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MONEY MARKET IN JUNE

Although the final results of the Seventh War Loan drive are not yet available, it is evident that the goal of 14 billion dollars has been surpassed by a wide margin; total subscriptions received through June 27 were about 21.2 billion dollars and the Secretary of the Treasury predicted a larger sales total than has been achieved in any previous loan. (The largest sum heretofore raised in one drive was 21.6 billion dollars in the Sixth War Loan.) How much of this enormous total will represent actual nonbank investment and how much represents indirect bank purchases is not yet determinable, but it appears certain that, despite special efforts to reduce to a minimum the indirect use of banking funds in the drive, the part played by bank credit has again been substantial.

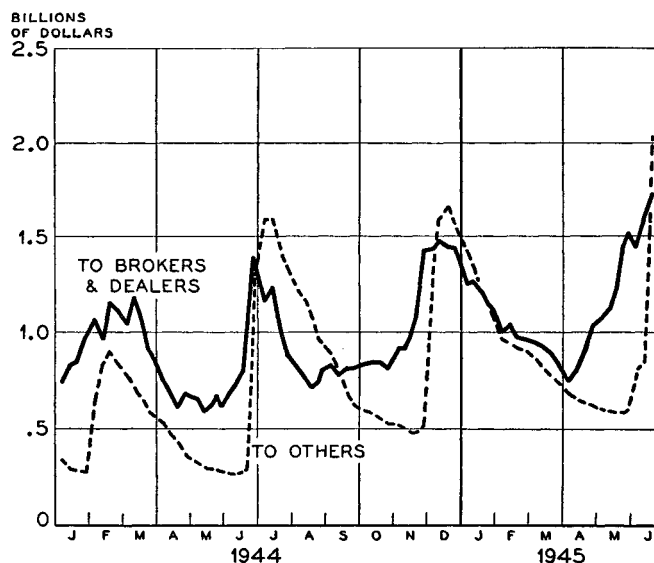
Selling of outstanding Government obligations, by insurance companies and savings banks in particular, was considerably less in the weeks preceding the Seventh War Loan drive than in those preceding the previous War Loan. As a consequence the increase in aggregate holdings of Treasury securities by the weekly reporting member banks and the Federal Reserve Banks, through June 20, was considerably below that in the corresponding period of the Sixth drive. As usual, the banks bought a large volume of Government securities in the week in which the heaviest corporation subscriptions were received (June 14 to 20), but the increase in their holdings, other than Treasury bills, in the seven weeks ended on June 20 was 17 per cent less than in the corresponding period prior to and during the Sixth War Loan—3,074 million, compared with 3,711 million.

This measure of success in reducing bank absorption of securities prior to and during the drive appears to have been offset, however, by a sharp expansion in bank loans, especially to subscribers other than brokers and dealers, for the purpose of financing purchases of drive issues. As the accompanying chart shows, the increase in loans to subscribers other than brokers and dealers in the week ended June 20 was greater than in the corresponding week of any previous drive, and the total volume of loans on Government securities, both to brokers and dealers and to others, reached higher levels than ever before. A substantial part of this increase undoubtedly repre-

sented bona fide investments by nonbank investors, such as insurance companies, who intend to pay off the loans out of future income within a short period; in fact, there is some evidence to indicate that loans of this character have been larger than in previous drives. The remainder reflects the financing of speculative purchases of drive securities, presumably for resale after the close of the campaign. Limitations on subscriptions by brokers and dealers tend to restrict expansion in their borrowing, but such borrowings started from a higher level prior to the Seventh drive than prior to the Sixth drive, as a result of security purchases in the market, and it is expected that broker and dealer subscriptions to the new issues will carry their portfolios and their borrowings to higher levels before the close of the drive.

The growth of the Government security holdings of the weekly reporting member banks since the initiation of War Loan drives has assumed a staircase pattern with sharp increases during War Loan drives and moderate reductions in between, as shown in the chart on the next page. Treasury data for other

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



banks indicate the same pattern, except that in those banks no declines have occurred in the interdrive periods. The Seventh drive saw no deviation from this design, although the increase thus far has been somewhat smaller than in the two preceding drives.

During the war and particularly since 1942 the Federal Reserve Banks have been acquiring securities steadily to supply member banks with the reserve funds they need. As illustrated in the chart, the effect of War Loan drives has been mainly to slow up the rate of increase. Holdings have usually declined for a week or two around the payment date for new drive issues, when the reduction of member bank reserve requirements following the shift of deposits from private accounts to War Loan accounts has enabled the banks to repurchase Treasury bills previously sold to the Federal Reserve Bank option accounts, and then have resumed the upward trend. In the Seventh War Loan period, however, the Reserve Banks made net purchases of Treasury bills during the week which included the principal payment date for corporate subscriptions to the drive issues. In view of the fact that holdings of Treasury bills by the weekly reporting member banks also increased substantially during that week, it appears that the bills came from nonbank investors, particularly corporations which had acquired them as temporary investments pending more permanent investment of funds in drive securities.

The practice of subscribing for securities in localities other than where deposits are held (thus resulting in unnecessary transfers of funds and disturbance of bank reserve positions) appears to have been renewed on a large scale during the Seventh War Loan drive, despite the established procedures set up by the Treasury, whereby credit for subscriptions may be

allocated to other localities without transfers of funds to pay for them. The movement of funds out of New York City by business corporations and others reached about 1,500 million dollars in the four weeks ended June 20, as compared with 875 million in the corresponding period of the Sixth drive. Part of this outward movement of funds reflected payment for securities sold in the New York market by institutions in other parts of the country, and part may have been related to quarterly income tax payments in other localities by corporations with bank deposits in New York. These conditions, however, were present also during the preceding two War Loan drives when the movement of funds out of New York was much smaller.

