MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

Vol. 27 | MAY 1945 | No. 5

MONEY MARKET IN APRIL

In April money market developments followed the pattern of previous months in which there were no War Loan drives or Federal income tax dates. Treasury receipts substantially exceeded disbursements, and reserve requirements rose as the Treasury disbursed funds withdrawn from reserve-free War Loan accounts and private deposit accounts were built up; money in circulation continued to expand; a further loss of gold to foreign countries took place; and Federal Reserve Bank credit outstanding expanded rapidly as the commercial banks took action to maintain their reserves at required levels. Member bank excess reserves, which usually diminish in periods preceding War Loan drives, were reduced by about 100 million dollars in April to roughly 800 million. This typical wartime pattern of money market developments was altered somewhat at the beginning of the month by shifts of funds from one part of the country to another, which were related in part to the temporary contraction of deposits in Chicago over the Cook County, Illinois, personal property tax date.

Treasury operations were the most important factor affecting the reserve position of member banks during April. Income tax receipts were unusually high in the early part of the month and amounted to 1.1 billion dollars in the first three weeks, reflecting the carryover of collections of many tax returns filed in March. However, it is doubtful whether total receipts for the full month will exceed those at the end of April 1944. It will be recalled that the first quarter payments on 1944 individual incomes in excess of amounts withheld or to be withheld at the source were postponed from March to April last year, and a large part of the payments were collected in the latter part of that month.

Despite the high level of tax receipts, the Treasury accelerated its calls on War Loan deposits in order to meet war disbursements, which continued at the high level of recent months, and to replenish its balances with the Reserve Banks. These balances had been reduced to unusually low levels during the March tax period, but were built up steadily thereafter and rose to a total of 650 million dollars on April 25. In addition to the drain on bank reserves brought about by the accumulation of Treasury funds on deposit with the Reserve Banks, Treasury operations were primarily responsible for a growth of nearly 500 million dollars in reserve requirements in this four-week period, as Government disbursements caused a shift of deposits from War Loan accounts to private accounts against which the banks must carry reserves.

Public demands for currency were larger during April than in March when the growth in circulation was held down because of cash payments of income taxes. Preliminary estimates indicate an increase of 300 million dollars in circulation during the month, compared with about 140 million in March. However, the increase appears to have been considerably smaller than in April 1944, when the outflow of currency amounted to about 440 million dollars. Larger sales of Savings bonds during the month under review, together with a decline in the rate of increase (or an actual decline) in the circulation of large denomination bills may have been responsible for the smaller increase in currency circulation this April. In the first four months of 1945, approximately 880 million dollars of currency went into circulation, about 230 million less than in the similar period for 1944. Heavier individual income tax payments owing mainly to changes in tax payment dates appear to be the principal factor in the smaller currency increase this year, however, and it still is not clear that the rise in circulation is diminishing materially.

In order to meet the drain on their resources, member banks as a whole continuously expanded their use of Federal Reserve credit throughout April. They sold Treasury bills in large amounts and increased their borrowings from the Reserve Banks by 290 million in the four weeks ended April 25 to 508 million dollars, highest with but one exception since March 29, 1933. In addition some banks sold Treasury certificates in the market to adjust their reserve positions. Reserve Bank holdings of Treasury bills increased by almost 1,200 million dollars, of which at least 800 million represented net purchases from member banks. Total Reserve Bank credit continued to make new high records and exceeded 21.3 billion dollars on April 25.

In the first statement week of the month (ended April 4), Chicago banks drew upon the Reserve Bank for large amounts of credit, but New York City banks substantially reduced their use of Federal Reserve credit. This situation was reversed in the following week, when the New York banks found it necessary to obtain large amounts of Federal Reserve credit, while Chicago banks were retiring Reserve credit. In the following two weeks, the demand for Federal Reserve funds originated largely among New York City banks.

Behind the inverse fluctuations in outstanding Federal Reserve credit in New York and Chicago during the first two weeks of the month, were the efforts of taxpayers to reduce their assets subject to the levy on personal property in Cook County, Illinois, as of April 1. Depositors in Chicago made temporary purchases of Treasury bills or transferred their funds to New York and other centers. The reserves of the Chicago banks were subject to heavy drains as the result of these transactions, while those of New York City banks (which received funds from other parts of the country as well as from Chicago) were increased. In the week ended April 4, the New York banks were therefore able to purchase substantial amounts of the new Treasury bill issue in excess of maturities, as well as to repurchase outstanding bills from the New York Reserve Bank and to reduce their borrowings. Chicago banks, on the other hand, maintained their reserves at the required level by selling bills to the Reserve Bank and certificates in the open market.

In the following week, the return flow of funds to Chicago took the form largely of an outflow of funds from New York on Treasury account. The New York market took a large amount of the new issue of Treasury bills in excess of its holdings of maturing bills, and the Treasury used these funds to redeem for cash a substantial amount of maturing bills held in Chicago. Thus, the reserve positions of the New York banks were under strain, and they found it necessary to sell large amounts of bills to the Reserve Bank and also to expand their borrowings. Some of the funds transferred to Chicago by the Treasury returned to the New York money market during the week, but this inflow was largely absorbed by sales of Treasury certificates by the Federal Reserve Banks in the New York market in response to heavy demands, particularly from Chicago banks with surplus funds, and so failed to relieve the reserve positions of the New York banks.

Further drains on the reserves of the New York City banks occurred in the following two weeks ended April 25, as Treasury receipts from tax collections, War Loan withdrawals, and net sales of bills in the New York money market exceeded disbursements by almost 360 million dollars. In addition, reserve requirements increased. An inflow of funds from other sections of the country tended to reduce to some extent the banks' needs for Federal Reserve Bank credit, which nevertheless were substantial.

