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MONEY MARKET IN MAY

The end of the war in Europe had remarkably little effect on the money market. There was a temporary decline in the volume of trading in Government securities and a slight recession in prices of Treasury obligations and other high grade securities, but demand and supply factors affecting credit were not materially altered and continuing wartime credit policy gave assurance of stable conditions. With the passing of V-E Day the emphasis is now on the heavy war burden still to be carried in order to bring final victory. Immediate attention is focused on the Seventh War Loan and on the need for continued financial participation by the public as a most important form of insurance against inflationary tendencies during the remainder of the war period and after the war.

Treasury transactions were again the dominant factor in the money market during May. Just as Treasury operations had involved a substantial drain on member bank reserves by increasing Treasury deposits with the Reserve Banks some 555 million dollars during the five weeks ended April 25, so in the following three weeks, ended May 16, the Treasury restored most of this sum by disbursing 549 million dollars more than it received, reducing its deposits with the Reserve Banks by a like amount. Expenditures were unexpectedly high during this three-week period. On the other hand, although receipts were relatively heavy as a result of quarterly collections of withheld income and social security taxes and increased cash sales of Savings bonds and notes in the Seventh War Loan drive, Treasury calls on War Loan account deposits were sharply reduced, and total cash receipts were insufficient to cover expenditures fully.

Nevertheless, reserve funds placed at the disposal of the banks as a result of the Treasury's operations fell somewhat short of meeting the banks' needs. These arose chiefly out of a continuation of the public demand for currency and higher reserve requirements due to the shift from War Loan deposits, which are exempt from reserve requirements, to private deposit accounts which are not. The effects of these transactions were spread unevenly among the banks. Some institutions experienced net gains of funds and were able either to add to their excess reserves or to retire Reserve Bank credit by purchasing Treasury bills or by reducing their borrowings from the Reserve Banks. Other banks, which lost reserves, had to call on the Reserve Banks for additional credit. Thus, while excess reserves rose from about 800 million on April 25 to 1,050 million on May 16, total Reserve Bank credit increased 277 million dollars. The expansion of Reserve credit took the form chiefly of net purchases of certificates in the amount of 286 million dollars. A substantial portion of these certificates reflected securities sold by member banks to adjust their reserve positions, but some part undoubtedly represented certificates sold by nonbank investors.

In the week ended May 23, Treasury receipts were substantially higher than disbursements, reversing the tendency of the previous three weeks. Treasury balances in the Reserve Banks rose from a little more than 100 million dollars on May 16 to 526 million on May 23. This heavy drain on member bank resources, combined with further increases in currency circulation and reserve requirements, forced many banks to seek Federal Reserve credit. Member bank borrowing reached a new wartime peak of 724 million dollars, 131 million above the previous high record of 593 million on November 29, 1944, and the highest since March 15, 1933. Sales of Treasury bills and certificates to the Reserve Banks (direct or through the market) were likewise substantial, and excess reserves declined 150 million dollars to about 900 million.

Although the bulk of the net withdrawals of funds from the banks by the Treasury during April occurred in New York, very little of the substantial amount of funds returned to the banks as a result of net Treasury disbursements during the three weeks ended May 16 came back to the New York banks. A net outflow of commercial and financial funds from New York to other parts of the country, partly in payment for Government securities sold in the New York market, was just about offset by an inflow of banking funds in this period. However, there were heavy offerings of Treasury certificates of indebtedness in the market by banks and corporations, which were absorbed partly by the Federal Reserve System, and the funds thus placed in the money market were sufficient not only to offset rising reserve requirements and public demands for currency in the City, but also to ease the reserve position of the New York City banks. In part, these funds were used by some banks to reduce their borrowings from the Reserve Bank, or to purchase Treasury bills, and in part they were used by other banks to augment their holdings of Treasury bonds.

In the week ended May 23, Government disbursements in New York fell about 260 million dollars short of Treasury receipts, which included heavy withdrawals of War Loan deposits. Losses of reserves from other transactions came to another 100 million dollars and reserve requirements increased 36 million. To meet this substantial need for reserve funds, New York City banks sold a large amount of bills and certificates, and borrowed about 160 million dollars from the Reserve Bank.

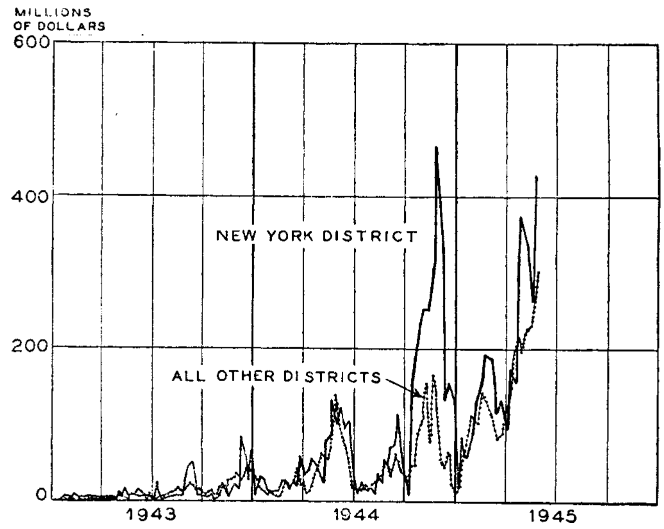
Member Bank Borrowing

Although total member bank borrowing from the Reserve Banks has reached the highest level since March 1933, borrowings in the New York District have not yet equaled the peak of November 29, 1944, before the Sixth War Loan. In the other eleven Federal Reserve Districts, they were far above the previous wartime high point. Since the decline, in 1943, of excess reserves to relatively small amounts, and the subsequent reduction of Treasury bill holdings which could be readily used to adjust reserve positions, member banks have come to rely more and more on borrowing from the Reserve Banks as a means of meeting temporary needs for reserves. Thus, although the increase in loans and discounts of the Reserve Banks had its inception toward the middle of 1943 (prior to that time they had been nominal), the expansion of member bank borrowing did not reach substantial proportions until the middle of 1944, after 2½ years of war financing.