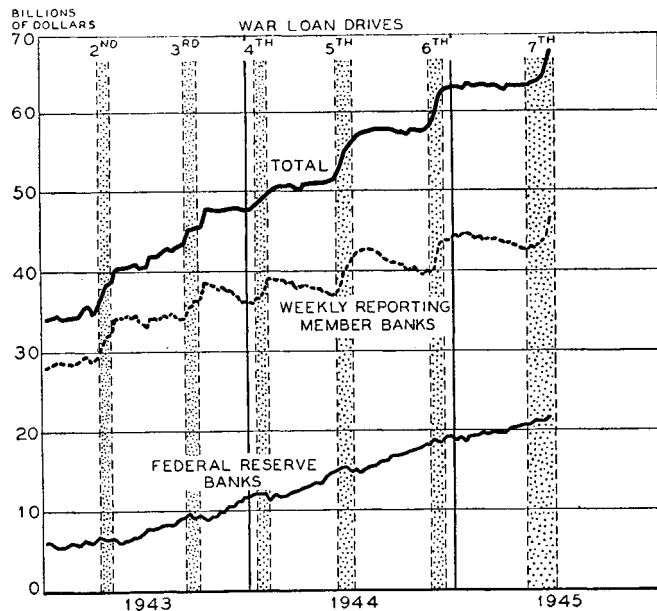
MEMBER BANK RESERVE POSITIONS

The strain on New York City bank reserves resulting from the large-scale outflow of funds was offset in part by the accumulation of balances in the City by out-of-town banks and by substantial purchases of Government securities in the open market by the Federal Reserve System. Nevertheless, the net outflow of funds, together with the absorption of substantial amounts of Government securities, an increase in loans on Government securities, and an increase in reserve requirements in the three weeks ended June 13, forced the New York City banks to seek Reserve Bank credit, through borrowing or sales of Treasury bills and certificates of indebtedness. Although Treasury disbursements were in excess of receipts throughout the four weeks ended June 20, it was not until the last week of this period, during which heavy interest payments on the public debt were made, that such operations afforded any relief to the reserve position of the New York City banks.

In that week a sharp decline in reserve requirements resulting from heavy subscriptions of drive issues by nonbank investors and the consequent shift of deposits to reserve-free War Loan accounts also contributed to the easing of the reserve position of the New York banks. As a result, the banks were able to repay about 400 million dollars of their indebtedness to the Reserve Banks and to make further substantial net purchases of, and loans on, Government obligations. In the following week, however, the drain on the reserves of the New York banks was renewed, as a further transfer of business funds to other parts of the country took place and Treasury receipts in New York exceeded disbursements by a substantial margin. Consequently, the New York banks were again compelled to call upon Federal Reserve credit to restore their reserves to required levels.

The shift of funds out of New York considerably eased the reserve positions of the member banks in other parts of the country. These gains of funds, augmented by net Treasury expenditures during the three weeks ended June 13, were more than sufficient to cover an increase in reserve requirements and the loss of reserves arising from a moderate increase in

Government Security Holdings of Weekly Reporting Member Banks and Federal Reserve Banks



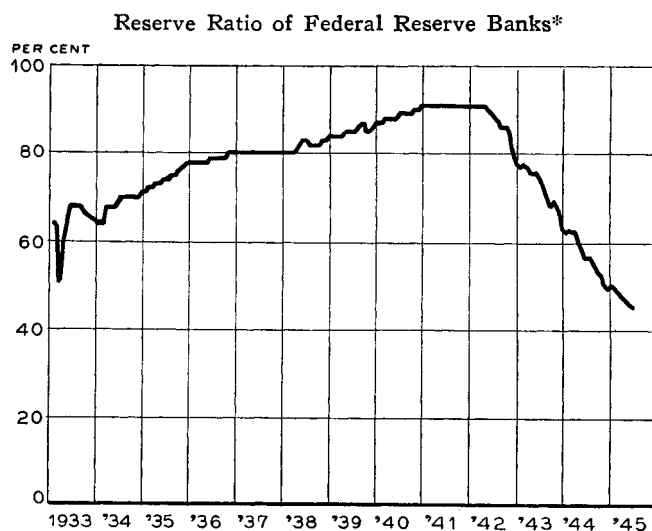
currency in circulation. As a result, member banks in the rest of the country were able to reduce their borrowings from the Federal Reserve Banks in each of the four weeks ended June 20, increase their takings of Treasury bills, absorb substantial amounts of other types of Government securities in the open market, and at the same time build up their excess reserves by about half a billion dollars.

Contrary to the experience of the New York banking institutions, banks in the interior lost funds as a result of tax collections and other Treasury operations during the week of June 20, but this loss was more than offset by the decline in reserve requirements and the continued transfers of funds from New York. The gains, however, were used further to reduce member bank borrowings by about 150 million dollars, rather than to augment excess reserves.

