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MONEY MARKET IN FEBRUARY

The strength that developed in the Government security market in January was carried over into February. Demand for the 2 per cent bonds, particularly those issued in the Sixth War Loan, continued active and considerable interest was evident also in longer term Treasury bonds and long maturity notes, and in certificates of indebtedness. The volume of trading, however, was smaller in February than in January, particularly in bonds of intermediate maturities, but prices were firm throughout the market and in some sections the rise in quotations was larger in the first three weeks of February than in the corresponding period of January. Prices of Treasury bonds eased slightly late in February, as moderate selling developed and buying diminished.

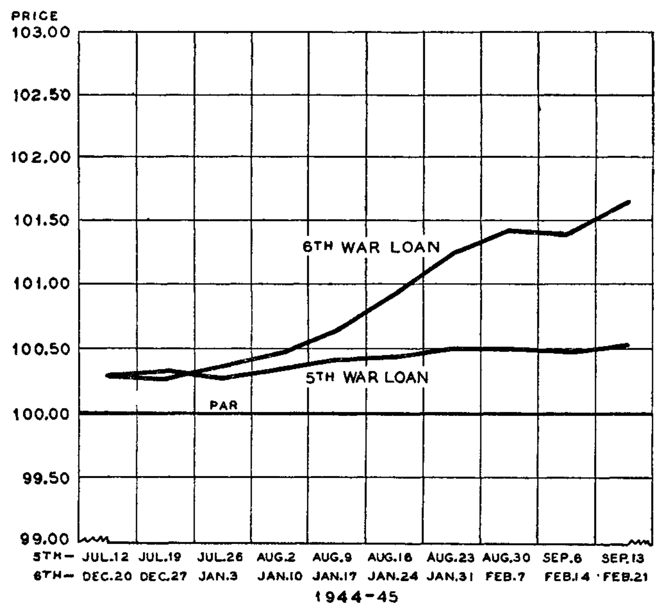
Probably the chief factor in the continued strength of the Government security market was the fear of investors of a definite change in the pattern of interest rates, particularly the intermediate and long term rates, and that the bonds offered in the next War Loan drive would bear either lower coupons or extended maturities. This fear led the banks to become active buyers of intermediate maturity issues and nonbank investors to seek the longer term Treasury bonds. During January commercial bank demand for 2 per cent bonds was met largely out of the large subscriptions of the savings banks to the Sixth War Loan issue. Portfolio readjustments having been largely completed, the savings banks were less of a factor in the market during February.

The apprehension over the future course of interest rates, however, sustained the demand for bonds, and at the same time fostered a reluctance on the part of investors to part with their holdings. The resultant diminution of supply was further aggravated by the fact that the liquidation of dealer inventories built up during the Sixth drive had been substantially accomplished during January and early February. Extensive liquidation in January of Government security holdings financed by bank loans was also a factor in the smaller supply of bonds in February, the more gradual reduction of bank loans on Government securities to others than brokers and dealers during the past month representing largely payments on loans to finance purchases of securities for nonbank investor portfolios during the Sixth War Loan.

Thus, a variety of circumstances coincided to reduce the supply of intermediate Treasury bonds while the demand continued. As a result, the market became thin, and, at times, price changes were relatively pronounced on a small volume of buying. The 2 per cent bonds issued in the Sixth drive rose to a premium of more than 1¾ points and the yield fell to about 1¾ per cent, the very rate at which many investors believed or were led to believe that the Treasury might offer an intermediate bond issue in the Seventh War Loan. The very apprehension of lower interest rates thus brought about the realization of a lower pattern of rates in the market.

In addition to the intermediate and longer term Government bonds, other types of Treasury securities were in demand. Corporations and others are reported to have absorbed for temporary investment considerable amounts of certificates of indebtedness, many of which were supplied by banks that were in need of reserves or were extending the maturities of their portfolios. Treasury notes were actively traded in, the

Prices of Two Per Cent Bonds Issued in the Fifth and Sixth War Loan Drives*



* Closing bid prices.

banks tending to sell the shorter term issues and to replace them with longer term notes or 1¾ per cent and 2 per cent bonds.

The changed psychology with respect to Treasury bonds may be seen quite clearly from the difference in the course of market prices of new 2 per cent issues following the Fifth and Sixth War Loans. As illustrated in the accompanying chart, in the nine weeks after the start of trading, the Fifth War Loan issue sold within a narrow range at a relatively small premium over par. The initial premium quoted on the Sixth War Loan issue was the same as that on the Fifth drive security, but within a short time after the start of trading, the price of the Sixth Loan issue began to rise and this upward trend continued throughout the period. By the ninth week, the premium was three times that reached by the Fifth Loan issue in the corresponding period.

Most of the bank demand for Treasury bonds since the close of the Sixth drive has come from institutions outside the central reserve cities. Of the 887 million dollar increase in the Treasury bond holdings of weekly reporting member banks in 101 cities, banks in New York City acquired on balance only 73 million in the nine weeks ended February 14 (the period since the start of trading in the marketable bonds issued during the Sixth War Loan). Inasmuch as the Chicago reporting member banks reduced their bond portfolios by a small amount in this period, it appears that reporting banks in the other 99 cities augmented their holdings by 847 million.