Member Bank Credit

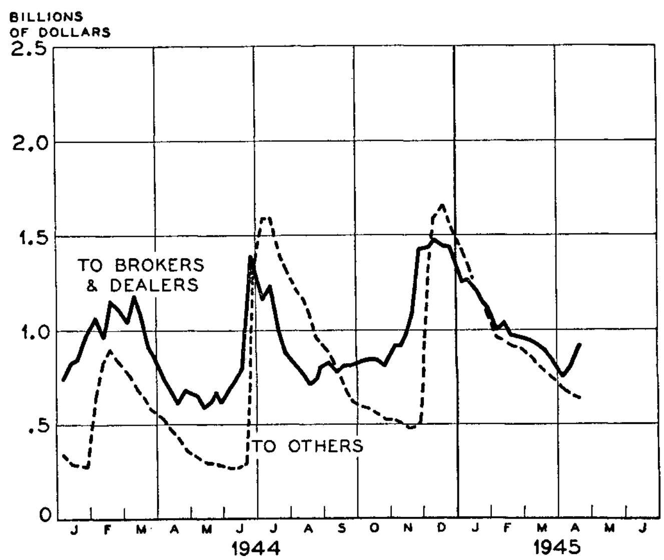
The growth of private (adjusted) demand deposits in member banks, which is characteristic of interdrive months, was retarded early in April by the temporary contraction of deposits in Chicago. Although part of this contraction reflected merely a transfer of deposits to banks in other parts of the country, a substantial portion represented the temporary conversion of deposits of customers of Chicago banks into Treasury bills over the April 1 tax date. Adjusted demand deposits of the weekly reporting member banks in Chicago declined 601 million dollars in the two weeks ended April 4, and then rose 608 million in the following week, while deposits in the rest of the country increased steadily in this period.

For the entire four weeks ended April 18, demand balances at weekly reporting member banks in 101 cities increased about one billion dollars, approximately half the reduction in Government deposits. The failure of the expansion of private demand balances in reporting banks to equal the contraction of Government deposits may be attributed to several factors, including the building up of Treasury balances with the Reserve Banks, the depositing in nonreporting banks of Government checks issued against funds withdrawn from the reporting banks, the increase in currency circulation, an increase in time deposits of 106 million dollars, and finally a 230 million dollar decline in loans which caused a decline of a similar amount of private demand deposits.

Commercial, industrial, and agricultural loans of all weekly reporting member banks continued to decline seasonally, and on April 18 were 197 million less than four weeks earlier and 560 million lower than at the seasonal peak toward the end of December. Furthermore, business loans were 193 million below the level of April 19, 1944, probably owing to a contraction of guaranteed war production ("V") loans outstanding.

Liquidation of loans on Government securities, especially by security dealers, was not as rapid following the Sixth War Loan as after the Fifth, as illustrated in the accompanying chart. The strength of the Government security market appar-

Loans for Purchasing or Carrying U. S. Government Securities by Weekly Reporting Member Banks in 101 Cities



ently delayed selling of securities, acquired chiefly during the Sixth War Loan, in the hope of realizing higher prices. However, liquidation of brokers' and dealers' loans on Government obligations seems to have been completed by April 4 when such loans totaled 749 million dollars, only 39 million above the low point following the Fifth drive. In the following two weeks ended April 18, loans to brokers and dealers rose 169 million to 918 million dollars, probably reflecting largely purchases of securities soon to be exchanged for new issues. Loans to others on Government securities declined another 130 million dollars in the four weeks ended April 18, but still remained considerably above the low point following the Fifth War Loan. The trend of such loans seems to be upward, as the low point prior to the beginning of each drive has been successively higher ever since the Fourth War Loan.

Government Security Market

The weekly reporting member banks were net sellers of Treasury certificates of indebtedness and notes (as well as bills), and net purchasers of Treasury bonds (303 million) in the four weeks ended April 18. There was evidently a transfer of bonds from nonbank investors to commercial banks in exchange for shorter term securities, many of which will probably be disposed of during the Seventh drive to enable the holders to increase their subscriptions to the new War Loan issues. Demand for certificates and notes by others than banks exceeded the amounts offered by commercial banks, and the Reserve Banks sold such securities during the first three weeks of April. All sections of the Government security market were strong during that part of the month, but in the week ended April 25 some sections of the market turned a little easier, and the Federal Reserve Banks acquired a moderate amount of certificates, relieving a temporary situation of oversupply, caused primarily by bank selling to adjust reserve positions, coupled with a less active demand.

SECURITY MARKETS DURING THE WAR

At the end of March 1945, the market value of stocks listed on the New York Stock Exchange was 57 billion dollars, or 16 billion above the corresponding figure for the end of August 1939. During the same period, listed bonds (including Government's) increased in value from 47 billion dollars to 115 billion. Making allowance for changes in issues listed, which were relatively small in the case of stocks but quite substantial for bonds, average values of listed stocks and bonds rose by 31 per cent and 13 per cent, respectively, after the outbreak of the European war. Prices, especially of stocks, have fluctuated widely during the war period, and the various industry groups have shown important differences in price movements.

Stock Market

Since the spring of 1942, stock prices have risen steadily and substantially, with only one major interruption — in the latter part of 1943. On the average, the rise during this period has amounted to approximately 90 per cent. However, unless the preceding substantial decline during the early years of the war is taken into account, a somewhat distorted impression is given by such comparisons. Stock prices in general, after an initial rise immediately after the outbreak of the war, followed a generally downward trend for nearly 2½ years, and reached their lowest points of the war period in the spring of 1942, when Axis armies were threatening Egypt, had penetrated deeply into Russia, were making wide gains in the Orient, and the war outlook generally was at its blackest. Comparisons with prewar levels, therefore, provide a better basis for judging current security price levels.

On April 25, 1945, stock prices, measured by Standard and Poor's weekly composite index of 402 individual issues, reached their highest level in several years — a level 32 per cent higher than at the end of August 1939, though still 16 per cent below the high point reached in 1937. As 88 per cent of the 402 stocks are industrials, the composite index is heavily weighted by such stocks which have risen 34 per cent during the war period, while little influence is accorded to the 111 per cent rise in value of the 20 railroad stocks included in the index, or to the almost negligible net gain in utility stock prices. The accompanying table shows for various groups of stocks the percentage declines from prewar prices to the lowest prices reached during the war period, the subsequent advances to the highs of 1945, and the net change for the war period as a whole.