CHANGE IN REQUIRED RESERVES OF FEDERAL RESERVE BANKS

An Act of Congress, approved by the President on June 12, amended the Federal Reserve Act primarily by lowering the percentage of reserves which Federal Reserve Banks are required to maintain against their notes in circulation and against their deposits. Whereas formerly the Reserve Banks were required to maintain a reserve of 40 per cent in gold certificates against their notes in circulation, and a reserve of 35 per cent in gold certificates or lawful money against their deposits, the amendment establishes a uniform requirement of 25 per cent reserve, in gold certificates only, against notes and deposits alike. The legislation was occasioned by the rapid fall in the ratio of reserves to note and deposit liabilities in all Federal Reserve Banks during the past three years, which has resulted mainly from the financing of the war.

The accompanying chart shows changes in the combined reserve ratio of the twelve Federal Reserve Banks since the beginning of 1933. From an average of 51 per cent in March 1933 (the bank holiday period), the ratio rose substantially and with only minor interruptions until 1941, when it was above 90 per cent. At first the rise in the ratio was caused by the surrender of gold and gold certificates by the public and by a return flow of hoarded currency, and then for several years it was carried forward by a flow of capital from foreign countries to the United States and an accompanying inflow of gold. The early inflow of capital and gold followed the devaluation of the dollar at the beginning of 1934, which led to expectations abroad of inflationary developments and opportunities for speculative profits in this country and to fears of currency devaluation in foreign countries. Subsequently, the political developments in Europe leading up to the war caused a heavy flight of foreign capital and gold to this country, which was checked by wartime controls abroad, but was superseded during the first two years of the war by official shipments of gold to the United States in payment for war materiel. From less



* Monthly averages of daily figures of the 12 Federal Reserve Banks combined; data for June 1945 based on first 25 days of the month.

than 4 billion dollars in January 1934, the total reserves of all Federal Reserve Banks rose to nearly 21 billion at the end of 1941.

Since the United States entered the war, there has been some reversal of the gold flow and total reserves of the Reserve Banks have fallen gradually to a little over 18 billion dollars at present, reflecting cash payments to foreign countries for materials needed in the war and for the maintenance of our troops abroad. Meanwhile, Federal Reserve notes in circulation have risen from about 8 billion dollars to nearly 23 billion dollars, and total deposits of the Federal Reserve Banks have risen from about 15 billion dollars to nearly 17½ billion. The result has been that the combined reserve ratio of the Federal Reserve Banks has fallen in this period from above 90 per cent to about half that figure; and the ratio is likely to continue to decline as long as the wartime expansion of currency circulation and bank deposits continues.

The lowering of the required reserve against Federal Reserve notes and deposits gives assurance that the Federal Reserve Banks will be able to continue to give such support as is necessary to the financing of the war, and will not be forced, because of their reserve position, to adopt restrictive measures which might interfere with war financing. On June 6, before the enactment of this legislation, total reserves of the twelve Reserve Banks were somewhat over 18 billion dollars, of which more than 15 billion dollars was required as reserve against the note and deposit liabilities of the Reserve Banks, leaving a margin of reserves to meet further gold losses and to cover further expansion of notes and deposits of a little over 3 billion dollars. On June 13, after the legislation became effective, total reserves had been reduced only slightly by the deduction of cash other than gold certificates (lawful money, such as silver certificates and United States notes, may

no longer be used as reserve against deposits), while required reserves were reduced to a little over 10 billion dollars, leaving a margin of 8 billion dollars for future requirements. There can be little doubt but that this sum will be more than adequate to cover any further losses of gold and any further expansion in currency circulation and in the deposit liabilities of Federal Reserve Banks which is likely to occur during the remainder of the war period.

By the Act of June 12, the Federal Reserve Act was also amended to continue without limit as to time the authority to use direct obligations of the United States as collateral for Federal Reserve notes. Earlier amendments of the Federal Reserve Act had made provision for the use of such obligations for this purpose since 1932, but the authority had been limited to specific periods which were extended from time to time by Presidential proclamation or Congressional action.

The legislation also canceled the authority of Federal Reserve Banks to issue Federal Reserve *bank* notes (a form of currency requiring no reserve, similar to National bank notes, which has been used only on a few occasions in the past), and terminated the authority of the President and the Secretary of the Treasury, given by the "Thomas Amendment" of the Agricultural Adjustment Act of 1933, to issue up to 3 billion dollars of United States notes under certain specified conditions.

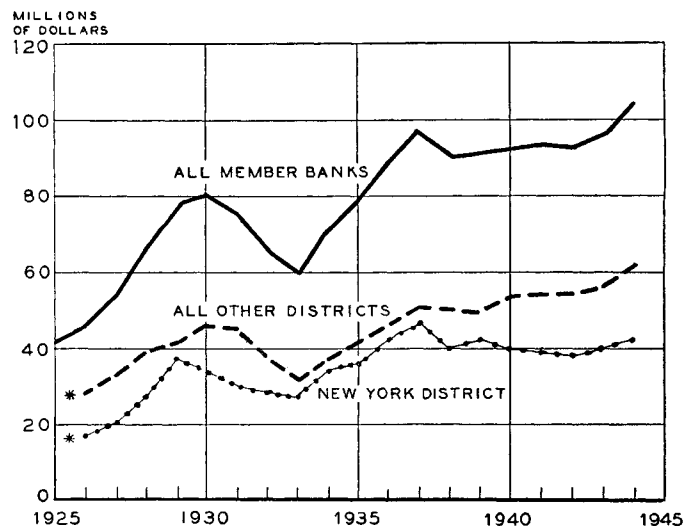
GROWTH OF TRUST OPERATIONS OF MEMBER BANKS

Trust departments of all member banks experienced their most active year in 1944. Gross earnings from trust operations, the only available indicator of the over-all volume of operations, reached a new peak of 104 million dollars last year and were 8 per cent above the level of the previous peak of 96 million in 1943 and 30 per cent above the predepression high point of 80 million in 1930.¹ And, as illustrated in the accompanying chart, the 1930 gross earnings were twice those for 1925 (the first calendar year for which data are available).