The contrast between the banks' Government security operations in the early postdrive periods of the Fifth and Sixth drives is shown in the accompanying table. Net takings of Treasury bonds by the central reserve New York City banks following the Sixth drive were less than half those in the corresponding period of the Fifth Loan, whereas reporting member banks outside New York City increased their holdings by about 50 per cent more after the Sixth War Loan than in the comparable period after the Fifth. Institutions both in New York and the 100 other cities showed a greater tendency after the Sixth Loan to buy or hold Treasury bills;

Changes in Weekly Reporting Member Bank Holdings of, and Loans on, Government Securities Following the Fifth and Sixth War Loan Drives*
(In millions of dollars)

	Total		New York City		100 cities	
	Sixth drive	Fifth drive	Sixth drive	Fifth drive	Sixth drive	Fifth drive
Government security holdings						
Bonds	+ 887	+ 711	+ 73	+165	+814	+546
Bills	+ 145	− 635	+260	−283	−115	−352
All other	− 522	+ 322	−281	−118	−241	+440
Total	+ 510	+ 398	+ 52	−236	+458	+634
Loans on Government securities						
To dealers	− 443	− 323	−346	−235	− 97	− 88
To others	− 660	− 682	−384	−213	−276	−469
Total	−1,103	−1,005	−730	−448	−373	−557

* July 5 to September 6, 1944 and December 13, 1944 to February 14, 1945.

the New York banks made substantial net purchases, and out-of-town banks made smaller net sales of bills than following the previous War Loan. This tendency, however, may be explained by the lessened pressure on bank reserve positions which resulted from reduced demands for currency and net Treasury disbursements during most of January. On the other hand, the banks showed a greater tendency in the recent period to shift out of other types of Government securities, particularly Treasury certificates which were in good demand from other sources during much of the period.

Liquidation of loans on Government obligations extended by New York City banks was much more extensive and much more rapid following the Sixth drive than in the comparable period following the Fifth War Loan, even though the volume of bank loans to finance the purchase of Sixth drive issues was smaller. The decline in Government security loans of the out-of-town banks, on the other hand, was smaller following the Sixth War Loan, in keeping with the lower volume of purchases financed by loans during that drive.

Member Bank Reserve Positions and Reserve Bank Credit

In contrast to the comparative ease in the banking position during most of January, considerable pressure on member bank reserves developed during February, primarily as a result of the resumption on a large scale of the rise in money in circulation. Currency outstanding increased some 477 million dollars in the four weeks ended February 21, compared with a decline (almost unprecedented since Pearl Harbor) of 160 million in the preceding four-week period, and with an increase of 309 million in the corresponding four weeks of 1944. Additional pressure was exerted on member bank reserves as the result of Treasury and foreign account operations, the impact of which was felt in the market principally during the week of January 31. Thereafter the Treasury's balance with the Reserve Banks declined slowly, and member banks gained about 131 million dollars of reserves from this source in the following three weeks. Reserve requirements of the banks rose throughout the period for a four-week total of 255 million, chiefly as a reflection of the shift of deposits from War Loan account to private accounts through Government disbursements.

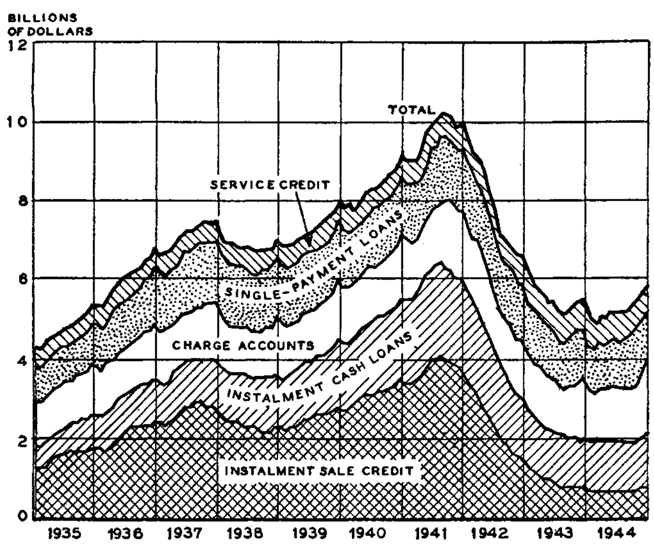
In order to meet the drain on their reserves, the member banks drew upon the Federal Reserve Banks' resources and utilized their own resources by drawing down their excess reserves. Member bank borrowings increased 153 million, and Treasury bill holdings of the Reserve System gained 633 million, most of which represented purchases from member banks under option to resell. Total Reserve Bank credit outstanding rose to slightly over 20 billion dollars. Excess reserves declined irregularly from 1.2 billion dollars on January 24 to 900 million on February 21. Since actual reserves of the central reserve New York City banks fluctuated within a narrow range around reserve requirements, the entire reduction in excess reserves took place among member banks in other parts of the country.

The same factors that were responsible for the pressure on all member bank reserves were operative with respect to reserve positions of the central reserve New York City banks, except that Treasury receipts exceeded disbursements in the City during three of the four weeks ended February 21. Thus, a fairly substantial amount of the funds supplied to the Treasury in New York City was spent elsewhere. In addition, in the first three weeks of this period the New York City banks lost reserves through the transfer of business and financial funds to the interior. In the following week (ended February 21), however, this loss was more than offset by a substantial inflow of funds to the City as corporations and others began accumulating funds in New York to pay quarterly income taxes.

CONSUMER CREDIT

Despite the huge wartime accumulation of idle deposits and currency in the hands of the public, the liquidation of short term consumer credit, which amounted to nearly 5 billion dollars from the peak of September 1941 to December 1943, generally came to an end during 1944. According to estimates of the Board of Governors of the Federal Reserve System the total amount of such credit outstanding at the close of the year was about 400 million dollars above the end of 1943. The increase in 1944, however, probably represented not so much changes in the attitudes of consumers as it did the extension of credit for the temporary convenience of a larger number of customers, borrowing for emergencies in particular cases, and some increase in prices.

