MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

Vol. 27 JANUARY 1945 No. 1

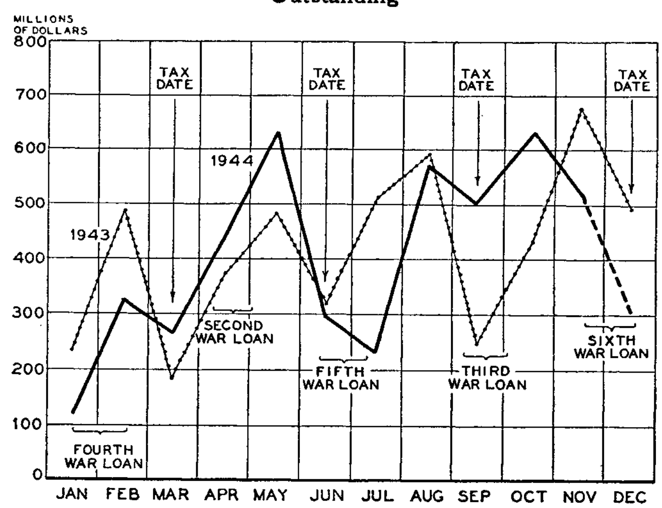
MONEY MARKET IN DECEMBER

The principal developments in the money market during December were related to the Sixth War Loan drive, although fourth quarter payments of corporation income taxes and other Government transactions, and the holiday trade also were factors of some consequence. The influence of the War Loan was reflected in reduced demands for currency, in shifts of funds between individual banks and between New York City and other parts of the country, in a substantial reduction in reserve requirements of member banks and some increase in their aggregate excess reserves, and in heavy sales of outstanding Government securities by nonbank investors and correspondingly heavy purchases by the banks.

Despite the record holiday trade, the demand for currency in December was substantially less than a year previous, the net increase in currency outstanding amounting to about 300 million dollars compared with close to 500 million in December 1943. Undoubtedly the use of previously accumulated currency to pay for War bonds during the drive partially explains this apparent contradiction. Fairly sizable amounts of currency have been received by the commercial banks from subscribers during each War Loan drive and either returned to the Federal Reserve Banks, and thus retired from circulation, or used to meet current demands for currency for other purposes; in either case the effect has been to reduce the net increase in the amount of currency outstanding in months in which there have been War Loan drives, as the accompanying chart indicates. Another important factor influencing the rate of increase in currency outstanding has been the use of currency to meet quarterly payments of individual income taxes. It will be noted that particularly large reductions in the flow of currency into circulation have occurred in months when income tax dates coincided with War Loan drives. The tax date influence was a diminishing one in 1944 and was absent in December, since the due date for payment of the fourth instalment of 1944 individual income taxes was postponed from December 15, 1944 to January 15, 1945. The new factor in the situation in December 1944 apparently was the spending of accumulated currency for holiday merchandise as well as the use of currency to pay for War bonds. Reports from the stores indicate large scale spending on luxury items, and preliminary figures indicate a substantially larger volume of Christmas trade than in any previous year. If this tendency to spend hitherto hoarded currency is confirmed it may be a force of considerable significance.

Although the demands for currency have not been as large as had been anticipated, the reserve position of New York City banks was not eased as much during the War Loan drive as might have been expected. Reserve requirements of all member banks were reduced by almost 900 million dollars between November 29 and December 20 through the shift of deposits from private accounts to Government War Loan accounts, but many member banks, especially in New York City, entered the War Loan period with substantial indebtedness to the Reserve Bank, and were unable to pay off their indebtedness in full during the drive, while other banks added to their excess reserves. The reserve position of some New York banks remained fairly tight, partly because of large scale shifts of funds between banks and between New York and other parts of the country, and partly because of heavy sales of securities to them by savings banks, insur-

Estimated Month-to-Month Changes in Currency Outstanding*



* Money in circulation outside the Treasury and the Federal Reserve Banks, adjusted by Federal Reserve Bank of New York to exclude estimated changes in vault cash held by weekly reporting member banks; December 1944 preliminary.
(April 15 was also a tax date in 1944 but not in 1943.)

ance companies, and other corporations to raise additional funds for subscription to Sixth War Loan securities and to cover corporation income tax payments on December 15. While the outflow of funds from New York to other parts of the country during the War Loan drive was not as heavy as in some previous War Loan periods, it was nevertheless substantial, amounting to more than 750 million dollars in the four weeks ended December 20. This outflow included payments for a large volume of Government securities sold in the New York market in connection with the drive, as well as transfers of corporation funds to other parts of the country to cover income tax payments, so that transfers of deposits to pay for subscriptions to Sixth War Loan securities in other districts probably were not a major factor.

The New York banks also sustained some net loss of funds through Government transactions. An unusually large percentage of corporation income taxes due December 15 was paid with Treasury Savings notes, but cash payments nevertheless were substantial, and the Treasury made heavy withdrawals of War Loan deposits in the period up to December 16.

In these circumstances the New York City banks were unable to exercise their options to repurchase Treasury bills from the Reserve Bank in any such volume as in previous War Loan drives. Much the same situation seems to have prevailed in other principal cities, as weekly reporting member banks in 101 cities showed an increase of only 563 million dollars in their Treasury bill holdings in the six weeks ended December 20, compared with 1,324 million in the six weeks ended July 12 (the Fifth War Loan period). The two factors chiefly responsible were, first, the large volume of selling of other securities by nonbank investors which the banks were called upon to absorb and, second, an excess of Treasury cash receipts over disbursements of nearly one billion dollars in the two weeks ended December 20. As a result of the suspension of Treasury withdrawals of funds from War Loan deposit accounts in the latter part of the month, however, Government disbursements exceeded receipts in the last week of the month and the reserve position of member banks became somewhat easier. A large part of the remaining member bank indebtedness at the Reserve Banks was repaid by the year end, some banks repurchased additional Treasury bills from the Reserve Banks, and excess reserves of all member banks rose to 1,400 million on December 27, compared with 900 million before the War Loan drive.