Percentage Changes in Stock Prices during the War*

Group	Prewar† to war period low	War period low to recent high‡	Prewar† to recent high‡
Standard and Poor's:			
402 Stocks	−32	+ 93	+ 32
354 Industrials	−30	+ 91	+ 34
20 Railroads	− 9	+132	+111
28 Utilities	−46	+ 88	+ 1
69 Peace stocks	−39	+108	+ 27
35 War stocks	−35	+ 60	+ 4
Barron's 30 low priced stocks	−19	+310	+232
Dow-Jones 65 stocks	−29	+ 94	+ 37

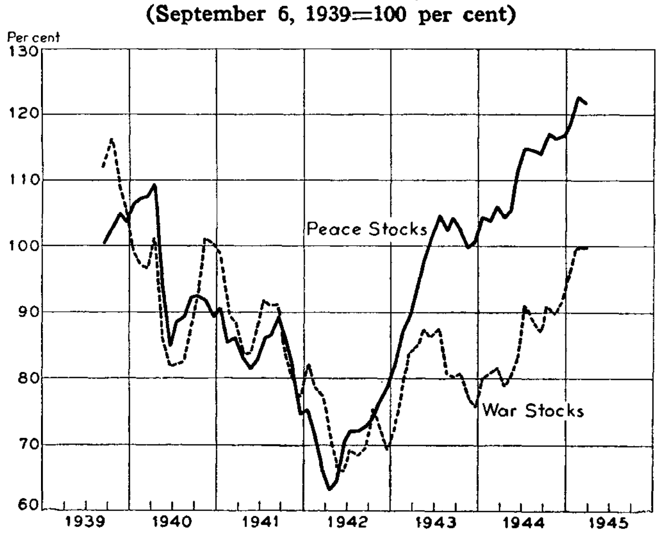
* Based on weekly prices.
† Last week in August 1939, except peace and war stocks for which first week in September 1939 was used.
‡ About third week of April 1945.

As these figures indicate, railroad stocks showed the smallest decline of any of the three major groups from August 1939 to the 1942 low point, and have subsequently made the greatest gains. At the outbreak of the war, railroad stocks were not far above the lowest levels reached during the entire depression period, and after the initial rise immediately after the outbreak of the war, receded to levels only moderately lower than in August 1939. Their striking advance since 1942 undoubtedly reflects the great increase in traffic volume and the very substantial improvement in the earning power and financial condition of the railroads during the war. Public utility stocks, on the other hand, were not at such low levels, relatively, at the outbreak of the war, and after showing the largest declines to the spring of 1942, have subsequently shown somewhat less than average gains. Rising costs of operation, inflexible charges for services, heavy tax burdens, and possibly, uncertainty as to the effects of partial dissolution of some holding companies on the market for public utility securities, all tended to have a depressing influence on the utility stocks. Nevertheless, capacity operations during the past three years have tended to offset the unfavorable aspects of their position and their recovery has been very substantial.

Industrial stocks, because of their heavy weighting numerically, naturally have shown movements quite similar to the composite index. Within this general category, however, there have been wide differences between the price movements of "war stocks" and "peace stocks," as shown in the accompanying diagram. War stocks, such as those of aircraft and shipbuilding companies, reached their peak in the fall of 1939, and after declining quite as drastically as peace stocks to the spring of 1942, have subsequently shown recoveries which, although substantial, have not regained all of the earlier losses. On the other hand, peace stocks—securities of companies supplying primarily consumers' goods and services —continued to rise until the spring of 1940, and after participating in the subsequent decline, have shown gains of such magnitude as to carry them well above their 1940 peaks. The more rapid advance in prices of peace stocks since 1942 undoubtedly reflects the prevalent view that their postwar prospects are considerably more favorable than those of war industries.

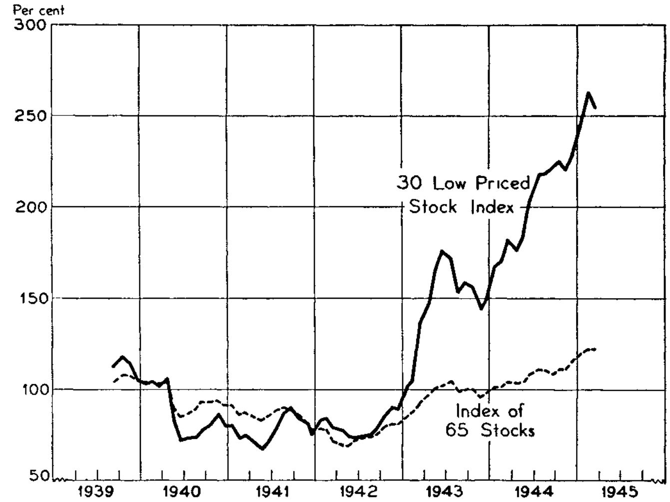
Another group which has attracted particular attention has been low priced stocks which, as the second chart indicates, have shown much greater gains since 1942 than the general average of stock prices. On a weekly basis, Barron's composite of 30 stocks which sold below $5 a share in April 1938 declined 19 per cent from August 1939 to the low point reached in the first week of June 1940, whereas the Dow-Jones average of 65 stocks (generally higher priced stocks) declined 29 per cent to the low point reached approximately two years later. After the summer of 1942, low priced stocks began to forge ahead more rapidly than the general market average, and at their peak in March 1945 were more than four times as high as the 1940 low and 232 per cent above their prewar level, while the average of 65 stocks rose 94 per cent from the 1942 low to its April high and was only 37 per cent above the prewar level. Low priced shares usually fluctuate much more widely than the market as a whole, probably reflecting the marginal character of many of the companies represented; the position of such companies improves rapidly in periods of high activity, but in the past has worsened equally rapidly in periods of serious business recession. The great divergence between such shares and the general average during the past three years is believed, however, to have been influenced partly by the operations of speculators who are particularly attracted to low priced issues because such stocks are more easily within their means, or because in the past they have moved more rapidly.