The growth of member bank borrowing has been highly irregular. Increases have been most pronounced prior to War Loan drives when member bank reserve requirements are highest and their bill holdings are lowest, and have been followed by sharp declines during War Loans, as the banks utilize the reserves freed by the transfer of deposits from private to War Loan accounts to retire their indebtedness with the Reserve Banks and to build up their Treasury bill portfolios. The general level of member bank borrowings has risen, nevertheless, reflecting the over-all increase in bank deposits and reserve requirements during the war and the drain on their reserves, caused chiefly by the persistent demand for currency.

As illustrated in the chart, the upward trend of member bank borrowings in the eleven other Reserve Districts has been more persistent than in the New York District. The more pronounced fluctuations in New York reflect in large part the fact that a major share of member bank borrowings in the Second Federal Reserve District consists of borrowings by large banks in New York City. Gains and losses of funds in the New York money market are likely to affect a number of these banks at the same time and in the same way, and owing

Member Bank Borrowings from the Reserve Banks*



*Wednesday dates.

to the concentration of financial activities in New York, the magnitude of the adjustments necessary to maintain reserves or retire unneeded Reserve Bank credit is great. In other districts where the number of member banks borrowing from the Reserve Banks is substantial, the gains of reserve funds of some banks are frequently offset by the losses of others. Consequently, some member banks may be reducing their indebtedness to the Reserve Banks while other member banks are increasing their borrowings, so that the general level fluctuates less sharply than in New York.

Member Bank Credit

In general, changes in member bank credit in the four weeks ended May 16 continued along the same lines as in previous weeks. The rise in loans to brokers and dealers on Government securities extended by reporting member banks in New York City, which began in the second week of April, continued through May 16 at an accelerated rate. The increase was unusually rapid for a time so far in advance of the issue date for War Loan securities, amounting to 307 million dollars in this four-week period and 475 million since the low point following the Sixth drive (on April 4). It probably reflected dealer accumulation of Treasury securities, particularly certificates, soon to be exchanged for new issues. Loans on Government securities to other investors were further reduced both in New York and out of town; the decline in New York brought the level to a point slightly below the minimum outstanding prior to the Sixth drive. Thus, all of the increase in loans extended to other than brokers and dealers by New York banks for the purpose of acquiring Government obligations in the Sixth War Loan had been liquidated by May 16. Reflecting activity in the new issue market, loans to brokers and dealers on non-Government securities rose 54 million dollars for all reporting member banks. Most of this increase occurred among the New York banks. Commercial, industrial, and agricultural loans continued to decline seasonally, reaching the lowest levels since September 1943.

Banks both in New York and 100 other cities made substantial net sales of Treasury bills and certificates of indebtedness and smaller sales of Treasury notes, and added large amounts of bonds to their portfolios. Net purchases of bonds by New York banks were again substantial (141 million dollars) in the week of May 23, and further net sales of other types of Treasury issues were effected. Bill holdings fell to 117 million dollars, the lowest since April 5, 1939.

Government Security Market

The trend toward higher Treasury bond prices was interrupted during the week of May 9. Following V-E Day, buyers of Government securities retired from the market temporarily, and prices receded moderately for a few days in light trading. Most of the decline was subsequently made up in the week of May 23. The commercial banks continued to expand their holdings of the longer term 2 per cent bonds by selling Treasury certificates, 0.90 per cent notes, and shorter term issues of 2's. Bank selling of certificates reflected adjustment of reserve positions as well as adjustment of portfolios.

WARTIME RISE IN DEPOSITS

Despite efforts to raise as much of the required funds as possible through taxes and sales of Government securities to the public, the financing of the war has involved the use of bank credit on a very large scale, which is reflected in the great expansion in bank holdings of Government securities and in the growth of deposits. The increase in demand deposits of individuals, partnerships, and corporations* for all member banks in the United States, between December 31, 1941, shortly after Pearl Harbor, and March 20, 1945 amounted to 25.7 billion dollars, or 76.5 per cent.

The distribution of the deposit increase among the 12 Federal Reserve Districts, shown in Table I, has been determined mainly by the geographic distribution of Government receipts from taxes and security sales and the geographic distribution of Government disbursements. The growth of bank deposits has been retarded to some extent by withdrawals of deposits in currency, and repayments of loans have also been a factor, but to only a minor degree.