Consumer Credit by Principal Types
(Estimated amount outstanding at end of month)



Source: Department of Commerce and Board of Governors of the Federal Reserve System.

About two thirds of the 1944 increase in consumer credit reflected a rise in the volume of charge accounts payable. The estimated dollar volume of such accounts at the end of 1944, 1.8 billion dollars, was about the same as on the peak date of December 31, 1941. On the other hand, total retail sales (especially of types of goods commonly bought on charge accounts) have been running well in excess of 1941 levels, indicating that most of the increase in sales during the war period has been on a cash basis.

The outstanding volume of instalment and single-payment cash loans also showed some slight expansion during 1944. Most of this was accounted for by increased borrowing on the part of individuals from commercial banks; new loans by credit unions, industrial banks, and small loan companies just about equaled repayments. During 1944 the outstanding volume of instalment credit arising from retail sales remained close to the exceptionally low levels reached during the last half of 1943. Although there was no further contraction in 1944, the volume of such credit outstanding represented only one fifth of the amount outstanding at the peak in August 1941 before the drastic curtailment in the production of consumers' durable goods and restrictions on consumer credit became effective.

Consumer Instalment Loans of Commercial Banks

Instalment loans of commercial banks, which account for roughly 10 per cent of the total volume of consumer credit outstanding, are estimated by the Board of Governors to have expanded about 10 per cent during 1944, following a decline of nearly 70 per cent during 1942 and 1943.

Percentage Change in Consumer Instalment Credit Outstanding of Commercial Banks

	Dec. 31, 1941 to Dec. 31, 1943		Dec. 31, 1943 to Dec. 31, 1944	
Type of credit	All commercial banks (estimated)	37 banks in Second District	All commercial banks (estimated)	37 banks in Second District
Retail credit	−79	−82	+16	+ 8
Repair and modernization loans	−62	−73	− 7	−19
Personal instalment cash loans	−51	−53	+12	+ 1
Total	−69	−71	+10	0

Source: Estimates for all commercial banks prepared by the Board of Governors of the Federal Reserve System; reports from banks in Second District compiled by Federal Reserve Bank of New York.

In the Second District, which usually accounts for about one fifth of the consumer instalment loans of all banks, loans outstanding contracted during 1942 and 1943 in about the same proportion as in the rest of the country, but, unlike the experience in other districts, there was apparently no net expansion during 1944. Instead, reports from 37 member banks in the District indicate that a further decline in repair and modernization loans offset increases in loans to finance retail sales and in cash loans to individuals.

Department and Furniture Stores

Total sales of leading department stores in 1944 were about 11 per cent greater than in 1943; in the Second Federal Reserve District the increase amounted to 10 per cent. In this and other districts cash sales rose considerably faster than credit sales, with the result that the proportion of total sales made for cash continued to increase. As the accompanying table shows, a larger proportion of Second District sales are usually made for cash. But the wartime shift from credit to cash sales has been more pronounced in other districts.

Percentage Distribution of Cash and Credit Sales of Department and Furniture Stores

Classification	United States			Second District		
	1941	1943	1944	1941	1943	1944
Department stores						
Net sales—total	100	100	100	100	100	100
Cash	48	61	63	60	70	72
Charge account	43	34	33	31	24	23
Instalment	9	5	4	9	6	5
Furniture stores						
Net sales—total	100	100	100	100	100	100
Cash	10	20	22	12	17	19
Credit*	90	80	78	88	83	81

* Predominantly instalment credit; separate data not generally available.
Source: Board of Governors of the Federal Reserve System and Federal Reserve Bank of New York.

Although charged sales rose less than cash sales during 1944, the increase in other districts was somewhat greater than in 1943. In the Second District the rise in charged sales in 1944 followed two years during which such sales actually declined. These developments were reflected in rather marked increases in outstanding charge accounts of department stores, 18 per cent for the country and 11 per cent for the District.

Percentage Change from End of Preceding Year in Accounts Receivable of Department and Furniture Stores

Classification	United States			Second District		
	Dec. 31, 1942	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1942	Dec. 31, 1943	Dec. 31, 1944
Department stores						
Charge accounts	−22	0	+18	−25	− 3	+11
Instalment accounts	−41	−26	− 5	−31	− 5	+ 2
Furniture stores						
Total accounts*	−35	−29	− 1	−34	−27	− 8

* Predominantly instalment accounts; separate data not generally available.
Source: Board of Governors of the Federal Reserve System and Federal Reserve Bank of New York.

Total sales of a representative group of furniture stores throughout the country rose about 4 per cent during 1944, while sales in this District showed a decline of 2 per cent. As in the case of department stores, there was a further increase in the proportion of total sales made for cash. Accounts receivable continued to decline, although in both the country and the District the declines were considerably less than in previous years.

MEMBER BANK EARNINGS IN 1944

The continued increase in member bank holdings of Government securities was the major factor contributing to an increase in member bank earnings during the past year. For the average member bank in this District, Government securities constituted about 57 per cent of total assets in 1944, compared with 47 per cent in 1943 and 31 per cent in 1942. The proportion of other securities, loans, and cash assets to total assets continued to decline.