Trust departments have been a growing source of bank revenue. Not only did trust department earnings increase faster than bank income from other sources during periods of active or expanding (peacetime) business conditions, such as 1925-29 or 1933-37, but they fell much less drastically during

¹ Owing to the difficulty or impossibility of finding a common denominator of all trust functions, gross income from trust operations has been adopted as the one over-all measure of the volume of fiduciary operations of the member banks. Its weakness derives from the fact that changes in earnings may reflect changes in fees charged as well as in the volume of trust operations. Throughout this article, trust earnings of member banks refer to gross earnings from all the many services performed by trust departments including corporate trust, personal estate and trust, agency, custodial, real estate, and investment management functions. No inference can be drawn from these data as to the profitability of these operations, as data on the cost of supplying the services are not available for all member banks.

Gross Earnings of Member Banks from Trust Departments



* Data for 1925 not available by districts.

the depression of the early thirties. Thus, trust operations have accounted for an increasing proportion of gross earnings of the member banks each year, rising from 2.1 per cent in 1925 to 7.3 per cent in 1937. In 1944, however, trust departments contributed only 5.6 per cent of total bank income, owing to a sharper rise in revenues from other sources, primarily interest on Government securities.

But these figures are indicative only of the importance of fiduciary activities in the banking system as a whole. A little less than a third of all member banks operated trust departments during 1944, and the importance of trust earnings to such institutions was relatively much greater. And, owing to the fact that the bulk of the trust business is done by the larger banks—the New York central reserve city banks alone accounted for over a third of total trust department earnings of all member institutions last year—fiduciary activities are most significant for the largest institutions. The tendency of fiduciary operations to increase in relative importance with the size of banks may be seen from the accompanying table, which relates only to those banks in the New York District that reported trust earnings in 1944.

Trust Department Earnings of New York District Member Banks
by Size of Bank, 1944

Deposit size (In millions of dollars)	Trust earnings as per cent of total earnings*
Outside Greater New York City	
Under 2	3.1
2—5	2.0
5—20	3.0
20 and over	4.6
Greater New York City	
Under 100	8.2
100 and over	12.7

*Data are averages of ratios of individual banks; only those banks reporting trust department earnings are included.

The increase in trust department earnings of the member banks has not been as rapid in the New York Federal Reserve District in recent years as in other parts of the country. For although income from fiduciary operations rose during 1943 and 1944 among member banks in the Second District, as well as in all other districts, the earnings of the Second District members in 1944 were still 7 per cent below the 1937 figure, while those of the member banks in the eleven other districts were 22 per cent higher. Up through 1937, the growth of trust activity of the Second District members had kept pace with that of the member banks as a whole, Second District members accounting for 47 per cent of total trust department income in both 1929 and 1937. In 1944, however, this ratio was down to 41 per cent.

The recent decline in the relative position of the Second District members with respect to trust department earnings may well be transitory, owing to the nature of the trust business in this District, a much larger proportion of which consists of corporate trust and agency accounts than in the rest of the country. This holds particularly true of the large New York City banks which accounted for close to 90 per cent of the District's trust department earnings last year. The income from this type of trust business is derived primarily from trusteeships under corporate bond indentures and from stock transfer agencies and registrarships (in connection with changes of ownership of preferred and common stocks), and so is to some extent dependent on the volume of new corporate and State and municipal issues floated, and on the volume of stock trading. Activity in the capital markets, however, fluctuates sharply and consequently imparts some instability to the trust earnings of the Second District banks. Thus, the relative decrease in the position of these banks after 1937 stems from lesser activity in the security markets particularly from 1938 to 1942. In this connection, it is significant that the predepression peak of trust department earnings of Second District members occurred in 1929, whereas 1930 marked the high point for all other member banks.

The trend of trust operations in the other eleven districts has been strongly upward, apparently reflecting increasing participation by banks in other cities in the corporate trust business as well as a growing demand for estate and trust services on the part of individuals, which in the Second District is often obscured by the ups and downs of the corporate trust business.

The divergence in the earnings trends of the trust departments of member institutions in the New York and other Federal Reserve Districts may also be related to some extent to differences in rates charged by bank trustees in the various States, particularly on personal trust business. Changes in the statutory fees for trustees have been rather frequent in many States outside of the District and the trustee rate structures in

such areas are comparatively up to date, having taken into account more promptly the financial and economic developments in the country, particularly the decline in interest rates. But in New York (which dominates this District) no revision of such commissions was made for 20 years until September 1943. The statutory rates are the maximum permissible without special agreement. But, as actual rates are subject to negotiation and competition, they may be lower.

The over-all growth of the fiduciary activities of the member banks may be traced to several developments.² Prior to 1931, this expansion was particularly rapid, owing (apart from the general economic prosperity of that period coupled with a relatively low income and estate tax structure) in large measure to the assumption of fiduciary functions by an increasing number of national banks, which reported trust earnings in 1930 four times those of 1925, in contrast to a doubling of all member bank trust department earnings between those years. Although the national banks had been empowered by the Federal Reserve Act to engage in the trust business, their progress in that field was slow at first. A Supreme Court decision in 1924, which forbade the States to prevent national banks from engaging in the trust business when duly authorized to do so by the Federal Reserve Board, stimulated the interest of these banks in fiduciary operations. Additional impetus to their entrance into the field was given by the passage, in February 1927, of the McFadden Act which accorded the national banks indeterminate charters thus assuring them that their corporate existence would not terminate by expiration of their charters before trust functions undertaken were fulfilled.