Prices of War and Peace Stocks*
(September 6, 1939=100 per cent)



* Monthly averages of weekly prices.
Source: Standard and Poor's Corporation.

Barron's Average of 30 Low Priced Stocks and Dow-Jones Average of 65 Stocks*
(1939=100 per cent)



* Monthly averages of weekly prices converted to an index by Federal Reserve Bank of New York.

Credit Employed and Margin Requirements

On March 5, 1945 the New York Stock Exchange raised from $5 to $10 the minimum price of stocks for which immediate payment in full is required, and established an initial margin requirement of 10 points on stocks selling over $10 a share. Also beginning on that date a minimum equity of $1,000 was required on all margin accounts, whereas prior to that date no such requirement existed. The effects of these restrictions on speculative activity in low priced shares are not yet clear; the recession in such shares from the March peak was somewhat greater than in the general stock averages, but that is in accord with the past tendency of low priced stocks to fluctuate more widely than higher priced stocks.

The amount of credit employed in trading in corporate securities, while still far below the levels of earlier years, increased fairly substantially in 1943 and 1944. Direct comparisons between the amount of outstanding loans on corporate securities now and prior to the war are not possible because the earlier figures combined loans on such securities with loans on United States Government securities. The latter, however, were not in large volume prior to the war financing. Debit balances of customers of member firms of the New York Stock Exchange declined from about 900 million dollars at the end of 1939 to about 500 million at the middle of 1942, accompanying the downward trend in prices and volume of trading, but thereafter rose fairly steadily to approximately 1,100 million dollars at the end of January 1945. Because of an accompanying rise in customers' credit balances, however, borrowings of member firms of the Stock Exchange increased only about two-thirds as much as the increase in customers' debit balances—from about 300 million dollars in June 1942 to somewhat over 700 million at the end of January 1945.

On February 5, 1945 margin requirements for extensions of credit by brokers and dealers, and also by banks, on listed securities were raised from 40 per cent (which had been in effect since November 1, 1937) to 50 per cent of market value by amendment to Regulations T and U of the Board of Governors of the Federal Reserve System. It was recognized, however, that such action could only be of limited effectiveness in view of the huge increase in liquid resources of individuals during the war period and the fact that a large part of the transactions on the securities exchanges are on a cash basis. It was not unexpected, therefore, that no great effect of the increase in margin requirements was noted in the security markets.

Corporate Bond Market

Throughout the war period the corporate bond market has been strong except during a few short periods when adverse war developments depressed prices temporarily. For the month of March 1945 the daily average price of 15 high grade bonds, as measured by Standard and Poor's index, was approximately 7 per cent above the level of August 1939, while the average of 50 medium grade bonds showed an advance of 31 per cent, and prices of 15 defaulted bonds rose 465 per cent. (Municipal bonds were 18 per cent higher in March 1945 than in August 1939.) Reactions in the bond market to war developments occurred in September 1939, May and June 1940, and in December 1941, but the losses in those periods were quickly erased in subsequent months.

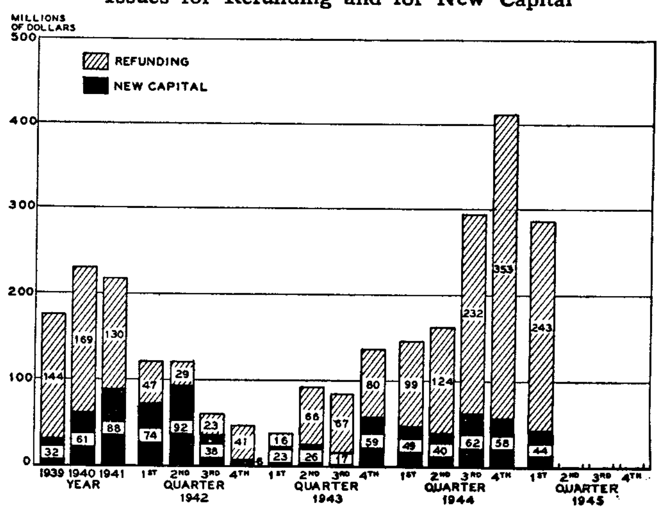
Over the period of about 5½ years, the average yield of Aaa bonds computed by Moody's declined from 2.93 per cent to an all-time low of 2.61 per cent, while the average yield of Baa bonds fell from 4.85 to 3.36 per cent, also an all-time low. Thus the ratio of yields of highest grade bonds to yields of medium grade bonds (sometimes referred to as an index of business confidence) has risen considerably during the war period. Maintenance of low interest rates on Government securities to facilitate war financing, the great wartime accumulation of savings, the limited volume of new corporate bond issues, and the strengthened financial position of railroads especially, all have contributed to the unusual strength of the corporate bond market during the war.

Corporate Security Issues

As shown in the accompanying chart, the volume of corporate security issues floated in recent months has been the greatest in a number of years. Security issues to raise new capital increased considerably in 1940 and 1941 over the 1939 volume, and continued in substantial volume during the first half of 1942. Such issues declined rapidly thereafter, however, and as there was an earlier substantial shrinkage in refunding operations, the total volume of corporate financing in 1942 and 1943 was the smallest since 1934. On a quarterly basis, the low point occurred in the first quarter of 1943, when total corporate financing averaged only 39 million dollars a month, compared with an average of 176 million during 1939. Flotations of new securities, especially for refunding purposes, but also for new capital, began to rise late in 1943, and by the fourth quarter of 1944 total security issues reached a volume that has rarely been equaled in the past 15 years. Refunding operations were stimulated by the low level of interest rates and facilitated by an unusual degree of stability in the corporate bond market. For the entire year 1944 the total amount of new securities issued was slightly over 3 billion dollars, the greatest amount for any year since 1936.