As the table indicates, this District has had the largest growth of private demand deposits of any district, but the percentage increase has been by far the smallest. At the end of 1941, the New York District had 40 per cent of the business and personal demand deposits in the entire country but by March 20, 1945 the percentage had receded to 31 per cent, the wartime rise of 38 per cent having been too small to maintain the District's prewar position. This situation is accounted for by the relatively small growth of deposits in New York City; the remainder of the District has had a deposit growth at least as rapid as in the country as a whole. Previous issues of this *Review* have drawn attention to the fact that New York City, acting in its role of money market center, has continually raised a larger amount of funds during War Loan drives than the Treasury has subsequently disbursed here. The same situation has evidently prevailed to a lesser extent in the Boston and Philadelphia Districts, but all other districts, notably the southern and western districts, have enlarged their deposits more rapidly than the country as a whole, showing gains ranging from 85 per cent to 151 per cent during the elapsed portion of the war.

Table I
Increase in Demand Deposits of Individuals, Partnerships, and Corporations of All Member Banks between December 31, 1941 and March 20, 1945

District	Dollar increase in millions	Percentage increase	Percentage distribution of total
New York†	$5,135	38.0	20.0
Boston	1,145	57.3	4.4
Philadelphia	1,291	68.2	5.0
Cleveland	2,144	84.8	8.3
Chicago	4,035	87.7	15.7
Richmond	1,290	97.3	5.0
St. Louis	1,064	99.3	4.1
Minneapolis	638	104.4	2.5
Kansas City	1,539	141.1	6.0
Atlanta	1,537	143.9	6.0
San Francisco	4,160	149.7	16.2
Dallas	1,741	151.3	6.8
Total	$25,719	76.5	100.0

† Adjusted for membership changes.

The second table shows the wartime increase in time deposits of individuals, partnerships, and corporations (which are composed primarily of savings deposits) for member banks in each of the 12 Federal Reserve Districts. In this case the

Table II
Increase in Time Deposits of Individuals, Partnerships, and Corporations of All Member Banks between December 31, 1941 and March 20, 1945

District	Dollar increase in millions	Percentage increase	Percentage distribution of total
Philadelphia	$297	29.1	3.7
New York†	1,249	52.1	15.6
Richmond	338	55.6	4.2
Cleveland	804	58.4	10.0
St. Louis	244	58.8	3.0
Dallas	127	59.6	1.6
Boston	377	60.0	4.7
Kansas City	191	64.5	2.4
Minneapolis	268	75.5	3.3
Atlanta	350	84.7	4.4
Chicago	1,699	85.0	21.1
San Francisco	2,093	95.5	26.0
Total	$8,037	67.5	100.0

† Adjusted for membership changes.

* Further reference in this article to demand or time deposits denotes demand or time deposits of individuals, partnerships, and corporations.

increase in dollar volume in the New York District has not been as large as in the Chicago and San Francisco Districts, but its position relative to the country as a whole has not changed as much during the war period as in the case of demand deposits; the proportion of total time deposits in the United States owned by Second District depositors receded from 20 to 18 per cent. The relatively small growth of time deposits, in dollar volume, in the New York District undoubtedly is explained by the much greater development of mutual savings banks in this area than in most other sections of the country. If gains in deposits of mutual savings banks were taken into consideration, the New York District's position would in all probability compare more favorably with the rest of the country.

Deposit Changes Within the Second District

Wartime gains in business and personal demand deposits for 812 identical member banks in the Second Federal Reserve District have varied widely between individual banks, although there have been no significant differences in the rates of increase among the various geographic sections of the District, except for the much smaller increase in New York City than in other sections. The differences that do exist appear to be much the same between banks in communities of different size as between large and small banks, since the size of banks is generally determined by the size of the community it serves. This conclusion substantiates the findings of this bank's recent survey of ownership of demand deposits, based on reports from a substantial sampling of the banks of the District. This survey indicated that rates of gain in the small banks in the smaller communities were greater than in large city banks, the determining factor having been the proportion of total deposits represented by personal and trade accounts, which rose sharply, compared with the proportion of industrial accounts, which showed less increase.

Table III brings out the differences in the rates of wartime increase in demand deposits in groups of cities of various size and also shows the distribution between groups of the total wartime rise of 5,135 million dollars. It will be noted that percentage increases in demand deposits tend to vary inversely with the size of the cities served by the banks.

Member banks in New York City had three quarters of the District's wartime gain in demand deposits, but these banks in the aggregate showed a much smaller percentage rise than banks in most other cities of the District. This is explained by the importance in the City of large balances of large manufacturing, other non-trade accounts, and financial institutions, in which gains have been relatively small. In the other groups of cities, the percentage increases in deposits progressed steadily upward, varying from an average of 68.9 per cent in cities of over 100,000 population, to 82.6 per cent in cities with a population of 25-50,000, and 95.3 per cent in the remainder of the District comprising all centers with a population of less than 25,000. It must be emphasized, however, that within any one of the groups of cities, deposit gains in individual cities show an extremely wide range. For example, among the 12 cities of more than 100,000 population (excluding New York City), gains ranged from 21 per cent in the case of Jersey City to 112 per cent for Paterson. Plainly, therefore, there are important exceptions to the general rule. Special factors must be taken into consideration when comparisons between cities are made. For instance, the small rise in Jersey City reflects the rather small proportion of demand deposits in the form of personal and trade accounts, in which deposit increases have been greater than in other types of deposits. Albany also showed a relatively small gain, presumably because of the large numbers of State employees whose salaries have remained relatively fixed during the war period and the absence of large war industries.