The resultant competition generated by the increased number of institutions engaged in fiduciary activities undoubtedly developed more new business than might otherwise have been the case. Some of this business, however, may have been acquired at the expense of the individual trustee whose competitive position may have deteriorated as opposed to that of the corporate (bank) trustee with its perpetual charter and staff of investment experts and accountants, although large law firms remain active in the field. Competition among the banks, on the other hand, effected some reduction in rates charged for administering trusts, particularly personal trusts, in this period.

The expansion of the volume of trust operations of the member banks in more recent years is, in some respects, even more impressive than in the twenties, as it was achieved in spite of the generally reduced volume of new capital issues and security trading, and of the development of such unfavorable conditions as high income taxes which tended to reduce individual accumulations of funds and thus ultimately the size

² Among these is the fact that the member banks of the Federal Reserve System comprised a larger proportion of commercial banking assets in recent years than in the twenties. But this factor could not have had much influence in view of the expansion of trust earnings relative to total bank earnings.

of estates, and high estate and gift taxes which in turn tended to reduce the size of trusts administered by the banks. At the same time, declining money rates reduced the earning power of the investments held in trusts and so reduced fees collected from their administration (where fees are based on a percentage of the income from trust accounts). Thus, the volume of trust operations appears to have increased even more rapidly than the earnings from such operations shown in the chart.³

Offsetting these unfavorable developments has been the expansion of several new sources of business. Notable among these is the growth of pension trusts which have been established by many corporations to supplement the retirement and other benefits of the Social Security program. The expansion of the pension trust business has been stimulated during the war period by the imposition of excess profits taxes on business and restrictions on salaries. Other expanding phases of trust operations include the administration of small estates and trusts (the latter made more economical through the development of the common trust fund device), the offering of investment management services, and the handling of insurance trusts and stock purchase agreements.

The efforts of the banks to expand their personal trust operations have been aided by the increased emphasis placed by individual investors on safety of principal following the unfavorable investment experience of the depression, and by the increased complexity of the investment problem and of the estate and inheritance tax situation. Both these developments led to a growing appreciation and use of the specialized facilities offered by bank trust departments.

Several factors point toward further growth in the fiduciary activities of the member banks. Postwar financing of corporate expenditures for reconversion and expansion through new security issues may bring further expansion in the corporate trust field. Continued growth may be anticipated in pension trusts and other new sources of businesses including stock purchase agreements and investment management accounts.

Furthermore, the marked increase in incomes (after taxes) of individuals, particularly small businessmen, which has occurred during the war provides the basis for increased personal trust business, especially small estates and trusts. This development may be especially propitious for the smaller banks which have not been particularly active in this field in the past. Surveys of the ownership of demand deposits conducted by the Federal Reserve System indicate that personal accounts and the accounts of small business enterprises (which in many cases are tantamount to personal accounts of the owners of such enterprises) have shown considerable expansion during the war, and practically all dealings of the smaller banking institutions are with individuals and small businesses.

³ This is also true of the period of the twenties when keen competition for trust business among banks introduced some rate-cutting.

NEW YORK CITY AS A CENTER OF WHOLESALE TRADE¹

New York offers the advantages of a large wholesale market as does no other city in the United States. Location in a large commercial center enables the wholesaler to keep in close contact with changes in supply, demand, and prices, and with his principal customers and sources of supply. Only a broad market permits a high degree of specialization. In a large city with numerous wholesale houses in each line of trade, visiting buyers have the widest possible selection of merchandise and an opportunity to shop around among several establishments before making their purchases. In 1939, the date of the last *Census of Business*, the fourteen largest cities transacted almost sixty per cent of the entire wholesale business of the United States. New York City's wholesale volume alone amounted to 12.8 billion dollars or about one fourth of the national total. Chicago, which ranked second to New York, had a sales volume of 4.0 billion dollars; no other city reached the 2 billion mark.

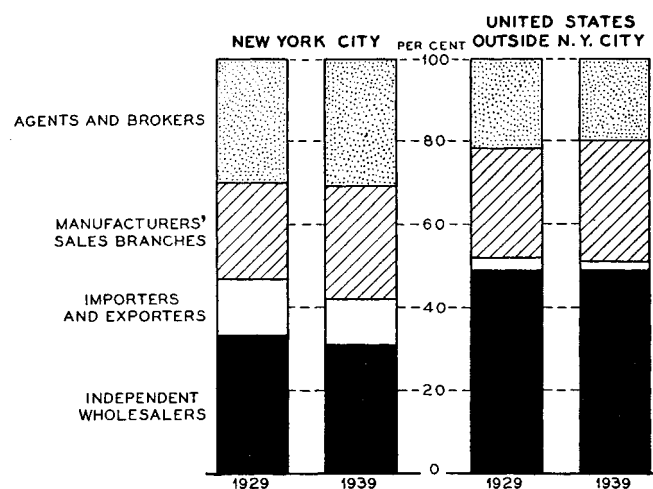
In some lines of trade the City's wholesalers merely serve retailers in and around New York City. In others they supply smaller wholesalers, institutions, industrial users, department stores, and other large retailers in all parts of the country. In some branches of New York's wholesale industry large firms have achieved a very wide distribution of their merchandise by featuring private brands or exclusive designs and styles. New York City's wholesale trade in 1939 furnished employment for more than 250,000 persons, almost half as many jobs as all manufacturing plants in the City.