Bank Credit in the Sixth War Loan

Bank credit played a substantial part in the large sales total reached in the Sixth War Loan drive. By extensive purchases of outstanding Government securities, the banks have made substantial amounts of funds available to nonbank investors for subscription to the new issues offered in the drive. Judging from changes in the Government security holdings and loans of the weekly reporting member banks in 101 cities and changes in Reserve Bank portfolios, the extent to which bank credit financed Sixth War Loan subscriptions has been somewhat greater, in relation to sales, than in the preceding drive. Some measure of success in eliminating speculative subscriptions financed largely with bank loans was achieved this time, and total loans on Government securities extended by the weekly reporting member banks rose by slightly less than 1,700 million dollars in the six weeks ended December 20, compared with more than 1,900 in the corresponding period which included the Fifth War Loan (six weeks ended July 12). The increase in loans to borrowers other than brokers and dealers was approximately 130 million dollars less in the Sixth drive than in the Fifth, and the increase in loans to brokers and dealers was nearly 100 million less. Moreover, loans to security brokers and dealers reached a peak earlier in the course of the Fifth Loan than in this one, and some liquidation had occurred by July 12; at the peak on June 28, the rise in brokers and dealers' loans was nearly 200 million dollars greater than was reached at any point in the Sixth campaign.

In the latest six-week period, however, Government security holdings of the weekly reporting member banks, other than Treasury bills, increased by almost 3¾ billion dollars, nearly 200 million more than in the earlier period. Furthermore, the Reserve Banks purchased an unusually large volume of securities during the Sixth War Loan period, partly to maintain reasonably stable market conditions by absorbing some of the securities which were in heavy supply (chiefly certificates), and partly to furnish member banks with needed reserves. In the six weeks ended December 20, Reserve Bank holdings of Treasury certificates and notes increased by about 1,140 million dollars, compared with an increase of 240 million in Treasury securities other than bills in the six weeks ended July 12. For the banking system as a whole, including Federal Reserve Banks as well as all member and nonmember commercial banks, it may be estimated that the expansion in holdings of Government securities and in loans on such securities in connection with the Sixth War Loan aggregated more than 9 billion dollars.

Considerable change has occurred in the type of securities acquired by the banks during the Sixth War Loan in contrast to preceding ones, of which the Fifth may be considered more or less typical. In the six weeks ended December 20, the weekly reporting member banks increased their holdings of Treasury certificates and notes (which must be considered together because of the refunding on December 1 of a maturing certificate with a 13-month note issue) by 2,100 million dollars, compared with 2,500 million in the six weeks ended July 12. During the recent period, however, these banks absorbed more than 1.6 billion dollars of Government bonds, or 600 million more than in the corresponding six weeks of the Fifth War Loan campaign. Part—perhaps as much as 150 to 200 million dollars—of the increase in bond holdings of reporting banks over the period of this War Loan may be attributed to the fact that the provisions for direct bank subscriptions to restricted drive issues for the investment of time deposits were liberalized. (For all commercial banks, these subscriptions amounted to about one billion dollars, compared with three quarters of a billion in the Fifth drive.) But for the most part the increased bank purchases of Treasury bonds during the Sixth War Loan appear to reflect acceleration of a gradually developing trend toward the purchase of longer term, higher yielding securities. This is the counterpart of a developing trend at other investing institutions, such as savings banks, which have shown an increasing tendency to sell Treasury bonds acquired in previous drives in order to take advantage of market premiums and to raise additional funds for the purchase of new issues at par. The undesirable aspects of these trends are obvious.

SIXTH WAR LOAN

Despite a goal 2 billion dollars lower than for the Fifth drive, it appears that the final total for the Sixth War Loan exceeded the 20.6 billion record established in the preceding drive. According to a Treasury Department announcement, subscriptions to the Sixth drive securities tabulated through December 22 compared as follows with the respective goals:

Investor class	In billions of dollars		Per cent of goal achieved
	Goal	Sales	
Individuals			
Series E Savings bonds	2.5	2.1	84
Other securities	2.5	2.9	116
Total	5.0	5.0	100
Corporations and other investors	9.0	15.4	171
Total for all investors	14.0	20.4	146

Although subscriptions to marketable issues were accepted only during the period November 20-December 16, sales of the nonmarketable securities (Savings bonds and Savings notes) from November 1 through December 30 were counted toward the drive. Sales of the nonmarketable issues during the last week of December probably raised the drive total to at least 21 billion dollars and carried Series E Savings bond sales above their quota.

It is estimated that final drive totals will show sales to individuals of about 5.6 billion dollars; this would be 112 per cent of the quota but would represent a decline of around 0.8 billion from the corresponding total for the Fifth drive, about equally divided between sales of Series E Savings bonds and other securities. Subscriptions by corporations and other investors are likely to amount to 15.6 billion dollars, which would be 173 per cent of the quota and 1.3 billion more than in the preceding drive.

Based upon preliminary calculations, it appears that the net absorption of Government securities by nonbank investors during November and December was nearly the same as during last June and July, the period of the Fifth War Loan. A slightly smaller amount of commercial bank credit was employed than during the Fifth drive, but more Federal Reserve credit, mainly in the form of purchases of Government obligations, was required to absorb securities sold by nonbank investors and to provide member banks with the reserve funds they needed.