All major items of expense were greater last year than in 1943, but the increase was less rapid in expenses than in gross earnings. Consequently, net current earnings before income taxes rose from 26.5 per cent of gross earnings in 1943 to 30 per cent in 1944. In addition, the banks had moderate additions to current earnings from recoveries on assets previously charged off. Despite some further increase in income tax payments, the average member bank in this District had net profits equal to 9.5 per cent of total capital funds in 1944, compared with 7.2 per cent in 1943, and 4.4 per cent in 1942. In general, the greatest gains were in groups of banks whose earnings had been below average, including the smallest banks and banks that are heavily dependent upon investments for their income.

Despite the increase in bank income from Government security holdings, aggregate current earnings (gross) of all member banks in this District in 1944 remained about 35 per cent below the peak of 1929. Net current earnings after expenses and taxes also were more than one-third lower in 1944 than in 1929, but largely because of additions to current earnings from profits on securities sold and recoveries on assets previously charged off, aggregate net profits in 1944 were only 9 per cent less than in 1929.

The greater part of the increase in net profits during the past year was used to strengthen the capital structure of the banks; dividends paid to stockholders were only slightly larger than in the previous year, and the average bank added more than three fourths of its net profits to capital funds.

Selected Average Operating Ratios of All Member Banks Second Federal Reserve District

	1942	1943	1944
Number of Banks	786	796	810
Percentage of Total Capital Accounts			
Net current earnings	6.7	7.3	8.8
Profits before income taxes	5.1	7.9	10.8
Net profits after income taxes	4.4	7.2	9.5
Cash dividends declared	1.8	2.0	2.1
Percentage of Total Earnings			
Interest and dividends on securities	36.1	45.0	52.4
Earnings on loans	48.5	39.5	32.3
Service charges on deposit accounts	7.0	7.0	7.2
All other earnings	8.4	8.5	8.1
Total earnings	100.0	100.0	100.0
Salaries and wages	31.5	31.5	29.6
Interest on time and savings deposits	15.1	14.8	15.1
All other expenses	28.4	27.2	25.3
Total expenses	75.0	73.5	70.0
Net current earnings	25.0	26.5	30.0
Net recoveries	5.7	2.9	7.7
Taxes on net income	2.4	2.5	4.2
Net profits after income taxes	16.9	26.9	33.5
Percentage of Total Assets			
U. S. Government securities	30.8	47.0	56.9
Other securities	13.2	9.6	7.2
Loans	28.7	19.4	15.0
Cash assets	24.6	22.0	19.4

Despite these additions to capital funds, the ratio of total capital accounts to total deposits declined further to a little over 9 per cent, compared with about 11 per cent in 1943 and nearly 14 per cent in 1942. The ratio of capital accounts to total assets other than cash assets and Government securities continued to rise, however, averaging about 40 per cent in 1944.

The accompanying table gives a number of the more important operating ratios for all member banks in the Second Federal Reserve District for 1944 compared with 1943 and 1942*.

* A copy of the circular No. 2911, dated February 27, 1945, giving all the ratios compiled, may be obtained upon request.

EMPLOYMENT IN THE FINANCIAL INDUSTRIES OF NEW YORK CITY[1]

The volume of employment provided by New York City's financial industries is relatively small compared with other major industries of the City, such as manufacturing or trade. Only a little over five per cent of those gainfully employed in New York industries in 1940 were employed in banking, insurance, and all other financial organizations. This percentage, however, is relatively high compared with other large cities or with the average for all urban areas of the country.

It can be estimated on the basis of data of the New York State Department of Labor, that at the outbreak of the European war almost 190,000 persons were connected with the financial community of the City. About one out of four persons employed resided in suburban communities.

Employment in financial industries is essentially clerical. The various branches of the financial industry provide about one fifth of the total clerical employment in New York City. As shown in Chart I, insurance carriers, agents, and brokers together accounted for 44 per cent of the total employment in the financial industries in this City in September 1944. Banks and trust companies, including savings banks and the Federal Reserve Bank of New York, accounted for about 34 per cent, whereas firms connected with floating and trading of securities employed 13 per cent. All other financial organizations such as personal loan, instalment financing, and holding companies were responsible for the remaining 9 per cent. (These figures do not cover those working for firms with less than 4 employees and the self-employed.)

On the basis of such incomplete data as are available it appears that aggregate employment opportunities afforded by the financial industries of New York City declined during the thirties. Employment was probably most stable in insurance and declined most significantly in security brokerage.

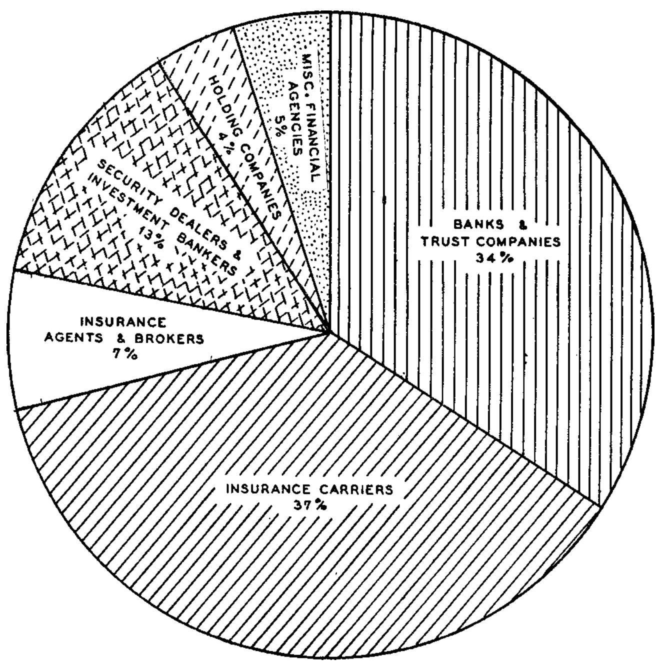
Insurance

The insurance industry (insurance carriers, agents, and brokers) with between 75,000 and 80,000 employees ranks first among the financial industries of the metropolis. It occupies this position largely because of the location in this City of home offices of four of the five largest mutual life insurance companies of this country. New York City is the country's principal center of life insurance, the most important branch of insurance both from the point of view of volume of assets and of employment. The dominant position of life insurance somewhat overshadows the fact that about one third of all large companies (with assets of 5 million dollars and over) in the other branches of insurance—casualty and fire and marine insurance—are also located in this City. The favorable employment situation in the insurance field during the last two decades—not matched in other branches of financial employment—was largely due to the continuous growth of the life insurance business.

