing production between October 1944 and December 1945 of 334 million dollars worth of consumers' goods, a volume equal to about one half of one per cent of the present annual output of war products. The number of workers in all plants which so far have been given "spot authorizations" is about 100,000 compared with 16 million in all manufacturing industries, and the amount of steel available for the program during the fourth quarter of 1944 is set at 200,000 tons, about 1 per cent of production in the third quarter of this year.

Production for civilians of goods which require materials needed for the war effort is not limited to the "spot authorization" program. Automotive replacement parts and storage batteries, for instance, have been produced in 1943 and 1944 in quantities comparable to the prewar peak. Production of the great majority of consumers' durable goods was, however, completely suspended during most of 1942 and throughout 1943. This year the manufacture of a few selected items was resumed in limited quantities to meet some very urgent needs, particularly of war workers and tenants of new war housing projects, but in each case available supplies remain far below normal peacetime production. Thus 88,000 electric ranges are being produced in 1944, a figure which equals 16 per cent of 1941 output. The scheduled production of 2,000,000 flatirons this year represents less than half of a normal year's needs. The manufacture of a small number of such other civilian articles as nonmechanical ice boxes, alarm clocks, bicycles, cast iron bathtubs, radio receiving tubes, and carpet sweepers does not mean that these products will be obtainable in amounts sufficient to satisfy even the essential civilian demand.

The total amount of steel at the disposal of the Office of Civilian Requirements during the last quarter of this year for the resumption of civilian production is 278,203 tons in addition to the steel available under the "spot authorization" plan. But this amount is not sufficient to relax restrictions on the manufacture for civilians of automobiles, radios, washing machines, sewing machines, and electric refrigerators, which in peacetime have accounted for a large part of the output of consumers' durable goods.

Two other orders designed similarly to facilitate the transition from war to peacetime production were issued in July: one permits the use of essential materials for the construction of experimental models of postwar products; the other lifts the prohibition on the placement of orders now for industrial equipment which will be needed after the war.

[1] Although the Second District has received a few "spot authorizations" to cushion contract cancellations in some localities, an acute need for additional war workers is reported by many plants in this region. Bridgeport will be affected by the doubling of ammunition requirements; in New Jersey 40,000 persons are urgently needed in war industries; and in New York State the War Manpower Commission called for 72,000 more workers needed for "critical" production programs.

The continuation of the war in Europe has prevented further steps toward reconversion, and the latest estimates indicate a much smaller reduction in the over-all war production program after the end of the war there than was anticipated a few months ago. Nevertheless, considerable attention has been given to transition problems. Special interest centers around such issues as the price level to be set for products which have not been produced during the war, the method and timing of the Government's disposal of surplus supplies, the speedy removal of Government equipment and materials from private plants, and the method which will determine the selection of plants and firms to continue war production on the one hand and those to produce for civilians on the other.

Indexes of Business

Index	1943	1944		
	Oct.	Aug.	Sept.	Oct.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	247	232	231	230*p*
Munitions output, 1943 = 100 *r* (*War Production Board*)	†	113	111	110*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	198	198	195	194*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	229	224	216*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	168	178	175*p*	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	171	158	156	155*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	161	146	146	146*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	333	314	313*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	300	279	289	287*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	218	234	232*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	158	165	167*p*	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	124	126	127	126*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	74	83	80	76
Outside New York City	81	78	76	73