Table III
Increase in Deposits of Individuals, Partnerships, and Corporations in 812 Member Banks in the Second Federal Reserve District, between December 31, 1941 and March 20, 1945
(Dollar amounts in millions)

Size of city, by population	Demand deposits			Time deposits		
	Dollar increase	Percentage increase	Percentage distribution of total	Dollar increase	Percentage increase	Percentage distribution of total
New York City	$3,862	32.5	75.2	$326	40.0	26.1
Total for 12 cities over 100,000 pop.	598	68.9	11.6	309	57.1	24.7
Jersey City	23	21.1	0.4	32	54.9	2.6
Albany	24	45.6	0.5	1	5.7	0.1
Bridgeport	20	62.9	0.4	14	90.4	1.1
Newark	185	70.5	3.6	73	65.7	5.8
Yonkers	11	72.6	0.2	9	70.0	0.7
Buffalo	146	73.8	2.8	69	59.0	5.5
Elizabeth	12	81.3	0.2	14	71.8	1.1
Syracuse	45	85.6	0.9	18	35.5	1.5
Utica	18	87.2	0.4	9	40.5	0.7
Passaic	16	88.3	0.3	19	69.6	1.5
Rochester	69	104.5	1.3	20	49.0	1.6
Paterson	29	111.6	0.6	31	62.5	2.5
Total for 10 cities 50-100,000 pop.	78	70.3	1.5	63	53.5	5.1
Total for 23 cities 25-50,000 pop.	147	82.6	2.9	104	52.0	8.3
Remainder of District below 25,000 pop.	450	95.3	8.8	447	61.6	35.8
Total for District	$5,135	38.0	100.0	$1,249	52.0	100.0

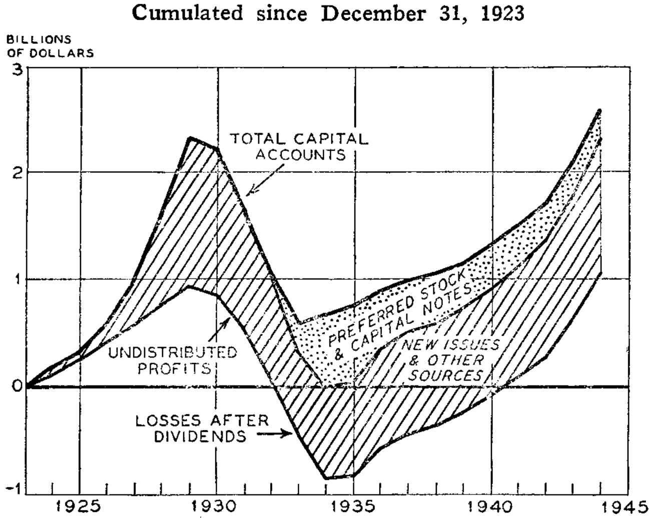
The wartime increase in time deposits, which consist mainly of savings deposits, amounted to 1,249 million dollars, or 52 per cent. In contrast to the heavy concentration of demand deposits in New York City banks, time deposits, and their wartime increase, have been more evenly distributed throughout the District—only 26 per cent of the total increase has been in New York City, 25 per cent in other large cities of over 100,000 population, and 49 per cent in the smaller cities. With the exception of New York City and Albany where competition by mutual savings banks is exceptionally keen, the increases in time deposits at member banks since December 1941 appear to have been much more evenly distributed among the various cities and sections of the District than the increases in demand deposits.

CAPITAL POSITION OF MEMBER BANKS

At the end of 1944 total capital funds of all member banks exceeded the previous peak of 1929 for the first time. Even allowing for the fact that a larger proportion of all commercial banks are now members of the Federal Reserve System than was the case 15 years ago, and that approximately 275 million dollars of capital funds supplied by the Reconstruction Finance Corporation remain to be retired, it is likely that capital funds owned by stockholders of member banks are not far from the earlier peak. The accompanying chart traces the cumulative changes in capital funds of all member banks and the principal factors affecting the volume of such funds since 1923. As this chart indicates, there was a very rapid expansion of member bank capital between the end of 1923 and the end of 1929, total capital accounts rising from 4.4 billion dollars to 6.7 billion dollars. A sizable factor in this expansion was the accumulation of undistributed earnings, but there were substantial additions to member bank capital funds through sales of new stock issues, and a smaller factor may have been the merger of nonmember banks with member banks in that period of unusual merger activity.

Practically all of this growth in member bank capital was eliminated by the heavy losses sustained during the severe depression of the early thirties, and many banks found it necessary to strengthen their capital position by selling preferred stock, capital notes, or debentures to the Reconstruction Finance Corporation. Since that time there has been a steady growth in member bank capital funds, which has been considerably accelerated during the war years as a result of the retention of increased profits. Banks generally have followed very conservative policies with respect to the payment of dividends, and have retained a substantial part of their net profits for the purpose of strengthening their capital position and retiring capital supplied by the Reconstruction

Factors Affecting Capital Funds of Member Banks Cumulated since December 31, 1923



Finance Corporation. During the past five years member banks have retained nearly 55 per cent of their net profits for that purpose, and the proportion has risen with the growth in bank earnings. In this District, for example, approximately two thirds of the net profits of member banks in 1944 were added to capital accounts. Although net profits have been nearly as large in the past five years as in the five years ended with 1929, dividend payments have been approximately one-third less. Approximately two thirds of net profits were paid out in dividends in the earlier period, and only one third added to capital accounts.