Owing to book credit payments for War Loan securities, the Treasury's War Loan account balance had risen to 20 billion dollars by December 28, an increase of about 14 billion over the low point reached toward the end of November. As no calls were made in the closing days of December the balance probably reached about 20.2 billion dollars by December 30. This amount would be within about 700 million of the peak reached in the Fifth drive.

According to press reports, Sixth War Loan subscriptions credited to New York State amounted to 6.5 billion dollars on December 28, thus exceeding by a substantial margin both the original goal of 4.2 billion and the recently revised one of 5.3 billion. The goal of 800 million dollars for sales to individuals was exceeded, although Series E Savings bond sales had not reached their quota by December 28.

BANK CREDIT EXPANSION IN WORLD WARS I AND II

Commercial bank participation in the financing of the present war differs greatly from that of the first World War, not only in extent, but also in character. During the four years ended June 30, 1944, total loans and investments of all commercial banks increased 54.6 billion dollars, or 133 per cent, compared with an increase in the four years ended June 30, 1919 of 14.2 billion, or 82 per cent. Of this increase, 95 per cent took the form of investments in Government securities and less than 7 per cent was in loans (securities other than "Governments" declined), whereas in the first World War 62 per cent of the increase was in loans and only 30 per cent was in Government securities. These differences are accounted for mainly by three factors:

1. The vastly greater magnitude and cost of the present war, and the consequent difficulty of financing as large a part of the cost through taxes and sales of securities to the public;
2. The change in war financing methods, which this time avoided the "Borrow and Buy" feature of World War I;
3. The much larger part of war plant and production costs financed directly by the Government this time, instead of by bank loans to industry, as in the previous war.

In the four years ended June 30, 1944, the Government spent 200 billion dollars for war purposes, or about eleven times the war outlays of the four years ended June 30, 1919; total expenditures amounted to 222 billion, compared with less than 34 billion. In meeting these huge financial requirements, the Treasury covered a somewhat larger proportion of total expenditures through taxes in the second war than in the first—39 per cent as against 32 per cent. Although the Treasury has succeeded in increasing the proportion of

Government Financing in World Wars I and II
June 30, 1915 to June 30, 1919 compared with June 30, 1940 to June 30, 1944

Item	In billions of dollars		Per cent of total expenditures	
	World War I	World War II	World War I	World War II
Financial requirements				
Total expenditures	33.9	222.0	100.0	100.0
Increase in working balance	1.1	18.1	3.2	8.2
Total funds raised	35.0	240.1	103.2	108.2
Source of funds				
Taxes and other revenues	10.8	86.8	31.8	39.1
Borrowing	24.2	153.3	71.4	69.1
Nonbank investors	19.7	88.9	58.1	40.1
Commercial banks	4.3	51.9	12.7	23.4
Federal Reserve Banks	0.2	12.5	0.6	5.6

expenditures covered by tax receipts in this war, it has nevertheless had to place greater relative reliance upon bank credit in financing the current conflict than was necessary in the earlier one. Of the total funds required to meet expenditures, taxpayers and nonbank investors (including Government agencies and trust funds) have supplied 79 per cent during the second war as against 90 per cent during the first.

Of the funds raised through borrowing, only 58 per cent was contributed by nonbank investors in the present war compared with 81 per cent in the preceding one. However, it should be remembered that in the first World War the practice of borrowing from banks to purchase Government securities was much more common than in the present conflict, thus inflating the apparent absorption of Treasury securities by nonbank investors in that period. Excluding the increase in bank loans on Government obligations during both wars, the spread between the two periods is narrowed considerably, purchasers other than banks accounting for 56 per cent of all Treasury borrowing in the current conflict compared with 72 per cent in the preceding one. In other words, the comparatively small scale of credit financed purchases of Government securities by nonbank investors has been one factor in the smaller proportion of Government expenditures covered this time by taxes and the absorption of Treasury securities by nonbank investors combined.

Bank loans on Government securities have been subject to wide variation during the current war period, rising rapidly during War Loan drives and falling between drives, so that over an extended period there has been only a moderate increase in their general level. The expansion between June 30, 1940 and June 30, 1944 as shown in the accompanying table is greatly exaggerated because Government security loans were at a relatively high level on June 30, 1944 which fell in the middle of the Fifth War Loan drive. At the high level on that date the dollar volume of Government security loans exceeded that reached in World War I, but it was much smaller relative either to the total increase in bank credit or to the increase in the Federal debt. In contrast to the "Borrow and Buy" slogan of the Liberty loans, credit purchases of Government obligations by nonbank investors have been a minor factor in financing World War II owing to a number of factors including (1) the discouragement of bank loans to finance subscriptions except under restricted conditions, (2) the widespread adoption by individuals of the payroll deduction plan of acquiring Government bonds, (3) the substantial cash assets held by corporations at the outbreak of the war together with their wartime accumulations of funds for tax payments and other purposes, a large part of which has been available for temporary investment in tax notes and other short term securities, (4) the marked interwar growth of institutional investors such as life insurance companies and mutual savings banks, and (5) the growing importance of Government agencies and trust funds as investors in Government securities.

Another factor, probably more important than the limited use of security loans in restricting the proportion of Treasury security issues absorbed by the public, has been the predilection of the public to accumulate large amounts of idle funds, thus making it necessary for the banks to absorb an increased proportion of the increase in the public debt. Large currency hoards have been accumulated as savings, for tax avoidance, and as a method of concealing black market transactions. In addition, the public has built up large demand and time deposits in banks.