During the past two years investment bankers have concentrated their marketing of new corporate securities in the periods between War Loan drives. This practice has resulted in unusually heavy volume of new financing in some inter-drive months; during October 1944 the total volume of new issues, at 740 million dollars, surpassed that of any month in

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



Source: *Commercial and Financial Chronicle.*

more than 14 years. Refinancing activity declined somewhat in the first quarter of 1945, but continued above the average for 1944.

A large part of the refunding operations in 1944 were conducted by public utility companies, although railroad refinancing also attained large volume for the first time in several years, and in fact reached a total that has been exceeded only once (in 1936) in a number of years. In the early part of 1945, refunding of railroad long term debt at lower interest rates was the dominant factor in the new issues market.

Security issues to raise new capital have, on the whole, been quite small since this country entered the war, despite an extraordinarily high level of business activity. This low level of new capital issues is, of course, explained by the fact that a large part of the cost of constructing and equipping war plants has been financed by the Government, and capital expenditures by corporations have been largely limited to those required for war production. A considerable volume of corporation expenditures on deferred maintenance and reconversion of plants is expected in the early postwar period, but in view of the large accumulation of liquid assets by many corporations, it is not clear to what extent such expenditures will be financed by an expansion of new capital issues.

WARTIME DEVELOPMENTS IN DEPARTMENT STORE SALES

The composition of department store sales is largely determined by changes in consumers' incomes and by style trends, but has been greatly affected since the outbreak of the war by restrictions of production, depletion of stocks, and increases in both income and excise taxes.

The needs of war have led to rationing control, material shortages, and stoppage in the production of many durable goods. Changes in the sex composition of the civilian population, and especially of the gainfully employed have deeply influenced the volume of sales in the most important departments. Budget studies show that, on the average, gainfully employed women spend more on clothing than housewives. The increase in the number of women holding war jobs has affected not only the dollar amount of women's wear sales, but also the type of merchandise in demand. The transfer of millions of men from civilian life to the armed forces has curtailed men's wear sales. Disruption of family life has probably retarded the normal expansion in demand for homefurnishings, but the shortages of many consumers' durable goods and the restrictions on residential building have also influenced sales of this class of merchandise. The marked rise in the birth rate has been followed by a rapid expansion in sales of infants' wear.

Increased purchasing power has stimulated the demand for luxury items. In many cases consumers' shifts to higher priced lines have resulted from the inability to obtain lower priced goods. Unfortunately there is no reliable way of determining what portion of the increase of sales volume since 1939 has been due to larger physical volume and what to price increases and shifts to higher qualities.

Detailed statistics on the composition of total retail trade by merchandise classifications are available only for census years. Department store sales by departmental classifications are, however, indicative of changes that have taken place since 1939.[1] The accompanying table shows the estimated total dollar volume of sales for selected departments in the fiscal year 1944 which ended January 31, 1945. Sales for the major departmental groups since 1925 are given in chart form. This analysis is based on data supplied by stores reporting sales by departments, total sales of which are approximately 65 per cent of all department store sales in this District.

Department Store Sales by Type of Merchandise, 1929-44, Second Federal Reserve District*

Type of merchandise	Sales in millions of dollars,† 1944	Percentage change in sales				
		1929 to 1944	1929 to 1933	1933 to 1939	1939 to 1941	1941 to 1944
Total§	817.7	+ 17	−33	+ 18	+20	+ 23
Women's and misses' wear						
Coats, suits	36.7	+ 17	−36	+ 16	+13	+ 39
Dresses	43.1	+ 9	−39	+ 14	+ 6	+ 49
Juniors' and girls' wear	30.4	+ 81	−26	+ 28	+12	+ 72
Blouses, skirts, sportswear	29.7	+ 77	−27	+ 38	+ 8	+ 65
Furs	13.2	+ 75	−30	+ 80	+35	+ 3
Neckwear, scarfs	10.9	+ 65	−24	+ 1	+12	+ 95
Millinery	12.7	− 2	−35	+ 20	− 1	+ 27
Handbags	12.6	− 3	−36	+ 14	+ 4	+ 30
Shoes	26.2	+ 15	−24	+ 15	+ 9	+ 19
Hosiery	24.1	+ 14	−34	+ 22	+22	+ 15
Lingerie	38.4	+ 29	−32	+ 1	+13	+ 64
Corsets, brassieres	11.4	+ 21	−26	+ 7	+16	+ 31
Infants' wear	29.0	+ 59	−33	+ 9	+17	+ 86
Men's and boys' wear						
Men's clothing	18.6	− 6	−32	+ 24	+13	− 1
Men's furnishing	36.3	+ 1	−27	+ 14	+11	+ 9
Boys' wear	14.5	+ 15	−33	+ 8	+ 9	+ 46
Homefurnishings						
Furniture	53.7	− 13	−39	+ 20	+28	− 6
Domestic floor coverings	21.2	− 5	−35	+ 13	+34	− 3
Draperies, upholstery	29.1	+ 6	−36	+ 1	+16	+ 40
China, glassware	12.5	− 11	−35	+ 2	+24	+ 7
Housewares	27.3	+ 11	−20	+ 20	+22	− 5
Major household appliances	1.2	− 81	− 1	+ 7	+59	− 89
Musical instruments	3.4	− 74	−74	+ 44	+39	− 51
All other						
Yard goods	20.8	− 29	−45	− 32	+ 3	+ 85
Linens, towels	17.4	+ 2	−34	+ 7	+28	+ 14
Sheets, pillow cases	12.6	+ 28	−17	+ 8	+49	− 5
Blankets, spreads	11.3	+ 12	−33	+ 14	+32	+ 11
Toilet articles, drug sundries	29.0	+ 38	− 4	+ 12	+13	+ 14
Jewelry	14.8	+ 60	−40	+ 47	+15	+ 58
Silverware	5.5	+ 2	−29	+ 5	+32	+ 4
Stationery	13.5	+ 39	−38	+ 29	+19	+ 47
Luggage	3.6	− 28	−50	+ 9	+16	+ 13
Sporting goods	3.3	+ 9	−17	+ 45	+ 8	− 17
Groceries, meats	11.5	+114	−28	+ 51	+34	+ 48
Wines, liquors	21.8	‡	‡	‡	+30	+116