Partly as a result of the losses of the depression and partly as a result of the rather meager dividend disbursements of the past twelve years or more, banks in general have been unable to obtain new capital at all readily through sales of new stock issues to the public; it is only recently that any sizable issues of bank stock have again been sold. Most of the growth in capital funds of member banks since 1934 has represented undistributed profits; in the past five years 88 per cent of the increase in member bank capital funds was from that source. A considerable part of the remainder doubtless reflects the capital of banks which became members of the Federal Reserve System during that period, as there has been an unusually rapid increase in membership in a number of districts.

Despite the accelerated rise in capital funds of member banks during the war period, the ratio of capital to deposits has declined steadily, as the growth in deposits has been considerably more rapid than the growth in capital funds. The ratio of capital accounts to deposits in all member banks declined from 11.2 per cent at the end of 1939, to 6.3 per cent at the end of 1944. Nevertheless, the capital position of most banks may be considered satisfactory while present conditions prevail since "risk assets" of the banks have shown little, if any, growth during the war period (in fact, in many banks they have declined substantially), and the growth in deposits has been paralleled by a growth in Government security holdings, a considerable part of which is of relatively short maturity. There are, of course, numerous exceptions to the general rule, including banks that are still far short of completing the retirement of capital obtained from the Reconstruction Finance Corporation and other banks whose capital position is considered none too strong even taking into account the present character of their assets.

However, it is chiefly with respect to the postwar period, when the banks may be called upon to assume greater risks, that questions as to the adequacy of bank capital have been raised. It is expected that in the early postwar period bank financing of business will, to a considerable extent, involve the absorption of additional Government securities to release funds now invested by business concerns in such securities. Not all businesses are adequately supplied with liquid assets in the form of cash or Government securities to meet their anticipated postwar requirements, however, so that some demand for bank loans may develop fairly soon, and such demands may increase considerably if there is a vigorous expansion of business activity following the initial reconversion from wartime operations. It is expected that some bank loans for that purpose will involve an appreciable degree of risk, and for that reason many bankers as well as bank supervisory authorities have felt that it would be desirable for the banks to continue to build up their capital structures so that they will be prepared adequately to finance the requirements of their customers.

The most rapid declines in capital-deposit ratios have occurred in war industry and military training centers, where many banks have had extraordinary deposit increases, ranging from 200 to 500 per cent or more since 1939. Most of such banks have followed conservative policies with respect to the employment of their funds and are well supplied with cash assets and short term Government securities with which to meet any losses of deposits that may occur after the war. To the extent that they remain in a permanently expanded position, they will need additional capital if they are to engage in diversified credit operations. Pending clearer indication of their long-run position, however, many banks are reluctant to undertake major expansions of their capital stock, lest their earnings later prove to be insufficient to support the enlarged capitalization. For the present, therefore, the common tendency of banks is to continue to add considerable portions of their net profits to surplus and reserves, in preference to offering new capital stock for public subscription.

EMPLOYMENT IN NEW YORK STATE DURING THE WAR

In March 1940, the date of the last Census, approximately 5 million workers were gainfully employed in New York State. More than 800,000 were then reported to be looking for jobs and about 170,000 were provided with public emergency employment. Manpower mobilization got under way slowly with the inception of our defense program but gained momentum in 1941. By the end of 1943, when the labor force reached its wartime peak, the number of employed workers had risen to about 6 million, in spite of a loss of more than one million to the Armed Forces and some *net* out-migration of workers to neighboring States and even to the West Coast. It is not known to what extent the new workers were women and young people who would not normally seek employment, or retired persons who were again drawn into the labor force, but it has been estimated that in November 1943 the number of women working in the State exceeded the March 1940 figure of 1,500,000 by 500,000.

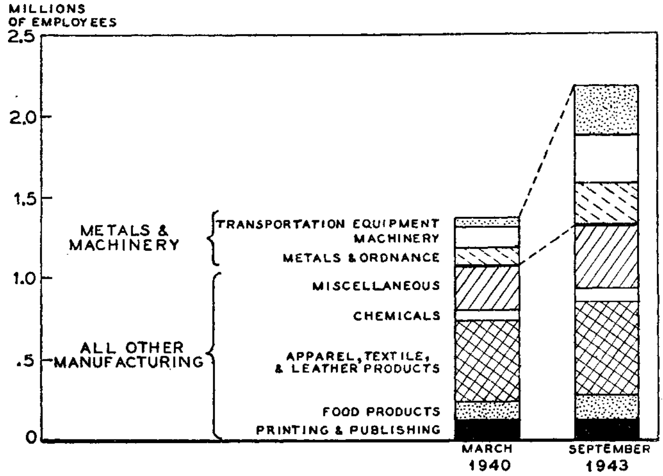
Labor stringencies did not make themselves felt in the New York State labor market as early or as strongly as in many other areas of the United States, but by the fall of 1940 the State's heavy industries had expanded sufficiently to create labor shortages in some of the skilled metal manufacturing trades. As incomes in the nation rose in 1940 and 1941, consumers' goods industries in the State prospered and required many new workers. Shortages of semiskilled and unskilled workers for munitions plants appeared first in 1942 in such war production centers as Buffalo and Elmira. Later on they spread to other areas. At the peak of war production, employment in New York State was roughly 20 per cent higher than in March 1940. This wartime expansion was somewhat smaller than for all urban areas in the United States.