There has been little expansion of loans other than security loans during the current war period, the net increase amounting to only 600 million dollars, compared with 6.5 billion in World War I. In contrast to the last war, the high degree of economic mobilization attained during this conflict has brought about a marked contraction in bank loans for nonwar purposes. This curtailment has barely been offset by the expansion of loans to war contractors. The smaller demand for business loans in this war is attributable largely to differences in the methods of financing war production; a much larger part has been financed by the Government, resulting in increased Treasury borrowing and reduced business borrowing. Thus the banks have financed war production more largely through purchases of Government securities, and to a reduced extent through loans to industries and purchases of corporate securities. A major portion of the war production financing has been accomplished through advance and progress payments made by the Federal contracting agencies to war contractors. At the same time, war plants have for the most part been constructed at Government expense. Such wartime

Increases in Loans and Investments of All Commercial Banks in World Wars I and II
June 23, 1915 to June 30, 1919 compared with June 30, 1940 to June 30, 1944

Item	In billions of dollars		Per cent of total loans and investments	
	World War I	World War II	World War I	World War II
Total loans	8.8	3.6	61.9	6.6
Secured by Government obligations*	2.3	3.0	16.1	5.5
All other loans	6.5	0.6	45.8	1.1
Total investments	5.4	51.0	38.1	93.4
Government securities	4.3	51.9	30.4	95.0
Other securities	1.1	−0.9	7.7	−1.6
Total loans and investments	14.2	54.6	100.0	100.0

* Estimated.
(−) Decrease.

expansion of plant and equipment as has been undertaken by private enterprise has been financed initially with available business funds and paid for through charges to current expense, made possible by the accelerated depreciation rates allowed by law for war production facilities. Business, furthermore, relied heavily on the commercial banks for working capital in the last war, so that the increased industrial activity induced by the war quickly led to an expansion of business borrowing from the banks. In contrast, the larger corporations entered upon the period of the second World War with substantial cash balances accumulated out of retained earnings in preceding years.

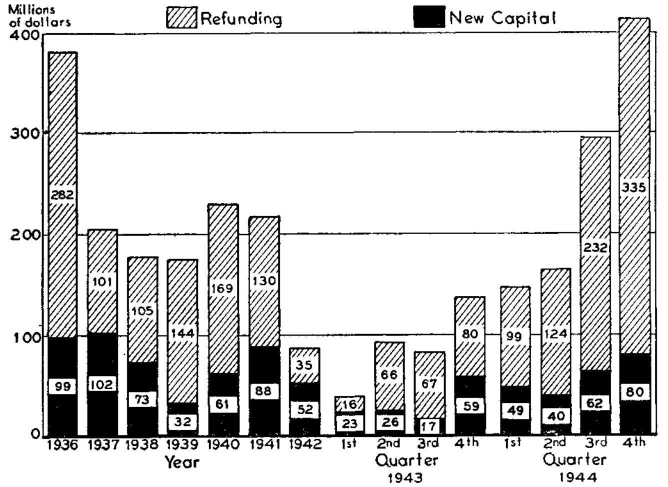
One other factor in the smaller proportion of Treasury borrowings supplied by nonbank investors or, conversely, in the greater reliance of the Treasury on the banking system in this war, may well be found within the banking system itself. The existence of a huge volume of excess reserves at the outset of the war led the banks actively to expand their earning assets. The moderate decline, over the war period, in other investments of the banks due to the retirement of debt by States, municipalities, and some corporations, and the decline in bank loans outside the large cities after 1941, created a need for earnings and left Government securities as the only alternative outlet for idle funds.

NEW CORPORATE FINANCING

On the basis of preliminary calculations, which indicate that new domestic corporate financing aggregated approximately 3,065 million dollars during 1944, it is evident that the market for new security issues has just completed its most active year since 1936. In both 1942 and 1943 the total was little more than one third that of the past year. New capital accounted for 698 million dollars, or less than one fourth of the total; this amount was nearly double the 1943 figure and slightly larger than the 1942 volume, but otherwise was smaller than in any year since 1935 with the exception of 1939.

As may be noted in the accompanying chart, the trend of corporate financing was upward throughout the year owing mainly to a rapid expansion of refunding operations; during the fourth quarter the monthly volume of domestic corporate issues was about on a par with that for the calendar year 1930, and, what is even more striking, was actually in excess of the monthly average rate during the decade of the twenties. About half of the year's new financing occurred during the months of September, October, and November, partly as a result of efforts of investment bankers and issuers to bring offerings to the market in advance of the Sixth War Loan drive. The October volume of new financing, at 741 million dollars, surpassed that of any month in more than 14 years and included three issues in excess of 100 million of which the 180 million Commonwealth Edison Company refunding operation (155 million offered to the public) represented the largest single piece of corporate financing consummated under the provisions of the Securities Act of 1933 and was reported

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



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

to be the largest public offering (other than to stockholders) of corporate securities in history.

Nearly 90 per cent of the 1944 volume of new security issues was accounted for by the railroads, public utilities, and the group classified by *The Commercial and Financial Chronicle* as "other industrial and manufacturing." More than half of the total for the last named category represented new capital but the bulk of the funds raised by the other two groups was for refunding purposes.