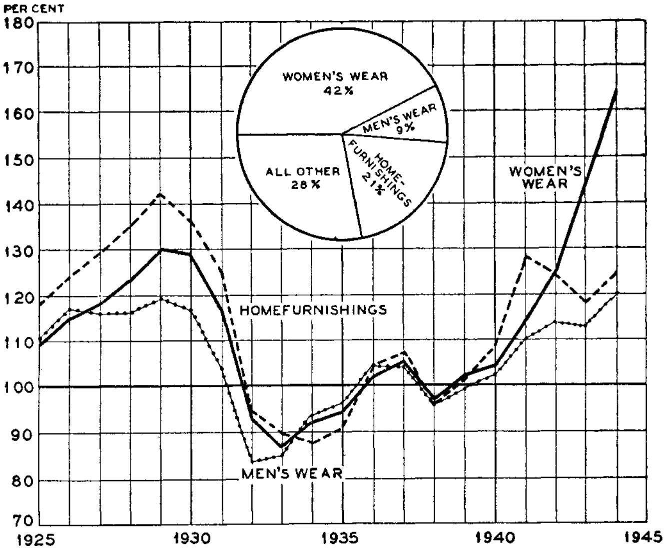
* All figures are for fiscal years ended January 31, the following year.
† Estimated by Federal Reserve Bank of New York.
§ Includes types of merchandise not shown separately.
‡ Department opened in December 1933.

Although total department store sales last year were 17 per cent above the 1929 peak, of the principal departmental groups only women's wear sales exceeded the predepression high. Men's wear sales approximately equaled the 1929 level, but

[1] Allowance must be made for merchandise handled mainly by other retail stores, as well as for shifts during this period in the proportion of department store sales of specific types of merchandise. An analysis of department store type merchandise sold in department stores was presented in the January 1945 *Review*.

Department Store Sales by Principal Departmental Groups, Second Federal Reserve District

Indexes from 1925 to 1944 (1935-39 average=100 per cent), and Distribution of Sales for 1944*



* All figures are for fiscal years ended January 31, the following year.

homefurnishings fell substantially below. A comparison of sales in 1929 and 1944 shows considerable variation among the individual departments. In the women's wear group, increases ranging from 50 to 80 per cent were reported for juniors' and girls' wear, sportswear, furs, neckwear and scarfs, and infants' wear. With the exception of furs, sales for these departments last year were at an all-time high. The increase in the excise tax was a factor causing fur sales to drop below the 1943 peak. The record increase for juniors' and girls' wear may be attributed to the merchandising policy of stocking in those departments larger sizes in styles desired by younger women. Sportswear has become increasingly popular.

Declines from the 1929 peak were reported for millinery and handbags. The fashion trend toward reduced use of hats and replacement of hats with scarfs has sharply curtailed millinery sales. Handbag sales in 1944 showed only a small increase over the preceding year, the excise tax undoubtedly discouraging expensive purchases. Sales of shoes and hosiery have increased since 1939 in spite of shoe rationing and the disappearance of silk and nylon stockings. Lingerie sales, influenced to a considerable extent by the great number of war marriages, have increased sharply since 1941.

In the men's wear group the decline from the 1929 peak for men's clothing was offset by the increase in boys' wear. Sales of men's furnishings, the largest department in this group, were practically unchanged.

In the homefurnishings group, only draperies and upholstery and housewares have exceeded the 1929 high. There has been an increasing tendency to reupholster furniture because of curtailed production. Housewares have exceeded the 1929 level although they are currently below the 1942 all-time high, largely because of metal shortages. Sales of major household appliances and musical instruments were affected by conversion of producers to war goods and experienced the largest decline from 1929. Musical instrument sales (including radios) have never regained the peak reached in 1925. Major household appliances reached a peak in 1941 chiefly because of large electrical refrigerator sales and have declined drastically in subsequent years.

Outside the three major groups, two departments have shown unusual wartime increases. Yard goods were at a low level in 1940, because of the competition with ready-to-wear clothes, but since that year sales have about doubled, because of the rise in prices of ready-to-wear merchandise and the fear of impending shortages. However, sales are still substantially below those in 1929 and approximately one-half the dollar volume at the 1925 peak. Wine and liquor sales are another exception; sales last year of the stores with wine and liquor departments were almost three times the 1939 dollar volume. Part of this increase, however, is due to the fact that the higher liquor taxes paid are included in sales figures, contrary to the practice in the case of excise taxes on furs, jewelry, silverware, cosmetics, handbags, and luggage which are added to and kept separate from the retail price of the article.

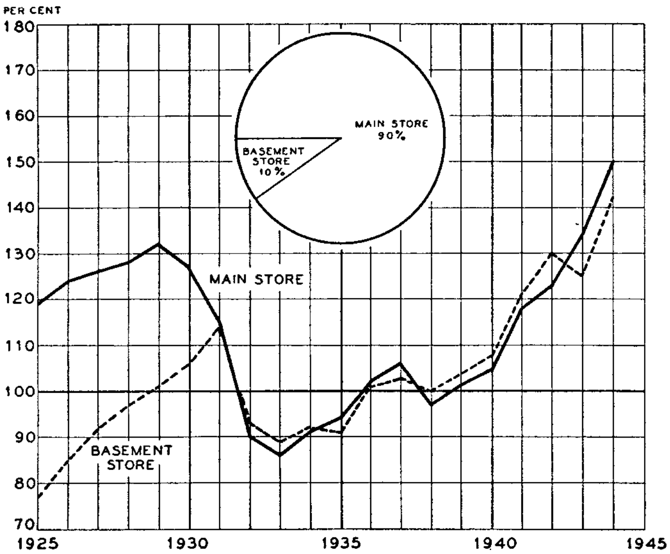
Jewelry sales in department stores, bolstered by the popularity of the more expensive costume jewelry, have increased steadily since the depression low; last year the increase over the 1929 level was 60 per cent. Luggage sales were substantially below those in 1929; sales for this group increased sharply in 1941 and 1942, but showed little change in 1943 and a small decline last year owing to shortages and the excise tax. Sales of silverware followed a similar pattern, except that last year's volume approximately equaled that for 1929. Excise taxes had apparently little effect on toilet articles and drug sundries. Sales of linens, domestics, and blankets have varied markedly. Linens are still gaining, and sales last year were close to the 1929 volume. Domestics (sheets and pillow cases) have shown little change since 1941 because of shortages, but 1944 sales were substantially above 1929. In spite of wool shortages, blanket sales have moved upward since 1942 to a level moderately above 1929. Because of an increasing tendency to purchase groceries and meats in department stores, sales for this group last year were more than double those in 1929.[1]