The only other section of the financial community which probably was able to increase employment in the interwar period comprises the various financing agencies, such as retail credit and personal loan companies which have grown during the last decade.

CHART I

Distribution of Employment in the Financial Industries in New York City, September 1944



Source: New York State Department of Labor and Federal Reserve Bank of New York.

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

Banking

Banking is the second largest segment of the City's financial industries, with employment fluctuating between 50,000 and 57,000 during the last five years, including employment in commercial banks and trust companies, in mutual savings banks, and in the Federal Reserve Bank, and also the relatively small amount of employment provided by private banks and agencies of foreign banks. The 69 commercial banks and trust companies account for about two thirds of the total bank employment in New York City. The eleven largest commercial banks with 1,000 or more employees each, alone account for about three fifths of total employment in the banking field.

Banking employment in New York City declined during the thirties; adequate data, however, are not available to measure the extent of that decline. Between 1922 and 1943 the number of banking establishments of all kinds in New York City declined from 219 to 126. When mergers involved large downtown banks, headquarters staffs were usually amalgamated with the result that aggregate employment decreased. When small neighborhood banks, mainly in boroughs other than Manhattan, were absorbed by larger institutions, they were usually continued as branches. As a result of this development, the number of branches of New York banks increased continuously throughout the thirties.

Security Dealers and Investment Houses

As a result of the contraction of the volume of security trading and of flotation of securities, the number of firms connected with the investment market, and the volume of employment which they offer, have declined since 1929. Paucity of reliable data does not permit one to draw a comprehensive picture of employment trends in the industry. In 1940 employment in this industry was around 30,000. The investment market has undergone changes in scope and character which cannot be discussed in detail here. Flotation of securities and trading in stocks and bonds have become objects of Government regulations; the New York Stock Exchange itself has been reorganized. The volume of trading in stocks on the New York Stock Exchange declined from a peak of over one billion shares in 1929 to not much more than one-third that volume in 1932. It fluctuated for several years and almost reached the half billion mark in 1936. During the following years, however, it declined continuously and reached a low point in 1942 when it fell to about one tenth of its peak volume. The recovery which occurred since our entry into the war is discussed below.

Wartime Developments

From the outbreak of the European war to the middle of 1944, employment in the financial community declined by only five or six per cent. Most of this loss was experienced since the beginning of 1942.

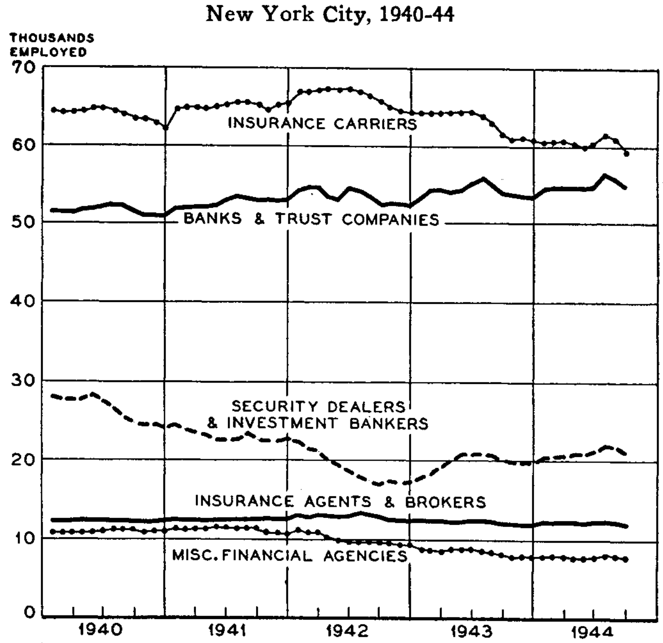
The loss of employment was not evenly distributed among the different branches of the financial community (Chart II). Changes in staffs reflect the extent of the war's influence upon the volume and character of their business. All branches of the financial industry lost some part of their peacetime business, but most added new and important activities connected with the war effort.

On the whole, banking institutions of New York City have been able to maintain their employment since the beginning of the war in spite of the heavy drain of manpower by the Armed Forces, mainly by adding women to payrolls. Commercial banks were in general able to perform new functions added by the war, such as ration banking and issuance of War bonds, without expanding their staffs. Only the Federal Reserve Bank of New York experienced a spectacular increase in its staff from 2,202 at the end of 1939 to 4,450 at the end of 1944, owing mainly to the great expansion of its work as fiscal agent of the United States.

The volume of business also expanded in the field of insurance, with a particularly large percentage increase in group insurance. Insurance carriers, however, were unable to maintain their staffs which reached a record size in the spring of 1942 and since then have declined. Employment in offices of insurance agents and brokers followed a similar pattern.