The expansion in the volume of new corporate financing during 1944 was probably the result of a number of favorable factors. The maintenance, through Government financing activities supported by the Federal Reserve System, of a low level of interest rates made refunding operations profitable; and flotations were facilitated both by the plethora of funds seeking investment and by an unusual degree of stability in interest rates. The yields on highest grade corporate bonds (those rated Aaa by Moody's Investors Service) moved within a very narrow range, close to their all-time low, while yields on medium grade issues declined rather steadily, to successive new low points, throughout the year. The profitableness of recent refundings at lower interest rates is indicated by the fact that several companies floated issues to redeem bonds which had originally been issued no more than six to eight years ago and which could be called for redemption only at a substantial premium. Another factor in some cases was a further improvement in the earnings and financial condition of the borrowers which enabled refunding operations, or flotations for new money, to be undertaken. It appears that security issues to raise new capital for reconversion to peacetime operations accounted for only a small part of the total.

The increased activity in recent months in the market for new security issues does not seem to have exhausted the possibilities for further corporate financing even for the near future. According to current reports, a number of large scale operations are planned for early 1945.

POSTWAR EMPLOYMENT PROBLEMS SECOND FEDERAL RESERVE DISTRICT

In the postwar period the ability to absorb the large number of workers released from war work and from the armed forces will vary from State to State. Postwar capacity to provide employment does not necessarily depend on actual employment levels in the various States. Comparisons of the probable number of persons released from war activities with the volume of prewar employment are, however, a convenient starting point for analysis.

The postwar employment problem may not be as severe in New York State as for many other regions in the country where there has been a large net in-migration during the war period, or where employment will be seriously affected by cutbacks in one major industry. The State as a whole, according to the Bureau of the Census, experienced a net out-migration between April 1940 and November 1943 of 222,970 persons, 1.6 per cent of the 1940 population. The relative stability of the population in this period is in sharp contrast to the rapid increases which occurred between 1920 and 1930, when population in the State was growing at a faster rate than for the country as a whole, and to the changes between 1930 and 1940, when population in the State grew at the same rate as in the entire country. By November 1943 New York had 256,000 persons fewer than it would have had if the rate of change of the last prewar decade had been continued. The State of California, on the other hand, had 1.2 millions more than would have been expected at the prewar rate of increase. The only industrial area in New York to show a gain in population was the Buffalo-Niagara Falls area, and the increase there fell short of the average for all metropolitan counties.

Although the number of wage earners in New York State factories expanded about 50 per cent between 1940 and 1943, not including the expansion in Government arsenals, navy yards, etc., most have been employed in industries which are manufacturing products similar to those produced in prewar years; only a few of the large employers are strictly war industries. The sharp rise in employment in the metals and machinery industries, including iron and steel, nonferrous metals, transportation equipment (especially aircraft and parts), shipbuilding, and machinery, was responsible for most of the increase. Most other manufacturing industries in the State showed relatively small changes from the 1940 level with the exception of those manufacturing rubber products and certain chemical and mineral products. The Bureau of Labor Statistics has attempted to measure the hypothetical number of persons to be demobilized in various States from war work and the armed services. Estimates for New York State indicate that the expansion above 1940 levels in those munitions industries where the rise was dependent upon war-induced demands amounted to roughly 533,000 workers, including Government arsenals, navy yards, etc. About 880,000 men from the State will be demobilized from the armed services (assuming a postwar military force for the country of 2.5 millions), so that there will be a possible 1.4 million persons to place in new jobs after the war. This number represents 28 per cent of total employment in New York State in 1940. There will be, in addition, a certain number of civilians now employed by Government agencies and working in the State, who will be seeking new work once their war emergency jobs are completed.

Employment by Industry in New York State, 1940 and 1943

Industry	In thousands of persons		Per cent change
	1940	1943	
Manufacturing	1,403	2,088	+ 49
Metals and machinery	*333*	*810*	*+143*
Apparel	*334*	*388*	*+ 16*
All other	*736*	*890*	*+ 21*
Construction	137	108	− 21
Public utilities	266	272	+ 2
Wholesale and retail trade	831	797	− 4
Finance, insurance, real estate	312	292	− 6
Service	365	374	+ 2
Other	15	11	− 27
All industries	3,329	3,942	+ 18

Source: New York State Department of Labor data on employment covered by unemployment insurance; excludes those engaged by firms employing less than 4 persons, self-employed, employees of non-profitmaking enterprises, and workers engaged in Government, agriculture, and railroads.

The growth of manufacturing employment and the withdrawal of men into the armed services took place partly at the expense of other lines of employment, such as construction and trade, which otherwise might have increased considerably. The expansion of activity in these groups after the war may contribute substantially to the employment of the workers who will be seeking new jobs. Increased activity after the war in those manufacturing industries which have been operating close to prewar levels also may absorb a number of workers. Another large group may leave the labor force entirely, since they have taken jobs only for the duration of the war. These include workers and service men of school age, a number of women who will want to return to their homes, and persons in the 65 and over age group who have deferred retirement or have been reemployed after retirement.

In twenty-two States the proportion of the number of persons to be demobilized from the armed forces and manufacturing industries to total employment in 1940 is greater than that for New York. Among these are New Jersey and Connecticut, portions of which are in the Second Federal Reserve District. Bureau of Labor Statistics estimates indicate that 290,000 service men and 331,000 manufacturing employees, representing 40 per cent of 1940 employment, may be demobilized in New Jersey. An estimated 311,000 persons are expected to be demobilized in Connecticut. This represents 46 per cent of 1940 employment and is the second largest proportion to be affected in any State. Most industrial areas in these States that are included in the Second District showed sharp rises in employment between 1940 and 1943; factory employment in Paterson rose 60 per cent; in Newark, 40 per cent; and in the Bridgeport area, 83 per cent. A concentration of aircraft and ship contracts was responsible for most of the expansion in the first two areas, while ordnance and aircraft factories employed a large proportion of the number in the Bridgeport area. In both New Jersey and Connecticut population has expanded more rapidly since 1940 than it did during the previous decade as a result of civilian in-migration, amounting to 4 and 8 per cent, respectively, of the 1940 civilian population.