One of the reasons for New York's prominence in the field of wholesale trade is the location in the City of the great majority of firms which deal in goods that enter into foreign trade. During the last prewar years, over a third of the country's export and import trade was handled through the extensive natural harbor facilities of the Port of New York. Importers and exporters accounted for more than 10 per cent of New York's wholesale business.

The job of moving goods from the factory and the farm to retailers and industrial users involves the assembling of goods, storage, delivery, and sometimes packaging and packing, granting credit, and other ancillary services. "Wholesale trade" as defined here embraces a wide variety of firms ranging from the traditional wholesale merchant, who usually performs all these services and for whom the term "wholesaler" is sometimes reserved, to agents and brokers who in some cases merely solicit orders. The chart indicates that the high sales figures for New York City reflect to some extent business done by firms which do not render full wholesale services and which, for that reason, can handle a rather large dollar volume of trade with a relatively small staff. However,

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

Distribution of Wholesale Sales by Type of Establishment, 1929 and 1939



Source: U. S. Census of Business.

firms other than "service" wholesale merchants account for almost half of the wholesale trade employment in New York City. During the last two or three decades distribution channels have become more and more diversified. Changes in wholesaling techniques have affected the trade of some areas more favorably than that of others. An attempt has been made, therefore, to draw a comprehensive picture of the business of all establishments which perform essentially wholesaling functions, including service wholesalers, importers and exporters, manufacturer-operated wholesale outlets, and agents and brokers.

It cannot be determined what portion of the country's annual output of raw materials and finished goods is handled by New York City wholesalers, since some goods never enter into wholesale trade and others are objects of several consecutive wholesale transactions. Only the share of New York firms in the total volume of business handled by wholesale establishments of all types throughout the country can be measured.

TYPES OF OPERATION

For years methods of distribution have been subject to changes and adjustments. Census data on wholesale trade for the years 1929 and 1939 show that, on the whole, recent developments have favored New York City. The portion of the country's wholesale business handled by New York firms was slightly larger in 1939 than in 1929—26.5 per cent compared with 25.3 per cent 10 years earlier.

During the thirties, there was a decided trend away from the independent wholesaler. Many producers have come to feel that the independent wholesale merchant with a line of related products is not sufficiently interested in promoting sales of their particular products, in maintaining their prices, and in creating customer good will for them and, therefore,

have turned to marketing through their own wholesale outlets. Since manufacturers often prefer New York for the location of their sales offices, this trend has benefited the City's position as a center of wholesale trade. Large stores have also gone a long way toward eliminating the independent wholesaler. However, in recent years, stores which buy directly from the manufacturer have frequently established or joined an organization which directs their purchasing activities. Such resident buying offices and purchasing offices (classified with agents and brokers) in 1939 were located almost exclusively in New York City; more recently some large firms have established purchasing offices in Chicago, St. Louis, and Los Angeles.

At the same time there was a marked tendency among wholesalers, particularly among regular wholesale merchants, to confine their operations to a rather limited territory as a means of cutting their expense ratio. This tendency had an adverse effect on New York's position as a wholesale trade center. However, the larger New York firms in many lines of trade have come to act as middlemen between producers and smaller wholesale organizations—many located out of town—for whom the job of assembling a stock of merchandise is thus greatly simplified.

LINES OF TRADE

New York City's wholesale trade is highly diversified. More than two thirds of the country's wholesale distribution of dry goods and clothing and about 60 per cent of its jewelry trade were handled in 1939 by wholesale organizations in the metropolis. In the wholesale clothing as well as in the wholesale dry goods trade the buyer visits the seller. The location of so many apparel manufacturing concerns in New York and the City's leadership in style and fashion explain its high share in the country's dry goods and clothing trade. Relatively small, highly specialized establishments predominate in the wholesale dry goods field. The large houses usually buy gray goods and have them finished and dyed on a commission basis. This enables them to feature their own designs and trademarks and to operate on a national scale.

With sales of over 2 billion dollars in 1939, the wholesale grocery and food trade in New York City is second in importance only to the dry goods and clothing business. However, in the food trade New York performs essentially a regional function, although the area covered by New York firms includes large parts of the Middle Atlantic region and some sections of New England. Only about a dozen houses do a large national business; they sell their private brands and advertise them nationally. It may be estimated that in 1939 the City was a distributing center for approximately one fifth of both the perishable and nonperishable foods entering wholesale channels. As a result of direct buying and selling by chains, supermarkets, and large food producers, food wholesalers in New York lost ground during the thirties.

New York's leadership is well established in many other lines of trade. The City's firms were responsible for at least one fourth of the wholesale trade in furniture and house furnishings, paper and paper products, chemicals and paints, metals and metal work, petroleum products, drugs, and tobacco products. In some lines the City leads because of the concentration of related manufacturing industries in the Middle Atlantic region and in New England. In other cases—for instance, tobacco products—New York's high sales figures reflect merely the business done by sales offices of a few very large manufacturing corporations, which sell the company's entire output to large retailers and independent wholesalers all over the country. Service wholesale houses in New York, not being centrally situated, as for instance those in Chicago or St. Louis, cannot economically handle trade in bulky and heavy goods, unless the producer or purchaser is located near the City. This is particularly true when these goods are highly standardized as are automobiles, automobile parts, hardware, construction materials, or plumbing and heating equipment. On the other hand, light and nonstandardized products—fashion merchandise in particular—can be distributed advantageously through New York's wholesale houses. Industrial machinery, equipment, and materials are often sold by catalogue or sample. Since the sales and management activities of the country's largest industrial corporations are centered in New York, it is not surprising that a large portion of the nation's wholesale trade in industrial equipment and materials is also handled by New York wholesale firms.