Shifts in employment, by industry, are reflected by data collected for unemployment insurance purposes. While the number of insured employees in manufacturing rose by almost 60 per cent between early 1940 and September 1943, when manufacturing employment in New York State reached its highest level, nonmanufacturing industries were unable to increase their personnel appreciably. Employment in the construction industry expanded rapidly until the fall of 1942, but contracted when the major part of the war building program was completed; it is now about one-third below the 1940 average. In practically every industrial area the number of insured workers in other nonmanufacturing industries rose in 1940 and 1941, but declined as openings for inexperienced workers in war plants became numerous.

The accompanying chart shows the expansion of manufacturing employment by industry groups during this period. Establishments producing metals, machinery, and transportation equipment—working almost entirely on war contracts—were responsible for more than two thirds of the wartime increase in employment in the State. However, all other major industry groups also added workers to their payrolls. Military demand for such items as chemicals, uniforms, shoes, optical goods, scientific instruments, and manufactured foods together with growing consumer demand created a large market for the products of light industries. Expansion of their activities was limited only by inadequacy of labor and materials.

Data on covered employment do not show the full expansion of employment in New York State. For example, Federal employees are not insured under the State unemployment compensation system. Their number in the State rose from less than 100,000 at the end of 1939 to 276,000 in October 1943. These figures partly reflect the large number of additional civilian employees in navy yards, arsenals, and depots, and partly the transfer of several Federal agencies to New York City. State and local governments, however, were forced to curtail their staffs during the war period. Another noteworthy rise in employment took place in railroad transportation; in the nation

Changes in Manufacturing Employment in New York State between March 1940 and the Peak of September 1943



Source: New York State Department of Labor data on employment covered by unemployment insurance.

the number of railroad workers increased by about 35 per cent between January 1940 and the end of 1943. Among the uninsured groups of workers there were others which did not increase appreciably or which even contracted. This applies particularly to firms employing fewer than four persons, a category which consists almost entirely of retail stores and service establishments. Agricultural and domestic employment declined after Pearl Harbor as many farm and domestic workers took jobs in war plants.

Among the industrial areas of the State, New York City has been the least affected by manpower shortages. It is the only area in the State which the War Manpower Commission classified throughout the war as "an area where a substantial labor reserve will exist after six months." The number of workers in all covered establishments rose only 15 per cent between 1940 and the wartime peak in November 1943. This relatively small advance must be attributed to the predominance of consumers' goods and service industries in the City.

In contrast, the Buffalo industrial area, comprising Erie and Niagara Counties, saw an expansion of 55 per cent in covered employment during the same period. Large increases occurred in the aircraft industry, and in the nonferrous metal and machinery groups. Buffalo's largest industry before the war—the iron and steel industry—expanded until 1942, but has been losing workers since then. The Buffalo area is the only one in the State which was listed consistently as an area of acute labor shortage by the War Manpower Commission.

Rochester, the third largest industrial area in the State, experienced an increase of 36 per cent in covered employment. The largest number of workers was added by firms producing optical goods, photographic equipment, and scientific instruments. Increases in employment were also sizable for machinery and ordnance plants. Rochester's apparel manufacturing establishments, mainly men's clothing firms, lost workers, while the New York branch of the industry was able to maintain prewar employment levels.

In the Albany-Schenectady-Troy area the employment rise in the electrical machinery industry accounted for the largest part of the 39 per cent increase in covered jobs. The large railroad repair yards in Albany and a Government arsenal also added a considerable number of workers to their payrolls.

The maximum wartime rise in covered employment in Syracuse was 32 per cent. Metals and machinery plants provided more than half of all jobs in manufacturing in Syracuse even before the war. Between 1940 and November 1943 employment in this group nearly doubled, while employment in the group of other manufacturing industries and nonmanufacturing remained practically unchanged.

With a gain of almost 75 per cent in covered employment between 1940 and November 1943, Elmira ranked first among the smaller industrial areas of the State in wartime expansion. Heavy durable goods industries dominated the economic life of that city before and during the war. In the Utica area employment in covered establishments had expanded by about 31 per cent by the summer of 1942. Because shoe producers, who provided almost half of all covered jobs in Binghamton in 1940, operated with fewer employees than before the war, the region experienced the smallest employment increase in insured industries among the Upstate areas.

Although in the fall of 1943 total employment was at a peak level in the State as a whole, in some areas—notably Buffalo, Albany, Elmira, and Utica—the turning point was reached earlier. Covered employment in Utica has already dropped by about 20 per cent below its highest wartime level. Buffalo, Albany, and Elmira have experienced declines ranging from 10 to 15 per cent; in other areas of the State the contraction has been insignificant.

Lower employment levels reflect mainly scattered lay-offs in certain areas of the State, the withdrawal of some emergency workers from the labor market, and inductions into the armed forces, which thus far have continued to exceed additions to the labor force from the ranks of war veterans. In spite of some decline in war output no extensive reconversion to peacetime production has been possible yet. Within a few months the labor situation will become easier. It is expected that after July 1 manpower controls will be completely revoked in at least half of the State's labor market areas and will be eased in others.