Although many plants manufacturing war materials still require additional workers to meet recently revised production requirements, data for the first eleven months of 1944 indicate for the country as a whole and for New York State a gradual decline in the numbers engaged in manufacturing to a level about 9 per cent below the 1943 average. Most major industries are operating with fewer employees than they had a year ago, owing to increased per capita production in war industries, completion, cutbacks and cancellation of war contracts, changes in the munitions program, the continued withdrawal of men into the armed services, and a gradual withdrawal of women from the labor force.

The major population centers of the country, such as New York City, which offer more varied potentialities for employment than the smaller cities, may attract a large number of those seeking work in the postwar period and thereby create special employment problems for these centers. Workers now engaged in war jobs in the Bridgeport area and in northern New Jersey are within commuting distance of New York City (in fact, many New York City residents are now commuting to war jobs in those areas), and after the war may again seek employment in the City's industries.

Indexes of Business

Index	1943	1944		
	Nov.	Sept.	Oct.	Nov.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	247	230r	232	232p
Munitions output, 1943 = 100r (*War Production Board*)	117	110	111	110p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	200	195	193	195p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	216	217	223p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	173	175	180p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	171	156	155	153p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	161	146	146	145p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	337	313	314p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	304	289	287	286p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	221	233	235p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	159	167	167p	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	124	127	126	127p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	70	80	76	76
Outside New York City	76	76	73	76

* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.

DEPARTMENT STORE TRADE

Department stores in the Second Federal Reserve District sold almost 125 million dollars of merchandise during December; this dollar volume was approximately 14 per cent above the previous peak in December 1942 and about 15 per cent above the corresponding 1943 month.[1] Christmas shopping followed the pattern established in 1943; early shopping, especially for men and women in the armed forces, threw part of the holiday trade into October and November, and the December increase over those months was not as great as in prewar years. December again accounted for 57 per cent of the combined November-December sales, compared with a range of 60 to 62 per cent from 1924 to 1942. Consumer spending in department stores of this District amounted to more than 800 million dollars in 1944, an increase of 11 per cent over 1943. This unprecedented buying exceeded that of 1939 by almost 50 per cent.

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

Locality	Net Sales		Stocks on hand Nov. 30, 1944
	Nov. 1944	Jan. through Nov. 1944	
Department stores, Second District	+14	+10	0
New York City	+15	+12	− 1
Northern New Jersey	+16	+ 6	− 1
Newark	+17	+ 5	0
Westchester and Fairfield Counties	+ 8	+ 1	− 3
Bridgeport	+ 3	0	−14
Lower Hudson River Valley	+17	+16	+15
Poughkeepsie	+16	+14	—
Upper Hudson River Valley	+11	+ 2	+ 3
Albany	+12	+ 5	—
Schenectady	+10	− 1	+ 5
Central New York State	+ 9	+10	+ 7
Mohawk River Valley	+ 6	+ 4	+ 1
Utica	+ 5	+ 4	—
Syracuse	+10	+13	+11
Northern New York State	+21	+13	—
Southern New York State	+18	+10	+ 1
Binghamton	+22	+11	—
Elmira	+16	+11	—
Western New York State	+11	+ 7	+ 5
Buffalo	+10	+ 6	+ 6
Niagara Falls	+ 6	+ 3	+ 8
Rochester	+12	+10	+ 4
Apparel stores (chiefly New York City)	+16	+11	+ 5