Indexes of Business

Index	1944	1945		
	May	March	April	May
Industrial production*, 1935-39 = 100 (Board of Governors, Federal Reserve System)	236	235	231	227 _p
Electric power output*, 1935-39 = 100† (Federal Reserve Bank of New York)	202 _r	205	207	207 _p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	235	238	249 _p	
Sales of all retail stores*, 1935-39 = 100 (Department of Commerce)	176	196	176 _p	
Factory employment United States, 1939 = 100 (Bureau of Labor Statistics)	167	158	155	152 _p
New York State, 1935-39 = 100 (New York State Dept. of Labor)	149	143	141	138 _p
Factory payrolls United States, 1939 = 100 (Bureau of Labor Statistics)	334	326	317 _p	
New York State, 1935-39 = 100 (New York State Dept. of Labor)	284	294	284	268 _p
Income payments*, 1935-39 = 100 (Department of Commerce)	232	244	242 _p	
Wage rates, 1926 = 100 (Federal Reserve Bank of New York)	164	169	170 _p	
Cost of living, 1935-39 = 100 (Bureau of Labor Statistics)	125	127	127	128 _p
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City	66	76	76	81
Outside New York City	72	75	73	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.

DEPARTMENT STORE TRADE

Consumers purchased an exceptionally large dollar volume of merchandise in department stores during June. Unusually warm weather during the latter half of the month produced a heavy demand for summer merchandise, and trade sources indicate that stocks were well maintained because of advance deliveries of merchandise on order. Second District department store sales during June were approximately 20 per cent above those a year earlier, when sales were somewhat affected by war news. The seasonally adjusted index for June increased sharply over that of May, and was not far below the all-time high reached last March.

The dollar value of department store stocks on May 31 was 12 per cent above that one year earlier and the largest since the close of 1942. Compared with the peak reached during the summer of 1942, however, stocks were 25 per cent lower. Merchandise received by the stores has exceeded sales every month this year, and stocks have increased steadily, despite shortages in a number of lines of goods. Outstanding orders increased during January and February, but since that time most of the two months' rise has been eliminated. At the close of May they were 25 per cent above the year earlier level and more than twice the 1942 dollar volume.

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

Locality	Net sales		Stocks on hand May 31, 1945
	May 1945	Jan. through May 1945	
Department stores, Second District	+ 4	+13	+12
New York City	+ 5	+14	+12
Northern New Jersey	+ 4	+13	+19
Newark	+ 6	+14	+19
Westchester and Fairfield Counties	0	+ 9	+15
Bridgeport	- 1	+ 6	+ 5
Lower Hudson River Valley	+ 7	+15	+ 3
Poughkeepsie	+ 5	+14	-
Upper Hudson River Valley	+ 7	+12	+ 3
Albany	+ 8	+15	-
Schenectady	+ 9	+11	- 2
Central New York State	+ 1	+10	+15
Mohawk River Valley	- 7	+ 4	- 1
Utica	- 8	+ 2	+ 2
Syracuse	+ 4	+13	+23
Northern New York State	+ 5	+21	-
Southern New York State	+ 6	+13	0
Binghamton	+ 8	+16	+ 2
Elmira	- 1	+ 7	+ 1
Western New York State	+ 2	+ 9	+11
Buffalo	+ 2	+ 7	+ 7
Niagara Falls	+ 4	+ 9	-10
Rochester	+ 3	+12	+22
Apparel stores (chiefly New York City)	+13	+20	+11

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

Item	1944	1945		
	May	Mar.	Apr.	May
Sales (average daily), unadjusted	142 _r	176	143	148
Sales (average daily), seasonally adjusted	149	189	150	156
Stocks, unadjusted	149	155	164	167
Stocks, seasonally adjusted	147	154	162	165

_r Revised.

FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, JULY 1945

General Business and Financial Conditions in the United States
(Summarized by the Board of Governors of the Federal Reserve System)

INDUSTRIAL activity and factory employment continued to decline slightly in May. Value of department store sales increased in May and the early part of June, following the sharp decline in April.

INDUSTRIAL PRODUCTION

As a result of further decreases in activity at munitions plants, the Board's seasonally adjusted index of industrial production declined in May to 227 per cent of the 1935-39 average as compared with 231 in April.

A further reduction in operations at shipyards accounted for most of the decrease in activity at munitions plants, although there were small decreases in activity in the machinery and aircraft and other transportation equipment industries. The decline in aircraft was in accordance with reductions in schedules made prior to VE day. At the end of May the Army Air Forces announced a cutback in procurement which will reduce total military aircraft production in the last quarter of the year to a level 30 per cent below that of March.

Steel production was maintained at a high level in May but declined somewhat during the first three weeks of June. Production of nonferrous metal products showed a sharp drop in May following a large rise earlier this year. In June brass mill products and aluminum were made available for general civilian use and after July 1 some steel also will be released.

Production of textile, leather, paper, chemical, and petroleum products showed little change in May and total output of nondurable goods was at a level 3 per cent above that of a year ago.