Basement stores have been created to allow customers from lower income groups to buy closely marked basic merchandise, generally of lower priced lines but nevertheless of good quality. Early in the depression many stores not previously operating basements decided to sell lower priced merchandise in the basement, and in 1930 and 1931 basement store sales ran counter to main store sales which were falling sharply.

[1] Indexes of sales for individual departments from 1925 through 1944 and the distribution of department store sales by departmental classifications from 1939 through 1944 are available upon request.

Department Store Sales for Main and Basement Stores, Second Federal Reserve District

Indexes from 1925 to 1944 (1935-39 average=100 per cent), and Distribution of Sales for 1944*



* All figures are for fiscal years ended January 31, the following year.

Subsequently, however, basement sales closely followed the pattern of the main store through 1942. In 1943 fewer people patronized the downstairs store, and the dollar volume of basement sales declined, but in 1944 the patronage of basement stores increased again, perhaps reflecting the impact of steeply increased income taxes.

The relation of main to basement store sales for this District is shown in the accompanying chart. This special compilation has been prepared through the cooperation of a representative group of stores, and supplements the departmental records that have been compiled during the past twenty years. In this District basement store sales represent approximately 10 per cent of the total department store volume, approximately the same ratio as that for the United States. However, some of the larger stores in this District do not operate basements, and for the group operating both main and basement stores the ratio is 15 per cent, which is close to the percentage found in many large cities.

DEPARTMENT STORE TRADE

Department store sales in this District during April were approximately 10 per cent above those one year earlier. After adjustment for seasonal changes and the earlier date of Easter, sales last month declined sharply from the all-time peak for March and were slightly below the level for February. This lower dollar volume of sales was partly due to the closing of stores in New York City and Newark on Saturday, April 14, following the death of President Roosevelt, and the closing of stores in other cities for at least part of the day.

Although sales in March were of record proportion for that month, they were less than the amount of merchandise received. The dollar volume of stocks on hand increased a little during the month and was slightly above that for one year earlier. Outstanding orders for merchandise not yet delivered to the stores at the end of March were slightly below the all-time high reached a month earlier.

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

Locality	Net Sales		Stocks on hand Mar. 31, 1945
	March 1945	Jan. through March 1945	
Department stores, Second District	+27	+20	+ 1
New York City	+25	+20	+ 1
Northern New Jersey	+24	+20	+ 8
Newark	+23	+20	+ 8
Westchester and Fairfield Counties	+35	+19	− 8
Bridgeport	+26	+15	−12
Lower Hudson River Valley	+50	+27	− 8
Poughkeepsie	+47	+25	—
Upper Hudson River Valley	+35	+19	− 3
Albany	+38	+20	—
Schenectady	+30	+17	− 5
Central New York State	+41	+20	+ 1
Mohawk River Valley	+41	+18	−10
Utica	+40	+17	—
Syracuse	+40	+21	+ 6
Northern New York State	+64	+40	—
Southern New York State	+37	+23	−15
Binghamton	+44	+28	—
Elmira	+32	+18	—
Western New York State	+27	+16	0
Buffalo	+22	+12	0
Niagara Falls	+32	+20	−11
Rochester	+32	+20	+ 3
Apparel stores (chiefly New York City)	+32	+28	− 1

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

Item	1944	1945		
	Mar.	Jan.	Feb.	Mar.
Sales (average daily), unadjusted	139r	124	137	176
Sales (average daily), seasonally adjusted	153r	150	166	189
Stocks, unadjusted	152	134	145	155
Stocks, seasonally adjusted	151	148	152	154

r Revised.

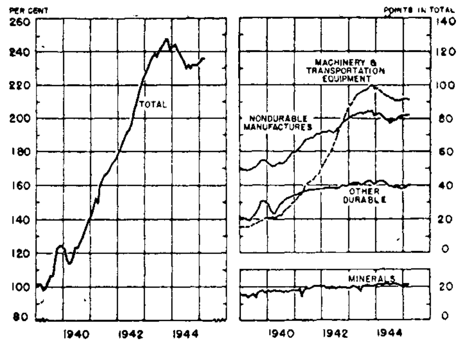
Indexes of Business

Index	1944	1945		
	March	Jan.	Feb.	March
Industrial production*, 1935-39 =100 (*Board of Governors, Federal Reserve System*)	241	234	236	236*p*
Electric power output*, 1935-39 =100 (*Federal Reserve Bank of New York*)	201	203	202	203*p*
Ton-miles of railway freight*, 1935-39 =100 (*Federal Reserve Bank of New York*)	232	212	230*p*	
Sales of all retail stores*, 1935-39 =100† (*Department of Commerce*)	178*r*	194	195*p*	
Factory employment				
United States, 1939 =100‡ (*Bureau of Labor Statistics*)	172*r*	160	160	158*p*
New York State, 1935-39 =100 (*New York State Dept. of Labor*)	155	144	143	143*p*
Factory payrolls				
United States, 1939 =100‡ (*Bureau of Labor Statistics*)	341*r*	330	329*p*	
New York State, 1935-39 =100 (*New York State Dept. of Labor*)	299	290	290	294*p*
Income payments*, 1935-39 =100‡ (*Department of Commerce*)	232*r*	242	245*p*	
Wage rates, 1926 =100 (*Federal Reserve Bank of New York*)	162	169	170*p*	
Cost of living, 1935-39 =100 (*Bureau of Labor Statistics*)	124	127	127*p*	
Velocity of demand deposits*, 1935-39 =100 (*Federal Reserve Bank of New York*)				
New York City	79	94	85	76
Outside New York City	82	78	74	75