Indexes of Department Store Sales and Stocks Second Federal Reserve District

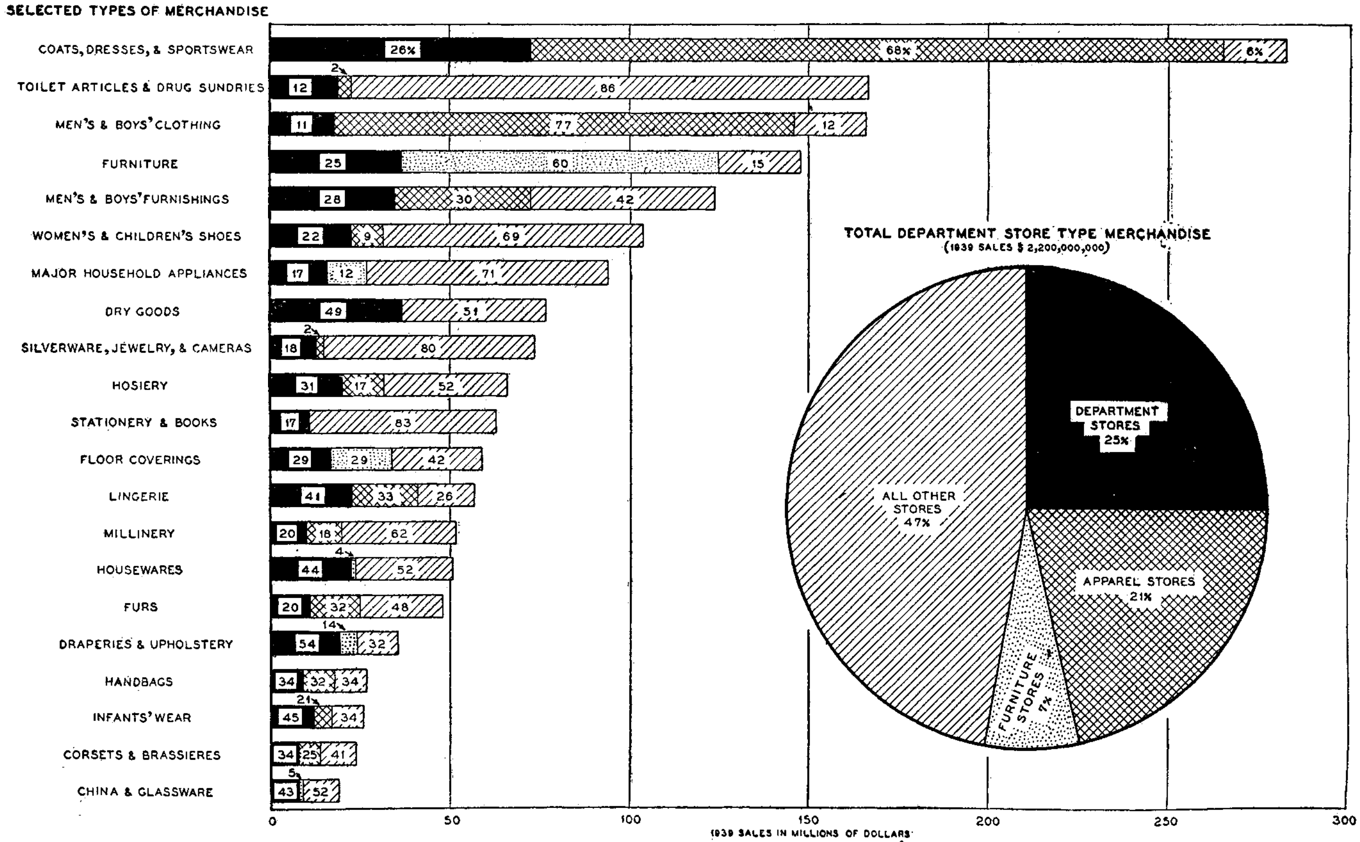
Item	1943	1944		
	Nov.	Sept.	Oct.	Nov.
1935-39 average = 100				
Sales (average daily), unadjusted	182r	158	173	207
Sales (average daily), seasonally adjusted	144	149	152	164
1923-25 average = 100				
Stocks, unadjusted	132	129	132	131
Stocks, seasonally adjusted	114r	124	120	114

r Revised.

The Second District ranks third among the twelve Federal Reserve Districts in dollar volume of department store sales; this District is in first place, however, when the comparison is based on all stores selling department store type merchandise. This is explained by the concentration of women's ready-to-wear stores in New York City. In 1939 this District accounted for 18 per cent of all department store type merchandise sold

[1] December 1944 had one less shopping day than December 1943; the year-to-year increase for average daily sales was about 20 per cent.

Dollar Volume and Percentage Distribution of Department Store Type Merchandise Sold in the Second Federal Reserve District by Department, Apparel, Furniture, and Other Stores*



* Estimated from 1939 Census of Business data by Federal Reserve Bank of New York; "other" stores exclude retailers primarily engaged in selling merchandise of types not largely sold by department stores.

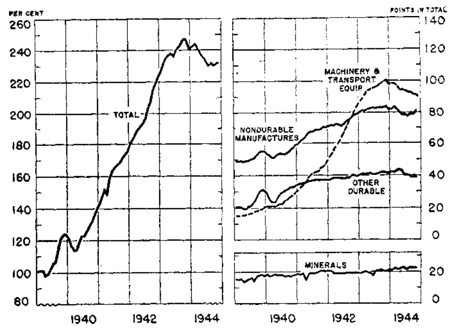
in the United States; the District had 15 per cent of the country's total department store sales, 14 per cent of furniture store sales, 22 per cent of apparel store sales, and 19 per cent of all other stores' sales of department store type of merchandise.[2] In the last group, however, the percentage is influenced by the large dollar volume of variety and drug store sales, District figures for which were only 15 per cent of the country's total. The percentages for the "specialty" stores ranged from 20 to 50 per cent.

The accompanying chart shows the dollar volume and percentage distribution of department store type merchandise sold in department, apparel, furniture, and other stores at the time of the last Census of Business (1939). Classified by type of merchandise, department stores sell the largest proportion of lingerie, draperies and upholstery, and infants' wear; apparel stores sell a major portion of women's and men's clothing; furniture stores sell the greatest volume of furniture; and "specialty" stores in the all other group account for large percentages of home furnishings, accessories, furs, jewelry and silverware, drugs, and stationery. In the women's wear group, department stores sell 27 per cent of total sales and apparel stores, 40 per cent; in the men's wear group, department stores account for 18 per cent and apparel stores, 57 per cent; in the home furnishings group, department stores represent 30 per cent and furniture stores, 31 per cent. A comparison of the segments of the bars on the accompanying chart shows the distribution of the 1939 dollar volume of department, apparel, and furniture store sales by type of merchandise.

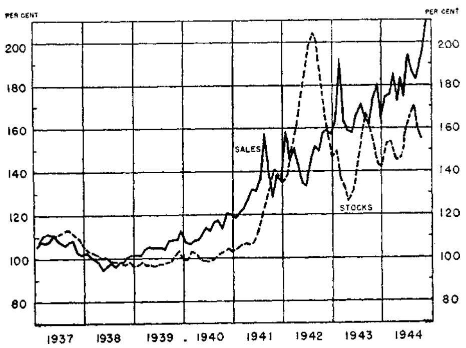
The segments of the circle in the chart show the distribution among four principal types of stores of the total sales of department store type merchandise in 1939, estimated at 2.2 billion dollars. In 1944 sales of department store type merchandise are estimated at close to 3 billion dollars. Because of the variations in the trend of sales for the individual departments over the war period, it is now estimated that 27 per cent of department store type merchandise was sold in department stores in 1944, 23 per cent in apparel stores, 5 per cent in furniture stores, and 45 per cent in the all other group.[3]

[2] Apparel stores in this study include men's and boys' clothing stores, family clothing stores, and women's ready-to-wear stores; "specialty" stores are included in the all other group.