Coal production declined 8 per cent in May as anthracite output dropped sharply owing to interruptions in mine operations in the first three weeks of the month. In the early part of June, production of both anthracite and bituminous coal increased to about the level that prevailed earlier in the year but was still somewhat below the rate of output in June 1944. Output of crude petroleum was maintained in record volume in May and the early part of June.

DISTRIBUTION

Department store sales, which had declined sharply in April, increased in May and the first half of June, after allowance is made for the usual seasonal change. In May sales were 4 per cent larger than in May 1944, while sales during the first two weeks of June were 16 per cent greater than in the corresponding period last year.

Most classes of freight carloadings showed seasonal increases in May and the early part of June and remained at a level slightly above last year's high level. Railroad shipments of manufactured goods, which reached a record volume in March of this year, have declined only slightly since that time.

COMMODITY PRICES

Wholesale prices of consumer goods continued to advance from the middle of May to the middle of June. Anthracite was raised \$1 a ton, food prices increased somewhat further, and various miscellaneous products were higher. On the other hand, it was announced that maximum prices on used cars would be reduced 4 per cent on July 1 and additional new regulations have been issued recently covering prices of clothing, automobile repairs, and some consumer durable goods.

AGRICULTURE

Prospects for major crops have deteriorated somewhat in the past month, but still compare favorably with the past three years of generally abundant harvests. A record wheat crop of over a billion bushels was indicated by June 1 conditions; cold, wet weather in May has delayed most other crops.

Milk production was at a record level in May and 6 per cent larger than last year, while marketings of meat animals and poultry products were in smaller volume.

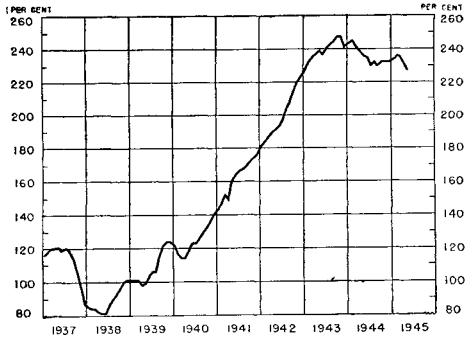
BANK CREDIT

During the four weeks ended June 13, covering the period of intensified sales of securities to individuals in the Seventh War Loan, loans and investments at reporting banks in leading cities increased by close to 1.7 billion dollars. Loans for purchasing and carrying Government securities rose by 620 million dollars, as investors adjusted their portfolios in anticipation of security purchases. Advances to brokers and dealers accounted for 360 million of the increase and loans to others for 260 million. Government security holdings of reporting banks rose by 825 million dollars, reflecting continued purchases of bonds.

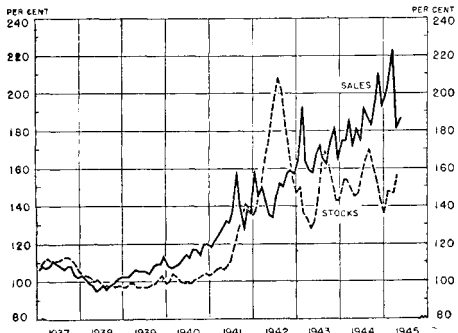
Deposits of individuals and businesses at weekly reporting banks increased by about 1.3 billion dollars during the first four weeks of the drive. U. S. Government deposits at these banks declined by 300 million dollars. The time deposit expansion slackened, presumably owing to the War Loan drive. As a result of these developments the weekly average level of required reserves at all member banks increased by around 200 million dollars during the first four weeks of the drive.

Reserve funds to meet the increase in required reserves and a reduced currency drain of 160 million dollars were supplied through an increase of 435 million in the Government security portfolios of Reserve Banks and by substantial member bank borrowing from the Reserve Banks shortly prior to and early in the drive. Borrowing from the Reserve Banks rose in early June to over 900 million dollars outstanding, the largest amount since the spring of 1933. The total increase in Reserve Bank credit more than offset reserve needs and the average level of excess reserves rose by about 350 million dollars to close to 1.4 billion outstanding in mid-June.

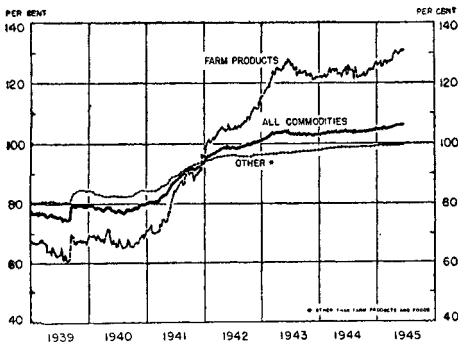
In the week ended June 20, when large payments were made by corporations and others for securities purchased in the drive, there was a shift of deposits from private accounts to reserve free War Loan accounts and a consequent reduction of 440 million dollars in required reserves of member banks. Member bank borrowings declined in the week by nearly 550 million dollars. Reserve Bank holdings of Government securities, however, increased further.



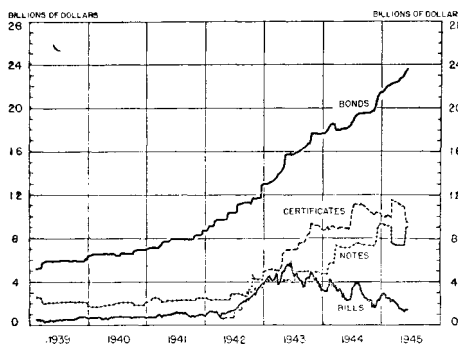
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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 June 16)



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