The heaviest losses in personnel were experienced in the third large sector of the financial community. Security dealers and investment houses lost more than one third of their employees in the three years 1940 through 1942. This contraction of employment reflected the depressed conditions in the whole security industry, as witnessed by the decline of the volume of stock trading on the New York Stock Exchange and

CHART II
Employment in the Financial Industries in New York City, 1940-44



Source: New York State Department of Labor and Federal Reserve Bank of New York.

the volume of new security flotations. A notable increase in activity took place in 1943, when both stock exchange trading and new security flotations took an upward turn. It resulted in the addition of several thousand persons to the payrolls, but in 1944 employment in the securities and investment field remained almost stationary, still much below the depressed prewar level.

Employment in the various other financial agencies has also declined by one third since Pearl Harbor. Though precise data are not available it is likely that loss of business of retail credit and personal loan companies accounts for a sizable part of this drop.

The relatively small decline in employment in the financial community as a whole, in spite of heavy calls to the Armed Forces and competition from war industries with higher wage rates, was made possible by large scale substitution of women for men and by an unprecedented influx of untrained help. Before the war, male help accounted for almost two thirds of total employment in the financial community; at present the proportion is reversed. The rather continuous shortage of trained personnel has compelled many financial institutions to revise office procedure, simplifying and integrating various operations and thus saving personnel and valuable office equipment.

Since financial industries perform essentially service functions, their volume of business depends mainly upon the level of productive activity. Their postwar employment outlook is geared to that of the national economy as a whole. New factors, such as the expected expansion of foreign trade and the participation of this country in the work of reconstruction of war-torn areas, as well as the reconversion of industry to peacetime operations, will undoubtedly open up new employment opportunities in the financial district. War-born functions will be gradually liquidated. It is reasonable to expect that the adjustment to peacetime activities will be a gradual process, with personnel now required by wartime activities eventually reassigned to peacetime tasks.

PRODUCTION

In spite of more favorable military developments, it is expected that production for war will require a larger share of the productive capacity of this country during the first half of 1945 than at any time in the past year. Munitions output for the first six months of this year is now scheduled to exceed actual munitions output in the last half of 1944 by at least 3 per cent. Schedules for aircraft, ammunition, combat vehicles, heavy trucks, tires, and cotton duck are placed above levels reached in 1944, while the ouput of ships, guns, and some other items will be allowed to decline slightly. The latest official estimates of military needs after victory in Europe are very tentative, but it is quite certain that cutbacks will be much smaller than the 40 per cent anticipated last summer.

The magnitude of the war program is reflected in the growing tightness in supplies of labor, materials, and machinery. The War Manpower Commission has estimated that within the first six months of 1945 approximately 500,000 additional workers will be needed for munitions manufacturing and war supporting activities, in addition to 900,000 men required for military service. Since the anticipated increase in the civilian labor force, including possibly 400,000 veterans to be discharged during that time, will not be sufficient to fill all essential jobs, labor shortages in nonwar industries may become more severe.

In December the War Production Board banned for 90 days all further "spot authorizations" for civilian production in labor shortage areas, and announced that production for civilian use would, in general, be restricted to the level allowed during the fourth quarter of 1944. Subsequently, the list of "essential" occupations was revised and draft boards were directed to induct men of draft age who leave war jobs without permission.

Orders for steel are being placed faster than they can be filled. Shortages have been mounting in the supplies of both steel ingots and rolled products; they were intensified by transportation difficulties caused by the severe winter weather and the consequent inadequacy of fuel supplies. As a result, considerably less steel will be made available to manufacturers of farm machinery, civilian trucks, and other transportation equipment than was requested by the War Food Administration and the Office of Defense Transportation last fall. The supply of steel allocated to the "spot authorization" program in the first quarter of this year has been cut from 250,000 to 150,000 tons of carbon steel and from 25,000 to 10,000 tons of alloy steel. This is less than the amount authorized for the last quarter of 1944. Moreover, principally as a result of manpower shortages, current production of aluminum, copper, lead, and zinc are short of demand. Aluminum output, which

Indexes of Business

Index	1944			1945
	Jan.	Nov.	Dec.	Jan.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	243	232	232	234p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	200	196	199	203p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	235	215	217p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	177	192	188p	
Factory employment				
United States, 1939 = 100† (*Bureau of Labor Statistics*)	175r	161r	161r	160p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	158	145	145	144p
Factory payrolls				
United States, 1939 = 100† (*Bureau of Labor Statistics*)	345r	327r	332p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	300	286	284	290p
Income payments*, 1935-39 = 100† (*Department of Commerce*)	227r	238	239p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	161	168	169p	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	124	127	127	127p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	74	76	87	94
Outside New York City	81	76	84	78

* Adjusted for seasonal variation. p Preliminary. r Revised.
† Series revised beginning January 1942.

was cut back during 1944, has been stepped up by about 10 per cent. To fill current needs some aluminum has been drawn from the large Government stockpile. The sale by manufacturers of nonessential products containing lead has been prohibited beginning March 1.

Shortages are not limited to metals, however. The military demand for textiles, for instance, has been so large that the War Production Board has decided to take charge of the distribution of 75 per cent of all civilian textile yardage and to allot it to manufacturers of low and medium priced "essential" clothing. An order which has permitted the placement of unrated orders for some types of industrial equipment and machinery since last fall was suspended late in January.

These developments show clearly that there will be very little room for expanding civilian output until the end of the European War. Even then, productive capacity not employed to provide munitions for the Japanese War may be so urgently needed for essential machinery, tools, transportation equipment, and exports that the manufacture of additional consumers' goods must for some time be limited to relatively few industries and localities.