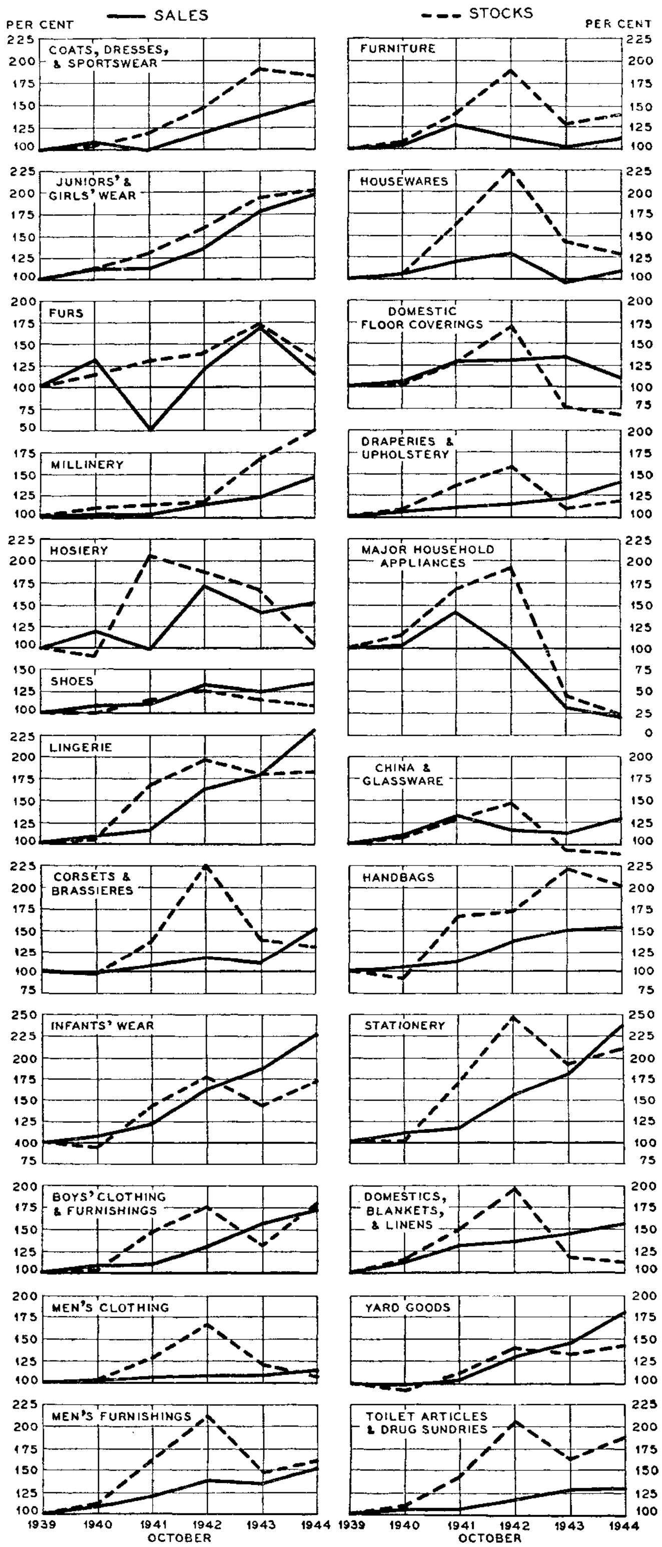
* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Not yet available.

DEPARTMENT STORE TRADE

During November department stores in this District reported sales approximately 10 per cent over those in the corresponding 1943 period, a month when trade was exceptionally heavy because of the early Christmas shopping. After allowance for seasonal variation, November sales established a new record, slightly above that of last March and about 5 per cent above the July-October level.

The retail value of department store stocks at the close of October was 1 per cent above the year earlier level, and, with the exception of October 1942 when anticipated shortages occasioned the piling up of inventory, the highest for any October on record. The accompanying chart shows that during the past five years the dollar amount of stocks on hand at the close of October has varied markedly among the individual departments. Under the limitation order on department store stocks, only total store stocks are regulated,

Second District Department Store Sales and Stocks by Type of Merchandise, October 1939-October 1944*
(October 1939=100 per cent)



* Index numbers based on sales during each October and stocks at the end of each October.
Source: Federal Reserve Bank of New York.

and the amount of merchandise in the departments can vary according to supply and demand. Stocks in the homefurnishings and men's wear departments are generally and substantially below the peaks reached in October 1942, as are stocks of corsets and brassieres, and smaller reductions from the 1942 peaks are reported also in the shoe, lingerie, stationery, infants' wear, and toilet articles and drug sundries departments. Hosiery stocks reached an all-time high in October 1941, and subsequently have shrunk by about one half. Women's coats, dresses and sportswear, furs, and handbags are now below the peaks reached in October 1943, whereas stocks of juniors' and girls' wear, millinery, yard goods, and boys' clothing are at new highs for the five-year period.