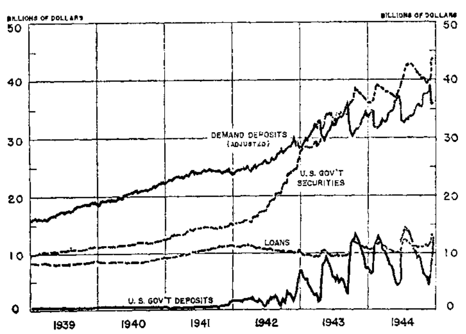
[3] Changes in total sales of the various types of merchandise from 1939 to 1944 can be estimated roughly from the departmental sales figures for department stores. Although the order of magnitude of sales in the selected departments shown on the chart has changed considerably over the war period, the percentage distribution of the merchandise sold by type of outlet apparently has not changed appreciably. A discussion of department store sales over the war period was presented in the August 1, 1943 issue of this *Review.*



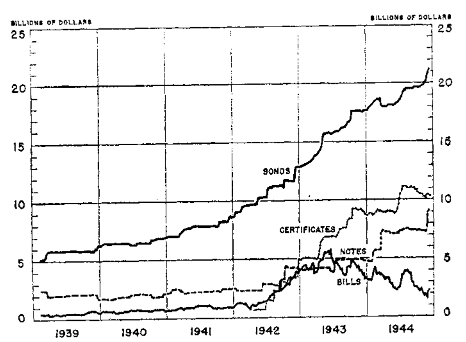
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average = 100 Per Cent (Groups shown are expressed in terms of points in the total index)



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 December 13)



Government Security Holdings of Banks in Leading Cities. Guaranteed Securities Excluded. Data not Available Prior to February 8, 1939; Certificates First Reported on April 15, 1942 (Latest figures are for December 13)

General Business and Financial Conditions in the United States

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

OUTPUT at factories and mines showed little change from October to November. Retail trade expanded further to new record levels.

Industrial Production

Industrial output in November and the early part of December was maintained at approximately the same level that had prevailed during the previous four months. Production of durable goods declined slightly in November, while output of other manufactured goods, especially war supplies, increased somewhat further and mineral production was maintained in large volume. Output of critical war equipment was larger in November than in October but was still behind schedule, according to the War Production Board.

Activity in the durable goods industries, particularly machinery, transportation equipment, and lumber, continued to be limited in part by manpower shortages. Employment in the transportation equipment industries has declined by about one fifth during the past twelve months, but total output of aircraft, ships, and combat and motor vehicles has declined by a much smaller amount owing to greater efficiency.

In most nondurable goods industries, production was somewhat greater in November than in the previous month. Activity at explosive and small-arms ammunition plants increased, reflecting enlarged war production schedules, and output in most other branches of the chemical industry also expanded, reaching levels above those of a year ago. Production in the petroleum refining and rubber industries, chiefly for war uses, increased somewhat in November.

Output of manufactured foods showed less decline than is usual for this season and was as large as in November 1943. In the textile industry, output at woolen and worsted mills continued to advance in October from the reduced level of operations prevailing during the summer. Cotton consumption in November was above October and rayon deliveries were at a new record level.

Mineral production was maintained in November. Coal output was one-fifth larger than in November 1943 when operations were sharply reduced by a work stoppage. In the early part of December, however, coal production was nearly 10 per cent less than in the same period last year.

Distribution

Value of department store sales in November was 14 per cent above the exceptionally high level last year, about the same year-to-year increase which prevailed in the previous four months. In the first half of December, sales were about 20 per cent larger than last year. All Federal Reserve Districts have shown large increases over last year in pre-Christmas sales.

Railroad freight carloadings, adjusted for seasonal changes, were maintained at a high level in November and the first two weeks of December. Shipments of most classes of freight, however, were not quite as great as the exceptionally large movement of freight during the same period last year.

Commodity Prices

Changes in wholesale prices of agricultural and industrial products were mostly upward in November and the early part of December. Retail prices of foods and various other commodities were slightly higher in November than in October. During the past year there has been a slight upward tendency in prices of most commodities, both in wholesale and retail markets.

Bank Credit

Banking developments during the four weeks ended December 13 were largely determined by the Sixth War Loan drive. Government deposits at weekly reporting banks in 101 cities increased by approximately 8 billion dollars while adjusted demand deposits of individuals and business were drawn down about 2.6 billions in payment for securities purchased. The reporting banks added 3.7 billion dollars to their holdings of Government securities and increased their loans by 1.7 billion.

As a result of the transfer of deposits of individuals and businesses to War Loan accounts, reserves required by member banks declined about 700 million dollars from the beginning of the drive through mid-December. In addition, reserve funds were supplied to the banking system through the purchase by the Federal Reserve Banks of 640 million dollars of Government securities. These additional reserves were used in part to reduce member bank borrowings at the Reserve Banks, which had risen to nearly 600 million dollars in the latter part of November, and to meet the demand for currency. This demand, though slackened somewhat by the War Loan drive, amounted to 450 million dollars for the four weeks ended December 13. Excess reserves increased by 300 million dollars, principally at country banks.