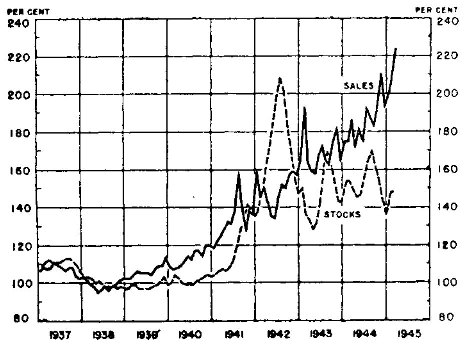
* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Series revised beginning January 1940.
‡ Series revised beginning January 1942.

FEDERAL RESERVE BANK OF NEW YORK

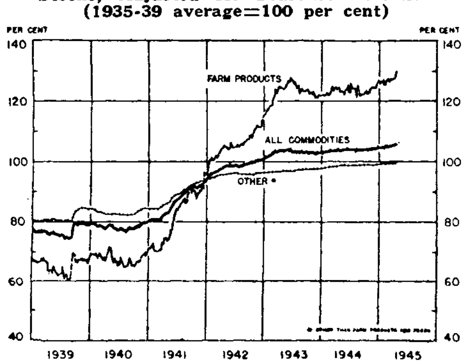
MONTHLY REVIEW, MAY 1945



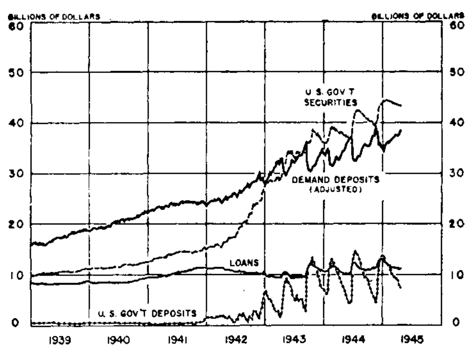
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average =100 Per Cent (Groups shown are expressed in terms of points in the total index)



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



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended April 21)



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 April 18)

General Business and Financial Conditions

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

INDUSTRIAL activity was maintained at a high level in March. Value of retail sales was at a record for this season of the year.

Industrial Production

Output at factories and mines was maintained in March at the level of the preceding month, which was 236 per cent of the 1935-39 average, according to the Board's seasonally adjusted index.

At iron and steel mills production continued to rise and was at about the same level as a year ago. Production of most nonferrous metals also continued to increase in March in response to military needs; zinc shipments rose to a new record level. Lumber production, however, was 12 per cent smaller in March than in the same month last year. Output of stone, clay, and glass products was maintained at the February level. In the machinery industries activity showed little change in March. Output of transportation equipment continued to decline owing to further curtailment of operations at shipyards. Aircraft production was maintained at the February rate.

In most nondurable goods industries output showed little change from February to March and was at about the same level as in March 1944. Owing to increased military purchases in recent months, however, supplies available for civilians of such goods as food, textile, leather, and paper products were at the lowest level for the war period. The shortage of carbon black has continued to limit production of essential military and civilian tires and rubber products, but manufacturing facilities are being expanded for output of this critical material. In the chemical industry, production of explosives and small arms ammunition showed less increase than in recent months and output at other chemical plants was maintained at about the February level.

Production of bituminous coal was at a slightly lower rate in March and declined further in the first week of April when wage contract negotiations interrupted mine operations. Output of anthracite increased in March and the early part of April and crude petroleum production was maintained in record volume.

Distribution

Department store sales in March showed a further sharp increase and the Board's seasonally adjusted index rose to 224 per cent of the 1935-39 average as compared with 212 in February and 200 in January. In the first half of April sales continued large, after allowance for the usual post-Easter decline.

Freight carloadings continued to rise in March and the early part of April, reflecting increased shipments of most groups of commodities except coal. In recent weeks, as a result of special efforts to move last year's record wheat crop to market before the 1945 harvest, grain loadings have been in much larger volume than in the same period a year ago. Shipments of ore have also been much greater owing to an early opening of the Lake shipping season.

Commodity Prices

Prices of cotton, livestock, and some other farm products were higher in the third week of April than during March. Wholesale prices of industrial commodities, as a group, have continued to show slight increases in recent weeks.

Bank Credit

Banking developments during the latter half of March and early April, while following the usual interdrive pattern, were considerably influenced by the large volume of Treasury receipts associated with the March 15 tax date. Adjusted demand deposits at banks in leading cities and currency in circulation both decreased in the latter part of March but resumed their growth in April. The slackened rate of expansion in both deposits and currency was due primarily to tax payments by businesses and individuals.

Required reserves of member banks increased by around 300 million dollars during the five-week period ended April 18. Excess reserves, which were at a temporarily high level in mid-March largely as a result of the reduction of Treasury deposits at the Reserve Banks in anticipation of tax collections, subsequently declined again to less than a billion dollars. An increase in Treasury and other deposits at Federal Reserve Banks in the latter part of March and early April and resumption of the currency outflow caused a drain on reserve funds which was offset by a further increase of nearly 600 million dollars in Reserve Bank holdings of Government securities.

At banks in 101 leading cities, Government security holdings declined during the five weeks ended April 18 by 660 million dollars. Bill holdings were reduced sharply, reflecting to a considerable extent declines in the holdings of Chicago banks associated with the Illinois tax date. Certificate holdings declined generally while bond holdings continued to rise. Loans to others than dealers for purchasing and carrying Government securities were reduced by 180 million dollars and commercial loans declined by 230 million dollars.