Department store sales for each October during the past five years are also shown on the chart so that the relative levels of sales and stocks in the various types of merchandise may be compared. At the close of last October the ratio of total store stocks to total sales was the same as in October 1939. Wide differences between the various departments are apparent, however. In some cases stocks are low relative to sales because of difficulties in obtaining supplies, while in other cases October stocks have tended to run quite high compared with October sales in recent years, perhaps because of the necessity of stocking up earlier than usual for the holiday trade.

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

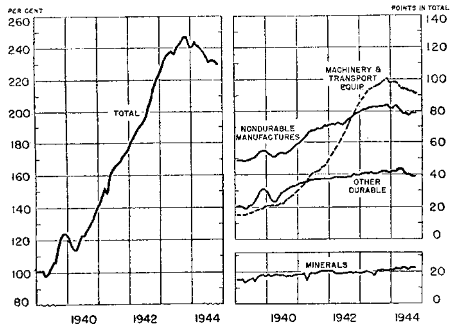
Locality	Net Sales		Stocks on hand Oct. 31, 1944
	Oct. 1944	Jan. through Oct. 1944	
Department stores, Second District	+11	+ 9	+ 1
New York City	+12	+12	0
Northern New Jersey	+10	+ 5	− 1
Newark	+ 9	+ 3	0
Westchester and Fairfield Counties	+ 7	+ 1	− 6
Bridgeport	+ 5	− 1	−15
Lower Hudson River Valley	+18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

Indexes of Department Store Sales and Stocks
Second Federal Reserve District

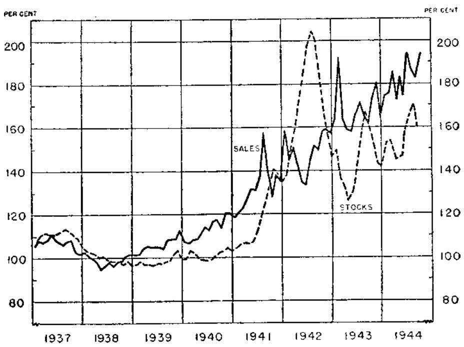
Item	1943	1944		
	Oct.	Aug.	Sept.	Oct.
1935-39 average=100				
Sales (average daily), unadjusted	156r	110	158	173
Sales (average daily), seasonally adjusted	137r	151	149	152
1923-25 average=100				
Stocks, unadjusted	131	128	129	132
Stocks, seasonally adjusted	119	131	124	120

r Revised.

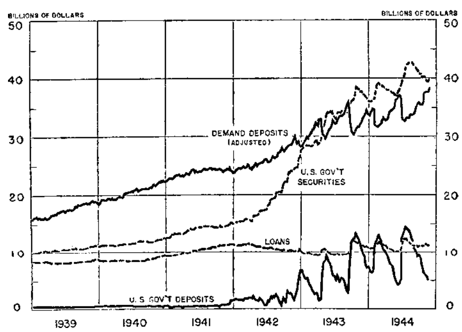
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, DECEMBER 1, 1944



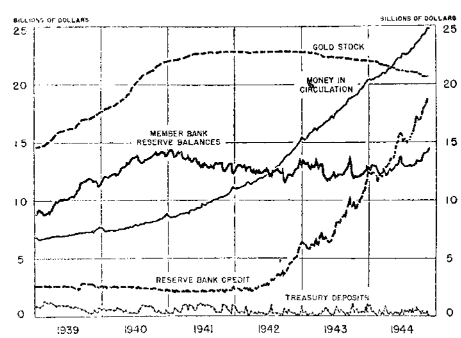
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average = 100 Per Cent (Groups shown are expressed in terms of points in the total index)



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 November 15)



Member Bank Reserves and Related Items (Latest figures are for November 15)

General Business and Financial Conditions in the United States

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

Output and employment at factories and mines showed little change from September to October. Value of department store trade increased further in October and the early part of November, while commodity prices were stable.