DEPARTMENT STORE TRADE

During the first five months of this year the seasonally adjusted index of department store sales for the Second Dis-

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

Locality	Net Sales		Stocks on hand
	April 1945	Jan. through April 1945	April 30, 1945
Department stores, Second District	+ 4	+15	+12
New York City	+ 7	+17	+15
Northern New Jersey	+ 4	+16	+12
Newark	+ 5	+16	+13
Westchester and Fairfield Counties	− 7	+12	+11
Bridgeport	− 9	+ 8	− 2
Lower Hudson River Valley	− 5	+17	− 4
Poughkeepsie	− 4	+17	—
Upper Hudson River Valley	+ 2	+14	+ 3
Albany	+ 9	+17	—
Schenectady	− 4	+12	− 5
Central New York State	− 2	+13	+ 7
Mohawk River Valley	−14	+ 8	− 6
Utica	−16	+ 7	− 5
Syracuse	+ 3	+16	+13
Northern New York State	+ 2	+26	—
Southern New York State	− 5	+15	− 8
Binghamton	− 4	+18	− 6
Elmira	−10	+10	− 9
Western New York State	− 1	+11	+ 6
Buffalo	− 1	+ 8	+ 4
Niagara Falls	−11	+11	−11
Rochester	0	+14	+11
Apparel stores (chiefly New York City)	+ 5	+22	+ 9

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

Item	1944	1945		
	April	Feb.	Mar.	Apr.
Sales (average daily), unadjusted	137r	137	176	143
Sales (average daily), seasonally adjusted	141	166	189	150
Stocks, unadjusted	142	145	155	164
Stocks, seasonally adjusted	140	152	154	162

r Revised.

trict averaged 9 per cent above the 1944 yearly average. Virtually the entire gain took place in February and March when sales were stimulated by fears of impending shortages and by the increased tendency to purchase higher priced merchandise. Sales in April dropped sharply to the January level; during May the adjusted index is estimated to have increased moderately.

The dollar volume of sales so far this year is 60 per cent above the 1939 level. Based on 1939 census data, one quarter of consumers' purchases of department store type merchandise during that year were made in department stores. Apparel stores sold 21 per cent and furniture stores 7 per cent. The remaining 47 per cent was divided among the small specialty line stores. Using data compiled from the apparel and furniture stores reporting to this bank together with the department store data by departments (as an indication of the trend of sales for each particular type of specialty store), it is estimated that furniture and specialty stores have each lost 2 per cent of their prewar share of the business, and the department and apparel stores have shared equally in the gain.

Homefurnishing sales in department stores increased 25 per cent from 1939 to 1941, but are now a little below the 1941 peak. Furniture store sales, however, increased only 15 per cent from 1939 to 1941, and are now slightly below the 1939 level. The merchandise composition of sales varies considerably for these two types of retailers, however. Furniture accounts for about one third of all homefurnishing sales in the department stores and three fifths of total furniture store sales. An analysis of these figures shows that department store sales of furniture have not differed appreciably from total homefurnishing sales.

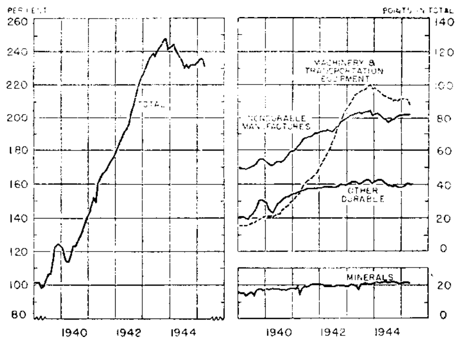
The explanation for the relatively unfavorable showing of the furniture stores may lie partly in the greater proportion of instalment sales in furniture stores than in department stores and the effects of instalment credit restrictions during the war, and partly in the greater success of department stores in obtaining merchandise. During the summer of 1942, department store stocks of homefurnishings expanded more sharply than furniture store stocks. Although the merchandise on hand is now substantially below the 1942 peak, the dollar value of homefurnishing stocks at the department stores is 12 per cent above that at the close of 1939, compared with an increase of only 5 per cent for the furniture stores.

Total women's and men's wear sales in department stores have increased 50 per cent since 1939 while apparel store sales rose 60 per cent during this period. Although the trends in sales of women's and men's wear have differed considerably, men's wear accounts for a small part of the total in both types of stores. The total dollar volume of stocks of women's and men's wear for both the department and apparel stores has increased about 75 per cent since 1939.

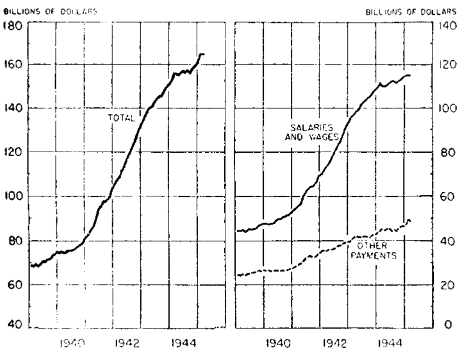
Indexes of Business

Index	1944	1945		
	April	Feb.	March	April
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	239	236	235	231p
Electric power output*, 1935-39 = 100† (*Federal Reserve Bank of New York*)	206r	206r	205r	206p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	243	231	238p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	170	195	196p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	169	160	158	155p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	152	143	143	141p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	335	329	326p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	286	290	294	284p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	231	245	245p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	163	169	169p	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	125	127	127	127p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	73	85	76	76
Outside New York City	76	74	75	73

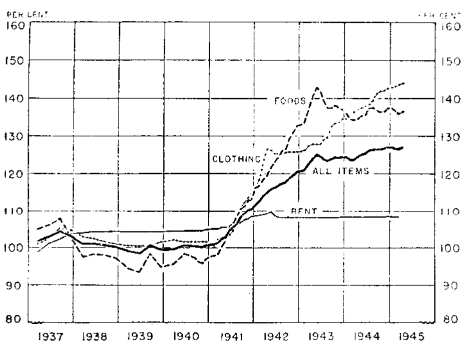
*Adjusted for seasonal variation. p Preliminary. r Revised.
†Series revised to exclude production by railway and railroad and New York City Transit System plants.