DEPARTMENT STORE TRADE

New York City department store sales during February were approximately 15 per cent above the corresponding 1944 month in total amount, and 20 per cent higher on a daily average basis. Newark stores also showed a gain of about 15 per cent, but in Upstate New York sales volume was adversely affected by store closings owing to fuel shortages and weather conditions. The seasonally adjusted index for the entire District, however, increased substantially from the relatively low level of January and was close to the all-time peak of last November.

During January, department store receipts of merchandise, while seasonally smaller than in other recent months, exceeded sales by a small margin, so that stocks increased slightly; unfilled orders for merchandise were increased substantially. The accompanying chart shows that the retail value of stocks has declined about 40 per cent since the summer of 1942, while outstanding orders are three times as high. At the close of January, outstanding orders were at an unprecedented level, equaling almost 1½ times the dollar amount of stock on hand; in the summer of 1942 they represented only one quarter of department store stocks. The accumulation of outstanding orders during the past two years has been a natural consequence of the difficulties experienced by the stores in obtaining merchandise and the increase in the time required to obtain deliveries. The decline in stocks has resulted from both Government restrictions and the unavailability of many lines of merchandise.

The ratio of annual sales to average stock on hand during 1944 was 4.6, as compared with 4.3 in 1943. With the exception of 1942 when the turnover rate was 3.1, this ratio has ranged between 4.3 and 4.9 during the past fifteen years.

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

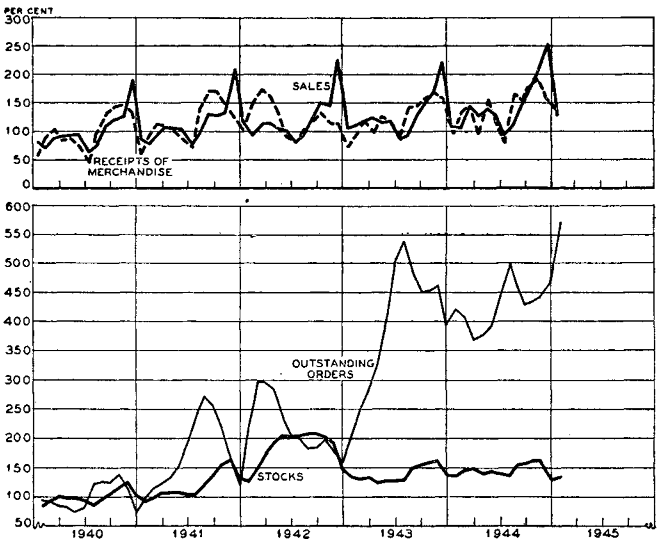
Locality	Net Sales		Stocks on hand Jan. 31, 1945
	Jan. 1945	Jan. through Dec. 1944	
Department stores, Second District	+15	+10	− 2
New York City	+18	+12	− 3
Northern New Jersey	+17	+ 7	+ 1
Newark	+18	+ 6	+ 1
Westchester and Fairfield Counties	+11	+ 3	− 6
Bridgeport	+12	− 1	− 9
Lower Hudson River Valley	+12	+17	+ 7
Poughkeepsie	+10	+15	—
Upper Hudson River Valley	+ 8	+ 3	− 2
Albany	+10	+ 6	—
Schenectady	+ 9	0	+ 1
Central New York State	0	+10	+ 5
Mohawk River Valley	0	+ 4	− 9
Utica	− 1	+ 5	—
Syracuse	− 1	+13	+12
Northern New York State	+18	+14	—
Southern New York State	+13	+11	− 6
Binghamton	+15	+12	—
Elmira	+ 9	+12	—
Western New York State	+ 6	+ 7	− 1
Buffalo	+ 1	+ 6	− 3
Niagara Falls	+10	+ 4	+ 4
Rochester	+13	+ 9	+ 3
Apparel stores (chiefly New York City)	+28	+12	+ 5

Indexes of Department Store Sales and Stocks Second Federal Reserve District (1935-39 average = 100 per cent)

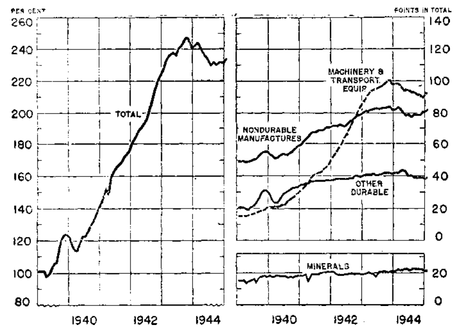
Item	1944			1945
	Jan.	Nov.	Dec.	Jan.
Sales (average daily), unadjusted	112	207	270r	124
Sales (average daily), seasonally adjusted	136r	164	155	150
Stocks, unadjusted#	138	166	131	135
Stocks, seasonally adjusted#	151	144	134	148

r Revised.
The former index on a 1923-25 average base, recomputed on a 1935-39 average base. Back figures available upon request.