Industrial Production

The Board's seasonally adjusted index of industrial production was 230 per cent of the 1935-39 average in October as compared with 231 in September. Output of durable manufactures continued to decline slightly, while production of nondurable goods and minerals was maintained at the level of the preceding month.

At steel mills production increased slightly in October but for the month was 7 per cent below the peak of a year ago. Production of copper and other nonferrous metals continued to decline, with output of aluminum and magnesium curtailed more than 50 per cent from the peak rates reached at the end of last year. In the machinery and transportation equipment industries activity declined slightly in October. Lumber production showed little change in October from the September rate which was 10 per cent above the pre-war level. Output of lumber and also pulpwood has been limited during the past two years because of the difficulty of recruiting labor in these industries.

Activity at cotton textile mills and at shoe factories declined in October, while output of manufactured food products increased, after allowance for the customary seasonal changes. The rise in food manufacturing was mainly at canneries and was made possible by increased farm production of fruits and vegetables. Newsprint consumption showed a greater than seasonal increase in October. Output of chemicals, rubber products, and other nondurable goods continued at about the level of the preceding month.

Output of coal and crude petroleum was maintained, while production of iron ore continued to decline seasonally.

Distribution

Department store sales increased considerably in October and were 13 per cent larger than last year, which is about the same year-to-year increase that has prevailed in recent months. In the first half of November sales rose further and exceeded by 8 per cent the exceptionally high level of a year ago.

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

Bank Credit

On the eve of the opening of the Sixth War Loan Drive bank deposits and currency owned by individuals, partnerships, and corporations were larger than at any previous time. Such holdings of deposits and currency have increased in recent months as the Treasury expended funds raised during the Fifth War Loan Drive.

Adjusted demand deposits of individuals, partnerships, and corporations at reporting banks in 101 cities increased by around 6 billion dollars between July 12 and November 15; this brought the total outstanding to a level about a billion dollars above that reached before the Fifth War Loan Drive. Time deposits increased by about a billion dollars. At country banks outside the leading cities it is estimated that demand and time deposits are slightly more than three billion dollars larger than they were prior to the Fifth Drive. Currency in circulation has increased by about 2.5 billion since the middle of June.

As a result of the deposit expansion, the average level of reserves required by all member banks rose sharply during the inter-drive period and are about a billion dollars greater than at the beginning of the Fifth Drive. Reserve funds to meet the increasing requirements, as well as a currency outflow, were supplied largely through substantial additions to the Government security portfolio of the Reserve Banks; holdings were increased by over 3 billion dollars between July 12 and November 15. Member bank borrowings at the Reserve Banks also increased as they had done prior to the Fifth Drive. Excess reserves, which increased during the war loan drive, declined at a fairly rapid rate immediately following the close of the drive and then fluctuated generally around a billion dollars. About three-fourths of these excess reserves are held by country banks.

At reporting banks in 101 cities, bill and certificate holdings declined by around 2¾ billion dollars during the inter-drive period reflecting sales, largely to the Reserve Banks, as member banks adjusted their reserve positions. Bond holdings were increased by around 800 million dollars.

Loans to brokers and dealers for purchasing or carrying Government securities, which had declined in August to a level comparable to that prevailing prior to the Fifth Drive, fluctuated somewhat over the following period but began to increase early in November. Other loans for purchasing or carrying Government securities continued to decline. Loans for handling other securities, reflecting substantial flotations of new corporate issues, increased during the late fall. Commercial loans also rose.