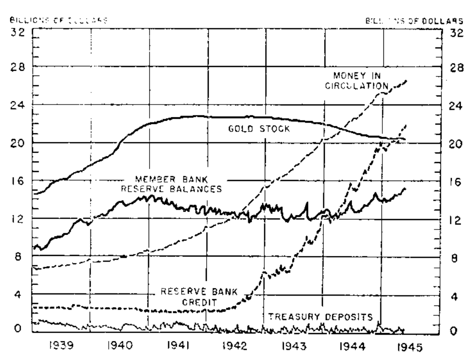
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average =100 Per Cent (Groups shown are expressed in terms of points in the total index)



Income Payments to Individuals, Based on Department of Commerce Estimates. Wages and Salaries Include Military Pay. Monthly Figures Raised to Annual Rates



Indexes of the Cost of Living as Compiled by Bureau of Labor Statistics. Last Month in Each Calendar Quarter through September 1940, Monthly Thereafter (1935-39 average=100 per cent)



Member Bank Reserves and Related Items (Latest figures are for May 23)

General Business and Financial Conditions in the United States

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

OUTPUT and employment at factories declined somewhat in April. Department store sales showed a marked decline and wholesale commodity prices continued to advance slightly.

Industrial Production

Industrial production, which had advanced earlier this year, declined in April to the same general level that prevailed during the last half of 1944. The Board's seasonally adjusted index was 231 per cent of the 1935-39 average as compared with 235 in the first quarter.

Activity in the machinery and transportation equipment industries declined about 3 per cent in April, reflecting curtailed munitions production; the largest part of the decrease was accounted for by a further reduction in operations at shipyards. As a result of the decline in shipbuilding during the last 12 months, activity in the transportation equipment industries in April was 10 per cent below a year ago.

Steel production was maintained at the March level as a decline in output at open hearth furnaces was offset by a further rise in steel produced in electric furnaces. Production of nonferrous metals, which had increased somewhat during the first quarter of this year, showed little change in April. Output of stone, clay, and glass products was maintained at the first quarter level, while lumber production continued to decline.

Production of textiles and manufactured food products declined slightly in April and was at the level of a year ago. Cotton consumption showed a decrease of 5 per cent from March but rayon shipments rose further to a record level. Activity at meatpacking establishments, which had shown little change during the first quarter after allowing for seasonal fluctuations, declined 10 per cent in April. Output of rubber products decreased as the shortage of carbon black continued to limit production despite measures to stretch available supplies. Production of most other nondurable goods showed little change.

Bituminous coal production recovered in the latter part of April from a substantial decline earlier in the month due to work interruptions accompanying contract negotiations. Output for the month was 8 per cent below that of March and in the first two weeks of May continued at this lower rate. Anthracite production in April was 14 per cent higher than in the preceding month but declined sharply in May prior to agreement on a new wage contract on May 19. Output of crude petroleum has been maintained at record levels and iron ore production has shown an exceptionally large increase this Spring due to early opening of the navigation season on the Greak Lakes.

Distribution

Department store sales declined sharply in April and the Board's seasonally adjusted index was 181 per cent of the 1935-39 average as compared with an average of 211 in the first quarter and with 172 in April 1944. Sales in the first half of May were only slightly larger than in the corresponding period a year ago. Owing to unseasonably warm weather and expectations of shortages, much Spring shopping, which would usually be done in April and May, occurred this year in February and March. In mid-April many stores were closed immediately following the death of President Roosevelt. Also, in particular cities part of the recent decrease in sales appears to have been associated with actual or anticipated income declines resulting from cutbacks in war production.

Freight carloadings of most manufactured products were maintained at a high level in April and the early part of May and were above the same period a year ago. Shipments of coal and lumber, however, were in smaller volume, reflecting reductions in output of these commodities.

Commodity Prices

Wholesale prices of farm products advanced in April and then showed little change in the first 3 weeks of May. Maximum prices for coal, steel products, and various other industrial commodities have been raised somewhat in recent weeks.

Retail price changes for foods and other commodities apparently have continued to be small in April and the early part of May.

Bank Credit

During the four weeks ended May 16 total deposit and currency holdings of businesses and individuals increased by nearly 3 billion dollars. Increases of about 300 million in currency and of over 400 million in reserves required to be held against expanding deposits at member banks resulted in an increased demand for reserve funds by member banks. This demand was supplied largely by an increase of about 500 millions of dollars in Reserve Bank holdings of Government securities, mostly bills and certificates, and in part by a temporary decline in Treasury deposits at the Reserve Banks. Excess reserves rose slightly to around a billion dollars.

In the 5 months between War Loan drives, December 20 to May 16, reporting banks in 101 cities reduced their holdings of short term Government securities by around 2.3 billion dollars in order to maintain adequate reserve balances. But during the same period bond holdings of these banks were increased by 1.6 billion dollars.

Loans to brokers and dealers for purchasing or carrying Government securities, which had declined in early April to a level comparable with that reached before the Sixth War Loan drive, rose substantially during the three weeks immediately preceding the Seventh War Loan drive. Commercial loans declined during the interdrive period, reaching a level about 500 million dollars lower than that prevailing just before the Sixth War Loan drive.