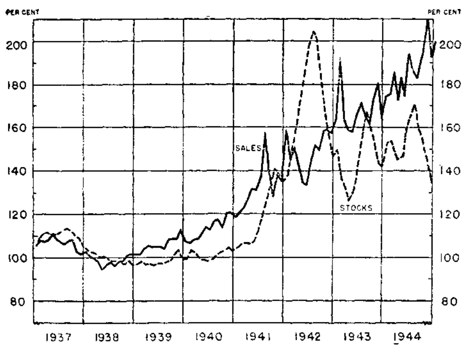
Indexes of Sales, Receipts of Merchandise, Stocks, and Outstanding Orders of Department Stores, Second Federal Reserve District (1940 monthly average=100 per cent)



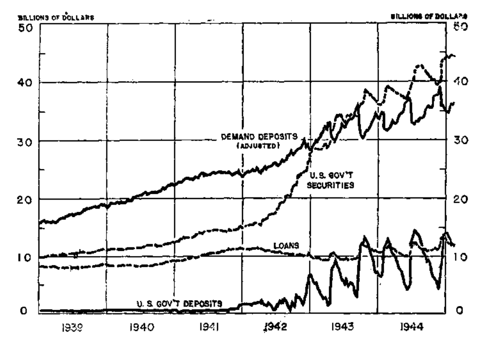
Source: Compiled by Federal Reserve Bank of New York from returns from a limited number of stores. Data for stocks and orders are for end of month. The receipts series is derived from sales and changes in stocks, and represents approximately the new merchandise received during each month.



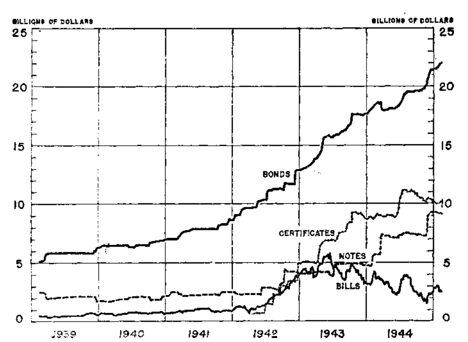
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average =100 Per Cent (Groups shown are expressed in terms of points in the total index)



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 February 14)



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 February 14)

General Business and Financial Conditions in the United States

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

FACTORY output continued to increase in January despite severe weather conditions. Department store sales during the first seven weeks of this year have been 14 per cent above the high level maintained during the same period last year.

Industrial Production

Total output at factories and mines rose slightly in January and the Board's seasonally adjusted index was 234 per cent of the 1935-39 average as compared with 232 in the preceding three months.

Activity in munitions industries was maintained in January at the December rate, although slight increases were scheduled. In February it was announced that schedules for 1945 production of aircraft and Army ordnance items had been increased further. Output of open hearth and Bessemer steel in January was at the lowest rate since July 1942, largely owing to severe weather conditions in several important steelmaking areas. Output of electric steel, however, which had been declining since the end of 1943, rose 10 per cent in January, reflecting new military requirements for alloy steel. The War Production Board early in February ordered a 10 per cent increase in aluminum ingot production and announced that a large increase had occurred in output of aluminum sheet since December 1.

Output of nondurable goods rose 2 per cent in January. Production of liquor and beverage spirits increased sharply as a result of the release of distilleries from industrial alcohol production for the month of January. Output of manufactured food products also showed a gain for the month, reflecting increases in the canning and baking industries, after allowing for seasonal changes. Activity at meatpacking establishments declined 10 per cent in January and was at a rate 25 per cent below the same month a year ago. Production in the chemical industries continued to rise, largely reflecting further increases in output of small arms ammunition. Activity at textile and paper mills continued to show little change.

Output of coal increased in January but the tonnage was 8 per cent less than the large volume for January 1944. The production rise was limited by shortages of cars at mines due to congestion in ice-clogged northern railroad yards. In the week ended February 10 output of bituminous coal was the largest for any week since last November.

Distribution

Department store sales continued in January and the first half of February at about the same high level that prevailed in the last quarter of 1944 after allowance is made for the usual sharp seasonal decline. Value of sales was 14 per cent greater than in the corresponding period a year ago, with a higher rate of gain shown in February.

Freight carloadings increased in the early part of January due chiefly to larger shipments of fuel and war materials. At the end of January and in the early part of February, however, two short embargoes were placed on rail shipments of most nonwar goods. These embargoes were limited to the northeastern States where heavy snowfalls had resulted in traffic tie-ups.

Commodity Prices

Prices of commodities in wholesale and retail markets continued to increase slightly during January. In the first three weeks of February prices of farm products averaged above the January level and small increases were permitted in maximum wholesale prices of various industrial commodities.

Bank Credit

With a steady succession of Treasury calls on War Loan balances, both demand deposits adjusted and time deposits at member banks increased from mid-January to mid-February. Time deposits maintained the rather rapid rate of increase which had prevailed for the past several months. During this period reporting member banks in 101 cities reduced their total holdings of Treasury bills in order to meet increases in required reserves and a currency drain. At the same time, however, banks continued to make sizable purchases of Treasury bonds, mostly in the eight to ten-year maturity range. Loans for purchasing and carrying Government securities decreased, particularly loans made directly to customers. Commercial loans also declined slightly.

During the five weeks ended February 21, Reserve Banks increased their holdings of Treasury bills by 630 million dollars and sold 65 million of Treasury bonds. The bill purchases, together with advances of 165 million dollars to member banks, enabled banks to meet a 450 million currency drain and a 270 million dollar growth in required reserves. Although currency in circulation had declined through most of January, the outflow was renewed in the last days of the month and continued at an accelerated pace in February. Excess reserves declined to below 1 billion dollars late in January, about the average level at which they have been between drives during the past year.

Government Security Yields

Following the close of the Sixth War Loan drive in December, the Government security market was strong during January and the first part of February. The average yield on medium-term, taxable Treasury bonds declined from 1.94 per cent during the last week of December to 1.78 per cent during the week ended February 17. The average yield on long term, taxable Treasury bonds declined from 2.47 per cent to 2.39 per cent in the same period, the lowest since early December 1941.